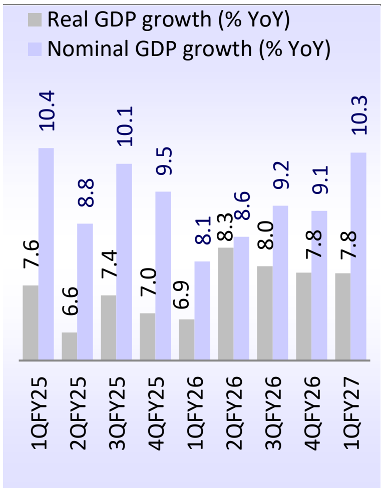
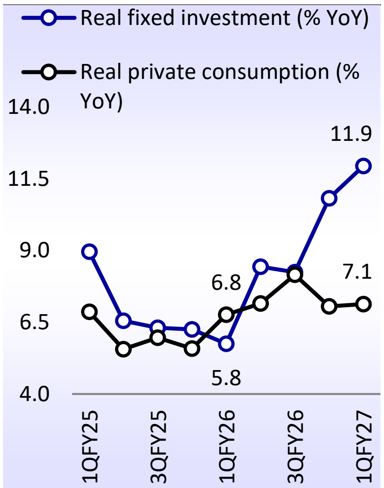
Economy | Macro-Cap

Real GDP growth accelerated to 7.8% in 1QFY27, while nominal GDP grew 10.3%



Real fixed investment growth accelerated to 11.9% in 1QFY27 vs. 5.8% in 1QFY26



FY27 – A story of two halves!

- **1HFY27 has started on a strong footing, with growth becoming increasingly broad-based.** 1QFY27 GDP growth of 7.8% was supported by an acceleration in investment, resilient manufacturing and continued services momentum, while consumption also strengthened. Our urban consumption tracker exhibited a growth (details on page 7) of 11.4% YoY in 1QFY27, supported by strong growth in passenger vehicle sales, consumer durables, and personal credit and consumer imports. Rural consumption (details on page 5) rose 9.8%, driven by healthy growth in two-wheeler and tractor sales, rural wage, farm credit, and real rural fiscal spending. Importantly, the strong momentum remains intact in 2QFY27, with July high-frequency indicators (HFIs) remaining robust and August data pointing to healthy trends in consumption, mobility and economic activity.
- **Management commentary reinforces the strength of the current consumption cycle.** FMCG and auto companies are reporting improving rural demand alongside resilient urban consumption, with premiumization, wider distribution and healthy financing conditions providing additional support. In autos, strong retail momentum, lean channel inventories and healthy demand across two-wheelers and passenger vehicles point to continued strength in the near term. However, management commentary is also increasingly highlighting higher commodity and input costs, suggesting that the consumption story could gradually shift from a volume-led to a more price-led environment.
- **The key macro question is, therefore, not about the growth today, but how long the current momentum can be sustained**. **We see 3QFY27 as the potential macro inflection point,** as several less favorable forces could converge – weaker monsoon conditions, rising El Niño risks, higher food and crude prices, elevated input costs, and tighter domestic and global financial conditions.
- The favorable combination of strong growth, resilient consumption, benign inflation and easy liquidity seen in 1HFY27 is likely to become progressively less supportive from 3QFY27. Importantly, however, we see this as a normalization rather than a growth downturn. Our FY27 growth forecast of 7.0-7.2%, therefore, assumes that the strong momentum in 1HFY27 should be followed by some moderation in 2HFY27, rather than a significant weakening in activity.
- **Inflation is the most immediate macro risk.** We expect August CPI at 4.8% YoY, with food inflation at ~5.8% and core inflation at ~4%. The increase is largely led by food prices and would not be broad-based, although the acceleration in cereals, particularly rice, and sugar warrants monitoring given their greater persistence relative to vegetables. We see little risk in 2QFY27 inflation exceeding our 4.7% estimate, but the risk is considerably higher in 3QFY27.
- **We expect upside risk to inflation in 3QFY27 as input-cost pressures broaden.** WPI inflation has already risen to ~10% and could move higher, with the recent rise in crude prices adding to upstream cost pressures. Companies that have so far been operating with relatively cheaper inventory will increasingly face higher replacement costs, and we expect a greater pass-through to consumer prices to begin in 3QFY27 as companies seek to protect margins. This should initially be reflected in WPI, followed by a lagged impact on CPI, increasing the risk of a

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broader and more persistent inflation shock. Alongside weaker agricultural conditions and high food and crude prices, this could push 3QFY27 CPI above 6% and lead to an upside surprise to current expectations. We maintain our FY27 inflation forecast at 5.1%, 10bp higher than the RBI's forecast of 5%.

- **The agricultural outlook is becoming less supportive, with cumulative monsoon rainfall trending 15% below LPA (as of 9th Sep'26),** Kharif sowing 1.6% lower YoY and 2.3% below normal, and reservoir live storage at 71% of capacity vs. 87% a year ago. This raises concerns about the upcoming rabi season, particularly if weaker soil moisture and water availability affect sowing and yields.
- **The risk is amplified by El Niño, with a >90% probability of a strong event and a 69% probability of a historic El Niño during Oct-Dec'26.** The timing is important as the Oct-Nov period coincides with the start of the rabi sowing season. With reservoir storage already at 71% of capacity vs. 87% a year ago, weaker post-monsoon rainfall and an unusually strong El Niño could reduce soil moisture and water availability, raising the risk of lower rabi sowing and yields. This could add further upside pressure to food inflation and make the recent price rise more persistent, while weaker crop output would weigh on farm incomes and rural purchasing power. The combination of a potentially weaker rabi crop, elevated crude prices and rising input costs, therefore, increases the risk of a more persistent inflation shock in 3QFY27 and beyond, with second-round effects on rural consumption.
- **We expect monetary tightening to proceed in stages, with liquidity tightening preceding rate hikes**. **Our base case is for the RBI to remain on hold in Oct'26 policy while using a mix of liquidity-management tools, including VRRR, MSS bonds, OMOs, dollar sales and FX sell-buy swaps, to absorb the large system liquidity surplus.** We expect liquidity tightening to precede conventional rate tightening, with the probability of a repo-rate hike increasing in Dec'26 and becoming more likely by Feb'27 as persistent inflation pressures become more evident. While 2QFY27 inflation should remain broadly around our 4.7% estimate, the risk of 3QFY27 CPI exceeding 6%, alongside elevated crude and food-price pressures, should make the inflation outlook sufficiently uncomfortable by Feb'27 to warrant a hike.
- **The eventual impact on growth should be gradual and asymmetric. Rural consumption is likely to feel the effects first, given its greater sensitivity to food prices, weather conditions and agricultural incomes, while relatively stronger urban demand should provide a cushion**. **Overall, we expect FY27 real GDP growth of 7.0-7.2% and nominal GDP growth of 13%, reflecting continued underlying resilience but some moderation from the exceptionally strong pace of 1HFY27.**

1HFY27: Strong growth, broad-based recovery

- India has entered FY27 on a remarkably strong footing. 1QFY27 GDP growth of 7.8% was supported by a strong acceleration in investment, resilient manufacturing and continued strength in services. Gross fixed capital formation growth accelerated to 11.9% YoY from 5.8% in 1QFY26, reinforcing the view that investment is becoming an increasingly important growth driver. Private consumption remained strong too, with growth accelerating to 7.1% YoY in 1QFY27 from 6.8% in 1QFY26.

- Consumption has strengthened materially, with Our urban consumption tracker exhibited a growth (details on page 7) of 11.4% YoY in 1QFY27, while rural consumption remained strong at 9.8%. Company commentary in FMCG, auto and consumer-facing sectors corroborates this improvement, pointing to healthier urban demand, a meaningful rural recovery and stronger discretionary spending.
- Importantly, the strength has extended beyond 1QFY27. HFIs remained robust in July, while August indicators continue to paint a healthy picture across consumption, mobility and activity. This suggests that the underlying momentum has continued in 2QFY27, and we expect 2QFY27 growth to remain strong as well. The resilience of activity in the early part of 2QFY27 strengthens our view that the potential moderation in growth is more likely to emerge later, as the effects of food and crude inflation, tighter liquidity and higher financial costs gradually build through 3QFY27 and beyond.

3QFY27: The potential macro inflection point

- The key question is no longer whether growth is strong—it clearly is—but whether this momentum can be sustained through 2HFY27. We see 3QFY27 as the potential macro inflection point, as several less favorable forces could converge around the same period – a deficient monsoon, a potentially historic El Niño, higher food and crude prices, elevated input costs, and tighter global and domestic financial conditions. We, therefore, expect the exceptionally favorable combination of strong growth, resilient consumption, benign inflation and easy financial conditions seen in 1HFY27 to become progressively less supportive from 3QFY27.

Exhibit 1: Real GDP growth accelerated to 7.8% in 1QFY27, while nominal GDP grew 10.3%

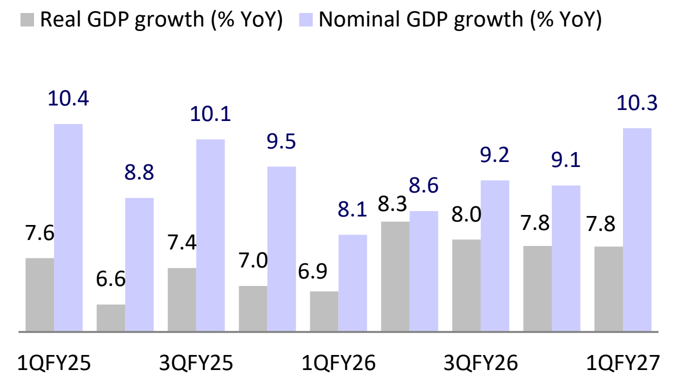


Exhibit 2: Real fixed investment growth accelerated to 11.9% in 1QFY27 vs. 5.8% in 1QFY26

