

RESEARCH**CONSUMER STAPLES**

FMCG elasticity at play amid favourable building blocks for rural

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- 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 22nd 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.



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