Why rural India may better weather El Nino

3 May 2026

With US-Iran conflict disrupting India's pre-war macro stability, the growth-inflation dynamics now face a likely *El Nino* shock. The National Oceanic and Atmospheric Administration (NOAA) assigns a 60–70% probability of *El Nino* developing during June–August 2026, with a 1:4 chance it might be a strong event persisting through year-end. The Indian Meteorological Department (IMD), in its April long-range forecast for Southwest Monsoon, predicts June-September rains at 92% of long-period average (LPA), but with a 35% probability of rainfall dipping below 90% of LPA.

While concerns on the impact of El Nino on agriculture output, inflation and rural demand are valid, **data suggests that El Nino's transmission to agriculture gross value-add (GVA), rural income, and aggregate demand has weakened in recent years, due to structural shifts in rural India: higher irrigated area, crop & income diversification, robust minimum support prices (MSP) support, deeper credit penetration, unconditional cash transfer schemes, and surging non-farm rural earnings.** These factors mean *El Nino's* macro bite may be muted. Hence, while risks to India's Monsoon and economic growth need to be watched, concerns are overstated, in our view.

Reservoir levels and two consecutive good Monsoon to blunt *El Nino* impact: The *Rabi* crop output is estimated to be 3.2% higher than last year and our on ground rural checks suggest that on ground realization across all *Rabi* crops has been better than that during *Kharif* 2025. Moreover, India has seen two consecutive years of above-normal rainfall (~108% LPA) with reservoir level at 39% of full capacity as of end-April versus 33% same time last year. Further, as per NOAA ENSO strength data, probabilities for a very strong El Nino event occur in (August-September-October) which is past India's peak sowing season of July, thereby limiting the damage to the summer crop.

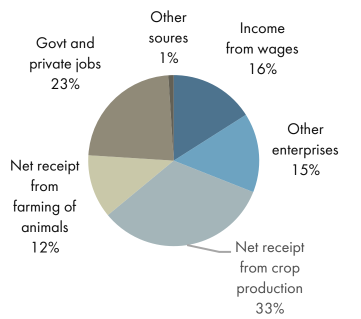
***El Nino*-to-Monsoon-to-agriculture GVA link is weakening:** The transmission of El Nino to agricultural GVA has weakened. Between 1982-2002, six of seven El Nino episodes lowered agriculture GVA. However, since 2004, only two of seven have, despite similar rainfall shortfalls. Notably, very strong 2015–16 *El Nino* saw 86.3% of LPA rainfall, but agriculture GVA rose +0.7%, and the deficient 2014-15 season with weak El Nino (88.14% LPA) recorded a contraction in agriculture GVA at ~0.2%. Long term data shows, a severe El Nino has never occurred after two consecutive surplus monsoon years (average 7.8% in 2024 & 2025); thus, rendering strict comparison with past event ineffective. So, a probable severe El Nino this year is unlikely to be as disruptive as the El Nino event after a deficient year.

...bolstered by rural income diversification: Agri income accounts for a mere third of rural household income, with the rest spread across wages (16%), other enterprises (15%), government & private jobs (23%), and livestock receipts (12%), according to the NABARD 2022 Survey. This diversified income base acts as a structural buffer — limiting the impact of a Monsoon shock on household income and demand.

And with Gold loans emerging as shock absorber: As on December-25, 68% of gold loan originations were in rural and semi-urban areas in agriculture-dominated states. Uttar Pradesh, Madhya Pradesh, and Rajasthan, recorded growth of 96% YoY, 80% YoY, and 79% YoY, respectively. TransUnion CIBIL data reveals rising asset value (gold) fuelling larger ticket sizes at 1.8x (December 2025 vs December 2023), suggesting consumers are leveraging high-value loans to bridge financing needs.