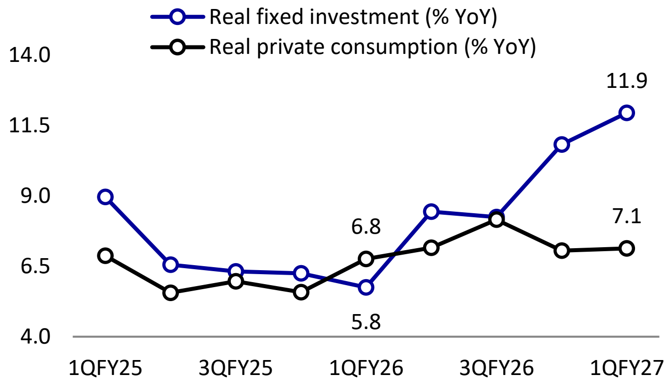


Exhibit 3: Key indicators used in the creation of EAI-GVA on a monthly basis

% YoY	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26
Agriculture and allied activities													
IIP: Fertiliser	1.9	4.5	1.7	7.4	5.5	4.1	3.7	3.5	(24.6)	(8.5)	(1.0)	(3.3)	(8.0)
Domestic tractor sales	7.1	24.6	42.9	14.4	30.3	34.9	40.1	30.7	24.0	27.1	19.1	11.8	18.5
Real rural wages[1]	17.5	17.3	17.6	17.9	19.3	19.3	20.0	19.3	18.2	17.2	15.8	25.9	13.0
Reservoir levels	38.2	5.5	4.3	5.7	7.6	5.9	9.1	14.9	9.8	16.1	0.8	(28.9)	(35.9)
Agriculture sector	3.2	2.4	3.4	1.6	2.5	2.7	3.1	2.9	3.5	3.6	2.2	(1.2)	0.9
Industrial sector													
Coal	(12.3)	10.8	(1.1)	(8.4)	2.2	3.7	0.9	1.4	(4.0)	(9.0)	(9.5)	1.4	7.6
Crude oil	(0.8)	(0.7)	(0.7)	(0.8)	(2.6)	(5.1)	(5.4)	(4.8)	(5.3)	(3.2)	(4.2)	(4.2)	(5.3)
Natural gas	(3.3)	(2.2)	(3.7)	(5.2)	(2.5)	(4.4)	(4.9)	(5.0)	(3.7)	(4.2)	(5.0)	(4.8)	(3.7)
IIP: Mining	10.7	15.8	15.7	2.8	3.3	0.8	(0.5)	(2.4)	(2.6)	(3.8)	(1.4)	1.6	(0.9)
Mining	5.7	12.7	10.7	1.9	2.2	(1.1)	(2.6)	(3.1)	(4.7)	(4.3)	(3.8)	(0.2)	(1.7)
Electricity	3.7	4.2	3.1	(7.0)	(1.5)	6.2	5.1	2.3	0.8	5.5	11.2	11.4	9.0
IIP: Manufacturing	5.1	3.6	5.5	(0.7)	8.8	7.7	4.6	5.7	4.0	6.1	5.2	9.5	7.3
Credit growth[2]	7.4	7.0	8.0	11.3	10.2	12.4	10.8	11.1	10.6	6.2	7.0	8.5	9.3
Fuel consumption	(0.2)	0.2	5.6	(2.6)	3.0	4.7	2.0	6.6	7.2	(2.3)	1.8	0.1	8.1
Manufacturing	8.5	7.2	9.4	3.9	12.3	11.8	8.7	10.0	8.5	9.0	8.6	12.4	11.3
Steel production	15.7	15.3	14.3	9.5	11.6	11.1	13.8	9.9	9.6	4.7	5.1	5.6	2.9
Cement output	11.1	5.4	5.1	5.2	15.1	14.0	11.3	9.1	4.7	8.3	8.4	9.9	13.1
Construction	11.2	9.2	9.8	5.1	12.0	12.3	12.9	10.1	5.2	6.0	6.6	8.8	6.9
Industry	8.5	7.5	8.8	3.6	11.0	11.1	9.3	9.2	6.7	7.7	8.1	10.9	9.4
Services sector													
Auto sales#	7.5	4.8	6.6	4.7	20.9	35.4	23.6	29.5	18.4	27.4	17.4	20.2	25.2
Trade credit[4]	13.7	12.3	11.9	15.1	14.8	17.1	14.8	11.9	11.8	4.6	6.7	7.9	9.2
Freight traffic[5]	1.4	6.3	6.5	5.6	7.8	6.5	4.5	3.9	2.3	0.2	3.2	5.8	8.9[8]
MF AUMs	16.9	12.7	12.9	20.2	19.4	19.5	19.0	24.4	7.9	8.0	2.8	0.6	3.7
Fiscal Spending[6]	9.4	(12.5)	4.3	(25.2)	7.6	(17.1)	(19.9)	7.7	4.1	13.4	(9.7)	20.4	3.8
Real deposits[7]	11.1	9.3	9.6	12.2	10.8	12.3	9.3	8.9	11.7	4.5	2.1	3.1	2.5
Telecom subscribers	0.5	1.1	2.2	2.6	8.2	8.5	9.5	9.6	10.0	10.4	10.5	9.9	10.3
PMI: Services	0.3	3.3	5.5	0.7	2.4	(2.2)	3.5	(1.5)	(1.7)	0.2	1.7	(5.0)	(11.9)
Services sector	6.6	7.6	8.6	7.2	9.6	9.6	10.0	8.9	9.2	9.6	9.1	7.4	6.9
Aggregates													
EAI-GVA	7.0	7.3	8.3	5.8	9.3	9.3	9.1	8.5	7.9	7.7	8.1	7.6	7.0
Non-farm EAI-GVA	7.2	7.6	8.6	6.1	10.1	10.1	9.8	9.1	8.4	8.6	8.8	8.6	7.7

[1] Rural wages; deflated by CPI for rural workers
[2] Banks' industrial credit growth; deflated by WPI
[3] Non-metallic minerals products (NMMP)
[4] Bank's non-food trade credit; deflated by WPI
[5] Railways and aviation
[6] Total spending of the central government excluding interest and subsidies; deflated by WPI
[7] Bank deposits; deflated by WPI
[8] our forecasts
Sale of commercial vehicles within total auto sales starting Apr'20 has been derived using CV sales of Ashok Leyland, Eicher Motors Ltd., Mahindra & Mahindra Ltd., and Tata Motors; the four account for ~98% of all CV sales.

Worse than the previous month and a year ago
Worse than the previous month but better than a year ago
Better than the previous month but worse than a year ago
Better than the previous month and a year ago

Exhibit 4: HFIs point to resilient economic activity in Aug'26

	% YoY	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26
% YoY	Water reservoir levels	5.5	4.3	5.7	7.6	5.9	9.1	14.9	9.8	16.1	0.8	-27.9	-28.9	-35.9
Index	PMI: Manufacturing	59.3	57.7	59.2	56.6	55.0	55.4	56.9	53.9	54.7	55.0	54.2	53.5	52.8
Index	PMI: Services	62.9	60.9	58.9	59.8	58.0	58.5	58.1	57.5	57.9	59.8	57.3	53.1	54.5
% YoY	Registered motor vehicles	3.9	6.3	41.1	2.9	15.9	18.1	26.5	26.2	13.7	11.3	23.7	27.5	17.2
USD b	FX reserves[2]	695.4	700.1	689.7	687.9	687.7	711.5	728.5	691.1	698.5	682.3	672.6	692.9	729.3
% YoY	PVs sales	11.8	27.0	38.3	19.1	25.0	12.7	10.1	15.2	26.6	29.8	25.4	37.7	38.9
% YoY	CVs sales[1]	11.8	16.7	12.6	26.0	27.7	26.5	23.1	11.9	23.0	18.9	39.2	36.4	44.4

[1] Sale of commercial vehicles within total auto sales starting Apr'20 has been derived using CV sales of Ashok Leyland, Eicher Motors Ltd., Mahindra & Mahindra Ltd., and Tata Motors; the four account for ~98% of all CV sales.

[2] Data as of 21st Aug'26

Source: Various national sources, CEIC, MOFSL

- Worse than the previous month and a year ago
- Worse than the previous month but better than a year ago
- Better than the previous month but worse than a year ago
- Better than the previous month and a year ago

Rural consumption: Strong recovery, but more vulnerable

- Rural consumption has strengthened materially since 2QFY25, with the composite index accelerating from 5.1% YoY in 1QFY26 to 9.7% in 2QFY26, 8.1% in 3QFY26, 11.3% in 4QFY26 and 9.8% in 1QFY27. The recovery has been broad-based, supported by a strong improvement in real rural wages, two-wheeler and tractor sales, farm credit and rural fiscal spending. Real agricultural wages have risen by 18-19% YoY over the past four quarters, while non-agricultural rural wages have grown by 16-18%, providing a significant boost to rural purchasing power. Tractor sales have also remained particularly strong, while two-wheeler demand has sustained double-digit growth.
- However, the underlying drivers are becoming somewhat less uniformly supportive. Terms of trade have turned negative, at -4.1% in 1QFY27, while real agricultural GVA growth has moderated to 3.6% from 5.7% in 3QFY25 and 4.4% in 1QFY26. Reservoir levels have also weakened, with the latest reading at -2.8% YoY, after a prolonged period of strong water availability. At the same time, real rural fiscal spending remains a major support, growing 20.6% YoY in 1QFY27.
- The key takeaway is that rural consumption is entering 2HFY27 from a strong base, but is more vulnerable to a deterioration in crop conditions and food inflation. If the weak monsoon and El Niño translate into lower yields, the resulting hit to farm incomes could weaken rural purchasing power even if nominal wages remain resilient. **This makes rural consumption the first potential transmission channel of the 3QFY27 food-inflation shock to broader growth.**

Exhibit 5: Rural consumption grew 9.8% in 1QFY27

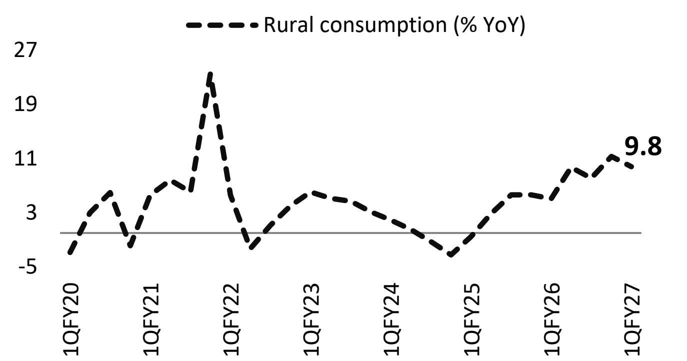
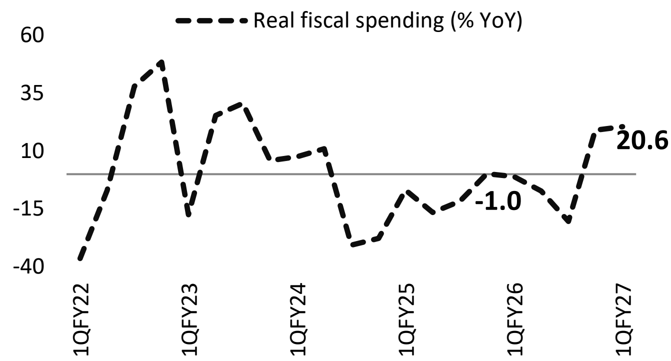
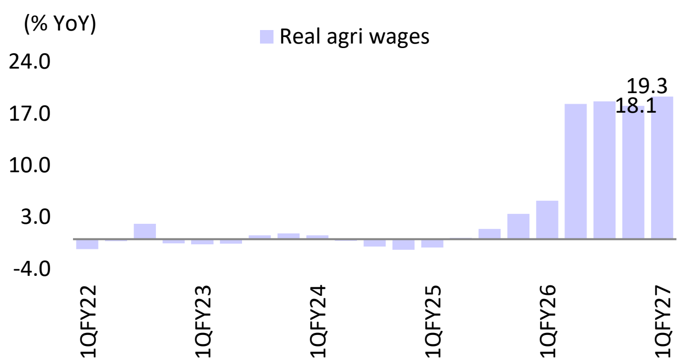


Exhibit 6: Real rural fiscal spending grew 20.6% in 1QFY27



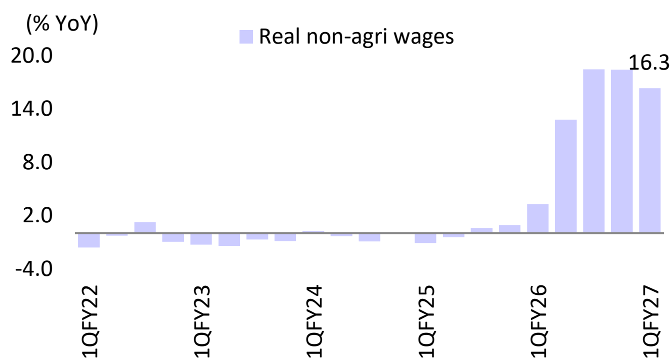
Source: CEIC, NREGA, MOFSL

Exhibit 7: Real farm wages grew 19.3% in 1QFY27…



* Output price inflation over input inflation for the farm sector

Exhibit 8: …while real non-farm wages grew 16.3%



Source: CEIC, NREGA, MOFSL

Exhibit 9: Two-wheeler sales grew 18.7% in 1QFY27, while tractor sales grew 18.5%

