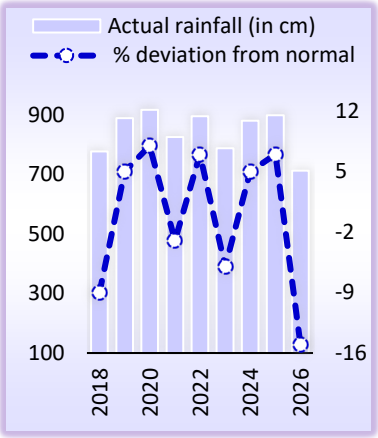
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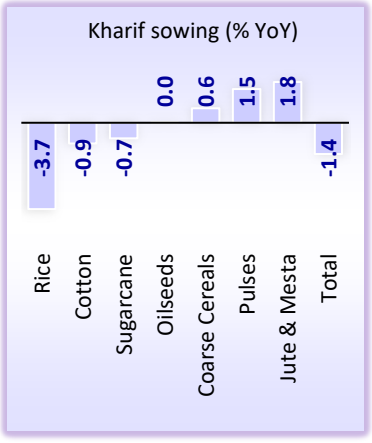
Monsoon 2026: Weak and uneven, risks shifting to rabi

All-India rainfall is 15% below normal as of 23rd Sep'26 (vs. 7% above normal in 2025)



- **The 2026 southwest monsoon season is ending as weak and highly uneven.** All-India rainfall was 15% below the long-period average (LPA) as of 23rd Sep'26, but the national average masks large regional differences. East & Northeast India (-27%) and Southern India (-26%) have seen the sharpest deficits, while Central India is relatively better placed at -6%. Among major states, rainfall deficit stands at 37% for Bihar, 30% for Karnataka, 27% for Kerala and 26% for Assam. Odisha is an important outlier with 18% above-normal rainfall. With the monsoon now withdrawing, the focus is shifting from the impact on standing kharif crops to soil moisture, reservoir levels and the availability of water for the rabi season.
- **Kharif sowing has held up better than expected, but rice is a clear exception.** Despite the weak monsoon, total kharif sowing reached 99.95m hectares as of 18th Sep'26, only 1.4% below last year and around 2% below normal. This is a significant improvement from the large sowing deficit seen earlier in the season and suggests that better rainfall during Jul-Aug'26 allowed farmers to catch up. Pulses acreage is up 1.5% YoY, coarse cereals acreage has increased marginally, and oilseed acreage is broadly unchanged. Rice, however, remains the key concern, with national acreage down 3.7% YoY. The decline is particularly sharp in Karnataka, Tamil Nadu, Maharashtra, Telangana and Andhra Pradesh. While government rice stocks are sufficient to provide a buffer against near-term supply pressure, not all stocks are necessarily available for immediate commercial release, given PDS commitments, stock quality and other operational considerations. Hence, the headline inventory number may overstate the quantity readily available to the open market. (See detailed discussion on Page 8).
- **Water availability provides another important signal.** Reservoir storage across 178 monitored reservoirs is at 71% of live capacity vs. 78.1% normally, implying a 9.1% deficit. However, the national picture masks a sharp regional divergence. Central and Western India remain comfortable, while Southern India is under significant stress, particularly Telangana, Andhra Pradesh and Tamil Nadu. Northern states such as Punjab and Rajasthan also face below-normal storage.
- Beyond rainfall and reservoir levels, **soil moisture and drought indicators suggest that water stress is high across parts of the country**. The drought footprint is relatively widespread, while root-zone soil moisture is below average in several agricultural areas. However, the impact is not uniform, as better soil moisture in parts of Central and Eastern India provides some buffer. Overall, the key concern is that **weak residual moisture could limit crop yields and rabi sowing if post-monsoon rainfall remains deficient**.

Kharif sowing down by 1.4% as of 18th Sep'26



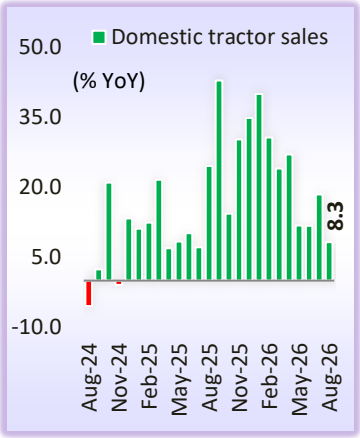
The national numbers, therefore, do not tell the full rural story. We assess each state in terms of rainfall, crop sowing, reservoir levels, soil moisture, drought conditions and CPI inflation. This allows us to identify where agricultural stress is likely to translate into weaker farm incomes and rural consumption, and where high inflation could further reduce purchasing power.

- **The clearest stress cluster is Andhra Pradesh, Telangana, Karnataka and Tamil Nadu. These states face a combination of weak rainfall, poor soil moisture, stressed reservoirs and lower rice sowing. Importantly, they also have high rural inflation: 5.9% in Andhra Pradesh, 6.8% in Telangana, 5.7% in Karnataka**

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Investors are advised to refer through important disclosures made at the last page of the Research Report.
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Domestic tractor sales stood at 8.3% in Aug'26



Data as of 18th Sep'26 for all years

and 6.1% in Tamil Nadu in Aug'26. This creates double pressure on rural households—weaker agricultural conditions on one side and higher living costs on the other.

- Maharashtra presents a different but important case. Aggregate reservoir storage is relatively comfortable, but soil moisture and drought indicators are weak and rice sowing is down 17.1%. Rural CPI inflation at 5.7% adds to the pressure. Punjab and Rajasthan are more important from a rabi perspective, given their weak rainfall and reservoir conditions. **In contrast, Odisha, Uttar Pradesh and Chhattisgarh provide important buffers, with relatively better rainfall, soil moisture or reservoir conditions.** The key message is that rural stress is concentrated rather than nationwide, and inflation can amplify the impact even in states where agricultural conditions are relatively better.
- **Rural demand is resilient, but momentum is moderating**. Rural demand remains relatively strong despite the weak monsoon, supported by government transfers, improving rural credit availability, higher irrigation coverage and the resilience of allied activities such as livestock and fisheries. High-frequency indicators such as tractor and two-wheeler sales continue to point to healthy underlying rural consumption. However, the outlook is becoming more mixed. **Farmers are facing weaker terms of trade, while elevated food and input costs are gradually squeezing purchasing power. The impact is therefore likely to be more visible in discretionary rural consumption if crop yields weaken further or food inflation remains high. For now, we see moderation rather than a sharp rural demand slowdown.**

Outlook: Inflation to rise, growth to moderate and RBI to turn hawkish

The macro outlook is likely to become more challenging in 3QFY27, as the weak and uneven monsoon, alongside rising El Niño risks (very strong El Nino in Oct-Dec), could feed into food prices. At the same time, elevated crude prices and high input costs are adding pressure across transportation, energy and manufacturing, with WPI inflation already near 10%. With food inflation close to 6%, the risk is shifting from a temporary food-price movement to broader cost pressure and higher inflation expectations. **A prolonged weather shock could push headline CPI above 6% in 3QFY27, particularly if rice and other key food prices remain elevated.**

- **Stress is concentrated rather than broad-based**. Southern states, particularly Andhra Pradesh, Telangana, Karnataka and Tamil Nadu, are the key vulnerability cluster, where weak rainfall overlaps with poor soil moisture, stressed reservoirs and crop pressures. Maharashtra, Punjab and Rajasthan are additional pockets to watch out for, particularly as the risk shifts toward the rabi season.
- This creates a more difficult environment for the RBI. **With liquidity already being absorbed from the banking system, the combination of higher food and energy inflation and tighter global financial conditions could raise prospects of a rate hike in Oct'26 policy**. Under a persistent oil- and food-shock scenario, we see scope for a cumulative rate hike of 75-100bp over the cycle.
- **The impact on growth is likely to become more visible in 4QFY27.** Higher food prices would reduce real purchasing power, while tighter liquidity and higher borrowing costs could gradually weigh on credit-sensitive sectors and urban consumption. Rural demand should remain relatively resilient initially, but prolonged weakness in farm incomes, higher food prices and weaker terms of trade could eventually reduce discretionary spending. Hence, our base case is moderation rather than a sharp slowdown, with the balance of risks increasingly tilted toward weaker growth in 4QFY27 if high inflation persists.

Rainfall Deficit	Kharif Sowing	Reservoir Levels
-15%	**-1.4% YoY**	**71%**
As of 23rd Sep'26	As of 18th Sep'26	Lower than last year (90%).
CPI Inflation FY27E	**Crude Oil FY27E**	**Real GDP Growth FY27E**
5.1%	**USD90/barrel**	**7.0-7.2% YoY**
vs. RBI's estimate of 5.0%	Increased from USD 85/barrel	Higher than RBI's estimate

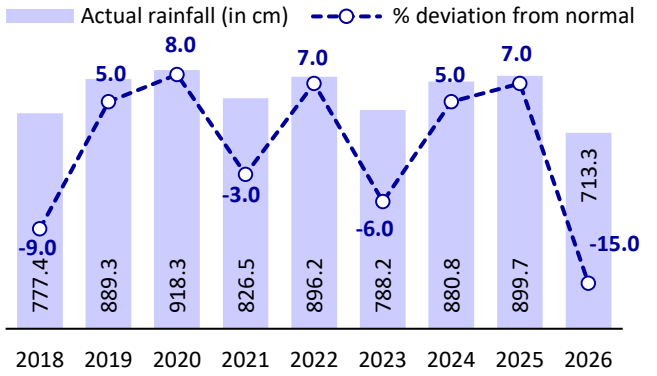
Details:

Monsoon 2026: A weak season with high spatial distortion

- **The 2026 southwest monsoon is ending as one of the weaker seasons of recent years.** Cumulative rainfall stood at 15% below LPA as of September 23, after the deficit had initially reached around 40% in June. The improvement during July was insufficient to reverse the broader trend, with the deficit widening again from 13% in July to 14% in August and 15% by September. With the monsoon withdrawal now underway, the seasonal rainfall outcome is unlikely to improve materially.
- **However, the more important feature of the 2026 season is not the size of the national deficit but its distribution across regions**. The rainfall deficit has been widespread but most severe in East & Northeast India (-26% below LPA), followed by Southern India (-26%), Northwest India (-10%) and Central India (-6%). This is a critical distinction because Central India contains some of the country's most important agricultural belts, and its relatively smaller rainfall deficit has helped limit the impact on overall crop conditions.
- **Rainfall deficiency has been concentrated across several important agricultural states**, raising concerns over crop yields and the transition to the rabi season. Meghalaya (-59%), Punjab (-40%), Bihar (-37%), Andhra Pradesh (-34%), Karnataka (-30%), Kerala (-27%), Assam (-26%) and Haryana (-24%) have recorded the sharpest deficits. Other key states such as Rajasthan (-22%), Telangana (-20%), Maharashtra (-18%), Tamil Nadu (-14%), Jharkhand (-9%), Gujarat (-7%), Madhya Pradesh (-7%), Uttar Pradesh (-6%), Chhattisgarh (-5%) and West Bengal (-1%) have also experienced below-normal rainfall. In contrast, Odisha (+21%) has recorded above-normal rainfall.
- Of India's 36 meteorological subdivisions, **18 have recorded deficient rainfall**, indicating that the weakness is broad-based rather than confined to a few pockets.
- While any late-season improvement could provide some support to standing kharif crops, the window for a meaningful recovery is narrowing. More importantly, persistent rainfall deficiencies in several major agricultural regions could affect soil moisture, reservoir levels and the availability of water for rabi sowing, particularly for water-intensive crops. With below-normal rainfall expected through the remainder of the monsoon season, the risk is increasingly shifting from the kharif crop cycle to rabi acreage and yields.
- **A state-level analysis of agricultural and rural indicators is therefore important to understand the underlying distribution of rural stress**. National-level aggregates can mask significant regional divergence. While the overall data may

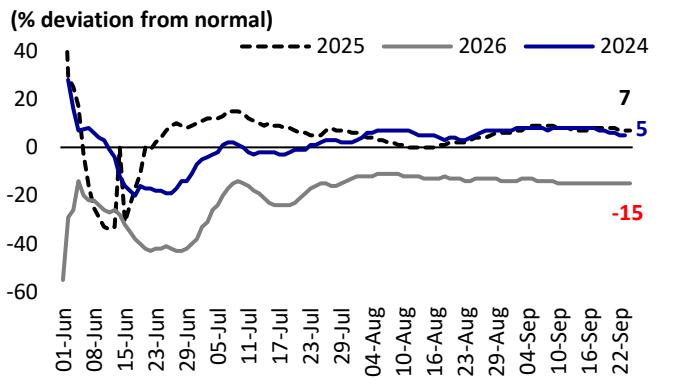
point to weakness, some states or pockets may remain relatively resilient, and others could face more pronounced stress. The impact on rural incomes, crop output and consumption is unlikely to be uniform across the country. To capture these differences, we have undertaken a state-level analysis (detailed section on Page 16) across key indicators, including rainfall deviations, crop-wise sowing trends, reservoir levels, soil moisture and drought conditions. This analysis helps identify which states are showing signs of stress and which are relatively better placed.