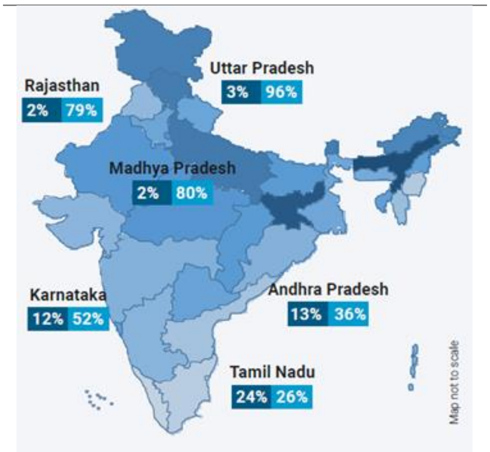
El Nino has not crushed demand historically: During the two episodes of strong (2023-24) and very strong *El Nino* (2015-16), two-wheeler sales volume grew by 13.3% and 3.0%, respectively, and fertilizer volume grew 2.6% and 7.5%, respectively. FMCG majors (Hindustan Unilever, Marico, Dabur, Jyothy Labs and Emami) posted stronger volume growth during both strong (2023-24) and very strong (2015-16) *El Nino* periods, than four quarters' hence suggesting demand resilience during El Nino events.

Cultivation income forms 33% of rural household income



Source: NABARD 2022 Survey, Elara Securities Research

Agrarian states see surge in gold loan originations



Share of gold loan origination volume (3M ended Dec-2025)
YoY growth in gold loan origination volume (3M ended Dec-2025)

Source: TransUnion CIBIL, Elara Securities Research

Garima Kapoor
Economics
+91 22 6164 8527
garima.kapoor@elaracapital.com

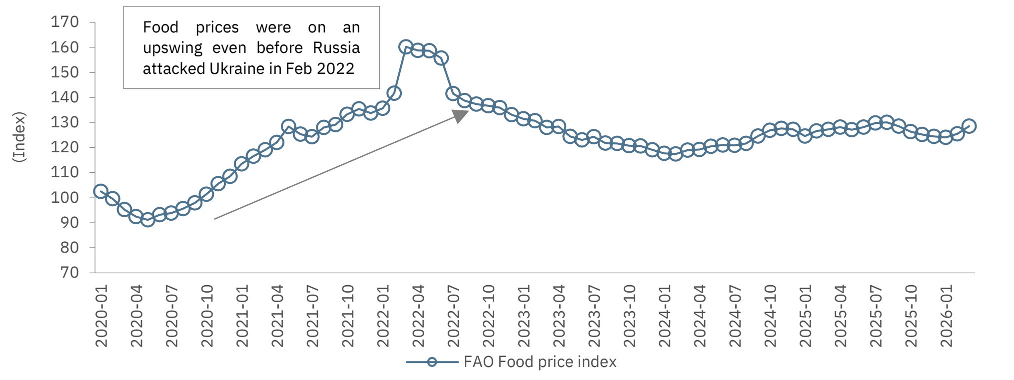
Associate
Subhankar Sanyal
subhankar.sanyal@elaracapital.com

Shweta Roy
shweta.roy@elaracapital.com

Food inflation: unlikely to run away this time

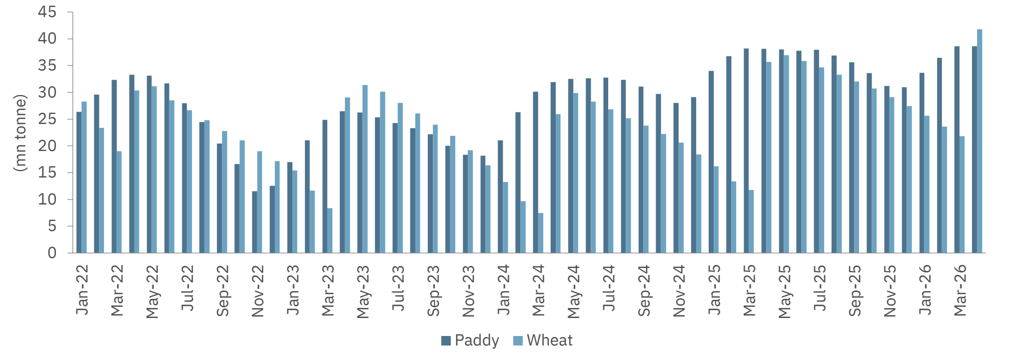
El Nino conditions bear watching for output and higher prices. In the past two strong El Nino conditions of 2015-16 and 2023-24, the median contribution (%YoY) of food and beverages inflation (2011-12 base) to headline CPI was 52bp higher than non-weaker *El Nino* conditions. While these risks are valid, **the likelihood of runaway food inflation is lower this time**, due to following factors: 1) severity of *El Nino* sets in past August 2026, which is well beyond India's peak sowing season, 2) bumper *Rabi* crop, and 3) stocks with the Food Corporation of India (FCI) suggest the government has potent tools to intervene to limit price hikes. The starting points also matter. Although, energy-led surge in food prices will materialize, given softening bias for food prices globally amid bumper crops, the impact will be less pronounced. **Note, global food prices were on a rising path in the run-up to the Russia-Ukraine crisis. This time, prices have been range-bound since 2024.**