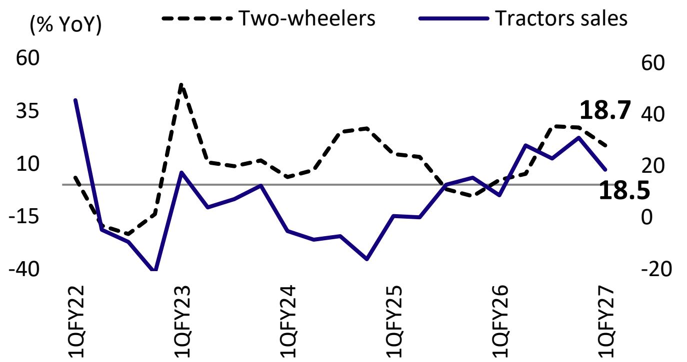
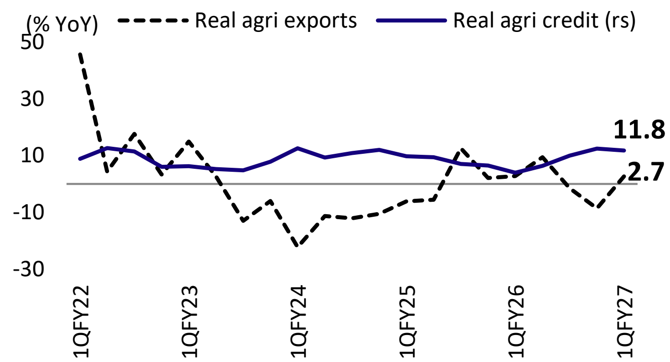


Exhibit 10: Real agri credit grew 11.8% YoY in 1QFY27



Source: Various national sources, CEIC, MOFSL

Exhibit 11: WPI input prices grew 16.7%, while WPI output prices edged up to 5.3% YoY

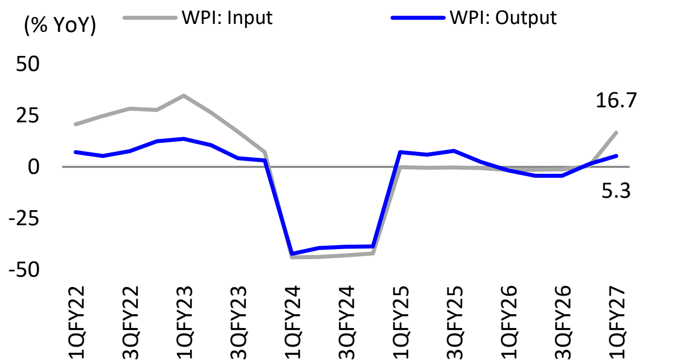
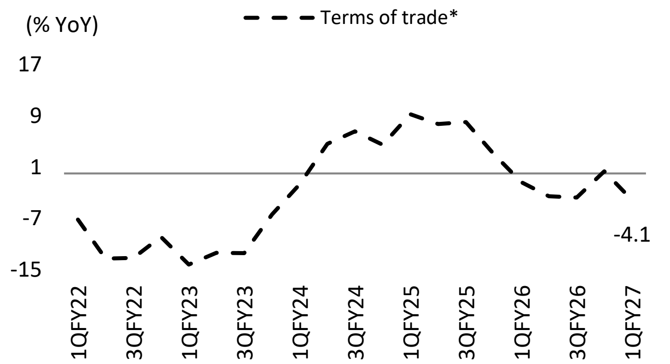


Exhibit 12: Farm terms of trade contracted 4.1% in 1QFY27



Source: CEIC, MOFSL

Exhibit 13: Summary of key indicators used in gauging rural consumption spending (% YoY)

Rural consumption indicators	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
Real agricultural GVA	4.4	3.2	1.9	3.9	3.6
Real agricultural wages#	5.2	18.3	18.7	18.1	19.3
Real non-agricultural wages#	3.3	12.8	18.5	18.4	16.3
Two-Wheeler sales	2.3	5.1	27.7	27.1	18.7
Farm terms of trade$	-1.4	-3.6	-3.8	0.3	-4.1
Tractors sales	8.7	28.0	22.9	30.9	18.5
Real agricultural exports#	2.8	9.4	-1.5	-8.7	2.7
Fertilizer sales	-9.0	27.9	13.2	0.4	5.7
Real farm credit#	4.0	6.4	10.0	12.4	11.8
IIP: food products	2.9	3.1	3.8	2.8	7.0
Reservoir level	38.8	13.1	6.4	11.1	-2.8
Fiscal real rural spending#	-1.0	-7.2	-20.5	19.0	20.6
Rural consumption	**5.1**	**9.7**	**8.1**	**11.3**	**9.8**

Nominal data deflated by CPI for agricultural workers/rural workers (CPI-AW/RL)
$ Output price inflation over input price inflation
Source: Various national sources, CEIC, MOFSL

Urban consumption: Broad-based re-acceleration provides a cushion

- Urban consumption has seen a strong recovery after moderating in FY25. The urban consumption composite index accelerated from 5.7% YoY in 1QFY26 and 4.5% in 2QFY26 to 8.4% in 3QFY26, 6.8% in 4QFY26 and 11.6% in 1QFY27. The latest acceleration was broad-based, with 25.6% YoY growth in PV sales, 8.0% in consumer durable output, 10.5% in personal credit and 33.6% in non-farm consumer imports in 1QFY27. Petrol consumption also remained healthy at 5.8%, while real house prices continued to grow modestly. The improvement in non-farm GVA to 9.2% and real S&W growth to 7.1% provides further evidence that the recovery is supported by a broader improvement in urban economic activity rather than being driven by a single consumption category.
- The composition is also important. PV demand has emerged as a particularly strong signal, with growth accelerating from low single digits in FY25 and a decline in 1HFY26 to 25.6% growth in 1QFY27. Consumer durables growth has similarly improved, while personal credit has stabilized around 10-12% after the moderation seen in FY25. This suggests that the earlier weakness in discretionary urban consumption has largely reversed. At the same time, non-food CPI inflation remains relatively benign at 3.5%, which should continue to support real purchasing power in the near term.
- Urban consumption, therefore, provides an important cushion to the macro outlook as rural risks increase. Unlike rural demand, it is less directly exposed to the agricultural cycle and should benefit from stronger non-farm activity, wages and relatively healthy household balance sheets. However, the risk profile could change from 2HFY27 if higher food and crude prices lift inflation and the RBI begins tightening liquidity and, eventually, policy rates. The transmission should be gradual, but higher borrowing costs could eventually affect autos, housing, consumer durables and other interest-sensitive discretionary spending.
- Taken together with rural data, the consumption cycle is currently unusually broad-based – rural consumption is running at 9.8% and urban consumption at 11.6% in 1QFY27. The key question for 2HFY27 is, therefore, not whether consumption is strong today, but whether urban resilience can offset a potential moderation in rural demand as weather, food inflation and financial conditions become less supportive.

Exhibit 14: Urban consumption grew 11.6% in 1QFY27

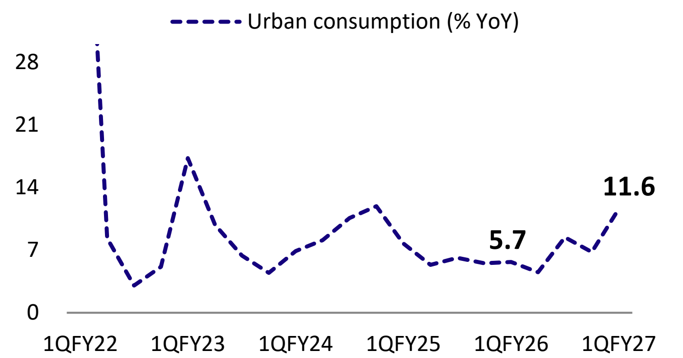
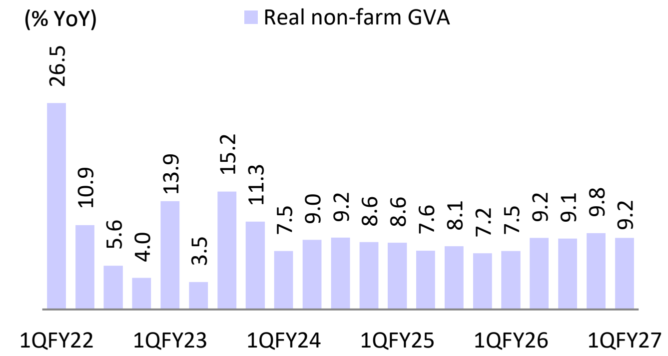


Exhibit 15: Real non-farm GVA grew 9.2% in 1QFY27



Source: CEIC, MOFSL

Exhibit 16: Real S&W grew 7.1% in 1QFY27

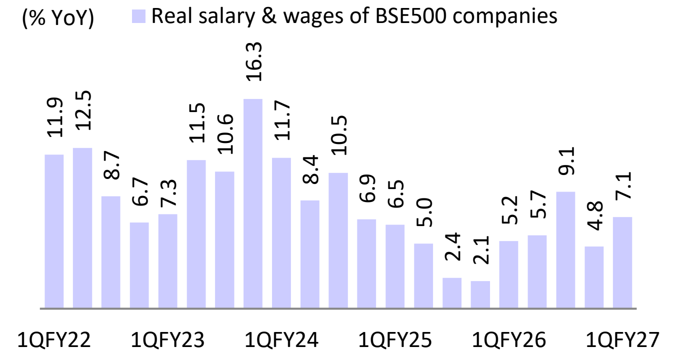
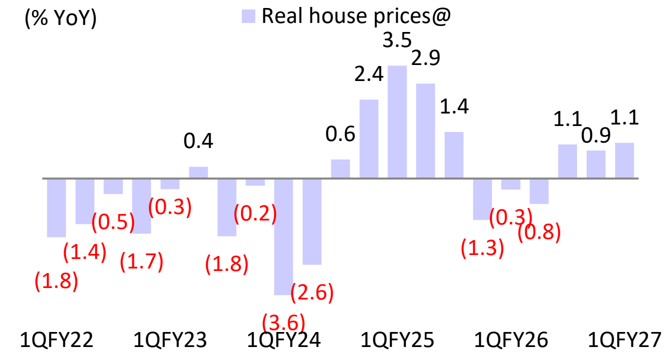


Exhibit 17: Real house prices grew 1.1% in 1QFY27



@ Our forecast for 1QFY27, Source: CEIC, MOFSL

Exhibit 18: Domestic PV sales posted healthy growth of 25.6% in 1QFY27

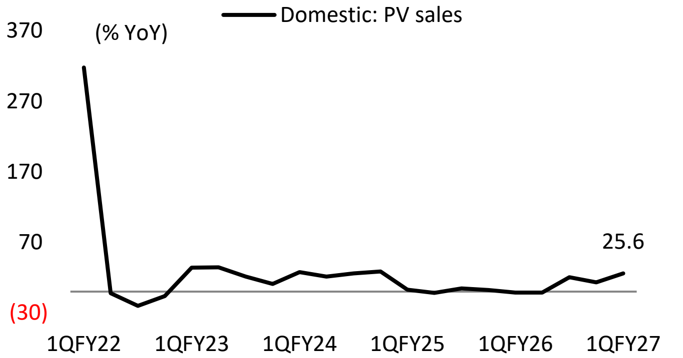
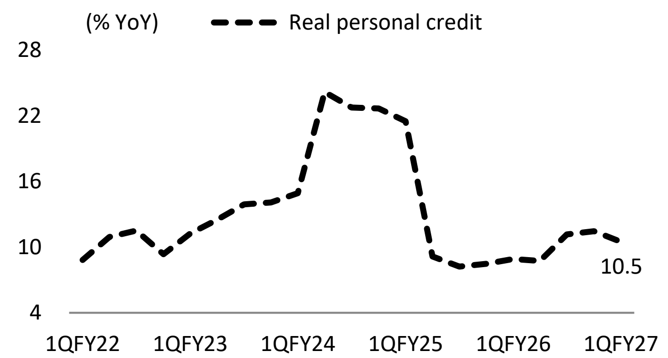


Exhibit 19: Personal credit growth dipped to 10.5% in 1QFY27



Source: Various national sources, CEIC, MOFSL

Exhibit 20: Summary of key indicators used in gauging urban consumption spending (% YoY)

Urban consumption indicators	1QFY26	2QFY26	3QFY26	4QFY26	1QFY27
Real non-farm GVA	7.5	9.2	9.1	9.8	9.2
Real S&W of BSE500 companies	5.2	5.7	9.1	4.8	7.1
CPI non-food inflation	3.2	2.4	1.9	3.1	3.5
Domestic: PV sales	-1.4	-1.5	20.5	13.1	25.6
Real personal credit#	8.9	8.7	11.2	11.5	10.5
IIP: Consumer durable goods	2.8	3.1	4.3	2.1	8.0
Petrol consumption	7.1	6.4	5.7	6.7	5.8
Real house prices@	-0.3	-0.8	1.1	0.9	1.1
Real non-farm consumer imports#	18.0	7.6	13.2	9.2	33.6
Urban consumption^	**5.7**	**4.5**	**8.4**	**6.8**	**11.6**

Nominal data deflated by CPI-for industrial workers (CPI-IW)
Source: Various national sources, CEIC, MOFSL

^**The nine proxy indicators include**: 1) Real S&W of BSE500 companies, 2) CPI non-food inflation, 3) Real personal credit, 4) IIP Consumer Durable Goods, 5) Petrol consumption, 6) Real house prices, 7) Real non-farm consumer imports, 8) PV sales, and 9) Real non-farm GVA

What management commentary tells us?