Exhibit 1: All-India rainfall is 15% below normal as of 23rd Sep'26 (vs. 7% above normal in 2025)



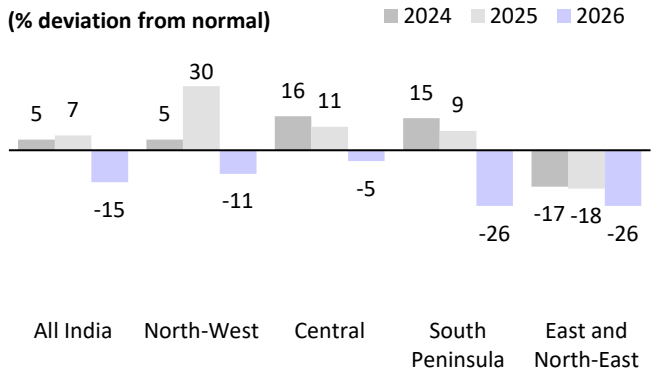
Data as of 23rd September for all years

Exhibit 2: This is much lower than 2024 levels; -15% now vs. +5% in 2024 (last El Niño episode)



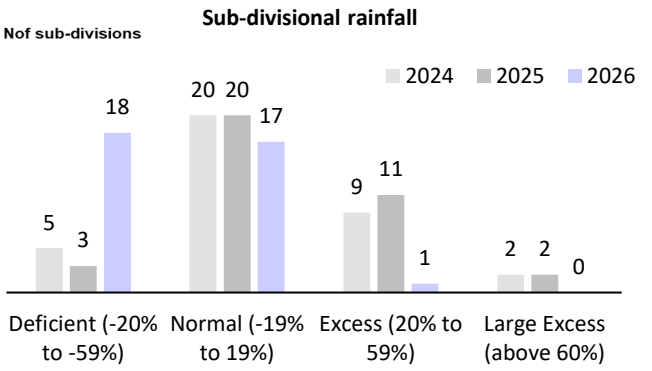
Source: IMD, CEIC, MOFSL

Exhibit 3: East and North-Eastern India and Southern peninsula remain the weakest-performing regions



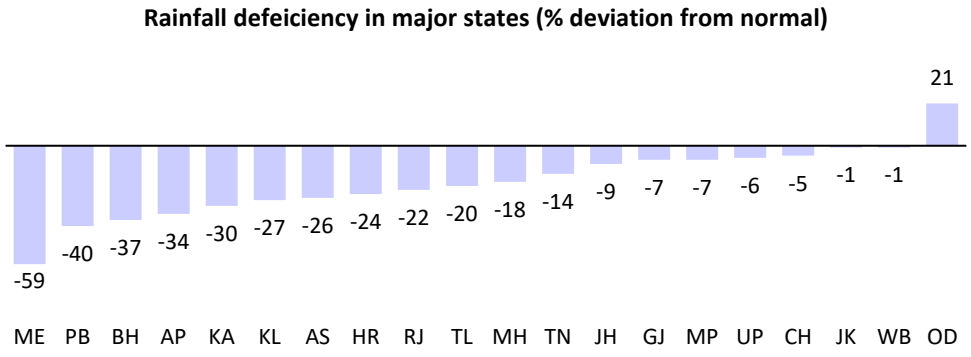
Data as of 23rd September for all years

Exhibit 4: 18 sub-divisions received deficient rainfall as of 23rd Sep'26



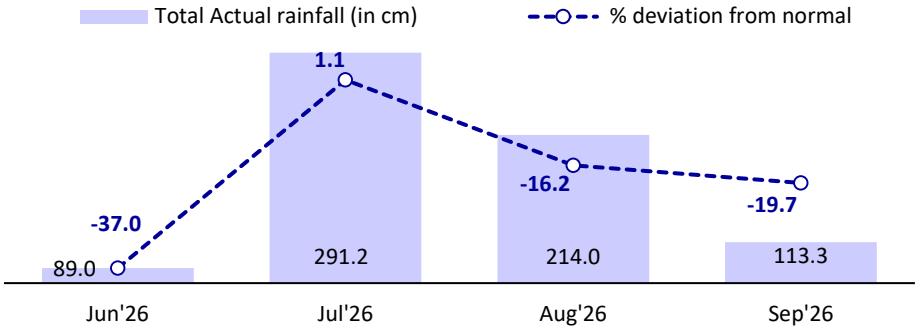
Source: IMD, CEIC, MOFSL

Exhibit 5: Rainfall deficiency persists across majority of the agrarian states



Data as of 23rd September for all years

Exhibit 6: Month-wise rainfall in this monsoon season

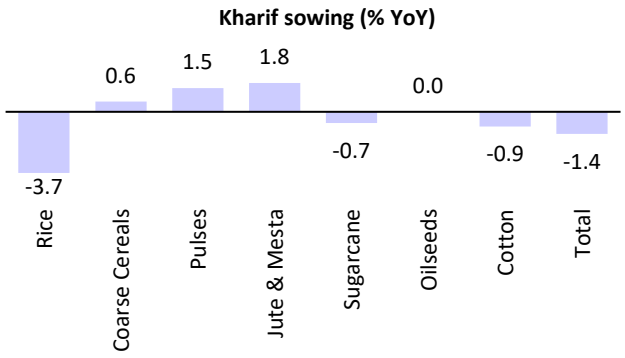


Data from 1st Jun'26 to 23rd Sep'26

Kharif sowing has held up better than expected

- **The most important evidence that the monsoon has not yet translated into a major nationwide agricultural growth shock comes from kharif sowing.** Total kharif acreage reached 99.95m hectares as of September 18, only 1.4% below last year and around 2% below normal. The resilience is particularly notable given the much larger sowing deficit at the beginning of the season. As rainfall improved during July and August, farmers were able to catch up, suggesting that the initial weakness in rainfall did not permanently disrupt the planting cycle.
- **The crop composition is also relatively favorable**. Pulses acreage is 1.5% higher YoY, while coarse cereals have increased marginally; oilseed acreage is broadly unchanged, and sugarcane and cotton are only slightly lower. Within pulses, urad acreage is up 11.9% and arhar 1.9%, while jowar and bajra acreage have increased 9.4% and 3.3%, respectively. **These trends suggest that farmers have been able to adjust sowing decisions despite the uneven monsoon, limiting the immediate impact on aggregate kharif acreage.**
- Rice remains the key exception and warrants closer attention at the state level. Weak rainfall affected the timing of kharif rice sowing, resulting in lower acreage in several major states. **National rice acreage is down 3.7% YoY, with particularly sharp declines in Karnataka (-44.7%), Tamil Nadu (-28.6%), Maharashtra (-17.1%), Telangana (-11.7%) and Andhra Pradesh (-8.4%), while Odisha is down 5.5% and West Bengal is broadly unchanged**. Although high irrigation coverage provides a cushion in several major producing states, the concentration of acreage weakness across important rice belts means that the crop faces a more meaningful combination of lower planted area and potential yield stress than is evident from the broader kharif sowing numbers.
- With kharif sowing largely complete, subsequent rainfall is more important for maintaining soil moisture and supporting crop development and maturity. Farmers can also partly offset delayed rainfall through changes in sowing dates, crop switching and irrigation, meaning that rainfall deficiency does not translate mechanically into yield loss.
- **We, therefore, expect kharif agricultural output to remain relatively resilient at the national level, although rice, cotton, maize, soybean and selected pulses remain vulnerable in regions where rainfall, soil moisture and reservoir levels are weak.** The eventual impact on FY27 agricultural GVA should consequently be materially smaller than the headline rainfall deficit suggests.

Exhibit 7: Kharif sowing down by 1.4% as of 18th Sep'26



Data as of 18th September for all years

Exhibit 8: Rice and sugarcane sowing sharply lower vs. last year

% YoY	18-Sep-24	18-Sep-25	18-Sep-26
Rice	6.3	3.7	-3.7
Coarse Cereals	-2.4	1.7	0.6
Pulses	-0.7	-0.4	1.5
Jute & Mesta	-14.0	8.7	1.8
Sugarcane	0.2	2.9	-0.7
Oilseeds	2.0	0.1	0.0
Cotton	-8.9	-1.9	-0.9
Total	1.1	1.7	-1.4

Source: IMD,CEIC, MOA&FW, MOFSL

Exhibit 9: Major pulses-producing states

States	% share in pulses production	Area under irrigation (%)	% deviation from normal rainfall	
			2025	2026
Madhya Pradesh	21.8	43.8	20	-7
Maharashtra	18.8	12.5	14	-18
Rajasthan	14.5	22.2	66	-22
Gujarat	9.7	41.1	24	-7
Uttar Pradesh	9.3	33.8	-4	-6
Karnataka	7.1	10.8	13	-30
Andhra Pradesh	3.9	2.5	8	-34
Jharkhand	3.2	11.8	18	-9

Data as of 23rd September for all years
Source: IMD, CEIC, MOA&FW, MOFSL

Exhibit 10: Major rice-producing states

States	% share in rice production	Area under irrigation (%)	% deviation from normal rainfall	
			2025	2026
West Bengal	13.4	51.1	4	-1
Uttar Pradesh	13.1	86.2	-4	-6
Punjab	9.9	99.7	46	-40
Andhra Pradesh	7.3	96.7	8	-34
Odisha	7.0	30.9	-5	21
Telangana	6.3	98.5	25	-20
Tamil Nadu	6.0	91.6	5	-14
Chhattisgarh	5.7	36.3	-2	-5
Bihar	5.3	64.6	-28	-37
Assam	4.2	15.1	-31	-26
Haryana	4.1	99.9	36	-24
Madhya Pradesh	4.0	39.4	20	-7

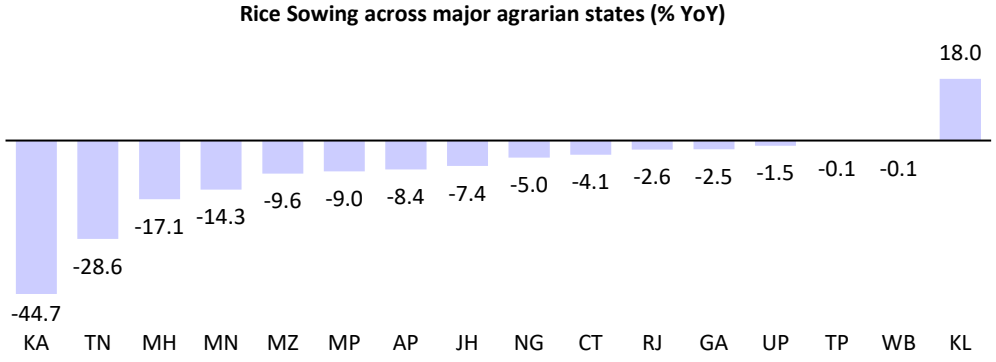
Data as of 23rd September for all years
Source: IMD, CEIC, MOA&FW, MOFSL

