

CONSUMER STAPLES

23 August 2024

FMCG roundup: Weather updates are favourable

- With 3/4th of Southwest monsoon over, agri outlook has improved with a decline in “deficit rain” and a rise in “normal rain” states
- Total sowing is +2.1% vs last year & +1.5% vs past 5Y average. Another positive is “normal” crop condition for paddy across major states
- Remain positive on the FMCG sector on rural recovery. We note CPI as a risk factor given excessive rains in tomato and onion growing regions

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Mixed macro updates: Weather is now more favourable while crop sowing rate has also accelerated. Department of Agriculture has indicated “normal” paddy crop conditions across major growing states. On the flipside, inflation is a risk with excess rains in major onion /tomato producing regions. CPI is a key leading rural demand indicator. We continue to have a positive view on the FMCG sector but closely monitor inflation and unseasonal rains for any negative surprises.

River basin levels conducive to high-yielding agriculture: Water reserve levels impact agricultural GVA given the effect on irrigation efficiency through the year. See contrasting Agri GVA performance despite deficit SWM in both FY22 and FY24 in Fig 1 on page 2. With 25% of SWM still to come, river basins/water reservoirs are already at 12% surplus while monsoon is 3.5% ahead of the long period average.

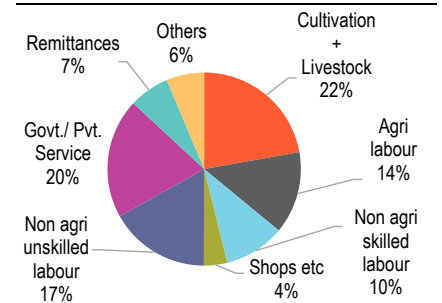
Encouraging signs on sowing progress and paddy crop conditions: National crop sowings are +2.1% YoY, and +1.5% vs “normal” sowings/past five years average. Paddy crop conditions are “normal” for all major producing states of Punjab, Haryana and Uttar Pradesh.

Where is the risk in inflation? There have been excessive rains in Maharashtra, Karnataka and Andhra Pradesh, which have a combined share of ~60% of Kharif onion supply. Vegetable prices were already high in the Jun’24 quarter and if such a trend persists, rural inflation may also reflect the same in the Sep’24 quarter. A rising cost of living can restrict rural sentiment and consumption.

Any risk in La Niña? While generally supportive of a rising Agri GVA output, La Niña also creates a risk of unseasonal rains during harvest. This can adversely impact agri yields, output and overall sentiment and income in rural.

Our view: Current indicators are supportive of a rebound in agri GVA and rural FMCG demand in FY25E. However, weather remains a crucial factor. We retain our positive view on FMCG with Dabur as our top pick. The company stands to benefit from its strong rural distribution network and large exposure to elastic/non-food categories. There is potential upside from the high margin OTC/healthcare portfolio from La Niña due to a likely harsher/extended winter in FY25E.

Rural household income split: FY24



Sources: NSSO, NABARD, MOSPI, RBI database, BOBCAPS Research

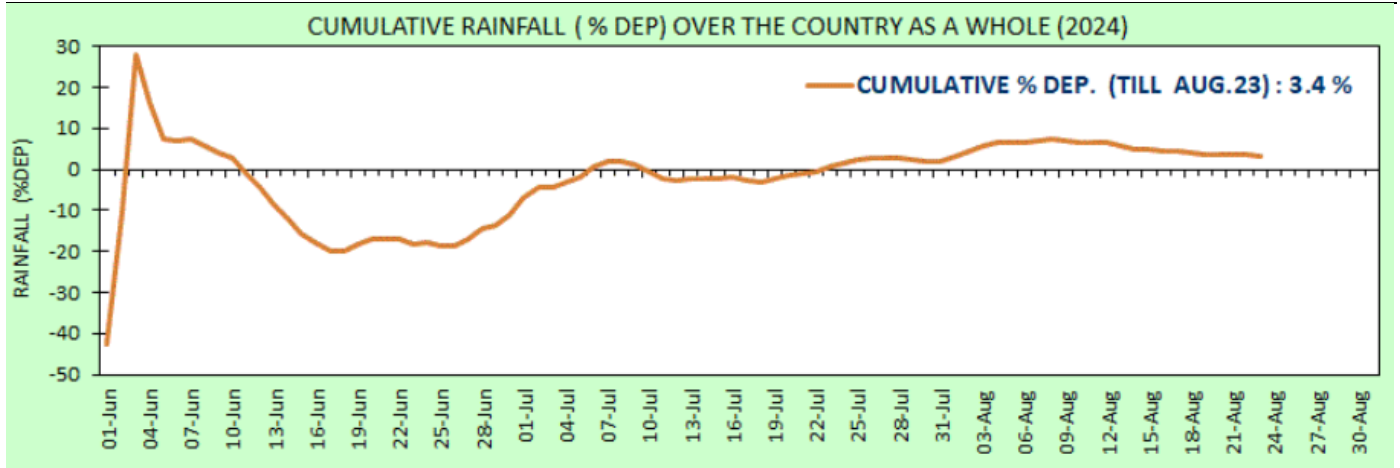


Fig 1 – Monsoon, Agri GVA, water storage update as of 22 Aug'24: FY22, FY24 and FY25E (now +12% above normal)