- Company commentary is broadly consistent with our consumption indicators. Rural demand has recovered meaningfully, while urban demand has strengthened further, indicating a relatively broad-based consumption recovery rather than an urban-only cycle in 1HFY27. FMCG commentary specifically points to stronger urban consumption alongside resilient rural growth, while auto demand remains healthy.
- More importantly, the risk that companies are flagging is increasingly on the cost side rather than the demand side. Higher commodity, edible-oil, cocoa, sugar, crude and logistics costs are beginning to create margin pressure. Nestlé, for instance, has highlighted inflation in key inputs and potential supply risks from El Niño, while broader FMCG commentary points to calibrated price increases to offset rising costs.
- Company commentary corroborates the strength in consumption: 1QFY27 commentary across FMCG and auto companies points to improving rural demand and strong urban consumption, with premiumization, e-commerce and broader distribution providing additional support.
- However, management commentary is also increasingly flagging higher commodity and input costs. This suggests that 1HFY27 is more of a demand story, while 2HFY27 could increasingly become a margin and pricing story. If food and crude inflation rises further in 3QFY27, companies may need to take additional price increases, creating the key risk of a transition from volume-led consumption growth to price-led growth.

Company / sector	Demand commentary	Rural vs urban	Key takeaway for 2HFY27
Hindustan Unilever	❖ Revenue growth accelerated sharply, with management pointing to improving underlying demand. However, elevated commodity costs continued to weigh on margins.	**Both improving**	❖ Demand momentum is healthy, but rising input costs could pressure margins and eventually require price increases.
Dabur India	❖ Management indicated continued improvement in demand conditions, with rural recovery supporting volumes.	**Rural improving**	❖ Rural recovery is becoming an increasingly important growth driver, but remains sensitive to monsoon and food inflation.
Nestlé India	❖ Reported strong demand across categories, with double-digit growth in prepared dishes, milk products, chocolates and beverages. Premium brands and online channels remained supportive.	**Broad-based**	❖ Strong current demand provides a cushion, but management flagged inflation in edible oils, cocoa and sugar and potential El Niño-related supply risks.
Godrej Consumer Products	❖ Demand environment improved, while the company continued to manage commodity-cost pressures through pricing and cost efficiencies.	**Rural + urban**	❖ Demand remains resilient, but higher input costs could become a bigger margin issue in 2HFY27.
FMCG sector	❖ Q1FY27 commentary indicates a broad-based consumption revival, with stronger urban demand complementing resilient rural growth. Companies are also seeing support from modern trade, e-commerce and quick commerce.	**Rural recovery + urban strength**	❖ Supports our view that consumption enters 2HFY27 from a strong base.
Auto / 2W	❖ Demand remained healthy, with economically priced two-wheelers and four-wheelers seeing support.	**Rural particularly relevant**	❖ Strong current volumes are encouraging, but rural demand could become more sensitive to crop incomes and financing costs in 2HFY27.
Consumer companies – overall	❖ Company commentary broadly points to improving volumes and stronger demand, with rural and urban markets both contributing.	**Broad-based**	❖ The current cycle is demand-led; the key risk is increasingly cost inflation rather than lack of demand.

Inflation: Food, weather and crude risks cloud the 2HFY27 outlook

- **Inflation is the most immediate macro risk.** We expect August CPI at 4.8% YoY, with food inflation around 5.8% and core inflation at ~4%. The increase remains largely food-led rather than broad-based, although the acceleration in cereals, particularly rice, and sugar warrants monitoring given their greater persistence relative to vegetables. At this stage, however, core inflation remains well contained, suggesting that second-round pressures are still limited and that the recent rise in inflation has not yet become broad-based. We see little risk of 2QFY27 inflation exceeding our 4.7% estimate, but the risk is considerably higher in 3QFY27.

- **The bigger risk lies in 3QFY27, when inflation could potentially exceed 6% as the effects of higher food prices, weak monsoon conditions and rising El Niño risks begin to feed through.** Elevated crude prices and higher input costs add to the upside risks. While some of these pressures could prove temporary, the combination of food, weather and commodity risks makes the inflation trajectory considerably less comfortable in 3QFY27. The key issue for the RBI will therefore be whether the rise remains concentrated in food or begins to broaden into core inflation.
- **We expect the inflation surprise in 3QFY27 to be on the upside as input-cost pressures broaden.** WPI inflation has already risen to around 10% and could move higher further, with the recent rise in crude prices adding to upstream cost pressures. Companies that have so far been operating with relatively cheaper inventory will increasingly face higher replacement costs, and we expect greater pass-through to consumer prices to begin emerging in 3QFY27 as companies seek to protect margins. This should initially be reflected in WPI, followed by a lagged impact on CPI, increasing the risk of a broader and more persistent inflation shock.
- Alongside weaker agricultural conditions and elevated food and crude prices, this could push 3QFY27 CPI above 6% and lead to an upside surprise relative to current expectations. A sustained period of CPI inflation above 6% for 2-3 months would materially increase the likelihood of a repo-rate hike, reinforcing our base case for a 25bp hike in Feb'27.
- **We maintain our FY27 CPI inflation forecast at 5.1%, marginally above the RBI's 5.0% forecast.**

Exhibit 21: Inflation increased to 4.5% in Jul'26 from 4.4 % in Jun'26

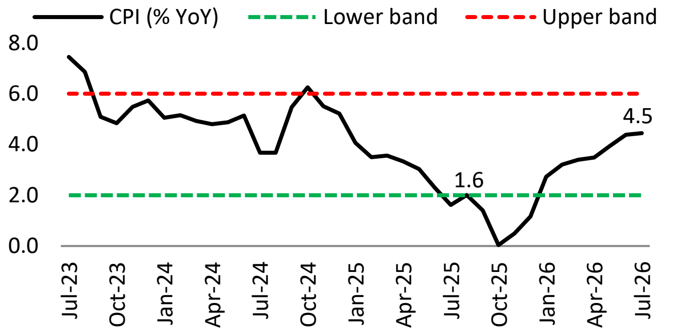
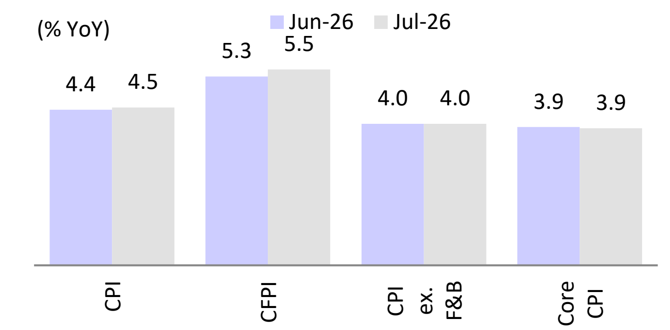


Exhibit 22: Food inflation increased to 5.5% in Jul'26; core inflation remained at 3.9%



Source: CEIC, MOSPI, MOFSL

Exhibit 23: WPI grew 9.8% YoY in Jul'26 vs. 9.9% in Jun'26

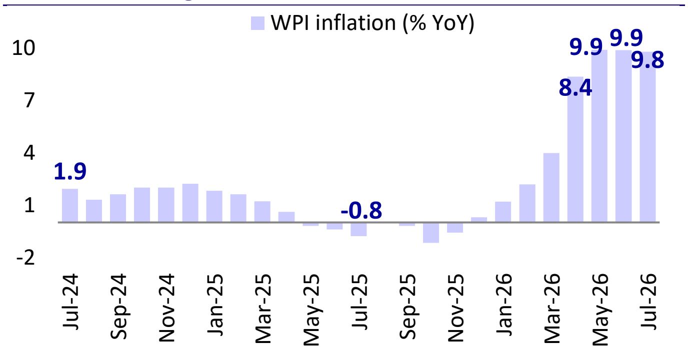
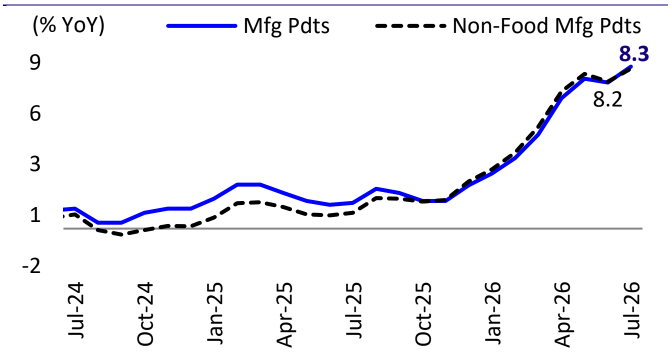


Exhibit 24: Manufacturing products inflation increased 8.3% in Jul'26, from 7.5% in Jun'26



Source: CEIC, MOSPI, MOFSL

Weak monsoon and El Niño raise 2HFY27 risks

- El Niño has intensified sharply, with the Niño 3.4 index reaching 2.54 as of 6 September, while the positive IOD at 0.25 has provided limited offset to the adverse weather conditions, keeping the monsoon a critical risk for India's trajectory.
- **The agricultural outlook is becoming increasingly important for the inflation trajectory, with deficient monsoon conditions, lower reservoir levels and a potentially very strong El Niño raising risks for both the remainder of the kharif season and the upcoming rabi crop**. Cumulative monsoon rainfall was 15% below LPA as of 9th Sep'27, with 19 of 36 meteorological subdivisions reporting deficient rainfall. Kharif sowing at 98.36mn hectares is down 1.6% YoY and 2.3% below normal, with rice acreage down 3.7%. Reservoir live storage has also fallen to 71% of capacity vs. 87% a year ago. While sowing has held up better than the rainfall data might suggest, the persistence of the rainfall deficit and lower water availability raise the risk that the eventual impact is felt more through crop yields rather than acreage.
- **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 75% in ASO to 93% in SON and 95% in OND, before remaining elevated at 90% in NDJ and 70% in DJF.** The median ONI forecast also rises from 1.79°C in JAS to 2.66°C in OND, while the 75th-percentile forecast reaches 2.95°C. This suggests that the risk is not simply of an El Niño event, but of one potentially reaching historically strong levels during the critical Oct-Dec period. **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.**

Exhibit 25: All-India rainfall is 15% below normal as of 9th Sep'26 (vs. 8% above normal in 2025)

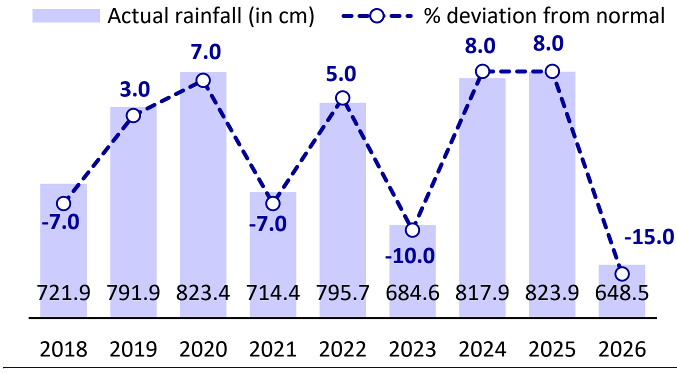
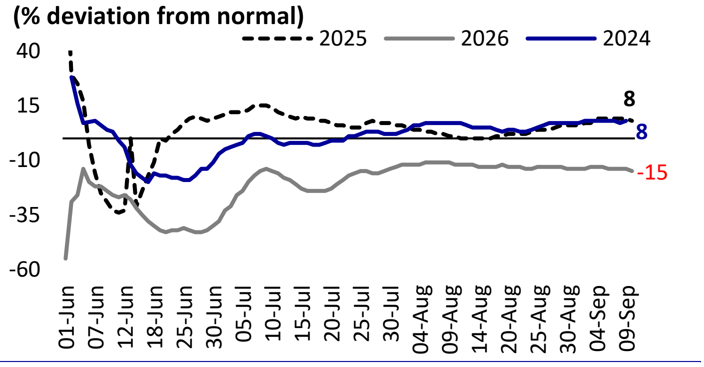