Exhibit 1: Global food prices range-bound since 2024



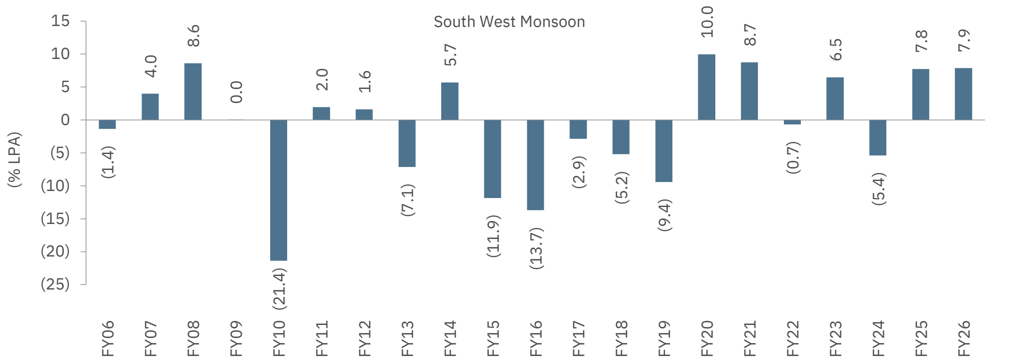
Source: UN, Elara Securities Research

Exhibit 2: FCI sitting on significantly high stocks for paddy and wheat



Source: CMIE, Elara Securities Research

Exhibit 3: Two consecutive years of surplus Monsoon may cushion the *El Nino* impact



Source: IMD, Elara Securities Research

Sector-wise *El Nino* impact is heterogeneous

El Nino's sectoral footprint is uneven. **Based on our analysis of the *El Nino* events since the 1990s, agri inputs show mixed performance whereas consumer discretionary demand, including that for two-wheelers, proves to be more resilient. Tractor sales suffer but scorching temperatures that accompany *El Nino* aid demand for cooling appliances that outlasts the Monsoon anxiety.** Note this year, during the January-April period average temperatures are well above ones recorded during previous episodes of *El Nino* by 8.3%

Fertilizer sales show mixed outcome

Our analysis of revenue growth of 10 fertiliser and agrochemicals companies in our coverage universe (Chambal Fertilisers and Chemicals Ltd, Rallis India Ltd, Bayer CropScience Ltd, Coromandel International Ltd, Dhanuka Agritech Ltd, UPL Ltd, PI Industries Ltd, Insecticides (India) Ltd, Sumitomo Chemical India Ltd and Paradeep Phosphates Ltd) during eight *El Nino* episodes since FY00 shows a mixed outcome. Sales grew at an average 7.9% during all El Nino years but collapsed to a mere 0.5% YoY average during strong and very strong *El Nino* years. Except for FY24 (strong *El Nino*) and FY10 (moderate *El Nino*), sales growth was positive. In fact, during very strong *El Nino* of FY16, despite nearly 14% rainfall deficiency, sales of fertilizers and pesticides grew by 2.3%.

During the FY16 Southwest Monsoon, June rains were 15.5% above LPA even as July, August and September recorded a deep deficit of 16.7%, 21.8% and 24% of LPA, respectively. On the contrary, during strong *El Nino* of FY24, when companies under review saw revenue decline by 20% YoY, June rains were 7.5% below LPA whereas July, August and September were ~12.8% above LPA, 36% below LPA and 13.1% above LPA, respectively. Thus, **data suggests deferred *Kharif* sowing weighs on demand for fertilizers and agrochemicals more than actual performance of the Monsoon. This year, a severe *El Nino* event is projected for August-September-October, which suggests sowing is unlikely to face headwinds.**

Two-wheeler sales and FMCG volume shows resilience to *El Nino*

The consumer-facing sectors, however, tell a strikingly different story. Two-wheelers sales on an average posted 8.4% growth during *El Nino* years, higher than 7.2% clocked in the non-*El Nino* years. Growth was registered in 7 out of 8 episodes; the sole exception was 2019-20, which was confounded by COVID.

