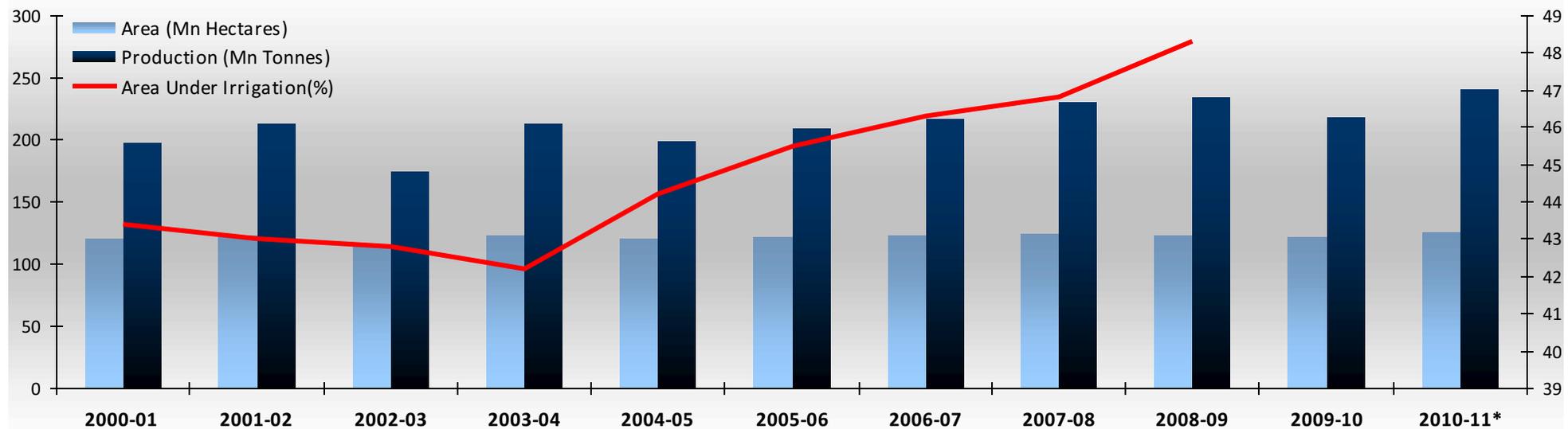




This time Running behind the Schedule...

Monsoon Rains, which are crucial for the agriculture sector of broader economy accounts around 70% of annual rainfall in India. India is third largest economy in Asia and farm sector accounts for about 15% of a nearly \$2 trillion economy. The monsoon rains, which provide the main source of water for 55% of India's arable land, were 31% below average from June 1 to July 2, losing even more pace in the past week after being 23% below average to June 27. An average or normal monsoon means rainfall between 96 and 104% of a 50-year average of 89 centimeters during a four-month season from June, In India as per the weather department Rainfall below 90% of the average is considered a drought. A delayed start and a mid-season lull in rainfall has already affected sowing of summer crops in five states across the India, but it is not a major concern because sowing of summer crops is on track to gather momentum as rains spread to the northern parts of the country in the coming weeks.

All India Food Production & Area Under Irrigation (2000-2011)

