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Managing Telangana's Rice Surplus:

Opportunities for Export Earnings, Sustainability and Crop Diversification



1. Introduction

Over the past decade, Telangana has undergone a dramatic transformation in rice production. Rice output increased from 65.81 lakh metric tons (LMT) in 2013-14 at the time of state bifurcation to 170 LMT in 2024-25, elevating the state to one of India's largest rice producers with a contribution exceeding 12 percent of national production.

This expansion has been overwhelmingly acreage-driven. Rice area expanded from 19.95 lakh hectares (LHA) to 46.9 LHA during the same period leading to increase of cropping intensity to 200 percent, and nearly the entire rice area is irrigated. Yield growth, however, has remained stagnant. This production surge reflects successful irrigation expansion through ground water exploitation, tanks and continuous favourable monsoons over the past nine years. Further, the procurement policies have generated persistent structural surpluses under India's Minimum Support Price (MSP)-based procurement system.

The state now faces a policy inflection point: managing recurring surpluses while transitioning toward a more diversified, market-aligned, and fiscally sustainable agricultural model.

2. The Structural Surplus Problem

Procurement and Surplus Dynamics

In 2024/25, the state procured 128.16 LMT of paddy and with 108 LMT of central pool allotment and some rice distributed through state schemes, the state was left with more than 15 LMT. In 2025/26, the procurement has increased to a record level of 71.8 LMT as compared to 70.8 LMT in the previous kharif season and with central allotment of 53 LMT, the state will be left with close to 20 LMT of surplus paddy. Going forward, the surplus situation is likely to worsen during Rabi 2025-26 with expected increase in rice production under current policy setting. Under current policy settings, production growth is expected to continue, implying rising annual surplus accumulation unless procurement or cropping patterns are adjusted.

MSP-Induced Cost-Price Mismatch

However, Telangana is in a *catch-22* situation because of India's MSP-based procurement system. Since the MSP effectively becomes the purchase price for rice in the state and this price is generally higher than global rice prices, it becomes inevitable for the state to incur losses

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when exporting to foreign markets. In such circumstances, the strategy is one of loss minimization rather than cost recovery. However, in years when global rice prices are high, the state may be able to recover its losses by exporting at prices that exceed the procurement cost.

	Value	
MSP Cost of Rice Equivalent	INR 36,000 (US\$395)/MT	
Current Global Market Price	Long-grain US\$ 340-350/MT	Short/Medium US\$ 330-340/MT
Profit/Loss	14-16% loss	11-14% loss

3. Short-Term Strategy

Global rice prices, which have already fallen by nearly 50% over the past year, are expected to stabilize and may even rise in the coming months depending on the monsoon in other rice producing countries. If due to *La Nina*, rainfall is not adequate in South and Southeast Asia, the global price may rise above \$400 PMT, making profit for the state. In the short term, the government has two options for managing the existing surplus: either hold the stocks or price them for export to minimize losses.

Holding stocks leads to losses over time due to storage costs, quality deterioration, bank interest, and price risk. In contrast, disposing of surplus rice minimizes fiscal losses and frees up storage capacity. The government could reform procurement centres to sell surplus paddy directly to registered private traders at prevailing market prices, with a direct benefit transfer (DBT) covering any shortfall if prices fall below MSP. This approach shifts from physical procurement to income protection, reduces storage and handling costs, limits excess stock accumulation, encourages private trade, and ensures farmers receive assured returns while lowering the fiscal burden. If direct sales are not feasible, an alternative is to auction surplus paddy at procurement centers, minimizing double handling and storage costs as implementing by Chhattisgarh.

4. Medium- to Long-Term Strategy

Strategic Objectives

- **Reform procurement:** Avoid excess paddy procurement to reduce fiscal burden.

- **Enhance export competitiveness:** Strengthen rice production systems and resolve supply chain constraints for seamless exports via **government-to-government (G2G)** agreements.
- **Diversify crops:** Incentivize farmers to shift toward **high-value, nutritious, and less water-intensive crops** (millets, pulses, oilseeds, horticulture).

1. Reform Procurements:

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2. Enhance Export Competitiveness

Telangana has significant potential to enhance the competitiveness of its rice sector through **export-oriented diversification**. This strategy aims to reduce MSP procurement and storage costs, stabilize domestic rice prices, increase farmer incomes through premium pricing, and position the state as a globally recognized rice hub.

Target Markets

The state should focus on key international markets where demand for specific rice varieties aligns with Telangana's production profile:

- **Southeast Asia:** Philippines, Indonesia, and Malaysia, where consumers prefer long-grain rice with a glossy appearance and soft cooking characteristics (rice varieties like MTU 1010 and IR 64).
- **West Africa:** Nigeria, Benin, Senegal, and Côte d'Ivoire, which demand parboiled and broken rice.
- **Future Expansion:** Telangana can explore premium African markets beyond Southeast Asia, leveraging its production scale and quality standards.

Competitive Advantages

Telangana's rice sector possesses several structural strengths that can support export expansion:

Scenario	Cost/MT	Implications
Stock Holding	Storage: ₹80–120/month; Quality degradation: ₹110–130/month; Price risk: ₹200–350/month	Losses increase over time; storage capacity blocked
Export Disposal	Export loss: ₹5,000–6,000/MT	One-time loss; frees storage; builds strategic market relationships

- **Scale of Production:** Enables bulk government-to-government (G2G) and government-to-private (G2P) negotiations.
- **Quality:** Short- and medium-grain varieties, as well as parboiled rice, are recognized for superior quality.
- **Dual-Season Production:** Continuous supply through Kharif and Rabi cycles.
- **Infrastructure:** Established procurement and storage network managed by TSCSCL.
- **Port Access:** Strategic proximity to Kakinada and Visakhapatnam ports facilitates international logistics.