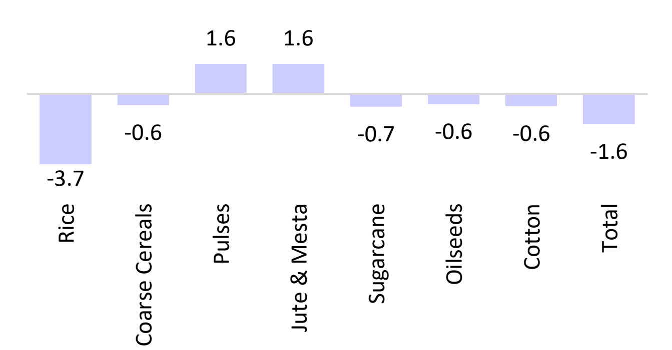
Exhibit 26: This is even lower than the last El-Nino episode of 2024



Data as of 9th September for all years

Source: IMD,CEIC, MOFSL

Exhibit 27: Kharif sowing down by 1.6% as of 4th Sep'26



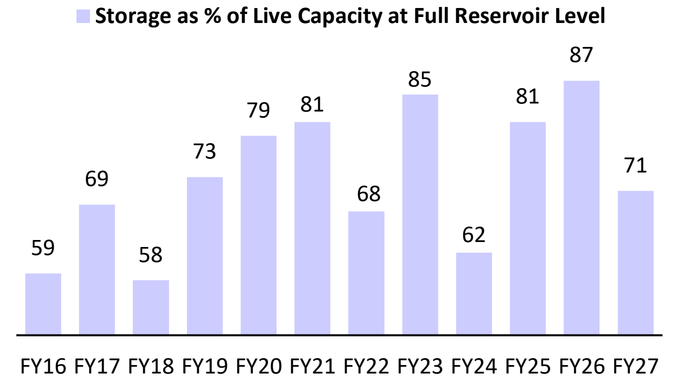
Data as of 4th September for all years

Exhibit 28: Rice and oilseeds sowing sharply lower vs. last year

% YoY	04-Sep-24	04-Sep-25	04-Sep-26
Rice	6.4	4.7	-3.7
Coarse Cereals	-1.2	1.6	-0.6
Pulses	-2.5	0.7	1.6
Jute & Mesta	-13.8	8.7	1.6
Sugarcane	-2.5	5.7	-0.7
Oilseeds	1.5	0.4	-0.6
Cotton	-9.1	-2.0	-0.6
Total	0.9	2.4	-1.6

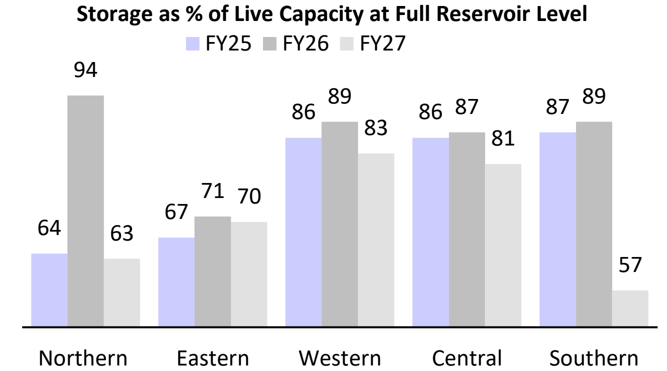
Source: IMD,CEIC, MOA&FW, MOFSL

Exhibit 29: Water reservoir levels at 71% of live storage capacity as of 4th Sep'26…



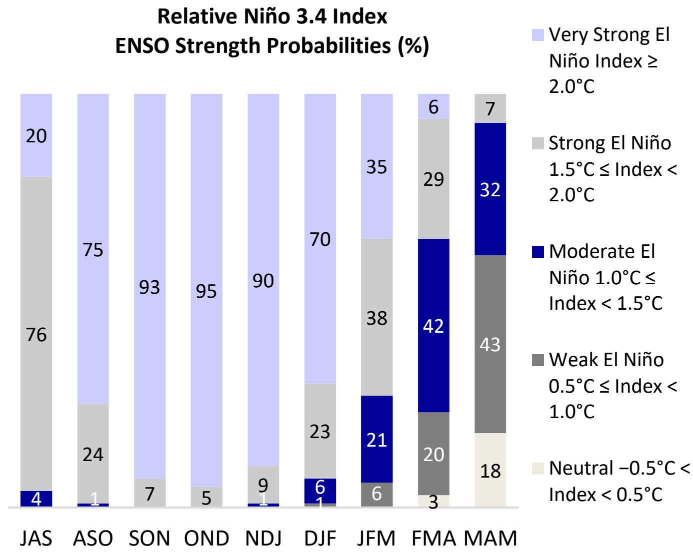
Data as of 4th September for all years

Exhibit 30: …mainly led by lower storage in northern and southern regions



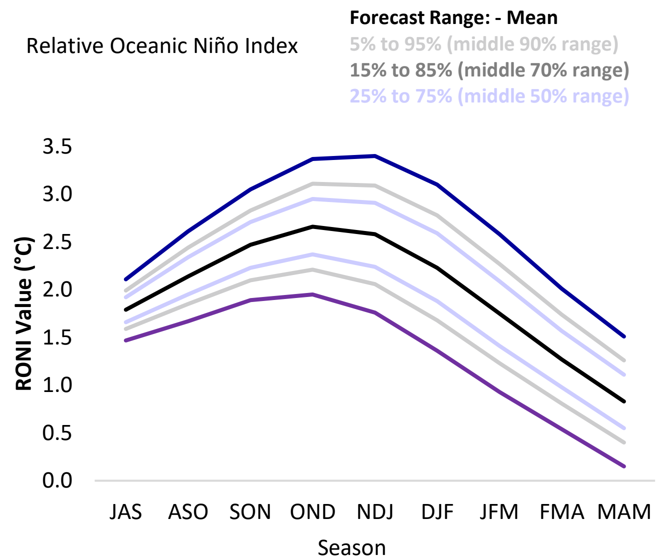
Source: CEIC, MOFSL

Exhibit 31: 70% probability of a very strong El-Nino during Nov'26-Jan'27



(issued Aug'26)

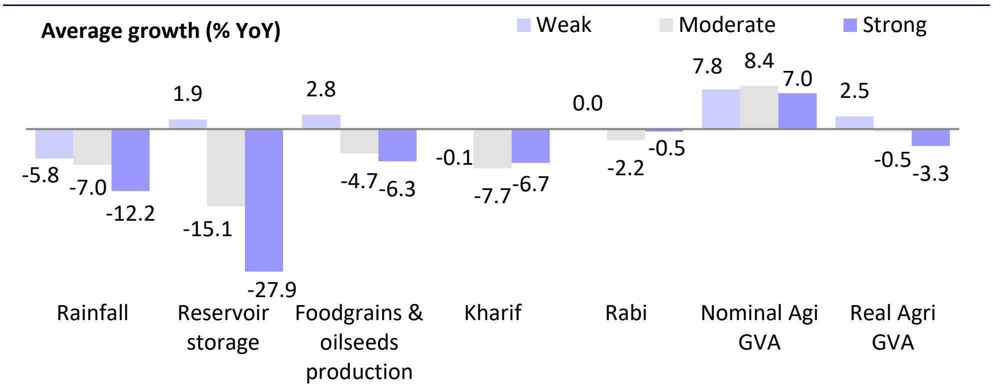
Exhibit 32: Ocean warming surges El Niño thresholds



Source: CEIC, NOAA, MOFSL

- **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 -4.1% in 1QFY27, 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 33: Average growth during El Nino events (weak vs. moderate vs. strong)



Source: CEIC, NOAA, MOFSL

Exhibit 34: Timing of El-Nino matters

ENSO Season / Timing	India Agricultural Phase	Primary Impact On	Impact Degree	Likely Impact on Kharif Crops	Likely Impact on Rabi Crops	Macro / Inflation Implications
JJA (Jun–Aug)	Core southwest monsoon	**Kharif**	**Extremely High**	**Maximum kharif impact window** — rainfall deficits directly hit yields and sowing	Reservoir/storage shortfalls can spill into rabi	Strong food inflation transmission
JAS (Jul–Sep)	Peak crop development stage	**Kharif**	**Very High**	**Severe risk to kharif yields** if El Niño intensifies rapidly	Water storage concerns begin emerging	CPI food inflation rises sharply
ASO (Aug–Oct)	Late kharif / harvest preparation	**Kharif**	**Moderate–High**	Can reduce kharif productivity and quality	Lower water storage affects rabi planting prospects	Vegetable and cereal inflation risks
SON (Sep–Nov)	Kharif harvest + rabi sowing starts	**Both**	**Moderate**	Limited additional kharif damage if monsoon already ended	**Important for rabi sowing moisture** and reservoir availability	Wheat/pulses inflation risks emerge
OND (Oct–Dec)	Early rabi sowing season	**Rabi**	**Moderate**	Little kharif effect	Weak reservoir and soil moisture conditions can hurt wheat, chana, mustard	Rabi-driven food inflation risks increase
NDJ (Nov–Jan)	Rabi establishment phase	**Rabi**	**Low–Moderate**	No kharif impact	Can affect winter rainfall patterns and irrigation stress	Delayed impact on cereals and pulses inflation
DJF (Dec–Feb)	Peak rabi growing season	**Rabi**	**Low–Moderate**	Minimal immediate impact on kharif	Can influence winter rainfall, soil moisture, reservoir recharge	Food inflation impact usually limited initially
JFM (Jan–Mar)	Late rabi growth / harvesting begins	**Rabi**	**Low**	No direct kharif impact yet	Heat and moisture stress may affect wheat, pulses, mustard yields if El Niño strengthens	Can raise cereal and pulses inflation
FMA (Feb–Apr)	Rabi harvest period	**Rabi**	**Low**	Signals future kharif risks if warming persists	Rabi output impact through temperature stress and irrigation availability	Early inflation expectations begin building
MAM (Mar–May)	Pre-monsoon transition	**Both**	**Moderate**	Important leading indicator for kharif sowing conditions	Reservoir depletion risk affects next rabi irrigation cycle	Markets begin pricing food supply risks
AMJ (Apr–Jun)	Monsoon onset preparation	**Kharif**	**High**	**Very critical for kharif** — delayed monsoon onset, weaker sowing, reduced acreage risk	Lower reservoir replenishment may later hurt rabi	Food inflation risks rise materially
MJJ (May–Jul)	Early monsoon / sowing period	**Kharif**	**Very High**	**High kharif vulnerability** — rice, pulses, oilseeds, cotton most exposed	Future irrigation stress possible	Rural income and agri growth weaken

Consumption: Rural demand likely weakens first; urban demand provides a cushion

- Rural households remain significantly more exposed to food inflation than urban households. Food accounts for around 42% of the rural CPI basket vs. 30% for urban CPI, leaving a ~12pp gap even under the new CPI series. Under the earlier 2012-base CPI, the rural-urban food-weight differential was even larger at 18.1pp. While the reweighting under the new CPI series reduces the relative exposure, rural households will continue to bear a disproportionately larger burden from food-price shocks.
- Rural consumption is therefore likely to be the first major growth channel through which a weather-driven food shock is transmitted. For the same increase in food prices, the impact on headline CPI is materially higher for rural households because of their greater food weight. Higher rural CPI directly erodes real wage growth and purchasing power, particularly for households with limited ability to absorb higher food expenditure, thereby putting pressure on

discretionary consumption. This makes rural demand more sensitive to the combination of weak agricultural output and persistent food inflation.