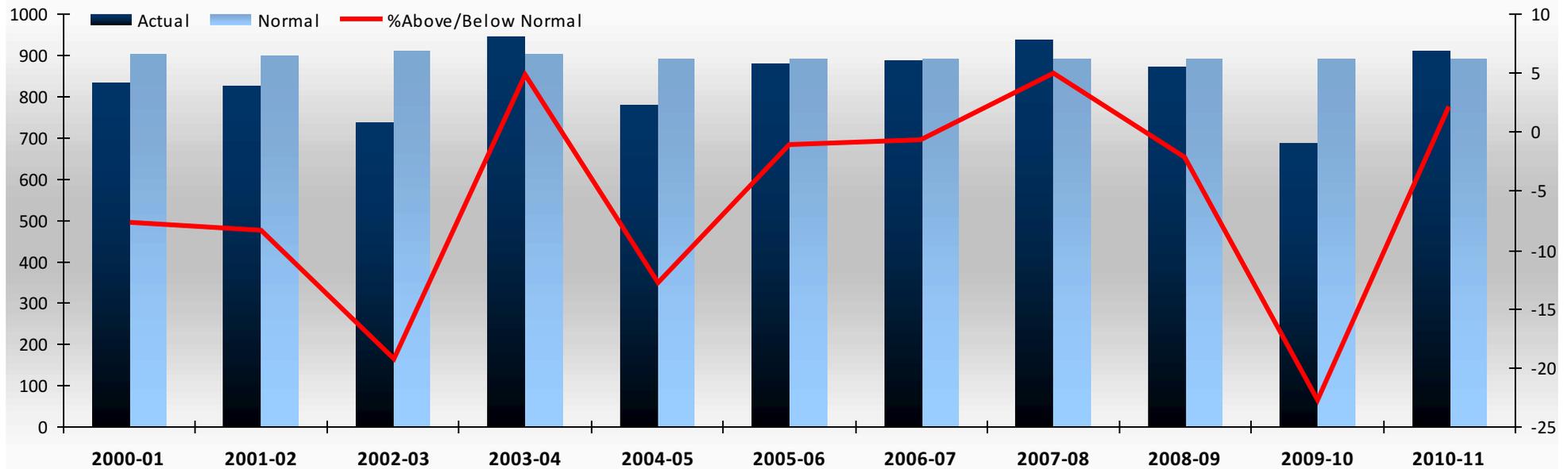


Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation

Monsoon Classification and Seedtime in India

In India, the monsoon season starts with the arrival of the rains on the southern Kerala coast around June 1. Its progress triggers planting of summer crops. After hitting the south coast, it takes about a week to cover the coffee, tea and rubber growing areas of south India. It spreads to the rice areas of eastern parts in the first 10 days. It usually covers half of the country in the first fortnight and enters the oilseed-producing areas of central India in the third week of June. Cotton areas in the western region get rains by the first week of July. It covers entire country by mid-July. Half of India's farm output comes from crops planted during the first half of the June-September season.

All India Rainfall Distribution During Monsoon Season (Jun-Sep) (In Millimeters)



Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation

Monsoon and the Indian Economy

India is one of the world's biggest producer as well as consumers of rice, sugar and grains. However, it produces enough to meet the demand for these foodstuffs but on the other hand, country is also a major importer of pulses and edible oils. The monsoon rains, which provide the main source of water for 55% of India's arable land, are vital for farm output and economic growth in India. Farm sector accounts for about 15% of a nearly \$2 trillion economy and healthy harvests keep up rural incomes and in turn demand for gold and consumer goods.

India is largely self-sufficient in major foodgrains such as rice and wheat, but drought can send the country to global markets. In 2009, India had to import sugar, sending global prices to record highs and pushing up inflation. The deficient rainfalls also affect the power sector of India in monsoon season, the hydropower that accounts around 20% of the total installed capacity of power use rainwater to replenish its reservoirs during monsoon seasons. Apart from this low rainfall will also raise the demand for the highly subsidized fuel called diesel by the farmers to irrigate their fields that is used to pump water from wells. In India Diesel accounts, more than 40% of India's oil product demand and keeping a lid on diesel prices will make it difficult for the government to cut fiscal deficit, which has been projected at 5.1% of the GDP for the current year.

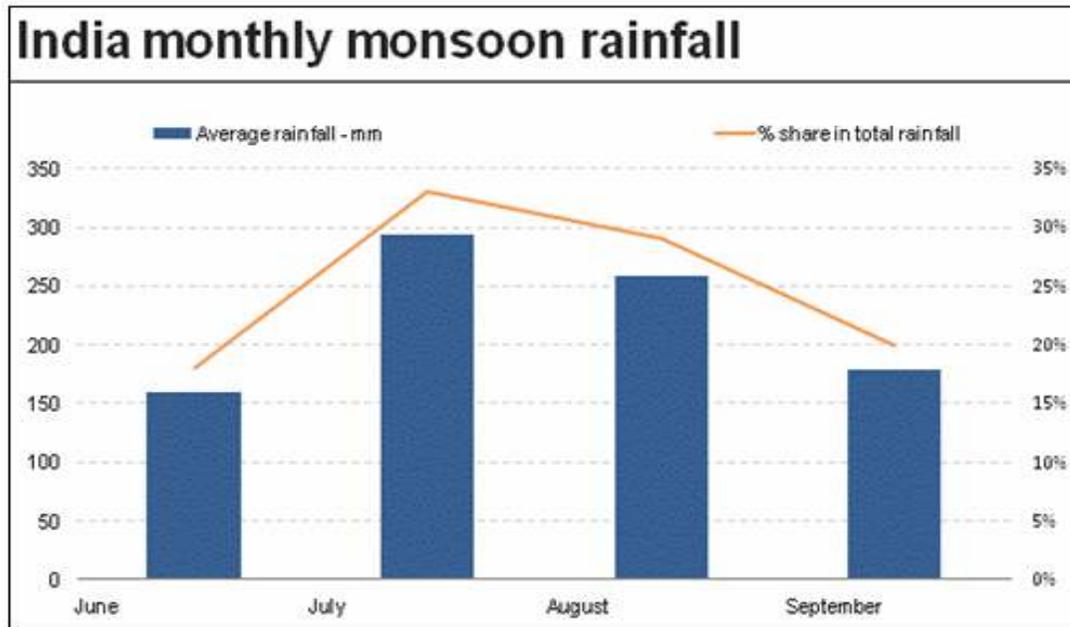
Current Scenario of Monsoon

Earlier this season the India Meteorological Department (IMD) had predicted a normal monsoon at 98% of the long period average with a 5% error. However, El Nino conditions may emerge in August and September, which can parch Australia, Southeast Asia and India while flooding South America. With a cycle of 3-7 years, the chance of El Nino emerging this year has been assessed at 50:50. Right now as per the latest data from the weather office the June-September rains were 49% below average in the week to July 4, widening the 18 percent shortfall in the previous week. Between June 1 and July 4, rains were 30 percent below average. However IMD has also the rains revived over cane, oilseeds and cotton areas of India's western region and there had been increased rainfall over states such as Maharashtra, Gujarat and Madhya Pradesh in the past 24 hours. A source in the weather office also said monsoon rains had moved north, halting in central India. The rains would now move to the northwestern region, bringing showers to parched New Delhi in the next two to three days.

