

RESEARCH
[SECTOR REPORT] INDIA CONSUMER SECTOR

Rural recovery taking root

BOB ECONOMICS RESEARCH | NBFCS VS BANKS

How have NBFCS fared vis-à-vis Banks

SUMMARY
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- Encouraging macro data validates our view of rural recovery in FY24; upbeat corporate commentary lends further credence
- FMCG players will be key beneficiaries of improved rural demand and falling input costs, while durables would gain secondarily
- Prefer ITC, NEST, BRIT, Dabur & TCPL among staples and HAVL & CROMPTON among durables to play the rural theme

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INDIA ECONOMICS: NBFCS VS BANKS

Using the data largely from RBI's report on Trend and Progress in Banking 2021-22, this study attempts to look at the performance of Non-Bank Financial Corporations (NBFCS) in the last few years and compares the same with scheduled commercial banks (SCBs). Specifically, we look at the growth in overall balance sheet, credit growth and the sectors which have driven growth in credit.

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Daily macro indicators

Ticker	19-Jun	20-Jun	Chg (%)
US 10Y yield (%)	3.76	3.72	(4bps)
India 10Y yield (%)	7.06	7.06	0bps
USD/INR	81.94	82.12	(0.2)
Brent Crude (US\$/bbl)	76.1	75.9	(0.2)
Dow	34,299	34,054	(0.7)
Hang Seng	19,913	19,607	(1.5)
Sensex	63,168	63,328	0.3
India FII (US\$ mn)	16-Jun	19-Jun	Chg (\$ mn)
FII-D	133.8	(28.6)	(162.4)
FII-E	22.1	214.3	192.1

Source: Bank of Baroda Economics Research



CONSUMER

21 June 2023

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Rural economy on the path to recovery: After being among the earliest to predict India's rural recovery in March (see our report [Visible signs of rural revival](#)), we now have further macro data corroborating our view. While wage hikes, direct benefit transfers and higher budget allocation for rural infrastructure have all spurred growth, recent economic trends are even more encouraging. As per RBI, the *rabi* harvest may set a record and GDP growth in Q1FY24 is likely to come in at 8% fueled by private consumption and supported by ongoing rural demand revival. The government's crop MSP hike of 5-10% is a further boost for the rural economy.

Macro and micro both converging toward the positive: Further to positive developments in the rural economy, the bottom-up commentary of consumer companies also points in the same direction. FMCG companies generate ~40% of revenue from rural markets and are upbeat about business opportunities. Consumer durable companies have also identified rural markets as a key growth driver.

FMCG sector to benefit from twin tailwinds...: We believe the consumer staples sector will be the primary beneficiary of rural revival given the twin tailwinds of buoyant rural demand and moderating input costs, anchored by steady urban consumption. The sector reported volume growth in Q4FY23 after five quarters of decline and is well positioned to grow further in FY24.

...durables will be secondary beneficiaries: The key drivers for FMCG growth in rural markets will also rub-off on consumer durables, especially for smaller ticket items, such as fans and lighting, which are expected to revive in FY24 after a tepid H2FY23. Rural construction should also buoy demand for cables and wires.

Our consumer picks for rural revival: We expect companies with a strong product portfolio and large rural footprint to be key beneficiaries of the rural demand recovery. Our top picks in the staples space are ITC (TP Rs 523, BUY), NEST (TP Rs 26,430, BUY), BRIT (TP Rs 5,844, BUY), DABUR (TP Rs Rs 669, BUY) and TCPL (TP Rs 994, BUY). Among durables, we prefer HAVL (TP Rs 1,600, BUY) and CROMPTON (TP Rs 370, BUY).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	5,056	5,844	BUY
DABUR IN	572	669	BUY
ITC IN	453	523	BUY
NEST IN	22,956	26,430	BUY
TATACONS IN	859	994	BUY
CROMPTON IN	293	370	BUY
HAVL IN	1,347	1,600	BUY
POLYCAB IN	3,542	4,300	BUY

Price & Target in Rupees | Price as of 20 Jun 2023
 TATACONS = TCPL



NBFCs VS BANKS

21 June 2023

How have NBFCs fared vis-à-vis Banks

Using the data largely from RBI's report on Trend and Progress in Banking 2021-22, this study attempts to look at the performance of Non-Bank Financial Corporations (NBFCs) in the last few years and compares the same with scheduled commercial banks (SCBs). Specifically, we look at the growth in overall balance sheet, credit growth and the sectors which have driven growth in credit.

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Economist

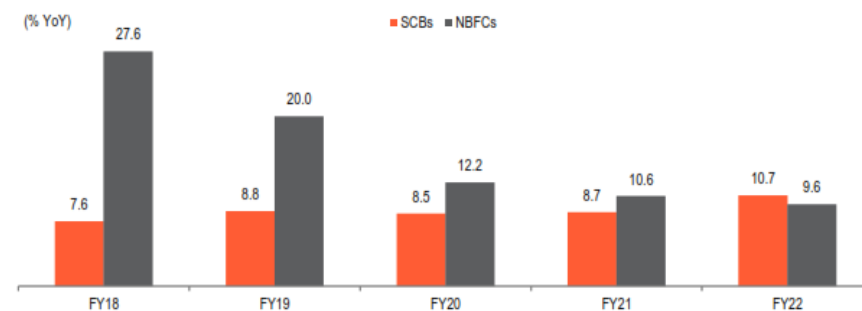
Structure of NBFCs

NBFCs play an important role in the economy by providing a supplementary source of credit to borrowers. These firms usually specialize in niche areas such as real estate, agriculture and infrastructure etc. RBI classifies NBFCs in the following categories: a) Deposit taking NBFCs or NBFCs-D, b) Non-deposit taking NBFCs or NBFCs-ND, c) Asset reconstruction companies or ARCs and d) Housing Finance Companies or (HFCs). For this analysis, we are only looking at NBFCs-D and NBFCs-ND, more specifically systemically important NBFCs-ND-SI, with asset size of over Rs 500 crore.

Growth in balance sheet: NBFCs and SCBs

We first begin our analysis by comparing the growth in balance sheet of NBFCs and SCBs over the last five years. It can be seen that for NBFCs, balance sheet growth has been moderating. After registering a stellar growth of 27.6% in FY18, the growth momentum has fizzled out to just 9.6% in FY22. In comparison, balance sheet of SCBs has shown an increasing trend over the last 5 years, albeit the gains have remained modest. It is also interesting to note that except for FY22, the growth in balance sheet of NBFCs has been higher than SCBs. However, the gap has progressively narrowed and turned negative in FY22. On a CAGR basis, over the last 5 years, while NBFCs' balance sheet has grown by 15.8%, it has only expanded by 8.9% for SCBs..

Figure 1: Overall growth in balance sheet of NBFCs and SCBs



Source: CEIC, Bank of Baroda Research



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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