Exhibit 11: Rice sowing: large regional divergence

State	Deviation from normal (%)	YoY (%)
Andhra Pradesh	-58.0	-8.4
Arunachal Pradesh	-13.5	-3.7
Assam	-41.5	**20.1**
Bihar	-32.1	**4.5**
Chhattisgarh	-32.9	-4.1
Goa	-43.5	-2.5
Gujarat	-47.6	-5.7
Haryana	-21.6	-2.8
Himachal Pradesh	-32.3	-5.3
J&K	-34.3	-3.9
Jharkhand	-39.9	-7.4
Karnataka	**-74.4**	**-44.7**
Kerala	-59.8	**18.0**
Madhya Pradesh	-31.0	-9.0
Maharashtra	-52.5	-17.1
Manipur	**+72.0**	-14.3
Meghalaya	-42.7	**3.8**
Mizoram	-17.7	-9.6
Nagaland	-15.0	-5.0
Odisha	-54.1	-5.5
Punjab	-18.0	0.0
Rajasthan	-13.4	-2.6
Sikkim	-43.3	-16.0
Tamil Nadu	**-84.8**	**-28.6**
Telangana	-56.4	-11.7
Tripura	-59.8	-0.1
Uttar Pradesh	-23.8	-1.5
Uttarakhand	-14.5	**0.6**
West Bengal	-49.1	-0.1

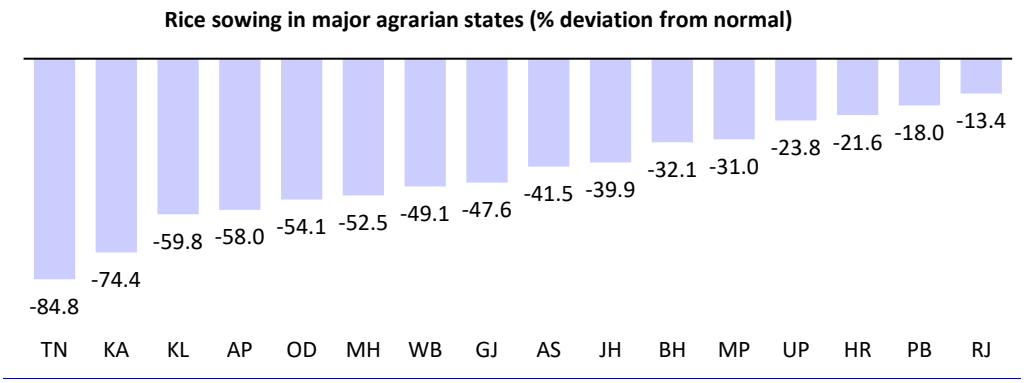
Source: IMD,CEIC, MOA&FW, MOFSL

Exhibit 12: Rice sowing across major agrarian states (% YoY)



Data as of 18th September for all years

Exhibit 13: Rice sowing across major agrarian states (% deviation from normal)



Data as of 18th September for all years

KNOWLEDGE CORNER

Rice: The hidden inflation risk from a weak monsoon

Why rice is more vulnerable than the broader kharif crop

India's weak and highly uneven 2026 monsoon is increasingly becoming a rice and food-inflation risk rather than a broad-based agricultural growth shock. National kharif acreage has remained relatively resilient, but rice is an important exception, with acreage down 3.7% YoY and sharper declines across several major producing states. Rice sowing is down 44.7% YoY in Karnataka, 28.6% in Tamil Nadu, 17.1% in Maharashtra, 11.7% in Telangana and 8.4% in Andhra Pradesh, while Odisha is down 5.5%. High irrigation coverage provides a cushion in several major producing states, but lower acreage combined with potential yield stress could still result in a meaningful reduction in national rice output.

What if rice production falls materially this year

As a downside scenario, if rice production were to fall by around 6-7% YoY—broadly equivalent to a ~10mt reduction from current production levels, the implications could be more significant for food inflation than for agricultural GDP. The magnitude would still be considerably smaller than the severe 2009-10 drought, when rice output declined by around 15-18%. However, rice is a staple food and India is the world's largest rice exporter, making the crop particularly important for both domestic prices and global supply. The key point is that such a production shortfall need not materialize; the scenario simply illustrates the potential inflation implications if lower acreage is accompanied by meaningful yield losses.

The bigger risk is the transmission to food inflation

The first-order impact would be through rice prices. Non-basmati rice prices have already increased by more than 10%, and a meaningful production shortfall could put further upward pressure on domestic prices, particularly if market arrivals weaken. The impact would not necessarily be confined to rice. Broken rice is an important poultry-feed input, so higher rice prices could raise feed costs and eventually transmit into poultry and egg prices. This creates a potential second-round effect on food inflation. With food inflation already close to 6%, even a moderate increase in rice and related food prices could become relevant for headline CPI, particularly during 3QFY27.

Government stocks provide a significant cushion

India has a substantial policy buffer in the form of government rice stocks, estimated at around 60mt. The Food Corporation of India and the Open Market Sale Scheme (OMSS) provide the government with the ability to release stocks and increase domestic availability if prices rise sharply. This makes an outright shortage considerably less likely even under a weaker production scenario. However, the headline stock number needs to be interpreted carefully. Stocks include paddy as well as different varieties and grades, while a significant portion is committed to the public distribution system and other food-security requirements. Hence, the entire stockpile should not be treated as immediately available commercial inventory.

The policy trade-off: domestic prices vs. exports

The government's response would involve a trade-off between domestic price stability and export availability. Greater stock releases through OMSS could help contain domestic prices, while export restrictions could be used to preserve domestic availability if the production shock becomes more severe. However, lower Indian exports could tighten global rice availability, particularly because India is the world's largest rice exporter. A reduction in Indian shipments could therefore push global rice prices higher and partially offset the domestic benefit from tighter export controls. Conversely, aggressive stock releases could reduce the government's buffer against subsequent crop shocks.

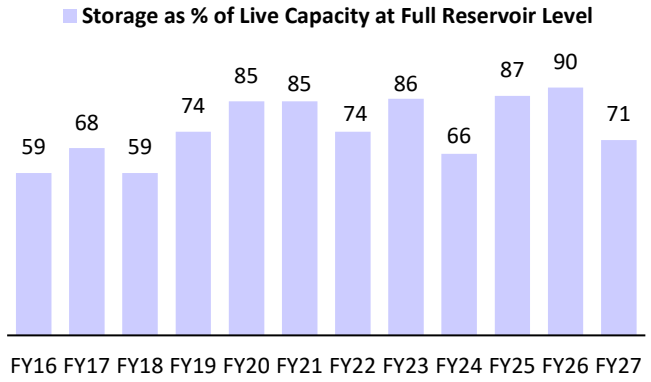
Reservoirs: Aggregate cushion, but regional stress raises rabi risks

- Reservoir storage has emerged as an important second-order indicator of the agricultural impact of the weak and uneven 2026 monsoon. **As of the latest assessment, the 178 monitored reservoirs hold 131.2 BCM of live storage, equivalent to 71.0% of their live capacity, compared with normal live storage of 144.2 BCM or 78.1% of capacity. This implies a 9.1% deficit from normal. Storage is also materially lower than last year, when the same reservoirs held 165.6 BCM, equivalent to 89.7% of capacity**. While the national position is weaker than normal, it does not point to a nationwide water shortage. Across 178 monitored reservoirs, 115 (65%) have storage above 80% of normal, suggesting that India does not face a nationwide water shortage. However, 63 reservoirs are at or below 80% of normal, including 19 reservoirs below 50%, highlighting significant regional stress.
- **The more important feature is the sharp regional divergence, with Central and Western India retaining comfortable storage, while the Southern and Northern regions are significantly below normal.** In Central India, 26 of 28 reservoirs are above 70% of normal, while Western India has 37 of 58 reservoirs above 80%. This provides a meaningful irrigation buffer despite the rainfall deficit.
- The basin data reinforce this regional divergence. Ganga, Narmada, Tapi and Mahanadi are better than normal, while Krishna and Godavari are close to normal. In contrast, Cauvery and several peninsular basins are deficient, while Pennar is highly deficient.
- **The Southern region is the principal area of reservoir stress, with 50 monitored reservoirs holding only 28.9 BCM, or 51.8% of live capacity, against a normal 73.8%. This represents a 29.9% departure from normal, the largest among all regions.** The weakness is particularly pronounced in Telangana and Andhra Pradesh, where storage is only 37.9% and 37.2% of capacity and is 48.8% and 44.1% below normal, respectively. Tamil Nadu is similarly weak, with storage at

41.4% of capacity and 38.6% below normal, while Karnataka is 18.2% below normal. Importantly, these states also overlap with areas where rainfall, soil moisture and crop conditions have been weak. The reservoir deficit therefore adds to the existing agricultural stress and reduces the water buffer available for the post-monsoon period.

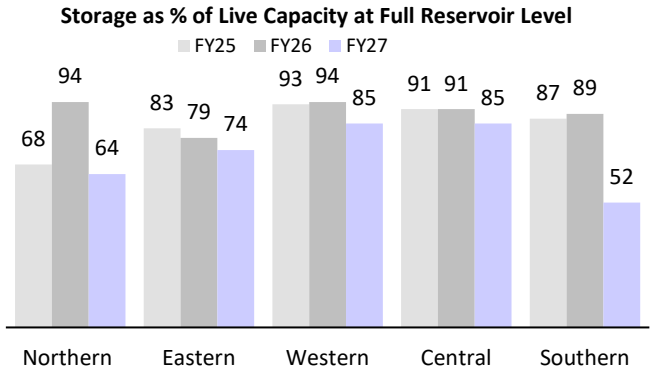
- **The Northern region is the second major stress pocket, with reservoir storage at 63.8% of capacity vs. a normal 79.6%, implying a 19.9% deficit.** Rajasthan is particularly vulnerable, with storage at 57.8% of capacity and 32.6% below normal, while Punjab is at 47.8% and 29.5% below normal. This is relevant for the rabi season because irrigation becomes increasingly important once the southwest monsoon withdraws. Lower reservoir storage does not necessarily translate one-for-one into lower crop output, given the role of groundwater, canal irrigation and local rainfall. Nevertheless, it reduces the margin of safety for rabi sowing and yields. If post-monsoon rainfall remains deficient, the combination of low reservoirs and weak soil moisture could become a meaningful constraint on agricultural activity in these regions.
- **In contrast, Central and Western India provide an important national buffer. Central India's 28 reservoirs are at 85.1% of capacity, compared with a normal 81.8%, implying storage 4.0% above normal**. Uttar Pradesh and Chhattisgarh are particularly comfortable, with storage 28.4% and 14.2% above normal, respectively, while Madhya Pradesh is broadly around normal. Western India is also well placed, with 58 reservoirs at 83.4% of capacity against a normal 80.9%, or 3.1% above normal. Maharashtra and Gujarat are both above normal. This regional buffer is important because it limits the probability that the weak monsoon will translate into a broad-based nationwide agricultural shock. The reservoir data therefore reinforce the view that the impact is likely to remain concentrated in specific regions rather than being uniform across India.
- **The distribution of reservoir filling levels, however, shows that the national average masks a sizeable low-storage tail. Of the 178 monitored reservoirs, 31 are at 40% or below capacity and another 20 are between 41% and 50%, meaning that 51 reservoirs, or almost 29% of the monitored set, are at 50% or below.** The Southern region accounts for a particularly large share of this stress, with 16 of its 50 monitored reservoirs at 40% or below and another seven in the 41–50% range. This suggests that the regional weakness is relatively broad-based rather than being driven by a handful of reservoirs. At the same time, the presence of a large number of reservoirs at high filling levels in Central and Western India explains why aggregate national storage remains manageable despite severe stress in parts of the South and North.
- **The immediate implication of the reservoir deficit is a narrower margin of safety for the rabi season, particularly in the South and parts of the North. With storage already below normal, a weak post-monsoon period would increase dependence on groundwater and irrigation and could constrain rabi sowing or yields in water-stressed areas.** The risk is highest where below-normal reservoir storage coincides with weak soil moisture and poor rainfall. Conversely, a recovery in post-monsoon rainfall would help replenish soil moisture and reduce pressure on reservoir drawdown. Therefore, the key variables to monitor are October-December rainfall, rabi sowing progress, soil moisture and reservoir depletion, especially across Andhra Pradesh, Telangana, Karnataka, Tamil Nadu, Rajasthan and Punjab.