Revenue growth of Personal and Home care companies reported by CMIE was at an average of +8.6% — below the non-*El Nino* mean of +12.2%, but never catastrophic. Our analysis of volume growth of FMCG majors' (Hindustan Unilever, Marico, Dabur, Jyothi Labs and Emami), since FY17 indicates average volume growth during strong (2023-24) and very strong (2015-16) *El Nino* period was in fact higher than four quarters after the *El Nino* event. In recent years, credit penetration and unconditional cash transfers are acting as buffers.

Exhibit 4: Cash transfer schemes to women in rural India aiding in bottom tier consumption

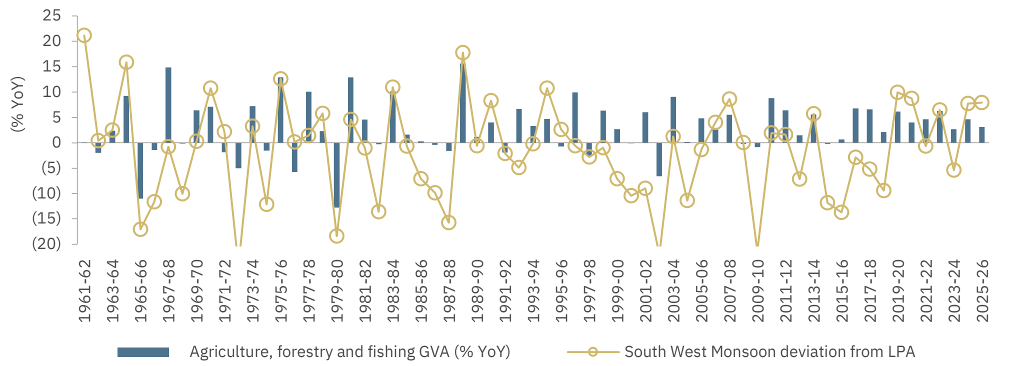
S.No	State	Scheme (INR bn)	FY23	FY24	FY25BE	FY25RE	FY26BE	FY27BE
1	Madhya Pradesh	*Ladli Behna Yojana*	-	147	189	194	187	239
2	Maharashtra	*Majhi Ladki Bahin Yojana*	-	-	460	332	360	265
3	Karnataka	*Gruha Lakshmi Yojana*	-	170	286	235	286	286
4	West Bengal	*Lakshmi Bhandar Scheme*	119	136	144	232	267	275
5	Jharkhand	*Mukhyamantri Maiya Samman Yojana*	-	-	-		133	141
6	Odisha	*Subhadra Yojana*	-	-	100	112	101	101
7	Haryana	*Lado Lakshmi Yojana*	-	-	-	-	50	65
8	Telangana	*Mahalakshmi Scheme Telangana*	-	-	31	31	31	50
9	Tamil Nadu	*Kalaignar Magalir Urimai Thittam (KMUT)*	-	70	137	-	138	144
10	Chhattisgarh	*Mahtari Vandan Yojana*	-	-	30	30	55	82
13	Assam	*Orunodoi Scheme*	24	32	38	38	50	50
14	Himachal Pradesh	*Indira Gandhi Pyari Behna Sukh Samman Nidhi Yojana*		8	23	-	23	
15	Delhi	*Mahila Samridhi Yojana*	-		20		51	51
	Total		**143**	**563**	**1,458**	**1,204**	**1,445**	**1,699**
	As % GSDP		0.09	0.3	0.7	0.6	0.6	0.6

