

## The mystery of the absent Onions: A journey to Asia's largest Onion 'Mandi' - Lasalgaon.



My maid asked me for a raise over the weekend...ostensibly because she couldn't afford basic vegetables anymore...none more so than the humble onion. The history of onions in India is a chequered one, capable of causing riots and uprooting governments... So when my maid threatened to go on strike I took notice.

One sided negotiations ensued and after coming to an amicable settlement (she amicable, me grumpy), it struck me that it was probably time to get to the bottom of this menace, given that this veggie was tearing up the eyes of the politicians, media, masses and off course with the specter of **food inflation** scaring the RBI and investors alike.

So, collecting two experts from office - Nikhil, wannabe securities analyst and Marathi expert, & Varun, apprentice report writer & self-proclaimed FMCG expert, we headed off to Ground Zero early in the AM.

After we exited Mumbai, I was glad for the comfort of the Innova as opposed to the Honda City we were initially supposed to get, as there is still work being done on the Mumbai end of the Mumbai-Nashik expressway -- roads were quite bumpy for about 20 km or so (GIPL owns this road). Daylight was breaking as we approached Khardi, which is where the highway becomes a single lane (the railway authorities have not yet allowed the contractors to complete the section over the railway line). While the preparation is evident, and guess once the permission comes through it should take about a month for them to complete... but who knows when that permission will come.

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On arriving in Pimpalgaon...(Lasalgaon & Pimpalgaon are twin villages 25 km apart and account for the bulk of the onions in the region), the resourceful Varun had organized for a knowledgeable guide to take us through the dark underbelly of the trade of this vicious vegetable.



Our first visit was to Shri Malavdekar, a farmer of long-standing repute, who apart from cultivating his own patch of 2+ acres, also moonlights as a pesticide distributor. Over some milky and sickly sweet coffee (I must have drunk about 8 cups through the day... can't refuse you see, would have offended), we were given our first insight into what makes the humble onion farmer tick.

In a normal year, one acre of farm land typically yields between 100+ quintals of onions (some farms yield up to 180 quintals depending on its elevation and proximity to water). Costs have moved up significantly over the years, especially the labor component. This year, however, due to unseasonal rains, fields were flooded and the crop was destroyed, which meant that the yield per acre fell to barely 5-10 quintals. Thus the sky high prices.

We were also informed that apart from onions, this area is also a large producer of tomatoes and grapes, and both those crops too were badly damaged.

Once we had got our fundamentals straight, we proceeded to the "mandi", the place where farmers auction their onions. Unfortunately, we were unable to witness the auction as it had been halted due to a strike by the porters. This however gave us the opportunity to engage with the farmers who were gathered there. It was quite an experience as we were mobbed by 30-40 farmers curious to know why we were poking around. They initially thought we were from the media and things got a little tense; but once we explained that we were students, writing a report on onions, they opened up and were quite happy to share their thoughts.



The discussion led us to believe that in spite of the sharp jump in onion prices the farmers had barely broken even, simply because of the low yield. This is especially true of marginal farmers (1 acre or less). The collective lament also was that the government importing onions and exerting pressure on the traders had ultimately led to the farmer losing out. In any case with the next crop only expected in end-march, it was unlikely that prices would come down to normal levels anytime soon.

Our next stop was to the 50-acre farm of Shri Mamulkar. This well-to-do but unassuming young man clearly demonstrated the benefits of a large holding as economies of scale bring down his average cost/acre. Aside from onions, he also grew grapes and said that the black grape variety was washed away. Watch out for high prices of that variety.

After a tour of his farm, we were invited for a quick chat over more coffee. Our discussion with him bore out our earlier discussions regarding higher input costs, high financing costs and the lack of support from the government.







On our way to Lasalgaon we stopped for a quick bite at a local eatery. The bill for a sumptuous lunch for six people came to Rs.380. SHOCKING !!!!!

Next stop, the office of the Agriculture Produce Marketing Committee (APMC) office at Lasalgaon, situated bang in the middle of what is referred to as the largest onion *mandi* in Asia. It was an exciting experience and the buzz of activity in the area lifted one's spirits. We obtained a wealth of data from the helpful official here (too much to be detailed in this note), but it led us to conclude that for onion prices to return to normal will take at least six months. We were also informed that according to their estimates, it was possible to supply onions at about Rs.35-40 per kg at

the retail end. In their opinion, it was the trade channel where the surplus was getting built into the price.

The officials advised us against visiting the ongoing auction, as a few days back the farmers had a violent confrontation with members of the media. Not wanting to spoil a good day, we happily took the advice.

Our last stop for the day was a visit to some wholesalers to hear their version of the great onion mystery. To no one's surprise, we were informed that the traders do not make more than their usual commission of 10%; given the sharp volatility in the price of onions, they had in fact lost money. Somehow I was not too convinced that was the case.

Done for the day, we took a few minutes to say our thank yous and return to the car, which was now wafting with the pungent scent of onions our resourceful driver had bought for Rs.15/kg. On our way home as we sifted through the amounts of data that we had absorbed during the day, we came to the following conclusions:



1. Onion is harvested three times a year -- in Mar-Apr, Jun-July and Oct-Nov.

2. The Jun-July harvest is the big one and the onions from this crop lasts well into December when the next crop comes in. However, this time unseasonal rains in October which flooded the fields resulted in the destruction of standing crops which were almost ready to be harvested. As a result, the harvest was 1/5<sup>th</sup> of the usual, which meant that the supply of onions to the markets dried up and led to the sharp rise in prices.



3. The farmers claimed that the destruction of the crop resulted in lower yield and hence justified their asking for a price that allowed to barely break even from the limited supply. They claimed that input costs had shot up sharply..(labor, fertilizer etc),

4. The wholesaler claimed that he was charging only his usual margin and that due to the volatility of the spot prices and export ban, they had actually suffered losses. They pointed out that there was no hoarding in the system given the onions harvested this season (red onions) were easily perishable and price volatility ensured that traders did not store the produce for subsequent sale.

5. Transporters pointed out that while transportation prices had gone up due to higher fuel costs, it did not add more than Rs.5/kg, up from Rs.3/kg earlier.

6. Retailers pointed out that they too did not sell at more than a 10% margin, which is the normal margin charged all year round.

This table gives us an idea of the basic maths.

<b>Per KG</b>	<b>Normal range</b>	<b>Current range</b>
Farmer	8-10	25-30
Wholesaler	15-18	35-40
Retailer	20-25	45-50

At the end of the day, prices are unlikely to come back to the normal range any time soon as the next harvest will only be during the end of March to early April.

Till then my maid might go on strike couple of more times...