Exhibit 14: Water reservoir levels at 71% of live storage capacity as of 17th Sep'26



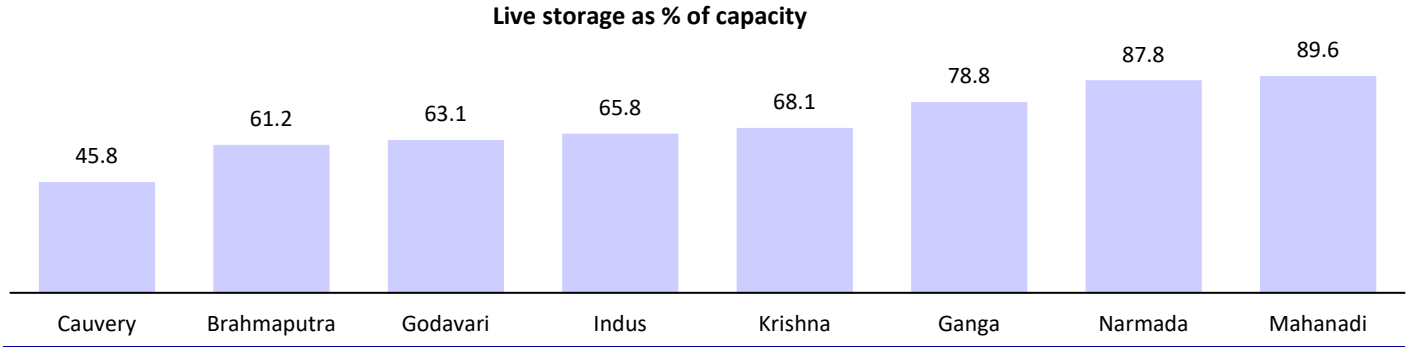
Data as of 17th September for all years

Exhibit 15: Broad-based weakness mainly led by Southern and Northern regions



Source: CEIC, MOFSL

Exhibit 16: Mahanadi river has the highest basin storage at 89.6% of full capacity



Data as of 17th September 2026

Exhibit 17: Reservoir storage is 9% below normal, with severe regional divergence

Region	No. of reservoirs	Current live storage (BCM)	Normal live storage (BCM)	Current storage (% of capacity)	Normal (% of capacity)	Departure from normal	Assessment
Northern	11	12.7	15.8	63.8%	79.6%	**-19.9%**	High stress
Eastern	31	16.0	16.2	73.4%	74.2%	**-1.1%**	Near normal
Western	58	32.2	31.2	83.4%	80.9%	**+3.1%**	Comfortable
Central	28	41.3	39.7	85.1%	81.8%	**+4.0%**	Comfortable
Southern	50	28.9	41.3	51.8%	73.8%	**-29.9%**	Severe stress
All India	**178**	**131.2**	**144.2**	**71.0%**	**78.1%**	**-9.1%**	Below normal

Exhibit 18: Reservoir storage is 9% below normal, with severe regional divergence

S.No.	Region/ State	No. of Reservoirs Monitored	Live Capacity at FRL (BCM)	Current Live Storage (BCM)	Last Year Live Storage (BCM)	Normal Live Storage (BCM)	Current Storage as % of Live Capacity	Last Year Storage as % of Live Capacity	Normal Storage as % of Live Capacity	% Departure from Normal Storage
Northern Region										
1	Himachal Pradesh	3	12.5	8.6	11.7	9.9	69.2	93.5	79.4	-12.8
2	Punjab	1	2.3	1.1	2.1	1.6	47.8	88.7	67.8	-29.5
3	Rajasthan	7	5.0	2.9	4.8	4.3	57.8	96.3	85.8	-32.6
	Sub Total	11	19.8	12.7	18.6	15.8	63.8	93.6	79.6	-19.9
Eastern Region										
1	Assam	2	0.3	0.2	0.2	0.2	61.7	68.7	58.4	5.6
2	Bihar	5	0.6	0.3	0.4	0.3	52.6	71.0	48.5	8.5
3	Jharkhand	6	2.0	1.4	1.4	1.6	67.2	70.4	79.2	-15.1
4	Meghalaya	1	0.1	0.1	0.1	0.1	45.8	93.7	85.2	-46.3
5	Mizoram	1	0.8	0.8	0.8	0.6	100.0	100.0	86.4	15.7
6	Nagaland	1	0.5	0.3	0.4	0.3	65.1	71.0	63.9	1.8
7	Odisha	10	15.7	12.0	12.8	11.9	76.5	81.7	75.6	1.2
8	Tripura	1	0.3	0.3	0.3	0.3	97.1	99.0	83.0	17.0
9	West Bengal	4	1.5	0.7	0.7	0.9	47.1	47.0	61.1	-23.0
	Sub Total	31	21.9	16.0	17.2	16.2	73.4	78.5	74.2	-1.1
Western Region										
1	Goa	1	0.2	0.2	0.2	0.2	100.0	100.0	103.5	-3.4
2	Gujarat	19	18.0	14.0	16.2	13.5	77.6	89.7	75.0	3.5
3	Maharashtra	38	20.4	18.0	19.8	17.5	88.3	97.5	85.8	2.9
	Sub Total	58	38.6	32.2	36.2	31.2	83.4	93.9	80.9	3.1
Central Region										
1	Chhattisgarh	6	4.8	4.3	4.1	3.8	90.6	86.1	79.3	14.2
2	Madhya Pradesh	11	31.2	26.8	29.4	27.1	85.9	94.3	86.9	-1.2
3	Uttar Pradesh	8	7.7	6.1	6.0	4.8	80.0	78.8	62.3	28.4
4	Uttarakhand	3	5.0	4.1	4.6	4.1	82.7	91.9	81.9	0.9
	Sub Total	28	48.6	41.3	44.1	39.7	85.1	90.8	81.8	4.0
Southern Region										
1	Andhra Pradesh	7	12.5	4.6	10.8	8.3	37.2	87.0	66.5	-44.1
2	Karnataka	19	25.0	16.3	22.4	19.9	65.2	89.5	79.7	-18.2
3	Kerala	7	3.9	2.3	3.0	2.6	60.2	76.3	67.3	-10.5
4	Tamil Nadu	9	4.7	2.0	4.5	3.2	41.4	95.0	67.4	-38.6
5	Telangana	8	9.8	3.7	8.9	7.2	37.9	90.9	74.0	-48.8
	Sub Total	50	55.9	28.9	49.6	41.3	51.8	88.7	73.8	-29.9
	Country as Whole	**178**	**184.8**	**131.2**	**165.6**	**144.2**	**71.0**	**89.7**	**78.1**	**-9.1**

Source: CEIC, CWC, MOFSL

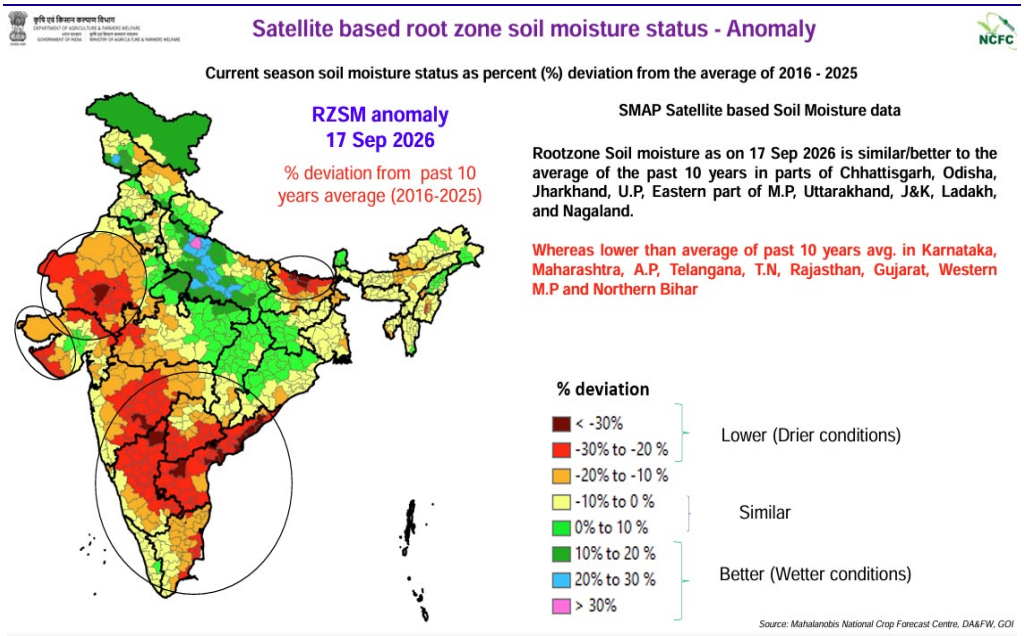
Soil moisture outlook remains relatively weak in North/Northwest

- **Soil moisture is arguably more useful than rainfall alone for assessing the agricultural outlook at this stage because it captures the water actually available in the root zone. As of September 17, soil moisture was similar to or better than the 10-year average in Chhattisgarh, Odisha, Jharkhand, Uttar Pradesh, eastern Madhya Pradesh, Uttarakhand, Jammu & Kashmir and parts of the Northeast**. This helps explain why several states with relatively weak rainfall have nevertheless avoided a severe agricultural shock. Adequate residual moisture can provide a buffer against intermittent rainfall deficits and support crop development even when cumulative monsoon rainfall is below-normal.
- **However, the moisture position is considerably weaker across Karnataka, Maharashtra, Andhra Pradesh, Telangana, Tamil Nadu, Rajasthan, Gujarat, western Madhya Pradesh and northern Bihar, where root-zone soil moisture is below the 10-year average.** These regions therefore enter the post-monsoon period with a smaller moisture cushion. **The overlap with the reservoir data is particularly important. In the southern peninsula, for example, weak soil**

moisture is accompanied by significantly below-normal reservoir storage in Andhra Pradesh, Telangana, Tamil Nadu and Karnataka. This combination increases the risk that a further period of dry weather could translate more quickly into agricultural stress.

- The forward outlook also points to continued regional divergence in soil-moisture conditions. **The outlook remains relatively weak across North and particularly Northwest India, while conditions are more comfortable across the Northeast and Central India**. The West is broadly stable, while the South shows a modest improvement over the forecast horizon. The broad message is that soil-moisture conditions are not deteriorating uniformly across the country, but Northwest India remains the most persistent area of weakness.
- **The relatively weak soil-moisture outlook in Northwest India is particularly important because of the region's significant rabi crop base. The South is another area to watch, as weak soil moisture coincides with stressed reservoirs.** Any further deterioration in post-monsoon rainfall could therefore increase pressure on rabi sowing and early crop establishment. In contrast, the relatively stronger moisture conditions in Central and Northeast India provide a useful buffer going into the post-monsoon period.