Source: State Budgets, Elara Securities Research

Scorching heat to aid in demand for air conditioners and refrigerators

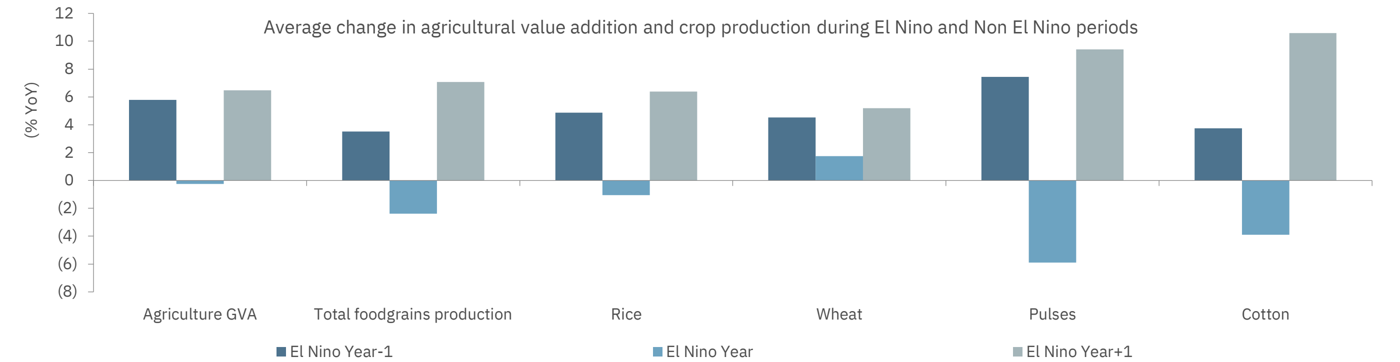
In CY26 YTD, the maximum temperature's departure from normal has been double that of recent strong and very strong *El Nino* episodes of 2015-16 and 2023-24. This is likely to be a tailwind for air conditioning and refrigerator sectors. Past experiences indicate five deficient Monsoon *El Nino* years produced AC growth in the range of -5.6% to 19.8% YoY, with 2014-15 and 2009-10 delivering the strongest prints in the *El Nino* sub-sample at 19.8% and 18.1%, respectively. However, in the latest episode, key monitorable is whether the AC and refrigerator sector faces any supply constraints in meeting potential pent-up demand, due to geopolitical risks and related supply chain bottlenecks apart from inventory position amid lackluster secondary sales in the past year.

Exhibit 5: Correlation of Agriculture GVA & Monsoon is weakening



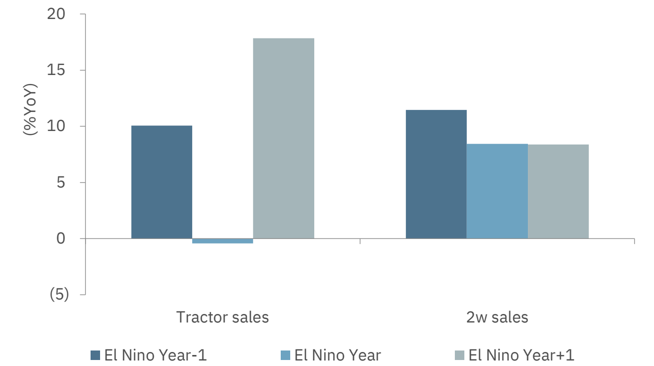
Source: CMIE, Elara Securities Research

Exhibit 6: Output for wheat & paddy shows resilience even during the *El Nino* years on an average (median)



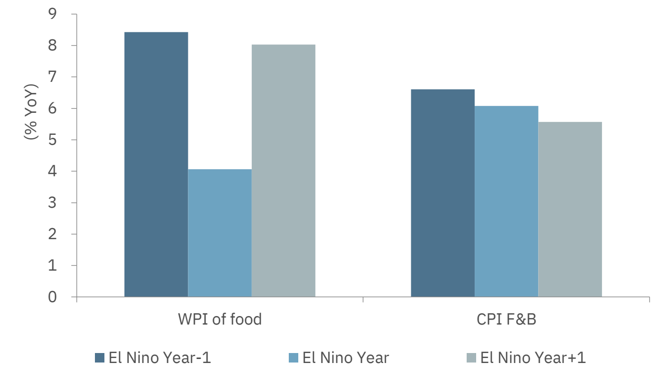
Note: data since 1990; Source: CMIE, Elara Securities Research