- Consumption categories with high rural exposure are likely to face greater risks if real rural incomes weaken, while urban-discretionary categories should be relatively better insulated in the initial phase. The latter could continue to benefit from stronger non-farm incomes and household wealth, including the wealth effect from elevated equity values.
- More broadly, the rural channel matters for corporate earnings even before it becomes visible in aggregate GVA. Rural India accounts for a larger share of volumes than its contribution to GDP across many consumption-sensitive categories, meaning a monsoon or food-inflation shock can show up first in two-wheelers, FMCG, tractors and other rural-facing sectors, before becoming evident in headline economic activity.

Exhibit 35: Food basket composition (% weight)

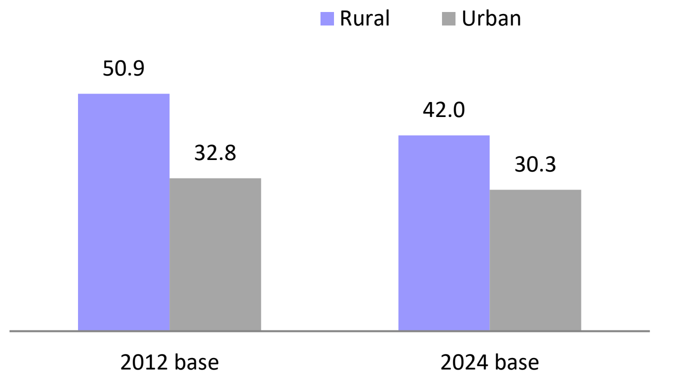
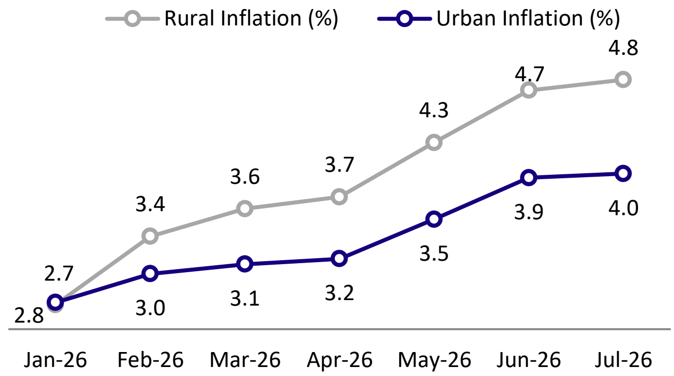
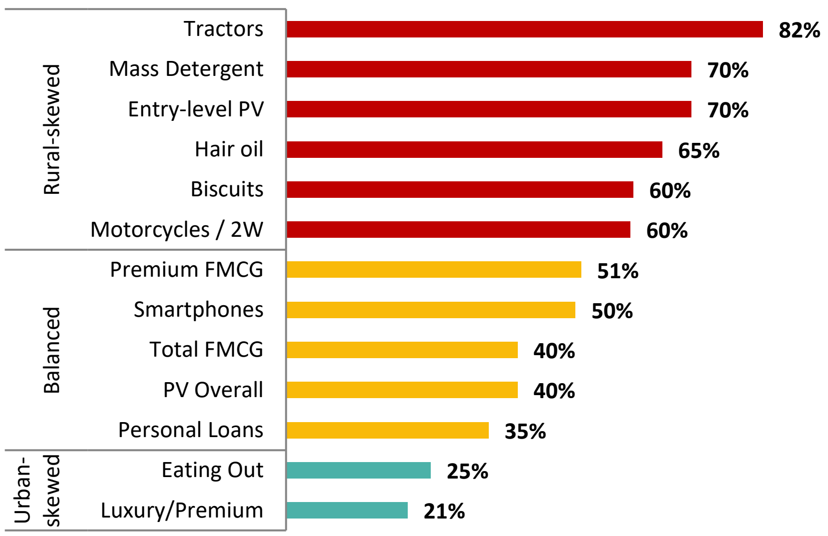


Exhibit 36: Rural inflation rose to 4.8% in Jul'26 vs. 4.0% in urban areas



Source: CEIC, MOFSL

Exhibit 37: Rural share of category volumes (%

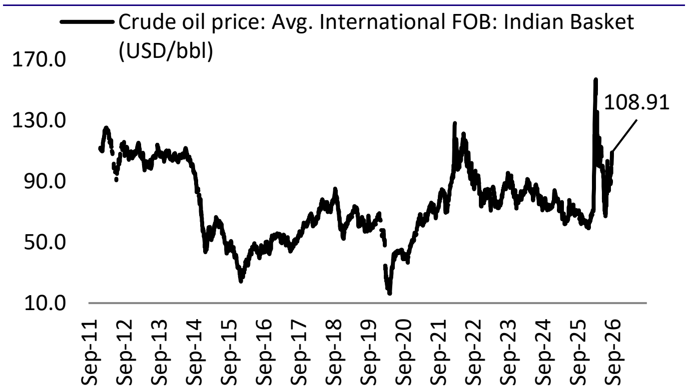


Source: CEIC, MOFSL

Crude and global bond sell-off add to risk

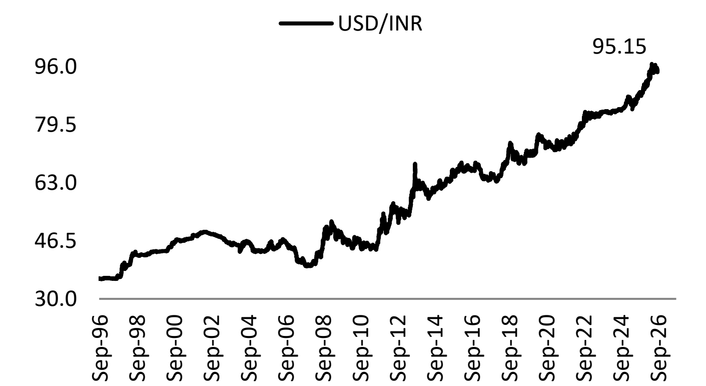
- **Higher crude prices create a second source of inflationary pressure, with uncertainty around the duration of the war and the trajectory of crude prices remaining high. Brent has averaged around USD96/bbl in 1HFY27, while we assume moderation to USD85/bbl in 2HFY27, implying FY27 average crude price assumption of USD90/bbl.** Although our revised assumption remains below current spot levels, the higher baseline increases the risks to both inflation and corporate margins. The impact extends beyond fuel prices to transportation, petrochemicals, plastics, chemicals, logistics and other input costs, increasing the risk of margin compression if companies are unable to fully pass on higher costs.
- **At the global level, the bond sell-off is adding another layer of financial tightening. Long-term sovereign yields have risen across major economies, with 10-year yields around 4.8% in the US, 5.1% in the UK and 2.9% in Japan, while the Indian 10-year G-sec yield is moving towards 7%.** The rise reflects a combination of persistent inflation concerns, elevated energy prices, expectations of less accommodative monetary policy and growing concerns over fiscal sustainability. Higher global yields raise the cost of capital and could increase volatility in global portfolio flows, particularly for emerging markets.
- **We do not expect a Fed rate hike in September as our base case, but the global monetary-policy cycle is becoming more hawkish as US inflation and employment remain resilient.** Higher US Treasury yields, elevated crude prices and tighter global financial conditions could increase volatility in FPI flows, the rupee and domestic bond yields. For India, the combination of higher global risk-free rates and elevated oil prices is particularly relevant: higher global yields could put upward pressure on domestic bond yields and capital flows, while higher crude prices add to both inflation and the current-account burden.
- The key risk is therefore the interaction between crude prices and global bond yields rather than either factor in isolation. A sustained rise in crude could keep inflation elevated just as higher global yields reduce the room for domestic financial conditions to remain easy. This would make the RBI's policy trade-off more challenging and could accelerate the shift from the currently supportive financial environment towards tighter conditions in 2HFY27.

Exhibit 38: Crude oil price increased to USD108.91/bbl



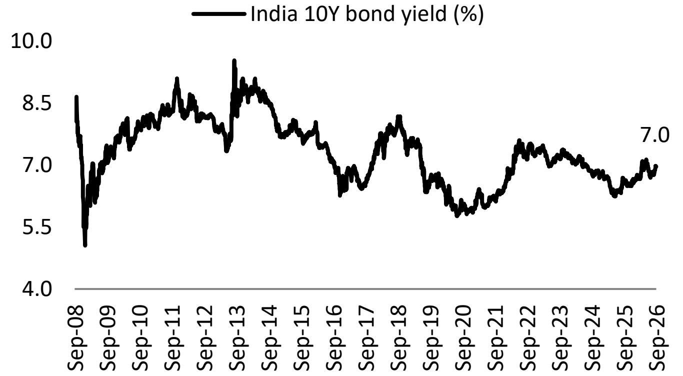
Data as of 9th Sep'26

Exhibit 39: USD/INR rose at 94.72 in Sep'26 from 88.14 in Sep'25



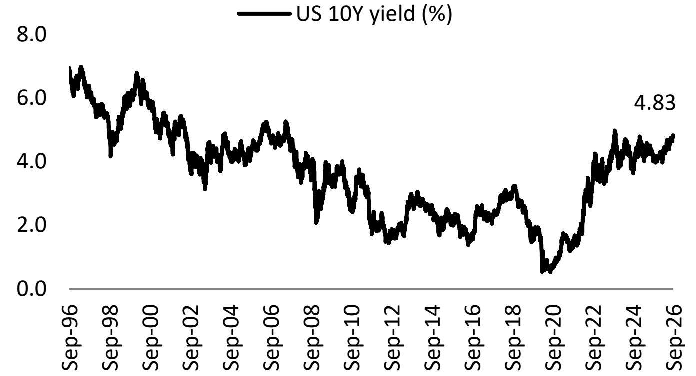
Source: CEIC, MOFSL

Exhibit 40: India 10Y sovereign yield climbed to 7.0%



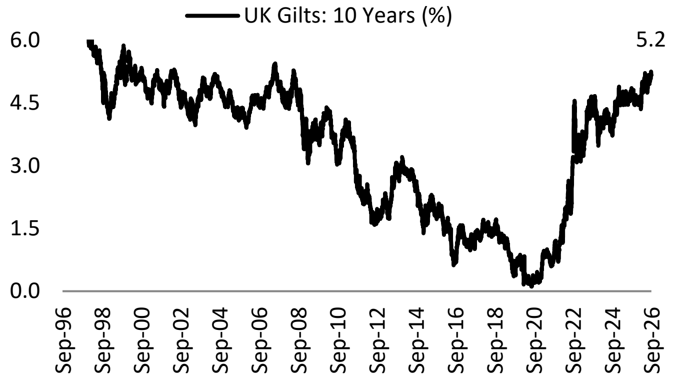
Data as of 9th Sep'26

Exhibit 41: US 10Y sovereign yield edged up to 4.8%



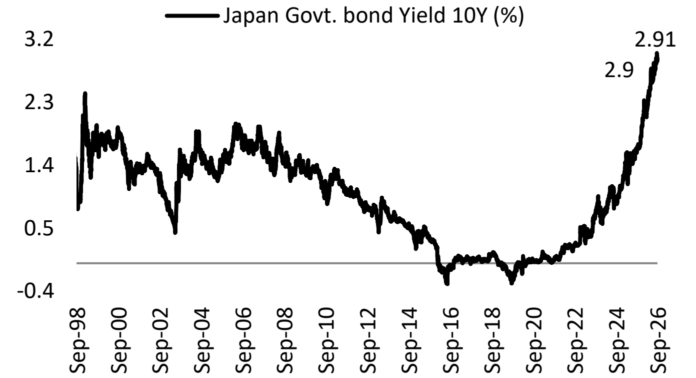
Source: CEIC, MOFSL

Exhibit 42: UK 10Y sovereign yield increased to 5.2%



Data as of 9th Sep'26

Exhibit 43: Japan 10Y sovereign yield advanced to 2.9%



Source: CEIC, MOFSL

RBI: Liquidity tightening likely before rate hikes

- The RBI does not need to wait for a formal repo-rate hike to tighten financial conditions. It can first drain the unusually large liquidity surplus through VRRR, FX swaps, MSS and other durable liquidity-management tools. The latest VRRR operations illustrate this clearly: the RBI absorbed INR6t, although the WACR remained below the 5.25% repo rate, indicating that surplus liquidity in the banking system remains substantial. With system liquidity estimated at INR10-12t, further absorption is likely to be required, particularly given the large FCNR(B)-related foreign-currency inflows. While VRRR provides an immediate sterilization mechanism, relatively weak participation in longer-tenor operations could encourage the RBI to increasingly rely on more durable measures such as FX sell-buy swaps, MSS or bond sales, and potentially changes in CRR.
- We expect monetary tightening to proceed in stages, with liquidity tightening preceding rate hikes. Our base case is for the RBI to remain on hold in Oct'26 policy while using a mix of liquidity-management tools, including VRRR, MSS bonds, OMOs, dollar sales and FX sell-buy swaps, to absorb the large system liquidity surplus. We expect liquidity tightening to precede conventional rate tightening, with the probability of a repo-rate hike increasing in Dec'26 and becoming more likely by Feb'27 as persistent inflation pressures become more evident. While 2QFY27 inflation should remain broadly around our 4.7% estimate, the risk of 3QFY27 CPI exceeding 6%, alongside elevated crude and food-price pressures, should make the inflation outlook sufficiently uncomfortable by Feb'27 to warrant a hike.

