


**CONSUMER STAPLES**

24 September 2024

**FMCG elasticity at play amid favourable building blocks for rural**

- **Contrasting commentary on rural recovery. Dabur's optimism reflects HPC/healthcare exposure while TCPL's conservatism likely reflects salt**
- **Positive bias to rural recovery with the proportion of agri-reliant-rural-households in large excess/deficit monsoon down by 3ppts over 4wks**
- **DABUR is our top pick being an early beneficiary to rural recovery due to its HPC exposure. HUL, MRCO, BRIT and TCPL are followers**

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**Divergent commentary on rural recovery from FMCG majors:** Despite positive rural developments, consumption commentary from FMCG majors is divergent. Dabur is most optimistic while TCPL most conservative. We think companies with a relatively elastic portfolio are experiencing a faster demand response from rural recovery. DABUR, HUVR and MRCO are amongst early beneficiaries.

**Food (in) elasticity at play for BRIT and TCPL:** Food categories are having a lagged, and perhaps a smaller benefit vs other elastic FMCG categories such as Personal Care. This is reflecting in the relatively slower pace of rural recovery highlighted by both BRIT (Aug-24) and TCPL (Sep-24).

**BRIT better placed vs TCPL on rural recovery:** Bakery being more elastic than salt in rural, the demand response for BRIT will likely be faster vs TCPL. TCPL's volume benefit from tea elasticity in rural will likely be partly offset by the steep inflation that exposure to bakery, which is relatively elastic vs TCPL's salt.

**Weather is a tailwind:** Even then, across rural and urban markets, both TCPL and BRIT stand to benefit from the cooler / wetter weather with a consumption boost in hot beverages (TCPL's tea) and accompaniments (BRIT's bakery).

**SouthWest monsoon is favourable:** The weather bias is positive for rural with reduced rural household (HH) exposure on the flood / large excess and drought / deficit monsoon over the past four weeks. As of 22<sup>nd</sup> Sep-24, 87% of the rural HHs reliant on agriculture had normal / above normal rainfall with the remainder in deficit.

**Our view:** Monsoon is as expected with sowings +2% YoY. River basins are 18% higher creating a favourable backdrop for Rabi and Zaidi seasons. We continue to prefer companies with high rural sales exposure in elastic categories such as Personal Care. DABUR is the top pick with 40%-45% rural sales exposure and 80+% sales from the relatively elastic, non-food categories. Amongst others, we prefer HUVR, BRIT and TCPL in that order. MRCO will be a beneficiary of rural recovery, but we have a Sell due to the repatriation risk from Bangladesh. While annual DPS of BDTXX has come through 3.5 months after the record date, the 1QFY25 DPS of BDT100 is pending with a record date of 27-Aug-24.



**Crop progress remains positive but TOP (Tomato, Onion, Potato) CPI a risk:** On a YoY basis, total sowings are +2% with Paddy +4% and pulses +8%. Favourable monsoon is likely to further boost rural income on higher yields. In terms of risks, any rains during the harvesting season need to be monitored for risk of crop damage. TOP inflation has moderated, but excess rains can make prices volatile. Any adverse impact on CPI is likely to restrict rural consumption. Maharashtra / Andhra Pradesh (both with excess monsoon) are major suppliers in Oct-Dec.

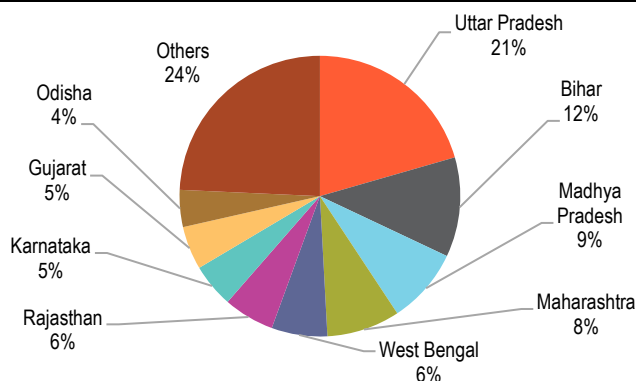
**Positive outlook for Rabi/Zaidi:** The SouthWest monsoon is in line with expectations of 6% above normal rains as we come closer to the finish. River basins are 18% above normal which is a favourable from an irrigation standpoint for Rabi/Zaidi/horticulture for the remainder of FY25E and part of 1QFY26. Kharif season typically accounts for 50%-60% of annual agri output.