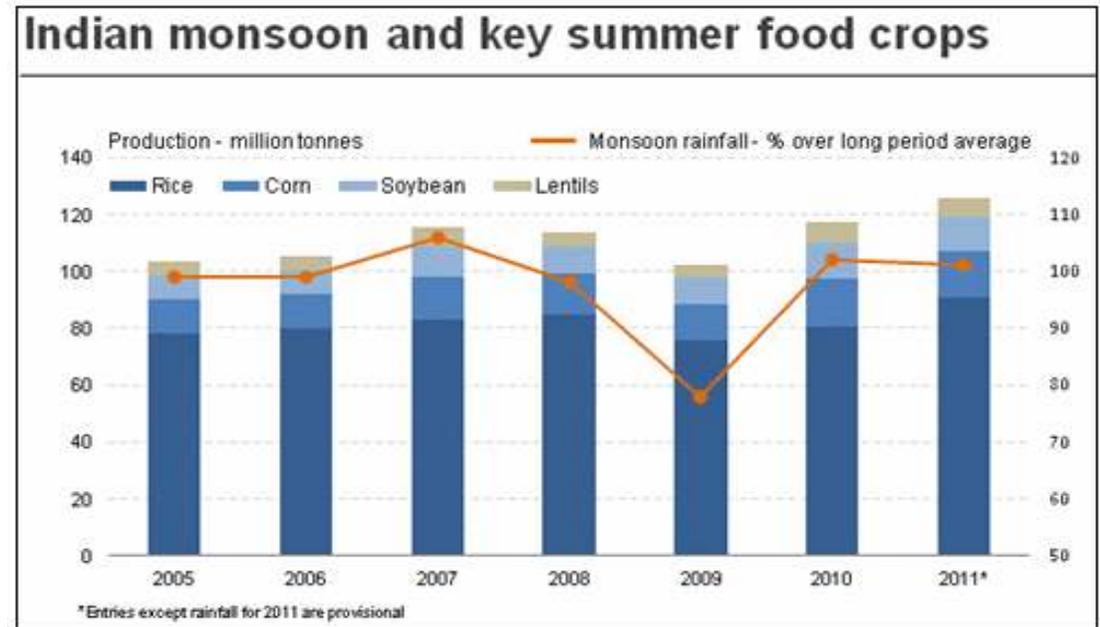
IMPACT OF DEFICIENT MONSOON ON THE INDIAN ECONOMY

Seasonal Seedtime of Crops in India

In India, the major crops, which are most dependent on monsoon, are kharif crops that include mainly rice, pulses, oilseeds and sugar. In 2009, while total food grains production declined 7% that of rice was down 11%. Rainfall was fairly normal in the last ten years except for 2002 and 2009 when actual rainfall was 79% and 77% of the normal. Apart from the total amount of rainfall, its timing and spacing can be critical. Spacing of rainfall can hit crops differently since they are grown in different regions. Shortfall of rain in Gujarat and Andhra Pradesh hits the groundnut crop, in Maharashtra and Uttar Pradesh the gram crop, and so on while shortfall of rain in Punjab and Haryana does not have an immediate impact on crops because more than 80% of the sown area is irrigated.