Exhibit 7: Two-wheeler sales* shows resilience in *El Nino* years



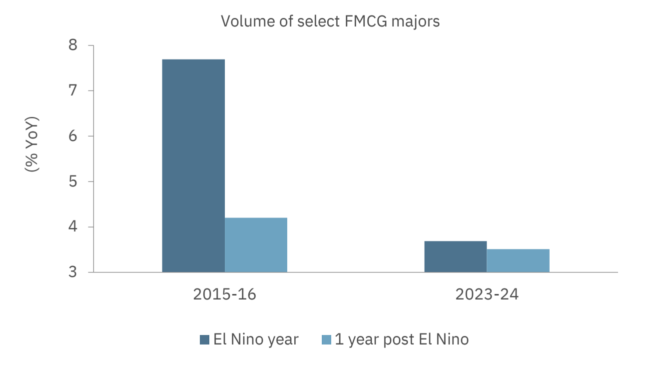
*volume growth. Source: CMIE, Elara Securities Research

Exhibit 8: Retail food inflation on an average ease after *El Nino*



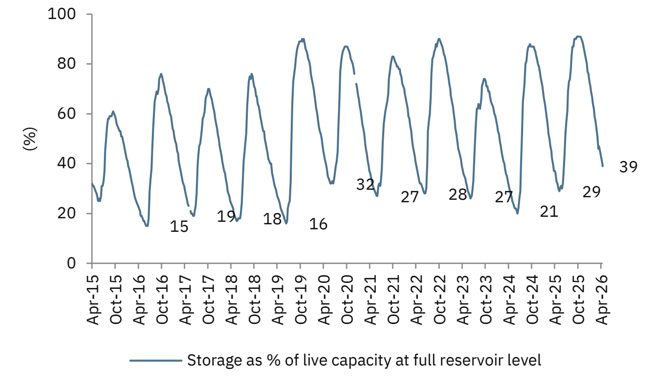
Note: recent strong (2023-24) and very strong (2015-16) El Nino Years; F&B = food and beverages. Source: CMIE, Elara Securities Research

Exhibit 9: FMCG companies see higher volume growth in the *El Nino* years



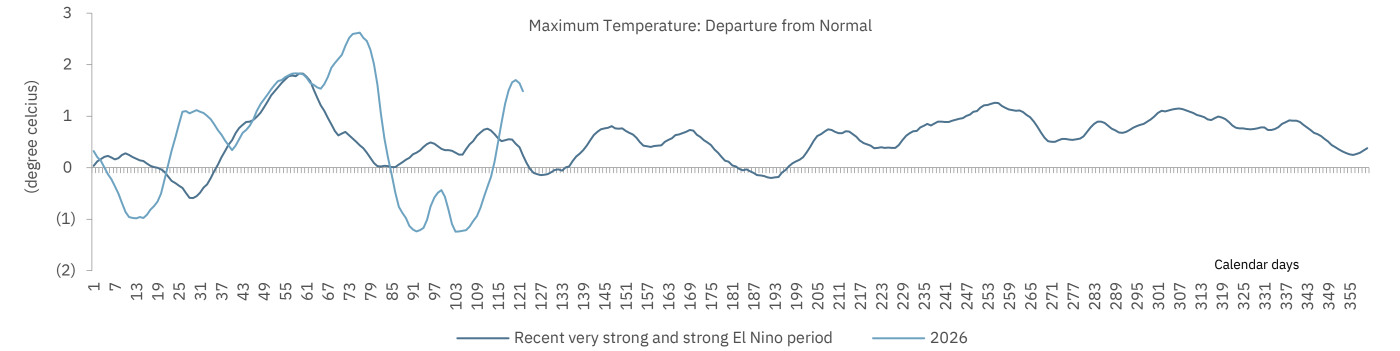
Note: *2015-16, 2023-24, data for Hindustan Unilever, Dabur, Marico, Jyothy Labs, Emami; Source: Companies, Elara Securities Research

Exhibit 10: Reservoir levels currently are higher than the previous years



Source: CMIE, Elara Securities Research

Exhibit 11: Temperatures across the country are above recent Strong and Very Strong *El Nino* year levels