Exhibit 19: Current season soil moisture status as (%) deviation from the average of 2016 – 2025 (17th Sep'26)



Source: Mahalanobis National Crop Forecast Centre, DA&FW, GOI, MOFSL

Exhibit 20: Soil moisture outlook remains relatively weak in North/Northwest

Region	7-day	15-day	30-day
North	0.24	0.24	0.23
Northwest	**0.21**	**0.20**	**0.20**
Northeast	0.36	0.36	0.37
East	0.29	0.29	0.29
Central	0.35	0.34	0.33
West	0.32	0.32	0.32
South	0.27	0.28	0.28

Source: National drought monitor, MOFSL

Drought footprint widens to 52.5% despite late-monsoon revival

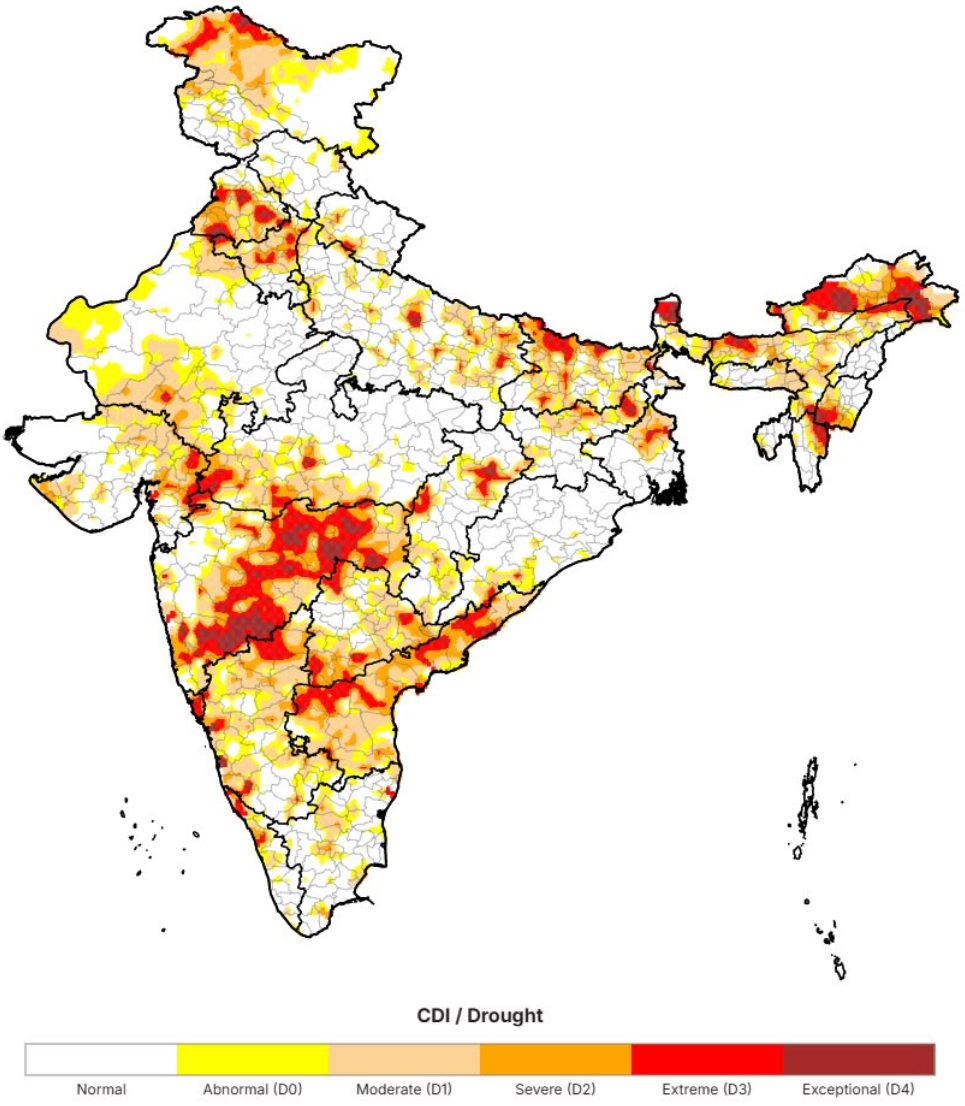
- **The drought monitor points to a much broader deterioration in water conditions than the aggregate monsoon rainfall deficit alone suggests. As of 16th Sep'26, 52.5% of the country's area was classified as D0 or worse, compared with 53.2% a week earlier and only 38.9% about a month ago**. While the 0.7pp weekly decline suggests some stabilization toward the end of the monsoon season, the drought footprint remains substantially larger than a month ago. Importantly, a meaningful portion of the affected area is in D2-D4 categories, indicating that the issue is not confined to mild moisture stress. *(Exhibit 19)*
- **The geographic distribution is particularly important. Western and Southern India are the most affected regions, with around 79% and 67% of their respective areas under drought conditions. The Northeast is also under significant stress, with about 62% of the area classified as D0-D4. The North, Northwest and East have drought coverage of around 41%, 47% and 42%, respectively, while Central India has a comparatively more moderate and scattered drought footprint of around 40%.** This regional divergence is consistent with the rainfall and soil-moisture data: the southern states, particularly Andhra Pradesh, Telangana, Karnataka and Tamil Nadu, are emerging as the most persistent pockets of agricultural stress, while parts of Central and Eastern India continue to provide a relative buffer.
- **At the state level, the drought footprint is particularly large in Goa (94.6%), Andhra Pradesh (92.8%), Maharashtra (83.5%), Arunachal Pradesh (83.3%), Sikkim (81.8%) and Punjab (76.0%).** However, the drought percentage should not be interpreted mechanically as agricultural output loss because it measures the geographical area affected, rather than the share of cropped area or agricultural production at risk. The economic significance therefore depends on the intensity of drought, crop concentration, irrigation coverage, soil moisture and reservoir availability. This distinction is particularly relevant for states such as Maharashtra and Andhra Pradesh, where drought conditions overlap with weak soil moisture and reservoir stress.
- **The timing of the drought matters.** With the kharif sowing window largely complete, the immediate question is no longer whether rainfall can materially change acreage, but whether remaining soil moisture and water availability are sufficient to protect yields and support the rabi season. **The broad drought footprint, therefore, raises greater concern for rabi sowing and crop yields than for aggregate kharif acreage.**
- This is particularly relevant because the drought monitor broadly corroborates the state-level evidence from rainfall, reservoirs and root-zone soil moisture. **Andhra Pradesh, Telangana, Karnataka and Maharashtra repeatedly appear across these indicators as stressed regions, while Punjab and parts of Bihar are emerging as important rabi watchpoints.** Conversely, better soil moisture and reservoir conditions in parts of Odisha, Chhattisgarh and Uttar Pradesh provide some offset to the weakness elsewhere.

Exhibit 21: Drought is widespread across the country

Region	D0–D4 drought area
West	**~79%**
South	**~67%**
Northeast	**~62%**
Northwest	~47%
East	~42%
North	~41%
Central	~40%

Source: India Drought Monitor, MOFSL

Exhibit 22: Current drought conditions (16th Sep'26)



Source: India Drought Monitor, MOFSL

State-level vulnerability: Where the monsoon stress is concentrated?

- **Our state-level monsoon matrix therefore combines five dimensions of agricultural stress — rainfall deviation, kharif/rice sowing, root-zone soil moisture, reservoir storage and drought coverage. The resulting picture is considerably more informative than rainfall alone and points to a concentrated rather than nationwide agricultural shock.** The southern peninsula emerges as the most vulnerable region, with Andhra Pradesh, Telangana, Karnataka and Tamil Nadu showing multiple overlapping areas of stress. Maharashtra and Punjab represent additional pockets of vulnerability, while Bihar and Meghalaya warrant monitoring. The matrix also highlights why the same rainfall deficit can have very different economic consequences across states: the availability of irrigation, water storage and soil moisture can materially alter the transmission from rainfall to crop yields and farm incomes.
- **Southern states show the clearest concentration of risks.** Andhra Pradesh combines a 40% rainfall deficit with weak soil moisture, reservoir storage around 44% below normal and a large drought footprint. Telangana faces a similar combination, with rainfall around 20% below normal, reservoirs nearly 49% below normal and 72.7% of its geographical area classified under D0+ drought conditions. Karnataka stands out for the sharp decline in rice sowing, alongside rainfall and water-stress concerns. Tamil Nadu has also recorded weak rice sowing and reservoir indicators despite a relatively smaller drought footprint. The overlap of multiple stress indicators is more important than any individual measure, as it increases the probability that rainfall weakness translates into actual crop and yield stress rather than simply a statistical rainfall shortfall.
- **Maharashtra represents a somewhat different form of risk. Aggregate reservoir storage is relatively comfortable, but the state has a large drought footprint and weak soil moisture, suggesting that the stress is more likely to be a spatially concentrated agricultural and soil-moisture problem rather than a uniform statewide water shortage.** Punjab and Rajasthan form another important cluster, where the immediate kharif impact may be less pronounced but the implications for the rabi cycle are more relevant. Punjab, in particular, is important given its role in wheat and rice production and its high dependence on irrigation and groundwater. The state-level assessment therefore suggests that the risks from the monsoon are likely to remain concentrated in specific agricultural belts rather than translate into a uniform nationwide shock.
- **At the same time, several states provide meaningful offsets. Odisha has received above-normal rainfall, while Uttar Pradesh and Chhattisgarh have comparatively favorable soil-moisture and reservoir conditions.** These states can partially offset weakness elsewhere and help explain why aggregate kharif sowing has remained relatively resilient despite the large national rainfall deficit. The broader evidence therefore suggests that the immediate agricultural risk is shifting from acreage to yields, particularly in regions where rainfall deficiency overlaps with weak soil moisture and limited water availability. **This state-level divergence is also critical for assessing the rural consumption outlook, as the eventual impact on farm incomes, credit demand and consumption will depend much more on where the agricultural stress is concentrated than on the all-India rainfall number alone.**

Exhibit 23: Regional monsoon risk scorecard

Region	Rainfall	Soil moisture	Reservoirs	Kharif	Rabi risk	Food inflation risk
South Peninsula	Severe	Weak	Weak	Mixed	High	High
East & Northeast	Severe	Mixed	Mixed	Resilient	Moderate	Moderate
Northwest	Weak	Mixed/weakening	Weak	Resilient	High	Moderate-High
Central India	Near normal	Generally better	Comfortable	Resilient	Low-Moderate	Moderate
Western India	Weak	Weak in parts	Aggregate comfortable	Mixed	Moderate-High	Moderate

Exhibit 24: State-level monsoon vulnerability matrix

State	Rainfall	Rice sowing YoY	Soil moisture	Reservoirs	D0+ drought	Rabi risk
Andhra Pradesh	-40%	-8.4%	Weak	-44%	92.8%	Very High
Telangana	-20%	-11.7%	Weak	-49%	72.7%	Very High
Karnataka	-31%	-44.7%	Weak	-18%	71.9%	High
Tamil Nadu	-20%	-28.6%	Weak	-39%	33.1%	High
Maharashtra	-17%	-17.1%	Weak	+3%	83.5%	High
Punjab	-39%	0.0%		-29%	76.0%	High
Rajasthan	-21%	-2.6%	Weak	-33%	41.5%	High
Bihar	-37%	+4.5%	Weak in north	+9%	73.2%	Moderate-High
Meghalaya	-59%	+3.8%		-46%	52.3%	High
Assam	-26%	+20.1%		+5%	71.6%	Moderate
Gujarat	-7%	-5.7%	Weak	+3%	47.5%	Moderate
Madhya Pradesh	-6%	-9.0%	Mixed	-1%	32.5%	Low-Moderate
Jharkhand	-9%	-7.4%	Better	-15%	40.1%	Low-Moderate
Uttar Pradesh	-5%	-1.5%	Better	+28%	39.5%	Low
Chhattisgarh	-5%	-4.1%	Better	+14%	41.4%	Low
Odisha	+18%	-5.5%	Better	+1%	16.8%	Low

Exhibit 25: Four types of state-level monsoon stress

Stress type	States	Main characteristics	Macro implication
Multi-indicator stress	Andhra Pradesh, Telangana, Karnataka	Rainfall + soil moisture + reservoirs + drought + crop stress	Highest risk to rabi and food inflation
Crop/water stress	Tamil Nadu, Maharashtra	Weak crop/soil conditions despite mixed reservoir picture	Regional crop-income and food-price risk
Rabi-led stress	Punjab, Rajasthan	Weak rainfall/reservoir/soil moisture but relatively resilient kharif	Risk rises if Oct-Dec rainfall remains weak
Agricultural buffers	Odisha, UP, Chhattisgarh	Better rainfall/soil moisture/reservoir conditions	Helps contain national output shock

State-level CPI: Rural inflation remains elevated in stressed regions

State-level CPI data shows that the impact of the weak monsoon is occurring against very different inflation environments across states. Rural inflation is particularly elevated in Telangana (6.8%), Tamil Nadu (6.1%), Andhra Pradesh (5.9%), Madhya Pradesh (5.9%), Odisha (5.9%), Karnataka (5.7%), Maharashtra (5.7%), Rajasthan (5.7%) and Uttar Pradesh (5.6%). **The combination is particularly relevant in the southern states: Telangana, Andhra Pradesh, Karnataka and Tamil Nadu are already among the more stressed states on rainfall, soil moisture, reservoir levels and/or rice sowing, and they also have relatively high rural inflation.** This creates a potentially stronger squeeze on rural purchasing power because agricultural stress and elevated food prices are occurring simultaneously.