Source: Reuter India

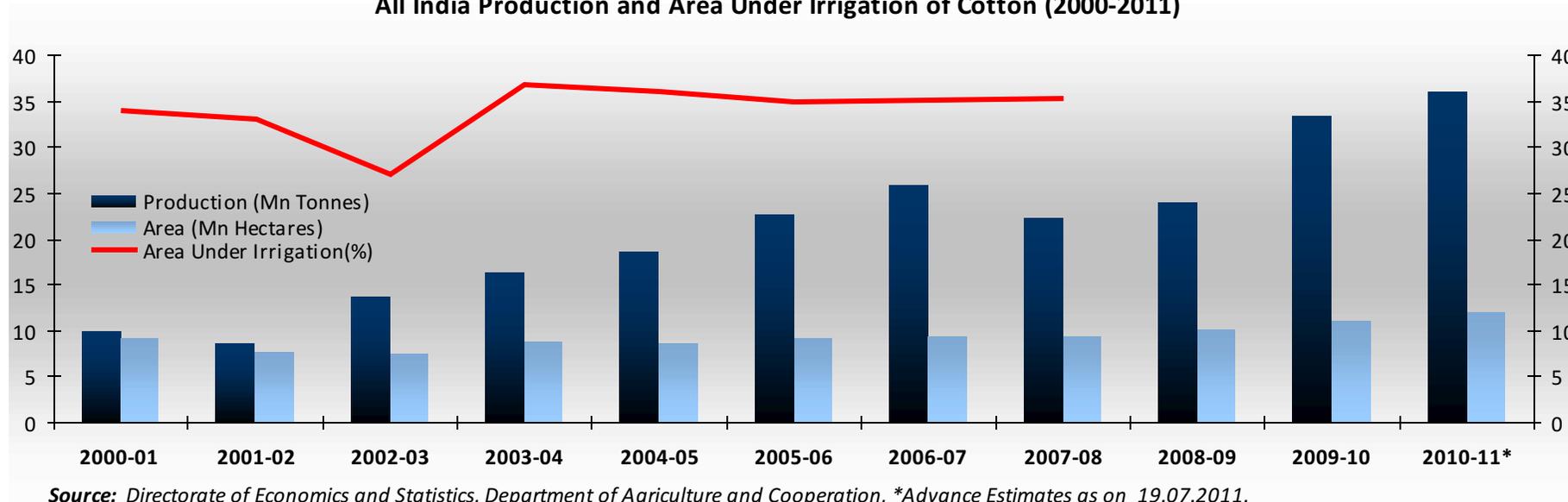


MAJOR CROPS DEPENDS MONSOON IN INDIA

Cotton - Output may fall 20%

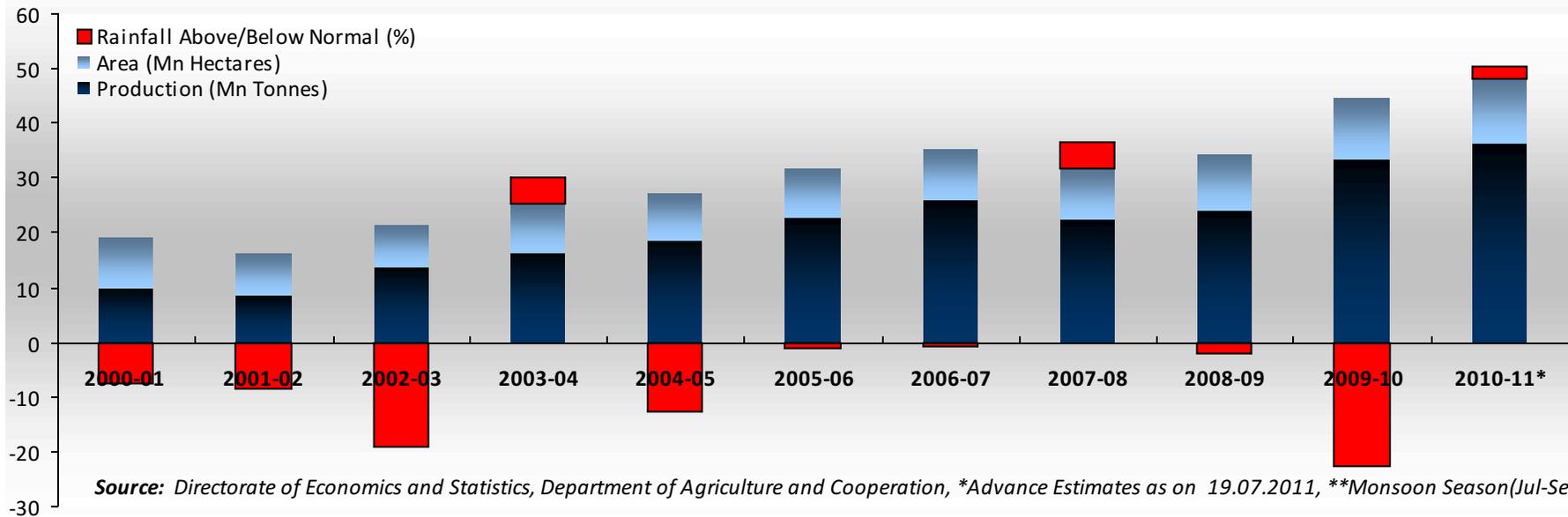
India is also world's biggest exporter of fibre after United States, but this time due to poor monsoon the cotton output is likely to fall as much as a fifth in the year from October. In 2011/12, higher prices encouraged farmers to plant cotton on a record 12 million hectares, helping India harvest 34.7 million bales of 170 kg each. Monsoon showers in Gujarat and Maharashtra, which together account for about 60% of India's cotton output were as much as 70% less than normal. In the northern parts of India, cotton acreage is already down 300,000 hectares to 1.4 million hectares while in Gujarat the area planted to cotton is likely to dip to 2.5 million hectares this year against more than 3 million in 2011. In the neighboring state of Maharashtra also, farmers have so far been able to plant cotton on only 10% of the normal sown area of about 4 million hectares, and they may have to replant if the rains get delayed further. Since cotton takes time to mature and consumes more water, even farmers who had earlier planted the fibre, could switch to crops like guar, corn, soybean and millets.

