


CONSUMER STAPLES

30 July 2024

FMCG roundup: Risk in Southwest monsoon

- Halfway through the monsoon, we analyse statewise exposure to agri income and estimate 19% of rural households in deficit SWM
- We also analyse deficit SWM vs contrasting agri GVA outcomes in FY22 and FY24. FY25 outlook is positive for agri GVA on favourable SWM
- Positive on FMCG contingent on rural recovery. Dabur is our top pick. We closely monitor SWM on recent weather forecasts of excess rainfall

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Mid-term review of Southwest monsoon (SWM): Our analysis on state-wise exposure of rural households (HH) to agricultural income indicates 28% HH are in excess, 53% in normal and 19% in deficit. Adequate water storage levels are key to the Agri gross value added (GVA) outcome. Current storage levels are 4% below the long period average (LPA). La Nina is expected in Aug'24 to Nov'24 and the next few weeks of monsoon are critical. While the Indian Meteorological Department (IMD) has forecast above-normal rainfall in all the states that currently have a deficit, it has issued weather alerts in many areas including the Western Himalayan regions.

Contrasting Agri GVA outcome in deficit monsoon; importance of reservoir levels: In FY24, the SWM of 1% below LPA and 4% lower YoY restricted real agri GVA to +1%. However, FY22 real agri GVA was +5% despite SWM being 5% below LPA and 9% lower YoY. Water storage level pre-SWM (as of 1 Jun) was the key differentiator (See Figure 1). FY25 has started with a 6% deficit in water levels as of 1 June 2024. However, the deficit reduced to 4% by 27 Jul. With the prospect of La Nina, we expect further improvement by the end of Sep'24.

Risks from SWM; weather alert and excess rain issues: Excess rainfall is a help on reservoirs, improving water access for high value horticulture and other crops grown outside the kharif season. Too much rain can potentially damage crops across agri life cycle. While crop insurance payouts help, they are subject to excess rain/deficit yield criteria. Agri-labourers experience lower income due to reduced working hours and depressed wage rates. IMD forecasts from 29 Jul show excess rain alerts across major agri north-western, central and eastern states collectively accounting for 60+% of Agri GVA. These states comprise 44% of national rural HHs that derive income from agriculture (owned land at 34% and agri-labour at 10%).

Our view: We hold a positive view on the FMCG sector given the prospect of above-normal SWM-driven recovery in rural in FY25 and part of FY26. Even then, Agri is inherently volatile due to its reliance on monsoon and water reservoir levels. We are closely monitoring the SWM and any major deviations on either side (deficit or excess) may impact the level and timing of recovery in rural.