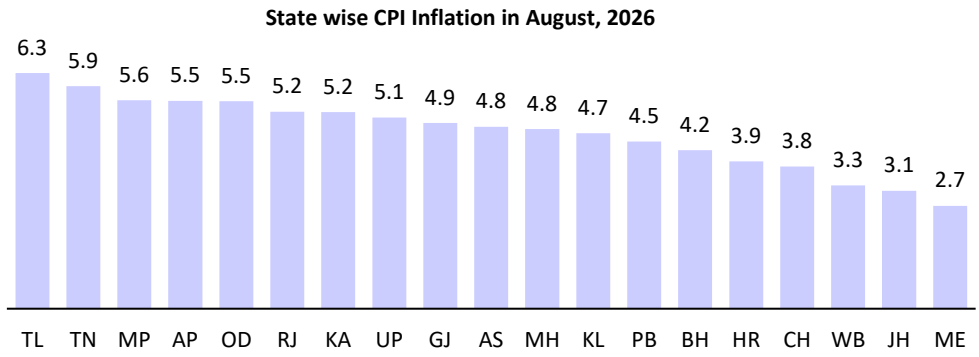
The inflation data also highlights why rainfall alone is not sufficient to assess the rural outlook. Odisha, for instance, has received above-normal rainfall and retains relatively comfortable reservoir conditions, yet rural CPI inflation is 5.9%. Similarly, Madhya Pradesh and Uttar Pradesh have relatively better water conditions but rural inflation remains elevated at 5.9% and 5.6%, respectively. Conversely, states with relatively lower inflation, such as West Bengal, Jharkhand and the Northeastern states, may have somewhat greater purchasing-power support despite agricultural or rainfall-related risks in some pockets.

This makes Telangana, Tamil Nadu, Andhra Pradesh and Karnataka particularly important to monitor. Their weather and agricultural indicators are already weak, while rural CPI inflation is 5.7–6.8%, creating a double pressure on farm incomes and household purchasing power.

At the same time, Maharashtra is an interesting middle case. Aggregate reservoir storage remains comfortable, but soil moisture, drought coverage and rice sowing indicate pockets of agricultural stress; rural inflation at 5.7% adds to the pressure. This supports the earlier conclusion that Maharashtra's risk is spatially concentrated rather than a uniform statewide water shortage.

Odisha, Madhya Pradesh and Uttar Pradesh provide an important counterpoint. Their relatively better agricultural/water indicators suggest that the monsoon shock is less severe, but inflation is still elevated.

Exhibit 26: State-wise monthly inflation across major states



Source: MOSPI, MOFSL

Exhibit 27: State-wise CPI Inflation in Aug'26

S.No.	State/UT	Inflation		
		Rural	Urban	Combined
1	Andhra Pradesh	5.9	5.0	5.5
2	Arunachal Pradesh	3.0	3.4	3.1
3	Assam	5.3	3.2	4.8
4	Bihar	4.3	3.9	4.2
5	Chhattisgarh	4.1	3.1	3.8
6	Goa	3.2	3.8	3.6
7	Gujarat	5.3	4.7	4.9
8	Haryana	4.5	3.4	3.9
9	Himachal Pradesh	3.7	4.6	3.9
10	Jammu And Kashmir	4.0	4.4	4.1
11	Jharkhand	3.4	2.7	3.1
12	Karnataka	5.7	4.7	5.2
13	Kerala	5.3	4.1	4.7
14	Madhya Pradesh	5.9	5.0	5.6
15	Maharashtra	5.7	4.2	4.8
16	Manipur	4.9	3.5	4.5
17	Meghalaya	2.8	2.7	2.7
18	Mizoram	2.9	2.0	2.4
19	Nagaland	2.9	2.9	2.9
20	Odisha	5.9	4.5	5.5
21	Punjab	5.1	3.7	4.5
22	Rajasthan	5.7	4.4	5.2
23	Sikkim	4.9	4.0	4.6
24	Tamil Nadu	6.1	5.8	5.9
25	Telangana	6.8	5.9	6.3
26	Tripura	3.3	4.3	3.5
27	Uttar Pradesh	5.6	4.0	5.1
28	Uttarakhand	5.1	3.9	4.7
29	West Bengal	3.6	2.9	3.3

Source: MOSPI, MOFSL

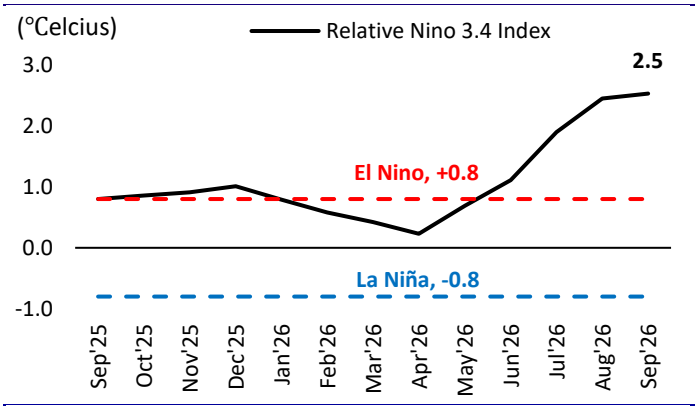
Weak monsoon and El Niño raise 2HFY27 risks

- The strengthening El Niño is increasing the risk of a prolonged weak monsoon, with potential implications for rural incomes, food inflation and consumption. **The Niño 3.4 index rose to 2.53°C as of 20th Sep'26**, significantly above the +0.8°C threshold used to identify El Niño conditions. The higher the index, the stronger the warming in the central Pacific; a reading of 2.53°C therefore signals an exceptionally strong El Niño episode, which is generally associated with weaker monsoon rainfall in India.
- **The Indian Ocean Dipole (IOD Index) has reached +0.7°C in the week ending 20 September**, above the +0.4°C positive threshold. A positive IOD can support Indian monsoon rainfall, but one reading does not confirm a sustained event. For now, the positive IOD provides a potential offset, but the unusually strong El Niño remains the larger weather risk.
- **The El Niño outlook materially increases these risks. The latest ENSO projections point to an unusually strong and persistent event through 2HFY27. The probability of a very strong El Niño (ONI ≥2°C) rises from 77% in ASO to 97% in SON and 98% in OND and remains elevated at 93% in NDJ and 75% in DJF.** The median projection rises from around 2.1°C in ASO to 2.4°C in SON and 2.7°C in OND, before remaining elevated through NDJ and then moderating

steadily. This is important for India because the influence of El Niño is increasingly shifting from the southwest monsoon toward the post-monsoon and winter period, when soil moisture, reservoir levels and rabi crop conditions become more important. **There is also a 69% probability of a historic El Niño during Oct-Dec'26, defined as an event exceeding the strength of previous El Niño episodes recorded since 1950.**

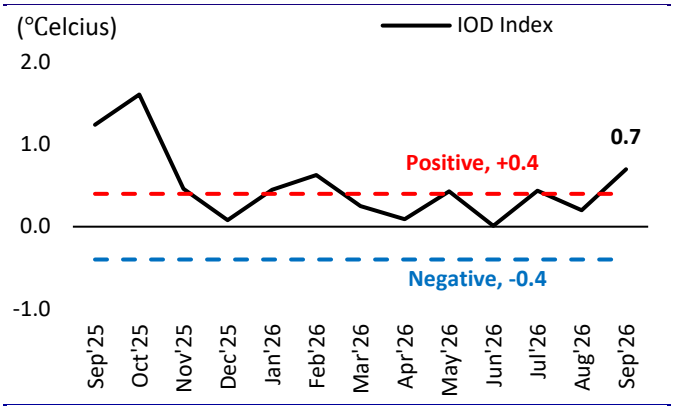
- **The timing is particularly important for India. October-November coincides with the transition into the rabi season, when soil moisture, rainfall and reservoir availability become increasingly important for sowing and yields.** With reservoir levels already below last year's levels, a stronger El Niño could compound the effects of the deficient monsoon and increase the risk of weaker rabi output. The implications would extend beyond agricultural production: lower yields could raise food prices, reduce farm incomes and eventually weaken rural purchasing power. This is particularly relevant given that terms of trade for rural households have already turned negative at -4.2% in Apr'26-Aug'26, even as rural consumption remains strong.
- **The risk should nevertheless be viewed as an upside risk to the inflation forecast rather than a certainty of a major crop shock**. The eventual impact will depend on the distribution of rainfall, irrigation availability, soil moisture and crop-specific conditions. **However, the unusually high probability of a very strong El Niño materially increases the tail risk for our 3QFY27 inflation forecast, particularly for cereals and other food categories where price pressures tend to be more persistent than for vegetables.**
- **The key concern is therefore that the current food-price pressure becomes more persistent rather than remaining a temporary kharif-related shock. A combination of weak monsoon conditions, lower reservoir levels and an exceptionally strong El Niño could increase the probability of weaker rabi output, keeping food inflation elevated in 4QFY27 and potentially early FY28.** The transmission could consequently run from weather conditions → crop yields → food inflation → rural real incomes → consumption, making the agricultural outlook an increasingly important downside risk to the rural growth outlook as well as an upside risk to inflation.

Exhibit 28: Relative Nino index stood at 2.53 (higher than 0.8) as of 20th Sep'26



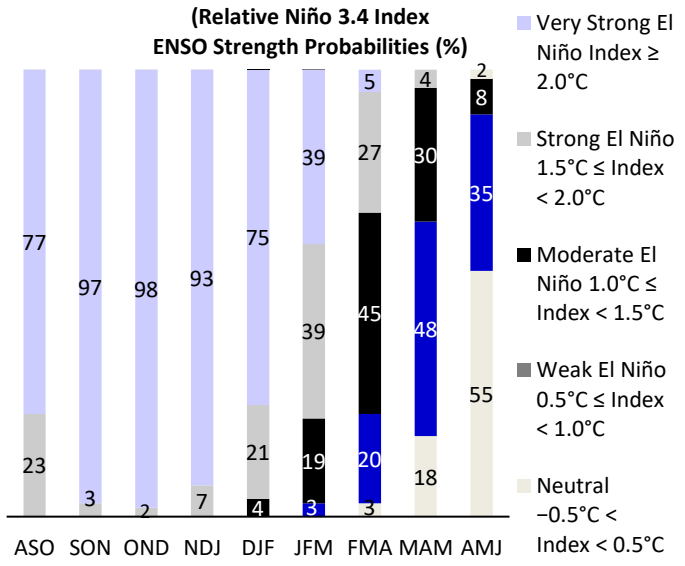
Data as of 20th September for all years

Exhibit29: IOD index edged up to 0.7°C, climbing back above the +0.4 °C positive threshold



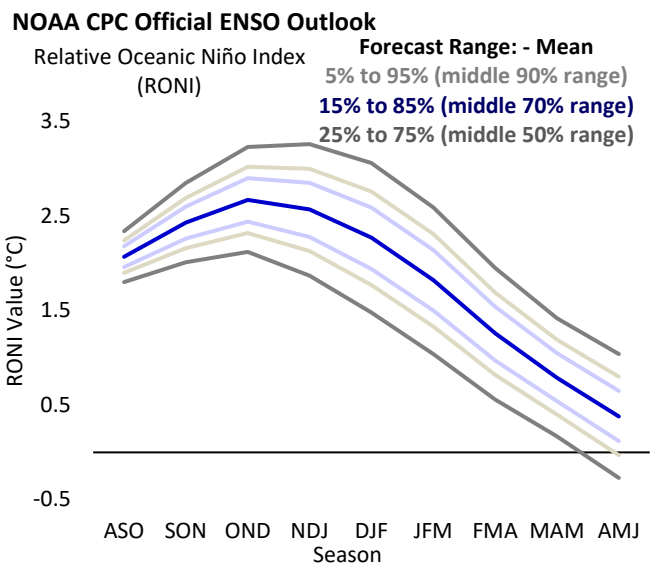
Source: Australian Bureau of Meterology, IMD,CEIC, MOFSL