All India Production and Area Under Irrigation of Cotton (2000-2011)



Irrigation could have helped in some states but lower water levels in reservoirs are also a cause for concern. Water levels in India's main reservoirs in the week to June 28 were at 16% of capacity, down 11 percentage points from the year ago period. Last year (2011/12) due to bumper harvest, traders believe that India's cotton exports will hit an all time of 13.5 million bales (One Bale =170 kg) in the current season that ends in September 2012. China, the top buyer of Indian cotton already has a huge stockpile of cotton, which could damp any surge in global prices, even if India exports less next year, China is also renegotiating prices and has defaulted on many import contracts following a sharp fall in the price of cotton in the United States, So any drop of cotton output in India also will cut exports in the 2012/13 season.

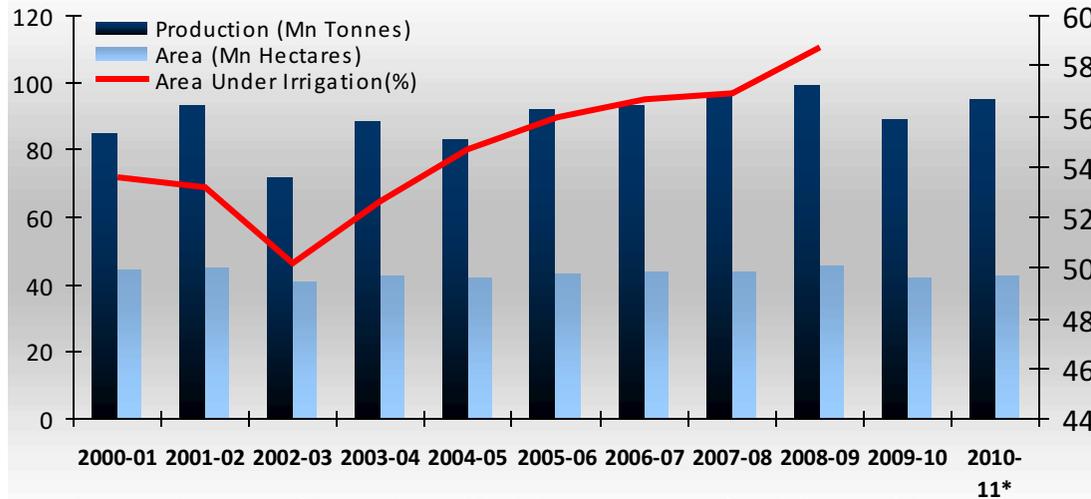
All India Production of Cotton and Rainfall during Monsoon Seasons (2000-11)**



Rice - Highly Dependent on Monsoon Rains

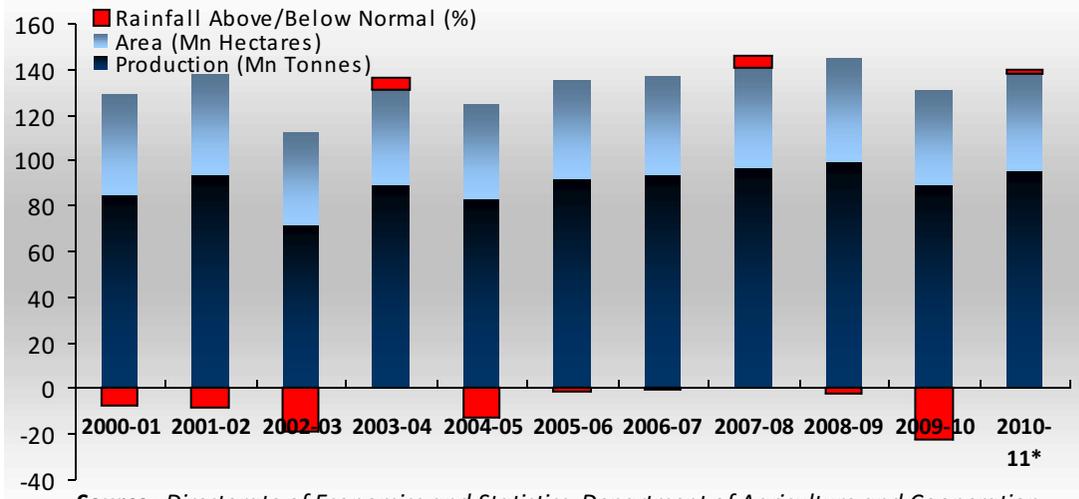
One of the major consuming food grains, Rice requires a large amount of rainwater to irrigate its field. Farmers sow paddy at the start of the monsoon in June and the key areas are in the east and south. The crop is heavily dependent on rains during the monsoon season. A bumper harvest last year led the government to lift a four-year ban on exports and rainfall within the average will erase any chance of a return of the export ban for the world's second largest producer of the grain after China.

All India Production and Area Under Irrigation of Rice (2000-2011)



Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation
*Advance Estimates as on 19.07.2011.