(%)	FY22		FY24		FY25E		
SW Monsoon (vs LPA)	(5)		(1)		7		
Agri GVA - YoY (constant prices)	5		1		-		
Storage levels as on =>	Pre SWM	Post SWM	Pre SWM	Post SWM	Pre SWM	As on	As on
	01-Jun-21	30-Sep-21	01-Jun-23	05-Oct-23	01-Jun-24	25-Jul-24	23-Aug-24
Storage status of water reservoirs (% of "Normal")	132	104	121	94	94	96	112
River Basin storage (% of "Normal")	132	104	121	94	94	96	112

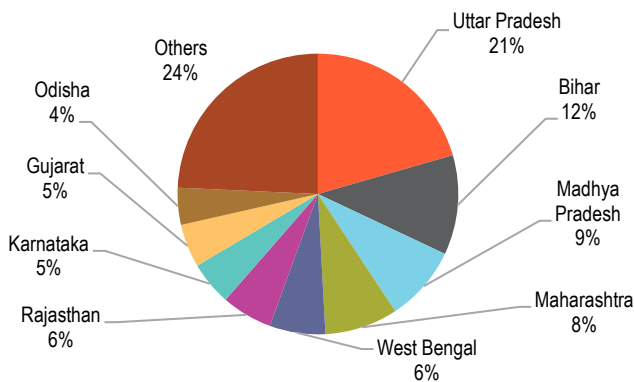
Sources: Indian Meteorological Department, Central Water Commission, BOBCAPS Research | SWM: Southwest Monsoon; LPA: Long period average; GVA: Gross Value Added

Fig 2 – SWM 2024 rainfall departure from Long Period Average (1 Jun'24 to 23 Aug'24); gradual movement to “above normal” with approaching La Niña



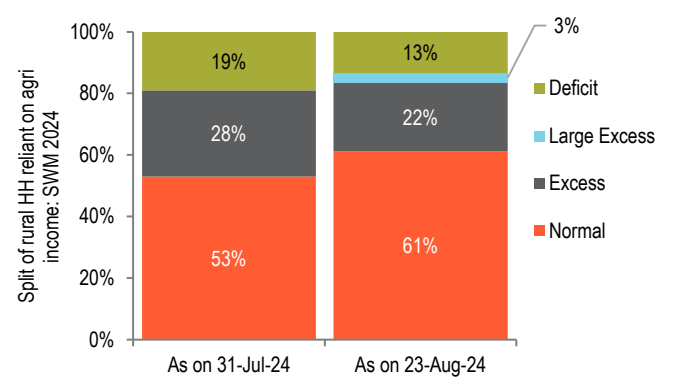
Sources: Indian Meteorological Department, BOBCAPS Research

Fig 3 – Statewise split of rural population that is directly reliant on agricultural income



Sources: MOSPI, RBI database, NSSO, BOBCAPS Research

Fig 4 – Percentage split of agri-reliant rural HHs by quality of FY25 Southwest Monsoon (upto 23 Aug'24)



Sources: Indian Meteorological Department, MOSPI, RBI database, NSSO, BOBCAPS Research | HH: Households

Fig 5 – Kharif sowing progress: 2024/25 vs 2023/24 and “Normal” sowing progress**

As of 16 Aug'24 mn hectares	Area sown progress (mn ha)			"Normal" sowing progress	Sowing progress 2024/25 vs "Normal" (%)
	2023-24	2024-25	YoY (%)		
Paddy*	35.0	36.9	5.6	35.7	3.3
Oilseeds	18.5	18.7	0.9	18.4	1.8
Coarse Cereals	17.6	18.1	2.7	16.6	8.9
Cotton	12.2	11.1	(9.0)	12.2	(9.1)
Pulses	11.4	12.0	5.7	12.6	(4.5)
Sugarcane	5.7	5.8	1.1	5.4	6.1
Jute and Mesta	0.7	0.6	(13.6)	0.7	(16.6)
All Crops	101.1	103.2	2.1	101.6	1.5

Sources: Directorate of Economics and Statistics, State Department of Agriculture; BOBCAPS Research. Normal crop conditions across states; * Normal sowing progress is the average sowing rate as of the same period for the past five sowing years.

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