4QFY27 onward: Gradual transmission to growth

- The impact of tighter financial conditions on economic activity may be visible with a lag, rather than immediately. We expect 3QFY27 to be primarily an inflation and liquidity-management phase, with the RBI likely to focus first on absorbing excess liquidity from the banking system rather than raising the repo rate. This should gradually push up short-term funding costs and make financial conditions less supportive. However, the initial impact on households and businesses is likely to remain limited, as existing consumption and investment momentum should continue to provide support.
- The effects could start becoming visible in 4QFY27, as tighter liquidity and higher borrowing costs gradually feed through to credit growth and interest-sensitive segments of the economy. Businesses may become somewhat more cautious about new investments, while households could defer some discretionary purchases, particularly those financed through loans. At the same time, the El Niño/food-inflation channel could begin to weigh on rural consumption, providing an additional, non-financial source of moderation. This does not imply a sharp weakening in demand; rather, we expect the pace of growth in consumption and investment to moderate from the strong levels seen in 1HFY27.
- The impact is likely to become more evident in 1QFY28, as monetary-policy changes typically take several months to transmit to the broader economy. If the RBI raises the repo rate in Feb'27 in response to persistent inflation pressure, the higher cost of borrowing would gradually affect household EMIs, corporate borrowing costs and the availability of credit.
- Importantly, we do not expect a sharp slowdown in growth. The economy is entering this phase with strong momentum, supported by investment, services and relatively healthy consumption. Urban demand should provide a cushion, while rural demand is likely to remain supported by wages and government spending even if it moderates from current levels. The expected outcome is therefore a gradual normalization of growth rather than a significant downturn. In our view, 3QFY27 marks the beginning of tighter financial conditions and rising food-price risks, 4QFY27 represents the initial transmission to the real economy, and 1QFY28 is the period when these effects become more visible.

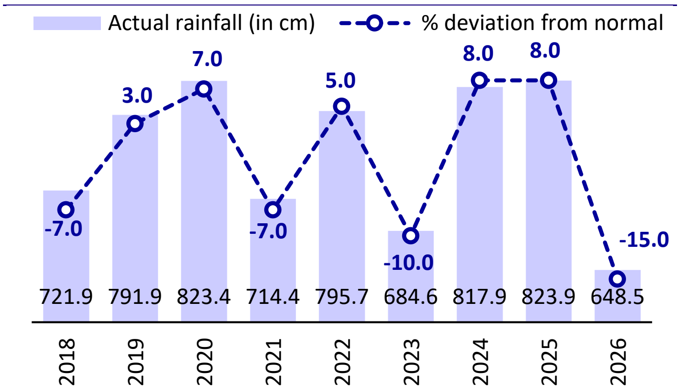
Appendix: Details of monsoon, sowing and reservoir levels

Southwest monsoon is still weak since the start in this year

- The southwest monsoon has been weak through early Sep'26, raising concerns over agricultural production after two consecutive years of favorable rainfall. **Cumulative rainfall was 15% below LPA as of 9th Sep'26, with the deficit particularly pronounced in the South Peninsula (-27%) and East & Northeast India (-24%), followed by the North-West (-9%) and Central India (-7%).**
- **The weakness is also broad-based,** with rainfall deficits extending across several regions and 19 of India's 36 meteorological subdivisions recording deficient rainfall. This suggests that the shortfall is not confined to a few regions and increases the risk that the impact is eventually felt through crop yields, soil moisture and water availability.

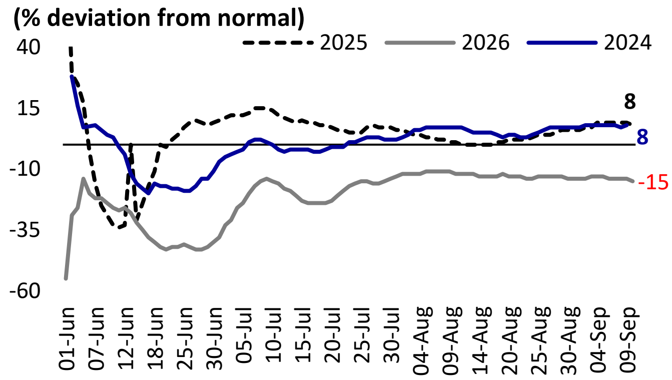
- **The rainfall deficit is particularly pronounced across several agriculturally important states**, with Meghalaya (-56%), Andhra Pradesh (-44%), Arunachal Pradesh and Manipur (-41% each), Punjab (-39%), Bihar (-36%), Goa (-33%), Karnataka (-27%), Kerala and Rajasthan (-25% each), Assam (-24%), Tamil Nadu (-24%) and Telangana (-23%) recording significant deficits. Other major states such as Haryana (-21%), Gujarat (-19%) and Maharashtra (-16%) have also received below-normal rainfall. The concentration of rainfall stress across key agricultural regions is a concern given their importance in the production of rice, cotton, oilseeds and other kharif crops. In contrast, Odisha (+18%), Uttarakhand (+5%) and West Bengal (+2%) have recorded above-normal rainfall, while Uttar Pradesh and Jammu & Kashmir are broadly around normal.
- **While an early-season deficit does not necessarily translate into a poor crop outcome—as illustrated by 2024 when a weak June monsoon recovered to 108% of LPA—the window for a similar turnaround is narrowing.** The cumulative rainfall deficit has widened to 15% by early September, and the regional breadth of the shortfall remains a concern. The key risk is therefore increasingly shifting from sowing to crop yields and soil moisture, particularly for standing kharif crops. Lower rainfall and depleted water availability could also leave less favorable conditions for the upcoming rabi sowing season, making the agricultural outlook an increasingly important risk to both food inflation and rural incomes in 2HFY27.

Exhibit 44: All-India rainfall is 15% below normal as of 9th Sep'26 (vs. 8% above normal in 2025)



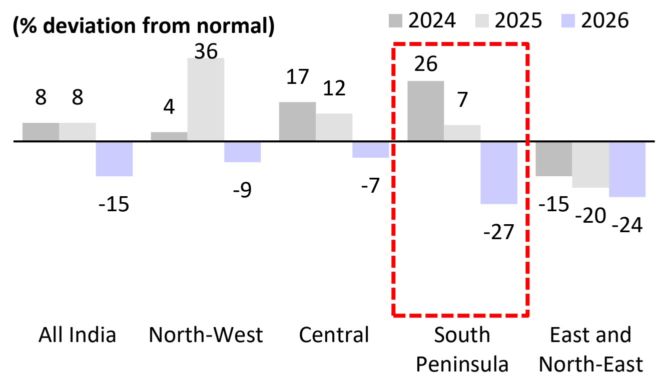
Data as of 9th September for all years

Exhibit 45: This is even lower than the last El-Nino episode of 2024



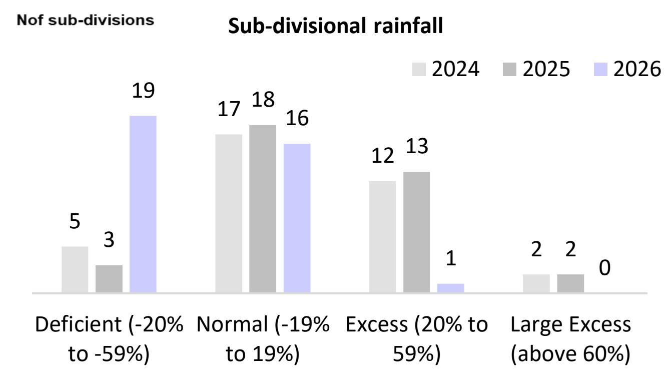
Source: IMD,CEIC, MOFSL

Exhibit 46: Southern India received the largest deficient rainfall among other all deficient regions



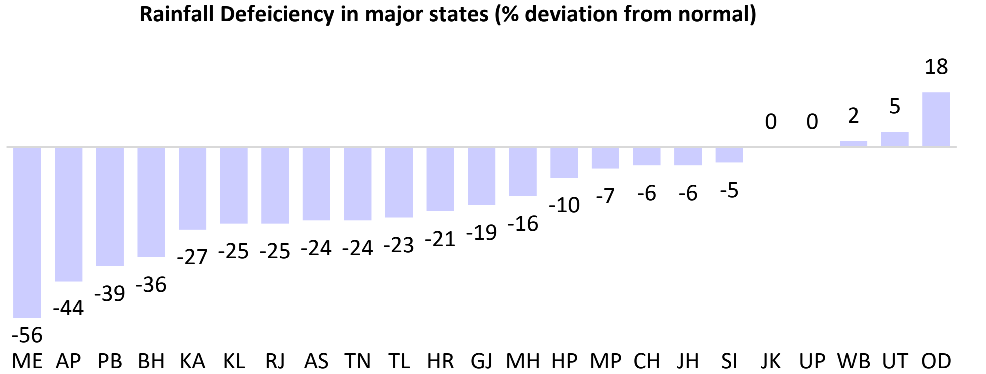
Data as of 9th Sep'26 for all years

Exhibit 47: 19 sub-divisions received deficient rainfall



Source: IMD, CEIC, MOFSL

Exhibit 48: Rainfall deficiency persists across majority of the agrarian states

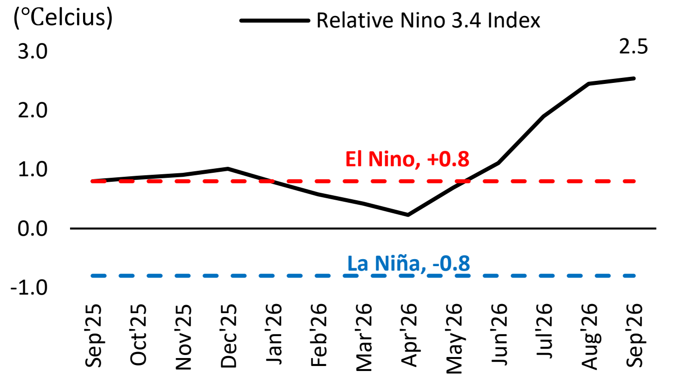


Data as of 9th September for all years

El Niño intensifies while monsoon progress stalls

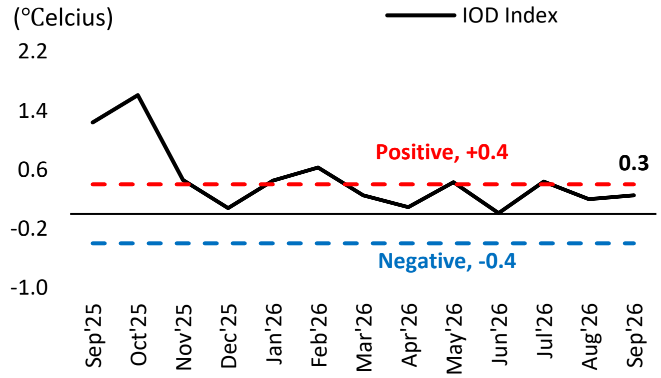
- The subdued monsoon has largely been driven by unfavorable global weather conditions. **El Niño has strengthened further, with the Niño 3.4 index rising to 2.54 as of 6th Sep'26**, well above the threshold of 0.8 and establishes the current phase as stronger than the major El Niño events of both 2015 and 2023. This intensifying warming trend represents one of the strongest events on record, triggering an atmospheric shift that typically suppresses crucial monsoon rainfall over the Indian subcontinent.
- At the same time, **the Indian Ocean Dipole (IOD) remains positive (0.25)**, providing little support to offset the adverse influence of El Niño. According to meteorological assessments, the temporary pause in monsoon progression has been caused by the absence of strong low-pressure systems over the Bay of Bengal, weaker cross-equatorial moisture flows, and persistent atmospheric circulation patterns that have inhibited widespread rainfall across central India.