Exhibit 30: 75% probability of a very strong El Nino during Nov'26-Jan'27



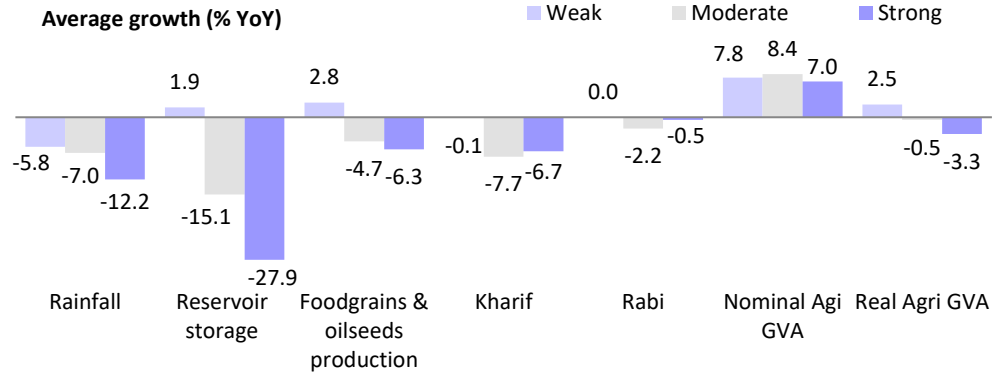
(issued Sep'26) based on -0.5°/+0.5°C thresholds

Exhibit 31: Ocean warming surges El Niño thresholds



Source: CEIC, NOAA, MOFSL

Exhibit 32: Average growth during El Nino events (weak vs. moderate vs. strong)



Source: CEIC, NOAA, MOFSL

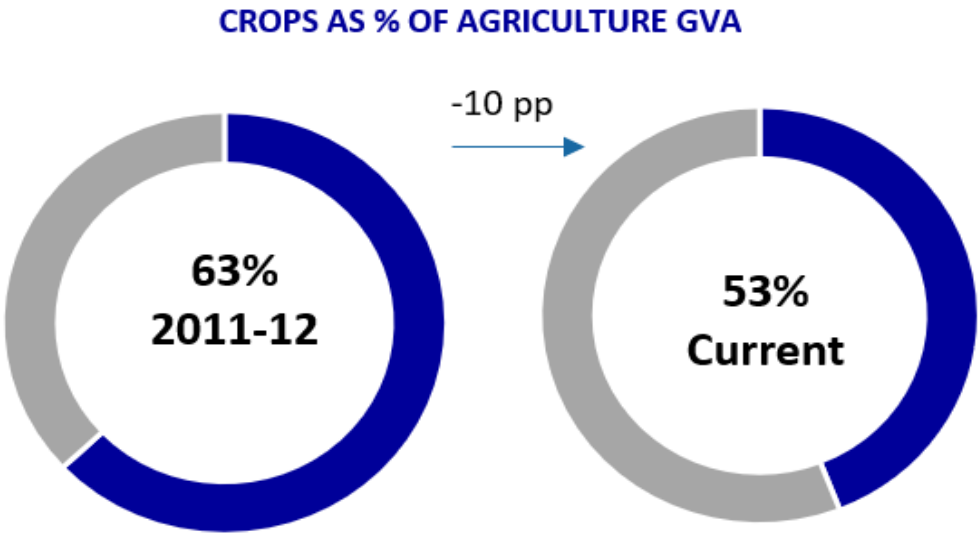
Rural outlook: resilient today, but vulnerable to a food shock

- **The weakness in this year's monsoon cannot be ignored, but the rural economy remains relatively well placed to absorb one weak rainfall season.** Lower yields could weigh on agricultural output and kharif-linked farm incomes, but the impact on rural consumption is likely to be considerably less severe at this stage. **Rural households have become less dependent on crop income, with a significant occupational shift toward livestock, fisheries and forestry, which together account for more than 40% of agriculture and allied-sector output and have historically shown greater resilience during weather shocks**. Consecutive years of favorable monsoons have also supported farm output and rural incomes, while the period of relatively low inflation has strengthened household purchasing power. The resilience is further supported by rising irrigation coverage, which increased to around 60% of net sown area in 2024-25 from 48.8% in 2015-16, and by greater adoption of short-duration and drought-resilient crops such as pulses, millets and oilseeds.
- **Rural demand, however, is already becoming more sensitive to food prices. In Aug'26, rural CPI inflation accelerated to 5.2% YoY, compared with 4.3% in urban areas, with the gap widening as food prices gathered pace. This**

divergence is structurally important because food has a much higher weight in the rural CPI basket at around 42% versus 30% for urban households, leaving rural households disproportionately exposed to food-price shocks. Consequently, any further increase in prices of cereals, pulses or vegetables would have a greater impact on rural household purchasing power. **The immediate impact should nevertheless remain manageable given the resilience in rural incomes, the support from allied activities and the various policy measures cushioning vulnerable households. PM-KISAN provides eligible farmers INR6,000 annually, while cash-transfer schemes operating across 17 states, foodgrain support and lower GST on mass-consumption items provide additional support to household balance sheets.**

- High-frequency indicators also point to resilience, although momentum has moderated from the earlier pace. Tractor sales have softened but remain positive, while two-wheeler demand continues to grow at a healthy pace, suggesting that rural discretionary spending has not yet been materially disrupted. Agricultural credit remains supportive, with continued growth in bank lending to agriculture and allied activities providing liquidity to farm households. At the same time, agricultural exports remain an important income support, particularly for export-oriented crops and allied activities, although the benefit is uneven across regions and commodities. The key concern is the farmer terms of trade (-4% YoY in Aug'26), which has turned less favorable as input costs and food expenditure pressures have risen relative to farm-gate realizations. Thus, the current high-frequency data point to moderation rather than stress in rural demand; however, a prolonged deterioration in the terms of trade, combined with lower crop yields and elevated food inflation, could gradually weaken rural purchasing power and discretionary consumption.
- **The risk, therefore, is less about an immediate rural slowdown and more about what happens if the weather shock persists.** At present, rural consumption should remain relatively resilient because one weak monsoon is unlikely to fully reverse the gains from recent years of favorable agricultural conditions, higher irrigation coverage, diversified rural incomes and policy support. However, if rainfall deficiencies deepen, crop yields weaken materially, food inflation remains elevated or the stress spills over into the rabi season, the buffers could gradually weaken. Higher rural CPI would then directly erode real wage growth and purchasing power, particularly for lower-income households with limited flexibility in food expenditure, putting pressure on discretionary consumption. This would likely be visible first in rural-facing categories such as two-wheelers, tractors, FMCG, entry-level consumer durables and value retail, while urban discretionary categories should initially remain better insulated through stronger non-farm incomes and household wealth. Importantly, the rural channel can affect corporate earnings before it becomes visible in aggregate GVA, given the disproportionately high rural volume contribution across several consumption-sensitive sectors.

Exhibit 33: Share of crops has been coming down



Source: CEIC, NOAA, MOSFL

Exhibit 34: Rural consumption grew 9.8% in 1QFY27

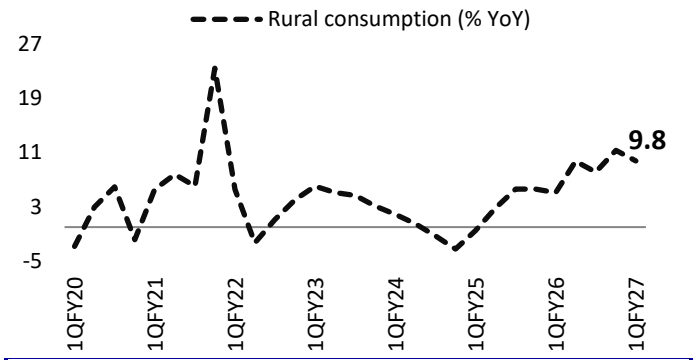
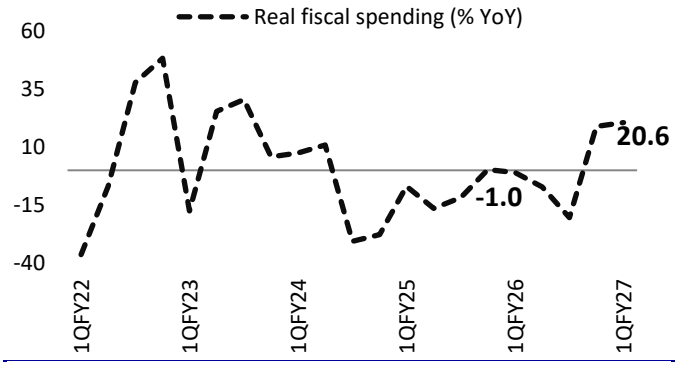


Exhibit 35: Real rural fiscal spending grew 20.6% in 1QFY27



Source: CEIC, NREGA, MOFSL

Exhibit 36: Domestic tractor sales growth stood at 8.3% in Aug'26

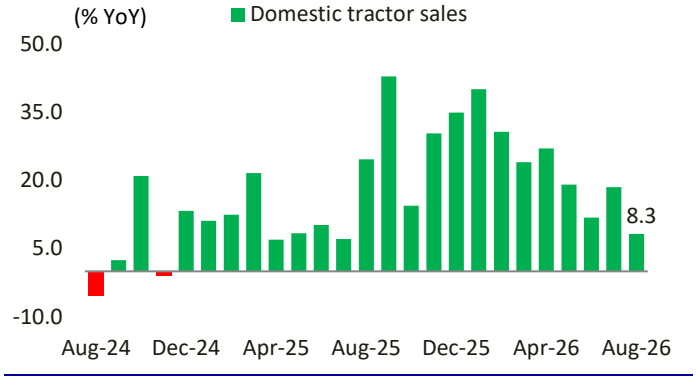
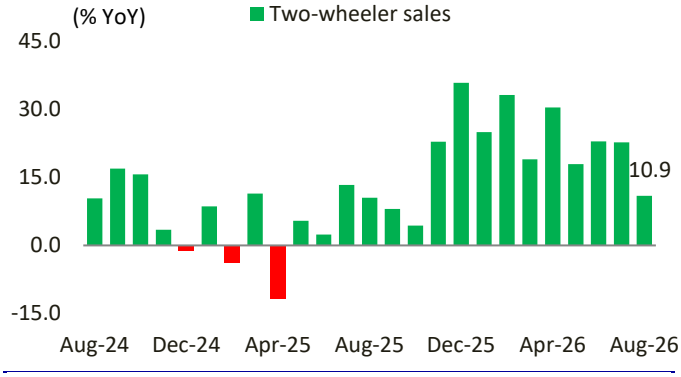
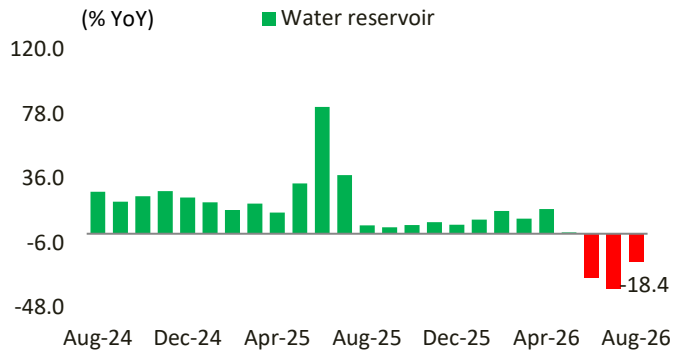