All India Production of Rice and Rainfall during Monsoon Seasons (2000-11)**

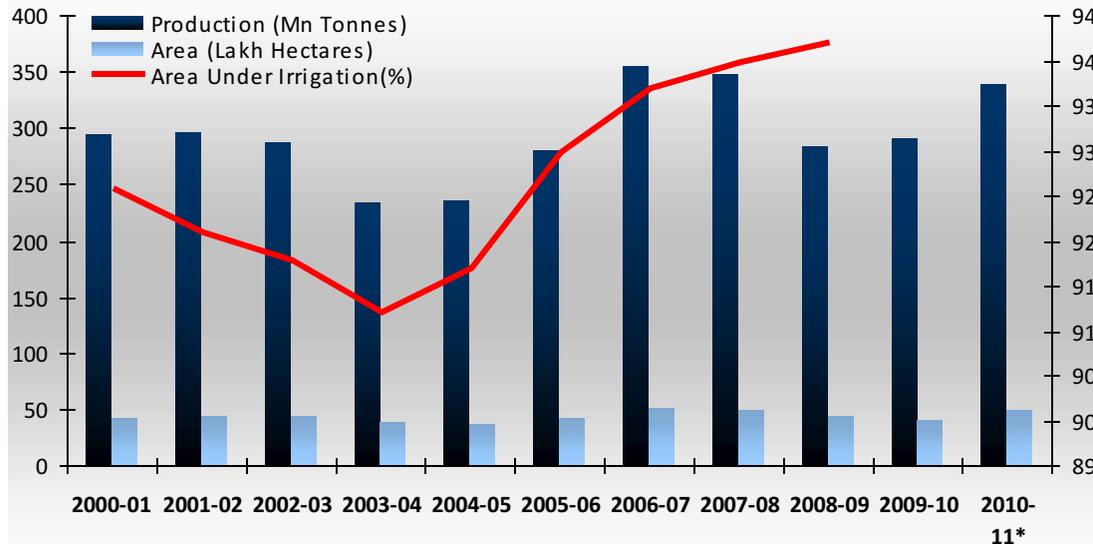


Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation
*Advance Estimates as on 19.07.2011. **Monsoon Season(Jul-Sep)

Sugarcane - Lower Production would Impact Export

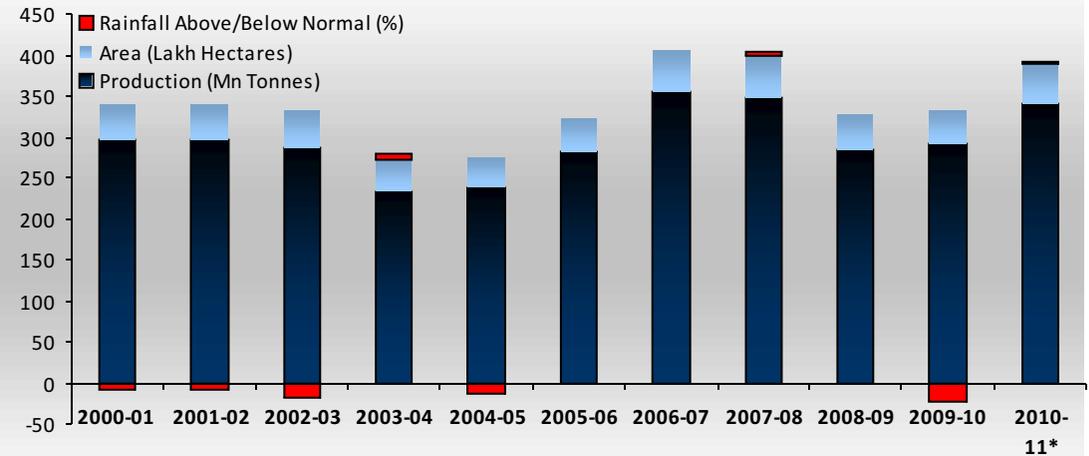
India is the world's top producer of Sugarcane after Brazil, In the last 12 months from Oct 1, 2011 it is expected to produce a total 26 million tonnes which is about 4 million tonnes higher than its annual demand. Around 3 million tonnes of exports have already been approved and further an average monsoon will help the world's top sugar producer to keep its free export policy on sugar in the new season from October. On the other hand as per the Indian Sugar Mills Association India's sugar output in the next marketing year, starting October 1, could decline by 1 million tonnes to 25 million tonnes.

All India Production and Area Under Irrigation of Sugarcane (2000-2011)



Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation
*Advance Estimates as on 19.07.2011.

All India Production of Sugarcane and Rainfall during Monsoon Seasons (2000-11)**