Exhibit 49: Relative Nino index stood at 2.54 (higher than 0.8) as of 6th Sep'26



Data as of 6th September for all years

Exhibit 50: IOD index remained neutral at 0.25, providing little support



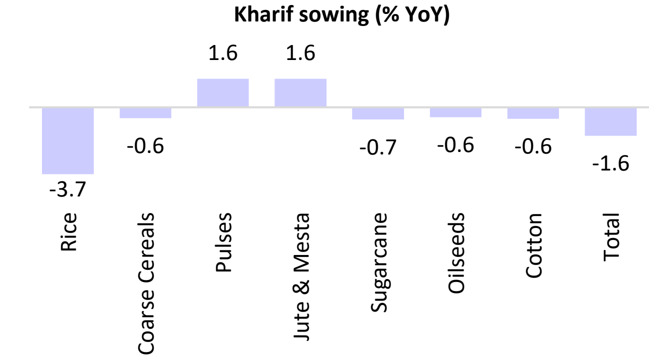
Source: Australian Bureau of Meteorology, IMD,CEIC, MOFSL

Kharif sowing near completion with mixed crop performance

- **Kharif sowing is nearing completion, with total acreage reaching 98.36 million hectares by 4th Sep'26, marking a 1.6% YoY decline and sitting 2.3% below the normal area.** While the aggregate numbers point to a modest deficit nearing seasonal forecasts, they mask sharper variances across key crop segments.
- **Rice remains the largest drag on overall crop coverage with a 3.7% YoY drop**, though a lengthy sowing window extending into mid-September may narrow this gap. Oilseeds fell by 0.6% YoY, pulled down by a 13.6% drop in castor as early-season momentum faded for groundnuts (-1.7%) and soyabeans (-0.9%), while sugarcane dipped marginally by 0.7% YoY.

- **Conversely, pulses provided major relief with a 1.6% YoY increase** to 5.8 million hectares, powered by a 12% surge in urad and a late-season recovery in arhar (+1.6%). Coarse cereals fell by 0.6% YoY, dragged down by a 3.2% drop in maize and a steep 13.3% crash in ragi due to acute shortfalls in Karnataka, which offset solid recoveries in bajra (3.2%) and jowar (7.7%). Cotton acreage recorded a minor 0.6% YoY drop, though this figure understates true weakness due to a high revised baseline from last year. Meanwhile, jute & mesta acreage expanded by 1.6% YoY as the sowing window drew to a close.

Exhibit 51: Kharif sowing down by 1.6% as of 4th Sep'26



Data as of 4th September for all years

Exhibit 52: Rice/oilseeds sowing sharply lower vs. last year

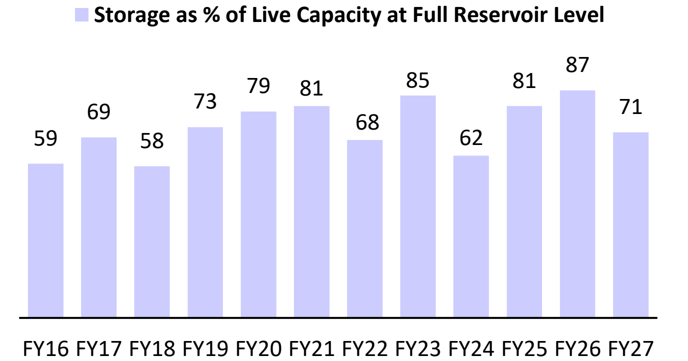
% YoY	04-Sep-24	04-Sep-25	04-Sep-26
Rice	6.4	4.7	-3.7
Coarse Cereals	-1.2	1.6	-0.6
Pulses	-2.5	0.7	1.6
Jute & Mesta	-13.8	8.7	1.6
Sugarcane	-2.5	5.7	-0.7
Oilseeds	1.5	0.4	-0.6
Cotton	-9.1	-2.0	-0.6
Total	0.9	2.4	-1.6

Source: IMD,CEIC, MOA&FW, MOFSL

Reservoir levels have fallen across all the regions

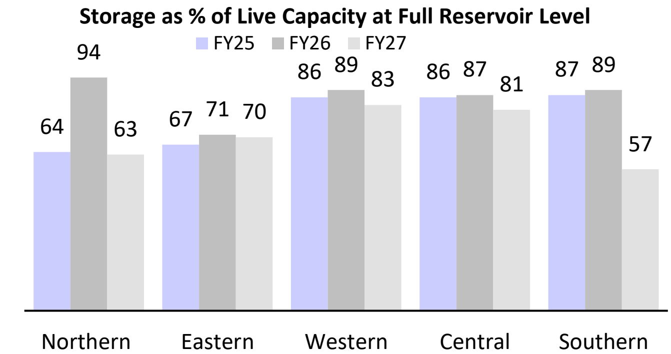
- Water availability has been moderate following the recent revival in monsoon activity. **As of 4th Sep'26, live storage across India's major reservoirs stood at 71% of total capacity** vs. 87% in the corresponding period last year.
- However, regional disparity in water availability has decreased. Reservoir storage continues to be relatively comfortable in the Western (83%), Central (81%) and Eastern regions (70%), while parts of Northern (63%) and Southern India (57%) continue to lag due to weaker rainfall.
- Higher reservoir storage in Western, Central and Eastern regions is likely to support kharif sowing in the coming weeks. Compared with last year, the steepest decline has been recorded in the Southern region. Among the key river basins, storage level remains the highest in Mahanadi river basin (77% of capacity), followed by Krishna River (75%), and Narmada basin (74%).

Exhibit 53: Water reservoir levels at 71% of live storage capacity as of 4th Sep'26…



Data as of 4th September for all years

Exhibit 54: …mainly led by Western and Central regions

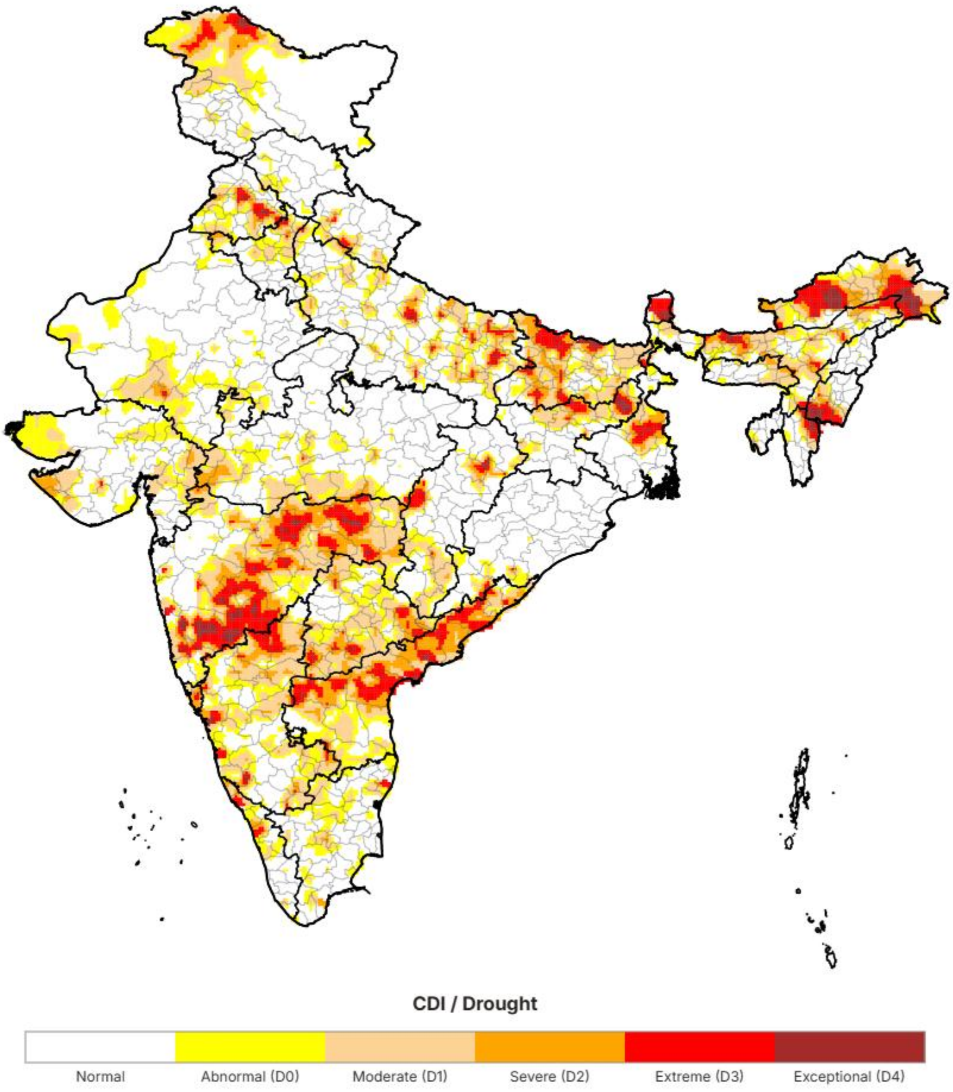


Source: CEIC, MOFSL

Drought footprint widens to 46% despite late-monsoon revival

- Drought conditions worsened aggressively **as of 2nd Sep'26, with 46% of the country's geographical area classified as abnormally dry (D0) or worse**. This marks a steep 1,170bp increase from 34.3% a month earlier and a 6.2% expansion week-on-week from 39.8%, indicating a severe and rapid escalation in nationwide moisture deficits. The severity distribution shows that 25.9% of the land area is now in the moderate drought (D1+) class and 11.3% is in the severe drought (D2+) class *(Exhibit 14)*.
- The stress is most pronounced across western, southern, and eastern crop belts, while northeastern regions remain heavily impacted. Goa (94.6%), Sikkim (86.9%), Arunachal Pradesh (84.2%), Andhra Pradesh (83.5%), Bihar (79.2%), and Maharashtra (77.0%) have the highest share of area under drought conditions, whereas Odisha (10.2%) and Nagaland (10.9%) are among the least affected. Persistent moisture stress in these key agricultural regions threatens terminal reproductive stages of rain-fed kharif crops and limits upcoming rabi pre-sowing preparations, keeping food-inflation risks highly relevant and likely forcing a cautious RBI MPC stance during 2HFY27.

Exhibit 55: Current drought conditions (as of 6th Sep'26)



Source: India Drought Monitor, MOFSL

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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com.

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Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412, BSE enlistment no. 5028, AMFI registered Mutual Fund Distributor and SIF Distributor: ARN .: 146822. IRDA Corporate Agent – CA0579, APMI: APRN00233. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.