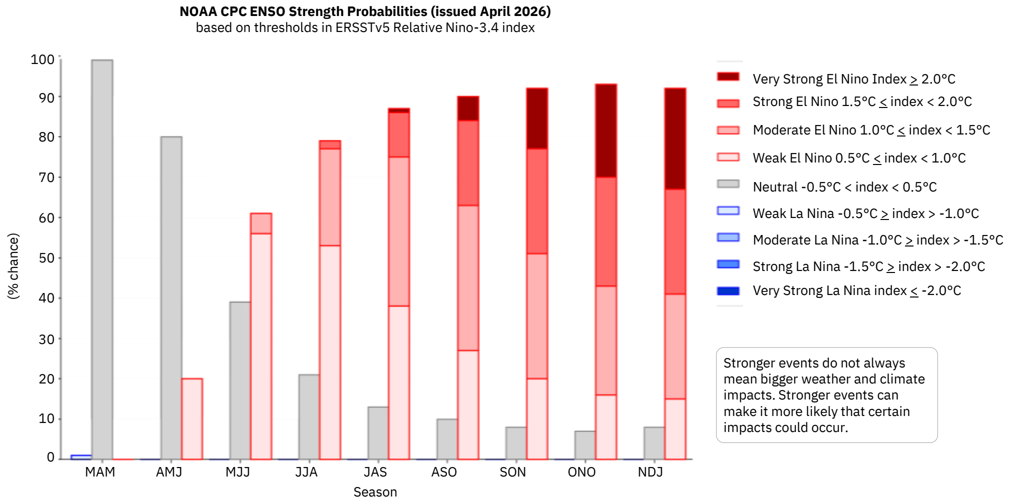
Note: Recent *El Nino* periods are 2015-16 and 2023-24. 2026 = till April; Source: CEIC, Elara Securities Research

Exhibit 12: Rural economy during previous Strong and Very Strong *El Nino* conditions

	1991-92	1997-98	2015-16	2023-24
El Nino Type	Strong	Very Strong	Very Strong	Strong
Variant	Central Pacific	Eastern Pacific	Eastern Pacific	Eastern Pacific
Rainfall Intensity	Normal	Normal	Deficient	Below Normal
Agricultural Sector GVA (% YoY)	(2.0)	(2.6)	0.7	2.7
Total foodgrains production (% YoY)	(4.7)	(3.1)	(0.2)	0.8
Rice (% YoY)	0.5	2.2	(1.0)	1.5
Wheat (% YoY)	1.0	(4.3)	6.7	2.5
Pulses (% YoY)	(14.0)	(8.3)	(4.8)	(7.0)
WPI food (%YoY)	20.3	3.0	2.6	6.6
CPI Food & Beverages (% YoY)	-	-	5.1	7.0
Two wheelers sales (% YoY)*	4.1	11.5	9.5	17.7
Personal & home care products sales (% YoY)*	23.2	17.0	2.4	4.2
ACs & refrigerators sales (% YoY)*	(17.8)	5.8	11.0	5.7

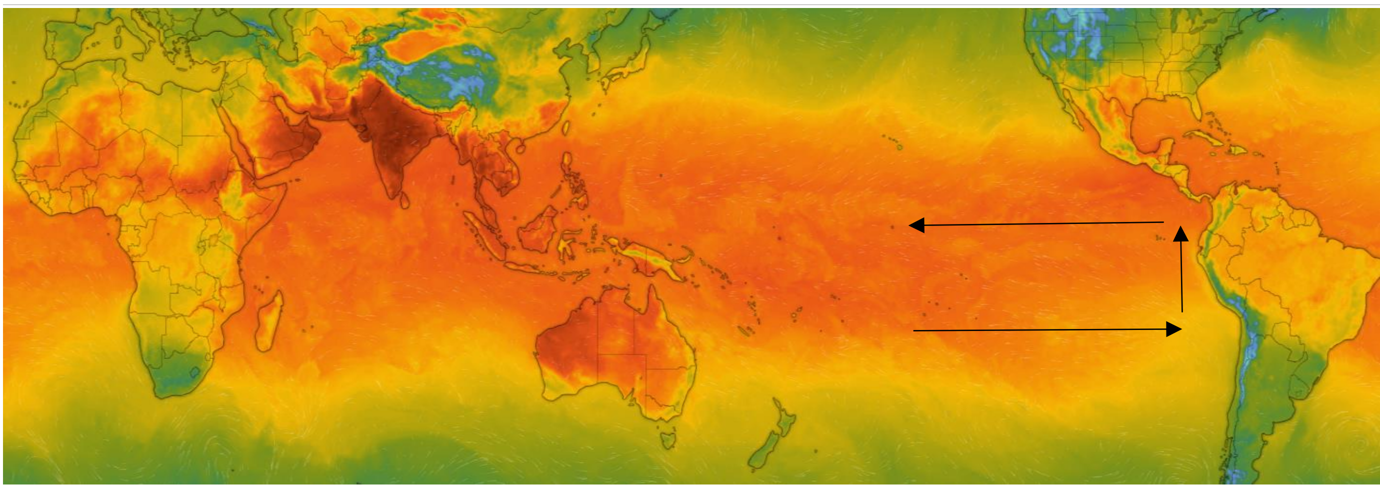
*listed companies' sales via CMIE Prowess database. Source: CMIE, Elara Securities Research