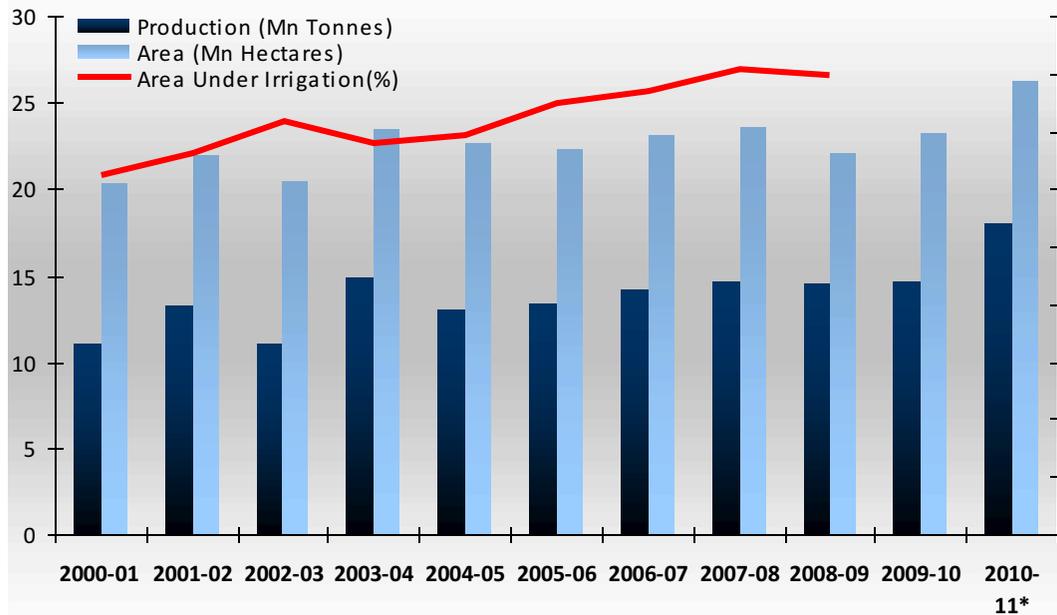


Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation
*Advance Estimates as on 19.07.2011. **Monsoon Season(Jul-Sep)

Other Major Crops & Plantations

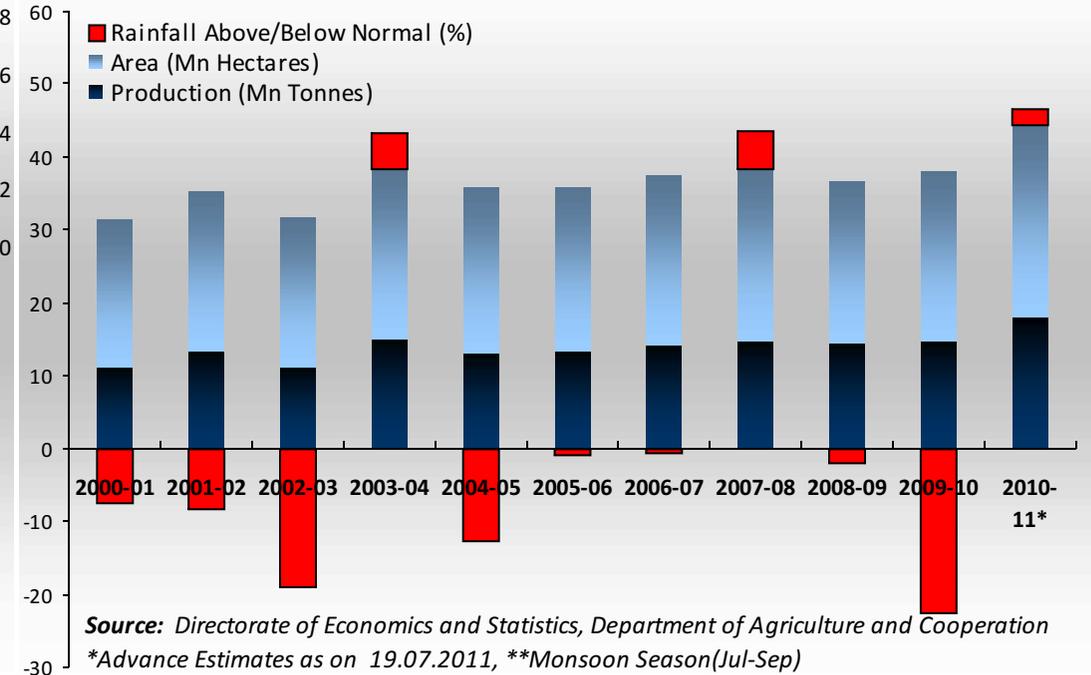
Apart from major crops discussed above Corn, Lentils, oilseeds and soyabean are the important crops in western and central India. These crops also have some dependency on the seasonal rains. India remains a net importer of lentils and cooking oils and domestic output can alter overseas purchases.

All India Production and Area Under Irrigation of Pulses (2000-2011)



Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation
 *Advance Estimates as on 19.07.2011.

All India Production of Pulses and Rainfall during Monsoon Seasons (2000-11)**



Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation
 *Advance Estimates as on 19.07.2011, **Monsoon Season(Jul-Sep)