**Fig 1 – Monsoon, Agri GVA, water storage update as of 22 Sep'24: FY22, FY24 and FY25E (now +18% above normal)**

(%)	FY22		FY24		FY25E			
SW Monsoon (vs LPA)	(5)		(1)		7			
Agri GVA - YoY (constant prices)	5		1		-			
<b>Storage levels as on =&gt;</b>	<b>01-Jun-21</b>	<b>30-Sep-21</b>	<b>01-Jun-23</b>	<b>05-Oct-23</b>	<b>01-Jun-24</b>	<b>25-Jul-24</b>	<b>23-Aug-24</b>	<b>22-Sep-24</b>
Storage status of water reservoirs (% of "Normal")	132	104	121	94	94	96	112	118
River Basin storage (% of "Normal")	132	104	121	94	94	96	112	118

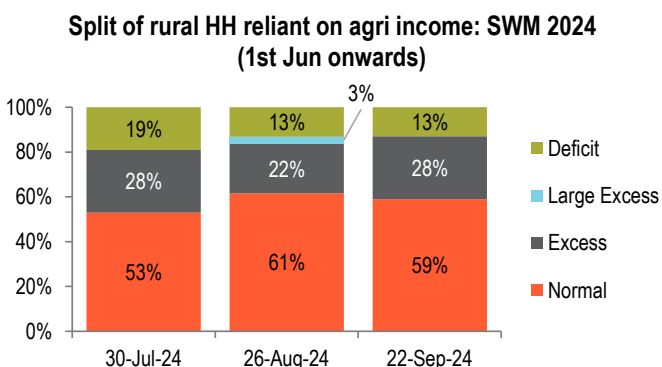
Source: Company, BOBCAPS Research

**Fig 2 – Statewise split of rural population that is directly reliant on agricultural income**



Sources: MOSPI, RBI database, NSSO, BOBCAPS Research

**Fig 3 – Percentage split of agri-reliant rural HHs by quality of FY25 Southwest Monsoon (upto 22 Sep'24)**



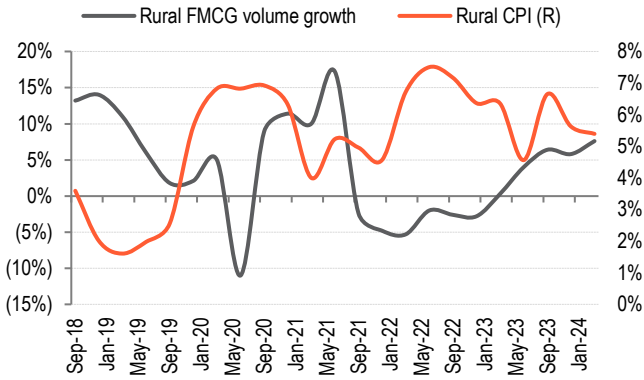
Sources: Indian Meteorological Department, MOSPI, RBI database, NSSO, BOBCAPS Research | HH: Households

**Fig 4 – Kharif sowing progress: 2024/25 vs 2023/24 and "Normal"\* sowing progress**

As of 19 Sep'24 mn hectares	Area sown progress (mn ha)			"Normal" sowing progress	Sowing progress 2024/25 vs "Normal" (%)
	2023-24	2024-25	YoY (%)		
Paddy*	39.4	41.0	4	40.2	2
Oilseeds	19.0	19.3	2	19.0	2
Coarse Cereals	18.3	19.0	4	18.1	5
Cotton	12.4	11.2	(9)	12.9	(13)
Pulses	11.8	12.8	8	13.6	(6)
Sugarcane	5.7	5.8	1	5.1	13
Jute and Mesta	0.7	0.6	(14)	0.7	(15)
<b>All Crops</b>	<b>107.3</b>	<b>109.7</b>	<b>2.2</b>	<b>109.6</b>	<b>0.1</b>

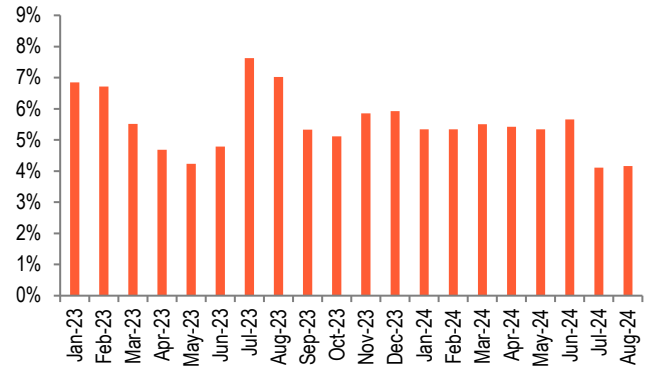
Sources: Directorate of Economics and Statistics, State Department of Agriculture; BOBCAPS Research. \* Normal crop conditions across states; Normal sowing progress is the average sowing rate as of the same period for the past five sowing years

**Fig 5 – Rural CPI vs Rural FMCG demand: Quarterly trends**



Source: Ministry of Statistics and Programme Implementation (MOSPI), BOBCAPS Research

**Fig 6 – Rural CPI YoY: Monthly General Index**



Source: MOSPI, BOBCAPS Research

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