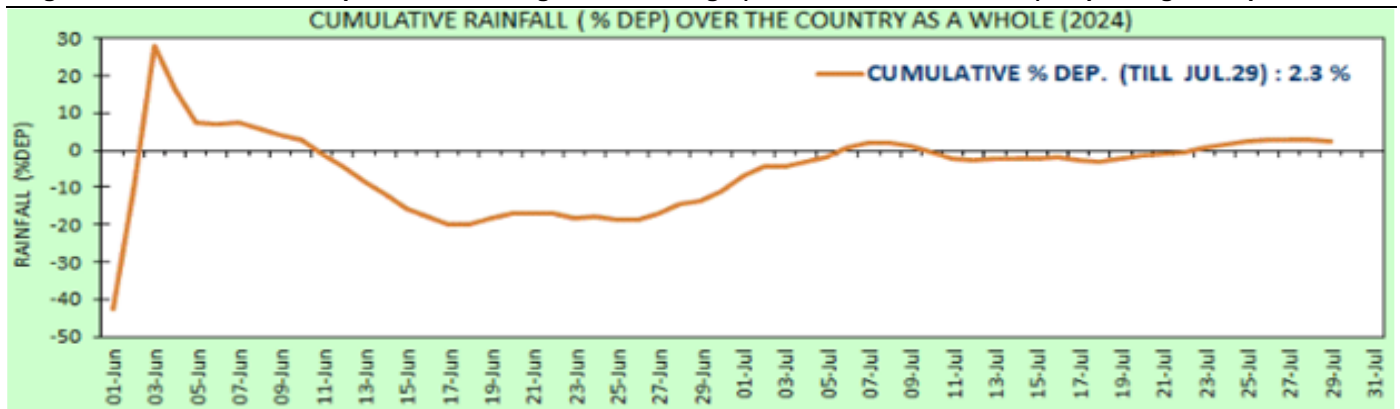


Fig 1 – Monsoon, Agri GVA and water storage: FY22, FY24 and FY25

| | FY22 | | FY24 | | FY25E | |
|----------------------------------------------------|------------------------------|-------------------------------|------------------------------|-----------------------------------|---------------------------------------------------------------------------|-------------------------------------|
| SouthWest Monsoon (vs Long Period Average) | -5% | | -1% | | 7% (IMD forecast) | |
| Agri GVA - YoY (constant prices) | 5% | | 1% | | - | |
| Storage levels as on => | 01-Jun-21 Pre SWM | 30-Sep-21 Post SWM | 01-Jun-23 Pre SWM | 05-Oct-23 Post SWM | 01-Jun-24 Pre SWM | 25-Jul-24 Current status |
| Storage status of water reservoirs (% of "Normal") | 132% | 104% | 121% | 94% | 94% | 96% |
| River Basin storage (% of "Normal") | 132% | 104% | 121% | 94% | 94% | 96% |
| | | | | Onset of El Nino* on 4th Jul 2023 | El Nino* ends in Jun 2024. Onset of La Nina** expected in Aug to Nov 2024 | |

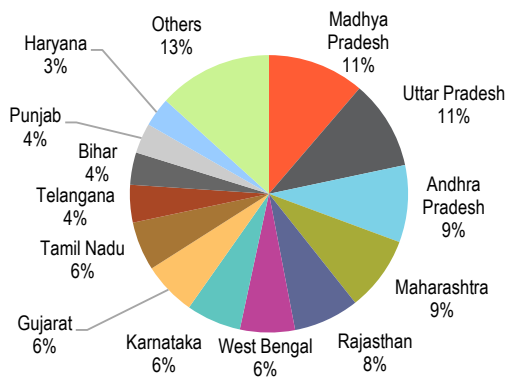
Sources: Indian Meteorological Department (IMD), Central Water Corporation, Worldometer, BOBCAPS Research | *brings hotter and dryer climate in India, ** brings wetter and colder climate in India;

Fig 2 – SWM 2024 rainfall departure from Long Period Average (1 Jun 2024 to 29 Jul 2024); improving trend post El Nino



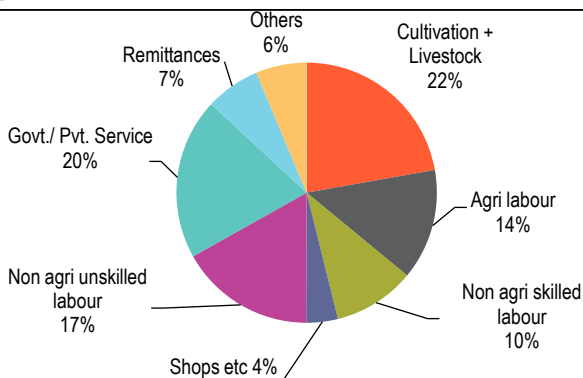
Source: IMD, BOBCAPS Research

Fig 3 – Statewise contribution to Agri GVA: FY23



Sources: MOSPI, RBI Database, BOBCAPS Research

Fig 5 – Rural income breakdown: FY24



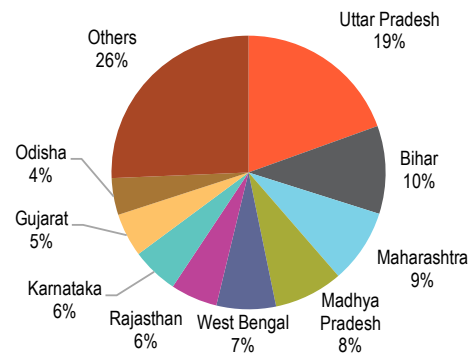
Sources: NSSO, NABARD, BOBCAPS Research

Fig 4 – Excess rain alert in 4/5 SWM deficient states*

| States with excess rain alert | Current SWM status | % deviation vs LPA |
|-------------------------------|--------------------|--------------------|
| Bihar | Deficient | -33% |
| Haryana | Deficient | -40% |
| Himachal Pradesh | Deficient | -37% |
| Jharkhand | Deficient | -42% |
| Gujarat | Excess | 20% |
| Karnataka | Excess | 30% |
| Maharashtra | Excess | 39% |
| Chhattisgarh | Normal | 9% |
| Group Of NE States | Normal | -8% |
| Kerala | Normal | -14% |
| Madhya Pradesh | Normal | 7% |
| Odisha | Normal | -8% |
| Rajasthan | Normal | 1% |
| Uttar Pradesh | Normal | -11% |
| Uttarakhand | Normal | -2% |

Sources: Indian Meteorological Department, BOBCAPS Research | *As on 27-Jul-2024;

Fig 6 – Rural HHs relying on agri income: FY23 split



Sources: MOSPI, RBI database, NSSO, BOBCAPS Research

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