Exhibit 13: Severe *El Nino* likely to hit India's agriculture in August-September 2026



Source: CPC, NOAA

Exhibit 14: *El Nino* Pacific State and development of *El Nino*



Note: Red=hotter (>=40 degree Celsius). Source: Windy.com

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India
Elara Securities (India) Private Limited
One International Center, Tower 3,
21st Floor, Senapati Bapat Marg,
Elphinstone Road (West)
Mumbai – 400 013, India
Tel : +91 22 6164 8500

Europe
Elara Capital Plc.
6th Floor, The Grove,
248A Marylebone Road,
London, NW1 6JZ,
United Kingdom
Tel : +44 20 7486 9733

USA
Elara Securities Inc.
950 Third Avenue, Suite 1900
New York, NY 10022 United States
Tel: +1 212 430 5870
Fax: +1 212 208 2501

Asia / Pacific
Elara Capital (Singapore) Pte.Ltd.
One Marina Boulevard,
Level 20,
Singapore 018989
Tel : +65 6978 4047

Managing Director	**Harendra Kumar** | harendra.kumar@elaracapital.com | +91 22 6164 8571
Head of Sales	**Prashin Lalvani** - prashin.lalvani@elaracapital.com - +91 22 6164 8544
Head of Research	**Dr Bino Pathiparampil** | bino.pathiparampil@elaracapital.com | +91 22 6164 8572
Deputy Head of Research & Strategist	**Garima Kapoor** | garima.kapoor@elaracapital.com | +91 22 6164 8527

Sales Team

India & UK	**Prashin Lalvani** - prashin.lalvani@elaracapital.com - +91 22 6164 8544
India	**Hitesh Danak** - hitesh.danak@elaracapital.com - +91 22 6164 8543 **Ashok Agarwal** - ashok.agarwal@elaracapital.com - +91 22 6164 8558 **Himani Sanghavi** - himani.sanghavi@elaracapital.com - +91 22 6164 8586 **Pooja Soni** - pooja.soni@elaracapital.com - +91 22 6164 8558
India, APAC & Australia	**Sudhanshu Rajpal** - sudhanshu.rajpal@elaracapital.com - +91 22 6164 8508 **Joshua Saldanha** - joshua.saldanha@elaracapital.com - +91 22 6164 8541 **Shraddha Shrikhande** - shraddha.shrikhande@elaracapital.com - +91 22 6164 8567 **Suyash Maheshwari** - suyash.maheshwari@elaracapital.com - +91 22 4204 8698
India & US	**Karan Rathod** - karan.rathod@elaracapital.com - +91 22 6164 8570
Corporate Access, Conference & Events	**Anita Nazareth** - anita.nazareth@elaracapital.com - +91 22 6164 8520 **Tina D'souza** - tina.dsouza@elaracapital.com - +91 22 6164 8595

Elara Securities (India) Private Limited
Registered Office Address: One International Center, Tower 3, 21st Floor, Senapati Bapat Marg, Elphinstone Road (West) Mumbai – 400 013, India Tel : +91 22 6164 8500
CIN: U74992MH2007PTC172297 | SEBI Research Analyst Registration No.: INH000000933
Member of BSE Limited and National Stock Exchange of India Limited | SEBI REGN. NO.: INZ000238236
Member of Central Depository Services (India) Limited | SEBI REGN. NO.: IN-DP-370-2018
Investor Grievance Email ID: investor.grievances@elaracapital.com - Tel. +91 22 6164 8509
Compliance Officer: Mr. Anand Rao - Email ID: anand.rao@elaracapital.com - Tel. +91 22 6164 8509