Exhibit 37: Two wheeler sales growth stood at 10.9% in Aug'26



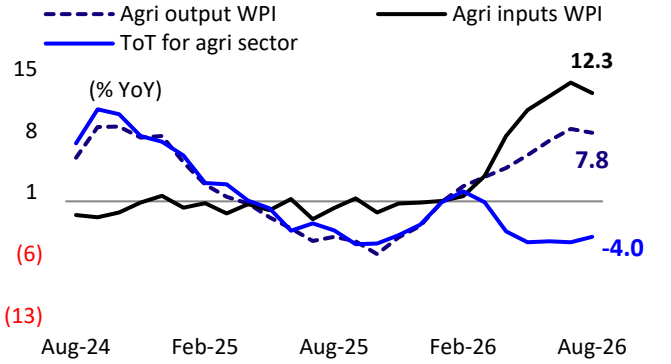
Source: CEIC, NREGA, MOFSL

Exhibit 38: Water reservoir levels contracted 18.4% in Aug'26



* Output price inflation over input inflation for the farm sector

Exhibit 39: Farm Terms of Trade contracted 4.0% in Aug'26



Source: CEIC, NREGA, MOFSL

Exhibit 40: Rural agri credit accelerated 11.6% in Jul'26

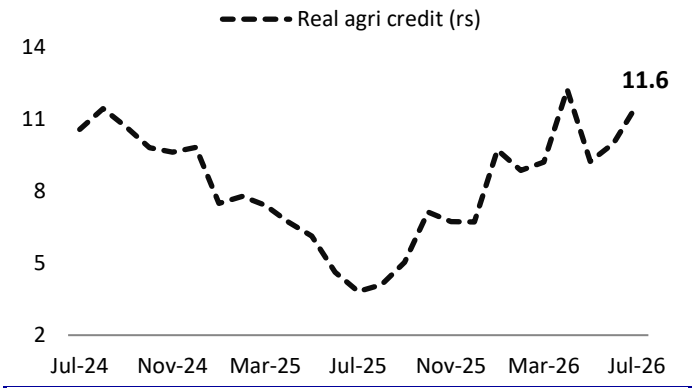
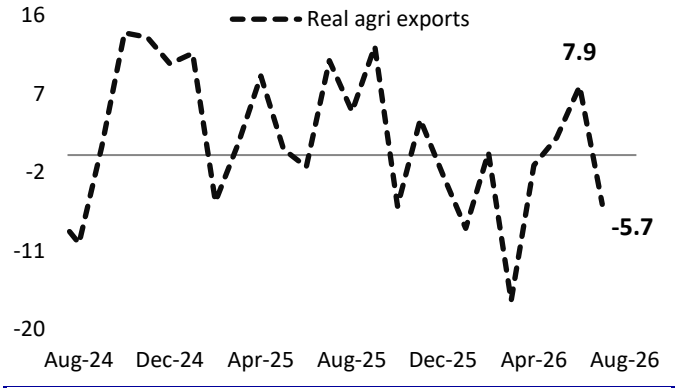


Exhibit 41: Rural agri exports contracted 5.7% in Aug'26



Source: CEIC, NREGA, MOFSL

Exhibit 42: Inflation increased to 4.8% in Aug'26 from 4.5% in Jul'26

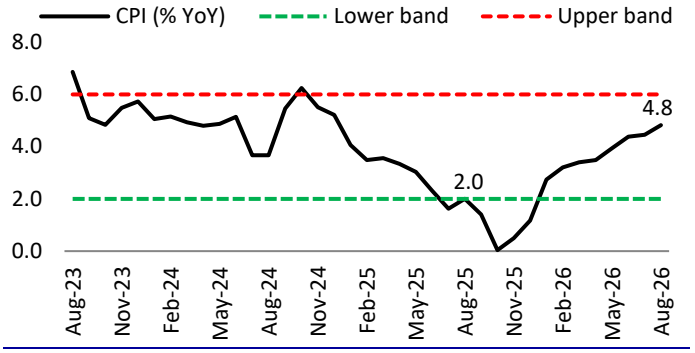
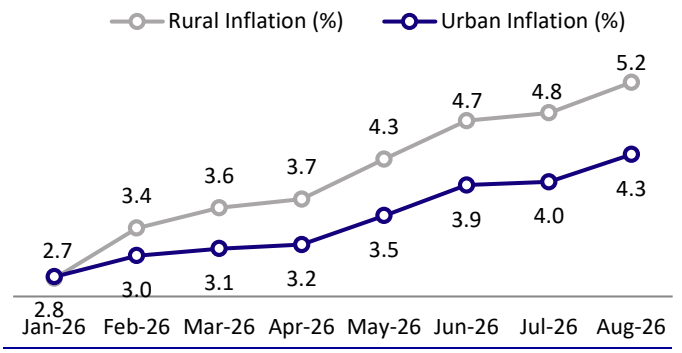


Exhibit 43: Rural inflation rose to 5.2% in Aug'26, compared with 4.3% in urban areas



Source: CEIC, NREGA, MOFSL

Exhibit 44: WPI grew 9.9% YoY in Aug'26 vs. 9.8% in Jul'26

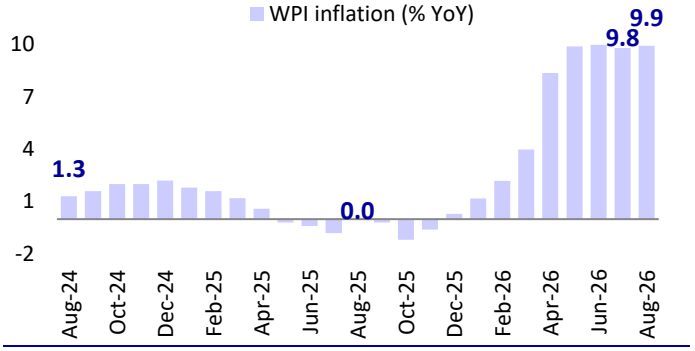
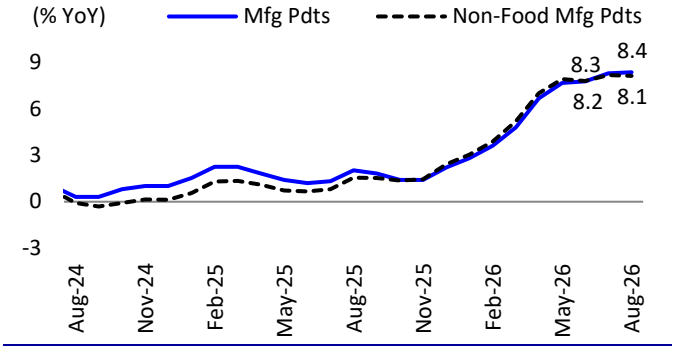


Exhibit 45: Manufacturing products inflation increased to 8.4% in Aug'26, from 8.3% in Jul'26



Source: CEIC, NREGA, MOFSL

RBI and inflation: 3QFY27 could mark an inflection point

- **Inflation risks are rising meaningfully as we enter 3QFY27, potentially marking an inflection point in the inflation trajectory.** The August CPI print was manageable, but the underlying risks have become increasingly broad-based. Food inflation is close to 6%, WPI inflation is near 10%, crude prices are elevated, while the uneven monsoon and El Niño risks are adding uncertainty to the food-price outlook. Higher energy prices could also feed into transportation, input costs and inflation expectations, creating second-round effects beyond the initial commodity shock. As discussed in detail in our earlier report, the combination of food, energy and weather-related shocks could push CPI inflation above 6% in 3QFY27, taking it beyond the RBI's upper tolerance threshold. **We retain our FY27 CPI inflation forecast at 5.1%, slightly above the RBI's 5.0% projection, but the balance of risks has shifted to the upside.**
- Importantly, this inflation risk is emerging against a backdrop of already tighter financial conditions. Global bond yields have risen sharply, with the US 10Y yield briefly moving above 5%, while Indian 10Y G-sec yields have moved toward 7%. As highlighted in our recently released Global Rate Hike Cycle report (link), the global monetary environment has also become materially less supportive, with major central banks turning more cautious and long-end yields remaining elevated. **This reduces the room for the RBI to look through a persistent domestic inflation shock, particularly if it begins to affect inflation expectations.**
- **Against this backdrop, 3QFY27 could represent an important inflection point for monetary policy. If food and energy pressures persist, the RBI may increasingly prioritize preventing a de-anchoring of inflation expectations, particularly given the lag between policy action and its impact on inflation. An October rate hike therefore becomes a meaningful possibility, especially if elevated crude prices coincide with a further acceleration in food inflation and evidence of second-round effects.** Under a sustained oil- and food-shock scenario, we see potential for 75-100bp of cumulative rate hikes over the current cycle. The key variables to monitor are food inflation, crude prices, El Niño/monsoon conditions, rabi sowing, inflation expectations and global bond yields.

Appendix: Details of state-level analysis

Southern stress cluster

- Andhra Pradesh, Telangana, Karnataka and Tamil Nadu form the clearest high-risk cluster. These states have multiple indicators pointing in the same direction: weak rainfall, below-average soil moisture, stressed reservoirs and weak rice sowing.
- Andhra Pradesh is particularly vulnerable because rainfall was 40% below normal, rice sowing was down 8.4% YoY, soil moisture was below average, reservoir storage was 44% below normal and 92.8% of its geographical area was classified as D0+. The combination makes Andhra Pradesh one of the strongest candidates for agricultural and rabi stress.
- Telangana is similarly vulnerable. Rainfall was 20% below normal, rice sowing declined 11.7%, soil moisture was below average and reservoir storage was 49% below normal. The drought footprint was also broad at 72.7%. The combination

of weak water storage and poor soil moisture makes the rabi outlook particularly sensitive to post-monsoon rainfall.

- Karnataka has perhaps the most visible rice-specific stress. Rice sowing declined 44.7% YoY, the largest decline among the major states in our dataset. Rainfall was 31% below normal, soil moisture was below average and reservoirs were 18% below normal. Around 71.9% of the state's area was under D0+. This creates significant crop and rabi risk.
- Tamil Nadu presents another important case. Rainfall was 20% below normal, rice sowing declined 28.6%, soil moisture was below average and reservoirs were 39% below normal. Interestingly, its D0+ geographical footprint was only 33.1%, illustrating why drought coverage alone should not determine the agricultural-risk assessment.

Western and northwestern stress cluster

- Maharashtra has a particularly important divergence between aggregate water storage and ground-level agricultural stress. Reservoir storage was around 3% above normal, but drought coverage was extremely high at 83.5%, soil moisture was below average and rice sowing was down 17.1%. This suggests that aggregate reservoir numbers may mask substantial localized stress.
- Punjab has a different risk profile. Rainfall was 39% below normal, reservoirs were 29% below normal and 76% of the geographical area was under D0+. Rice sowing, however, was unchanged YoY. The immediate kharif acreage impact therefore appears limited, but the rabi season could be more vulnerable because of the region's dependence on irrigation.
- Rajasthan recorded a 21% rainfall deficit, below-average soil moisture, reservoir storage 33% below normal and a 41.5% D0+ footprint. Rice is less important for the state's agricultural economy than in the southern rice-producing states, but the combination of water stress and weak soil moisture makes the rabi outlook a key watchpoint.

Eastern and northeastern states

- Bihar recorded a 37% rainfall deficit and 73.2% of its geographical area was under D0+, but rice sowing increased 4.5% YoY and reservoir storage was around 9% above normal. This is an important example of why rainfall and drought data should not be interpreted mechanically. The main risk is now more about yields and soil moisture in northern Bihar than about acreage collapse.
- Assam also shows a similar divergence. Rainfall was 26% below normal and the drought footprint was 71.6%, but rice sowing increased 20.1% and reservoir levels were around 5% above normal. This suggests that the agricultural impact is more contained than the headline drought number would imply.
- Meghalaya is much more stressed. Rainfall was 59% below normal, reservoir storage was 46% below normal and around 52.3% of its area was under D0+. It, therefore, remains one of the clearest pockets of rainfall and water stress in the Northeast.

Central agricultural buffer

- Odisha, Chhattisgarh, Uttar Pradesh and parts of Madhya Pradesh provide an important counterweight.
- Odisha recorded 18% above-normal rainfall. Soil moisture was similar to or better than the 10-year average, reservoir storage was around 1% above-normal and only 16.8% of the area was under D0+. Rice sowing was nevertheless 5.5% lower YoY, showing that even favorable rainfall does not guarantee higher acreage, but the overall water position remains relatively comfortable.
- Chhattisgarh had only a 5% rainfall deficit, better-than-average soil moisture and reservoir storage 14% above normal. Its D0+ footprint was 41.4%, but the intensity and water-buffer indicators suggest that agricultural conditions is broadly manageable.
- Uttar Pradesh recorded only a 5% rainfall deficit, similar-to-better soil moisture and reservoir storage 28% above normal. This makes it one of the strongest water buffers in the national agricultural system.
- Madhya Pradesh is also broadly manageable, although the distinction between eastern and western parts is important. Eastern MP had better soil moisture, while western MP was weaker. This regional divergence could become more relevant during rabi.

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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