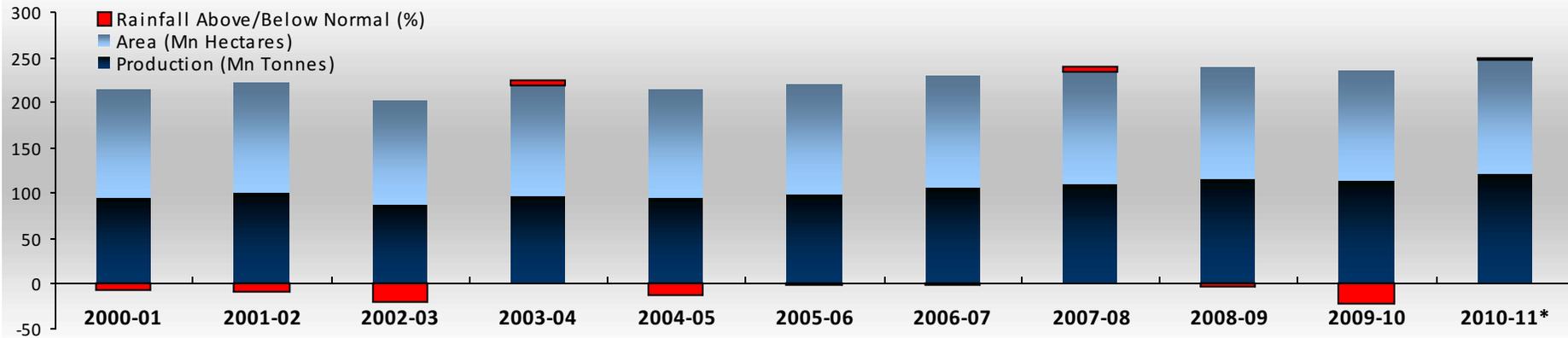
Soyabean: Soyabean, which is about 85% is produced by only tow states Madhya Pradesh and Maharashtra have so far received sharply lower rainfall than average. However, despite the delay in the sowing, farmers are still expected to plant the oilseed on higher areas than last year as cotton farmers are seen shifting to soybean due to record high price and because of this the acreage of soybean in India is likely to rise by 7% in 2012/13.

Turmeric: India is the world's biggest producer and exporter of this yellow spice and here Turmeric is planted between June and August and takes about nine months to harvest. This time the acreage of Turmeric in India is likely to fall 30%, as Sowing is very slow because of rain deficient. A further delay in rains could push back sowing in the major cultivating regions which will result reducing exports for the year 2013/14.

Pepper: India is the third largest pepper producing country in the world after Vietnam and Indonesia. In India, Kerala and Karnataka are the leading pepper producing states the crop is harvested from December to February and lack of rains may hurt the growth of crop for the next year.

Jeera: Well Jeera is a winter crop, whose planting starts from October but it requires a moisten land for sowing, so at this time monsoon rain would be a healthy option for the produce this crop. Deprived rains in Gujarat state, the leading producer also supported the upside in the spice

All India Production of Rabi Crops and Rainfall during Monsoon Seasons (2000-11)**



Source: Directorate of Economics and Statistics, Department of Agriculture and Cooperation, *Advance Estimates as on 19.07.2011.

CONCERNS & MEASURES

Shifting of Crops would be Good for the Govt

The early stages of the monsoon help to soften the soil for planting of crops, while July and August rains are the most important for maturing seedlings and enhancing yield. India's two most productive states Punjab and Haryana, where about 93% of arable land is irrigated, the lack of water would not have a big impact on rice, cane and cotton planting. In Gujarat and Rajasthan, the usual coarse cereal crops may be replaced with pulses and oilseeds, the shifting of crop sowing would be a bonus for the government, because India is a major importer of both while it is sitting on a surplus of corn. However, due to early sowing in some states like Maharashtra, Karnataka, Rajasthan, Madhya Pradesh and parts of Uttar Pradesh and Bihar the yield would be affected.

Monsoon Failure - High food Prices & Lower Consumer Demand

The monsoon is a critical factor for the agriculture sector of India, usually when the monsoon is short by more than 5%, there is generally a drop in kharif production. On average, a 10% shortfall in monsoon causes a 7% drop in kharif output and a 10% shortfall in monsoons would pull down the GDP growth by 0.8%. This pushes up food and non-food agricultural prices besides slowing down GDP growth. However, there are enough stocks of foodgrains, which can be used to check food grain prices, but it is not possible in respect of fruits and vegetables which were the main sources of inflation in the last two years. Hence, a monsoon failure this year can increase food inflation. The fall in agricultural production will affect FMCG industries, raising the costs of agricultural raw materials, shaving profit margins of the companies. Poor monsoon rains also impact rural incomes, hitting sales of essential auto and consumer durable products like refrigerators and motorcycles. A dry spell also affects gold purchases in the world's top importer of the precious metal. The fall in agricultural production and industrial growth would naturally be reflected in GDP.

Summing Up

In India Monsoon rains always played a vital role in the farm output and economic growth as well, India is the world's biggest producer of rice, wheat, sugar and cotton and farm sector accounts about 15% of India's nearly \$2 trillion economy, which is third largest in the Asia. India is highly self-reliant in major food grains such as rice and wheat, but drought can send the country to global markets. In 2009, India had to import sugar, sending global prices to record highs and pushing up inflation. Higher farm output will help to control the food prices and facilitate the government to take steps to cut the fiscal deficit and farm subsidies. India's food inflation rose to 10.66% in May from 10.18% in April, latest figures show. Monsoon rains impact demand for gold in India, the world's top consumer of the metal, as purchases get a boost when farming incomes rise amid high crop output. Furthermore a stronger economic outlook can lift sentiment in equity markets also, mostly the companies which are selling products in rural areas, including consumer goods and automobiles.



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