Key Interventions

To operationalize export competitiveness, the following interventions are recommended:

A. Production Clusters

- Establish long-grain rice clusters covering approximately 500,000 hectares in partnership with Telangana State Civil Supplies Corporation Limited, Department of Agriculture and Professor Jayashankar Telangana Agricultural University.
- Mobilize farmer collectives—including FPOs, FPCs, and cooperatives—for coordinated cultivation.
- Introduce high-quality long-grain varieties supported by certified seeds.
- Promote sustainable agronomic practices, including pest and disease management, weed control, and efficient water and nutrient use.

B. Technical Interventions

- Improve seed quality of preferred varieties such as MTU-1010 and IR-64.
- Deploy advanced cultivation techniques, including Direct-Seeded Rice (DSR), Alternate Wetting and Drying (AWD), and modern crop management strategies.
- Upgrade milling infrastructure to enhance grain quality and reduce post-harvest losses.

C. Strengthening Farmer Collectives

- Implement Small Farmers Large Field (SFLF) models to increase bargaining power and achieve economies of scale.
- Synchronize critical operations, including nursery management, land preparation, transplanting, and harvesting, to reduce costs and improve efficiency.

D. Market and Value Chain Development

- Establish model rice mills under a public–private partnership framework as shared facilities and demonstration hubs.
- Develop direct linkages with buyers in Southeast Asia and West Africa to secure premium pricing.
- Provide continuous technical and market support to ensure farmers capture the full value of export-oriented production.

3. Diversify Crops: Incentive Realignment for Crop Diversification

Telangana's cropping pattern reflects strong procurement and bonus bias in favor of rice. Sustainable diversification requires income parity or marginal advantage for alternative crops.

To achieve this, the state should adopt a calibrated price incentive framework combining:

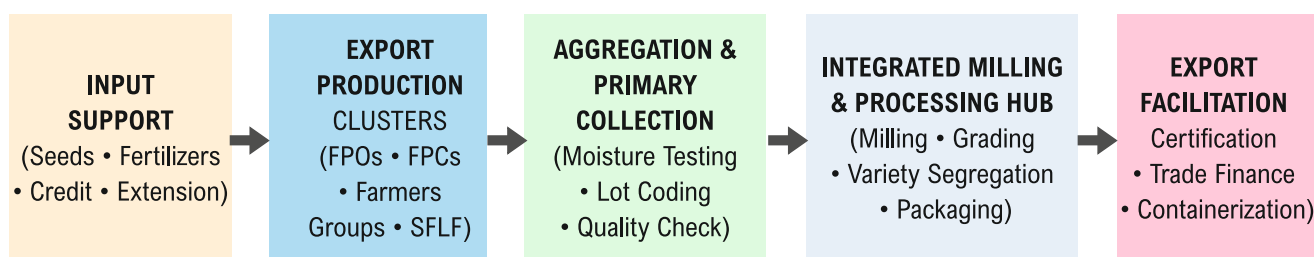
- Minimum Support Price (MSP)
- Production-linked bonuses
- A Deficiency Payment System (DPS)

The objective is to equalize realized net returns across crops so that diversification becomes an economically rational and risk-minimized decision for farmers.

MSP and Bonus Rationalization for Pulses, Millets, and Oilseeds

For non-perishable crops such as pulses, millets, and oilseeds where MSP is already notified, the government may provide a calibrated bonus of Rs. 2500/- per quintal to realize the net returns comparable or higher than the rice. This would correct the current income-certainty advantage enjoyed by paddy under assured procurement and bonus support.

Simplified Integrated Rice Export Supply Chain (Cluster-to-Export Model for Telangana)



Deficiency Payment System (DPS) for Horticulture

Since it is not practically possible for government to procure perishable commodities such as vegetables, a DPS system could be introduced. Under DPS, farmers sell at market price and government transfers difference from benchmark price via Direct Benefit Transfer (DBT). This will involve no storage or logistic burden and allow the market to function properly.

Net Returns: Paddy vs Redgram (Toor Dal) in 2024/25

	Unit	Paddy	Redgram (Toor Dal)
MSP	Rupees per Quintal	2,300	7,550
Yield	Quintals per Acre	25	6
Cost of Production	Rupees per Acre	40,325	30,048
Gross Revenue	Rupees per Acre	57,500	45,300
Net Return	Rupees per Acre	17,175	15,252
Bonus	Rupees per Acre	12,500	0
Total Return	Rupees per Acre	29,675	15,252

Fiscal and Environmental Implications

Business As usual	Policy Reforms
Escalating procurement and storage costs	Managed surplus volumes
Rising export losses	Improved export competitiveness
Groundwater stress from intensive paddy cultivation	Reduced irrigation pressure
Increasing fiscal exposure	- Diversified farm incomes - Long-term fiscal sustainability

5. Conclusion

Telangana stands at a structural turning point. While the rice-led expansion strategy has successfully delivered production scale and stabilized farmer incomes, it has also generated persistent surplus accumulation, fiscal pressures, and ecological stress.

A sequenced reform strategy is recommended:

- Short-term surplus liquidation to minimize fiscal losses and free storage capacity.
- Procurement rationalization to prevent recurring overstocking.
- Export ecosystem development to enhance market access and competitiveness.
- Incentive-based crop diversification to encourage adoption of high-value, less water-intensive crops.
- Deficiency payment mechanisms for perishable crops to ensure income stability without logistical burden.

This approach aims to transition Telangana from a procurement-driven, surplus-accumulating system to a market-aligned, diversified, and fiscally resilient agricultural model. The objective is gradual rebalancing, preserving rice production where appropriate while promoting competitiveness, sustainability, and long-term economic efficiency.



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