

**RESEARCH**
**[SECTOR REPORT] CONSUMER**

Southern Sojourn: Premiumisation and urbanisation

**PETRONET LNG | TARGET: Rs 275 | +14% | HOLD**

Cloudy medium-term demand visibility; HOLD

**BOB ECONOMICS RESEARCH | MONSOON UPDATE**

Monsoon and Sowing progress

**ELECON ENGINEERING | TARGET | NOT RATED**

Plant visit: Focusing on value addition

**Daily macro indicators**

Indicator	22-Sep	25-Sep	Chg (%)
US 10Y yield (%)	4.43	4.53	10bps
India 10Y yield (%)	7.19	7.15	(3bps)
USD/INR	82.94	83.15	(0.3)
Brent Crude (US\$/bbl)	93.3	93.3	0
Dow	33,964	34,007	0.1
Hang Seng	18,057	17,729	(1.8)
Sensex	66,009	66,024	0
India FII (US\$ mn)	21-Sep	22-Sep	Chg (\$ mn)
FII-D	(29.9)	44.3	74.1
FII-E	(225.5)	(140.5)	85.1

Source: Bank of Baroda Economics Research

**SUMMARY**
**[SECTOR REPORT] CONSUMER**

- Our recent visit to South India revealed compelling on-ground insights from local FMCG and durables dealers
- Well-stocked supermarkets, robust growth momentum and higher rural income are creating a semi-urban ecosystem in rural areas
- Notably, premiumisation trends have percolated beyond urban markets; we prefer plays on this theme: NEST, BRIT, HUVR, and HAVL

[Click here for the full report.](#)
**PETRONET LNG**

- Volume revival surprised in H1FY24 but further upside constrained by higher availability of domestic gas in the near term
- Utilisation of expanded capacity to depend on RLNG demand pickup and competitive intensity under merchant model
- We value PLNG at a 1Y fwd target P/E of 11.7x (5Y median) and assume coverage with HOLD

[Click here for the full report.](#)
**BOBCAPS Research**

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## INDIA ECONOMICS: MONSOON UPDATE

The cumulative rainfall activity for the country remains in deficit at 5% below LPA, as of 25 Sep 2023. The sowing levels has been down from the past year levels along with divergence seen across crops. Pulses sowing are down by 4.6% while rice sowing has advanced. The skewed distribution of rainfall is expected to affect crop yield and ultimately have some impact on inflation. Region wise, only North West region has been witnessing surplus rains, while other are still receiving deficient rainfall. Even in terms of reservoir levels, the overall storage is seen to lower than last year levels and is also seen to be lower than average storage of last 10-years and this might pose risk on rabi sowing.

[Click here](#) for the full report.

## ELECON ENGINEERING

- ELCN has ~40% share in gearbox and components, catering to industries such as sugar, power, steel, cement, rubber and fertilisers
- Management expects value-added product contribution to rise (50% of revenue in FY23), supporting margins
- Capacity can be raised with minimal capex; balance sheet is strong with net cash at Rs 2bn as of FY23

[Click here](#) for the full report.

CONSUMER

26 September 2023

**Southern Sojourn: Premiumisation and urbanisation**

- Our recent visit to South India revealed compelling on-ground insights from local FMCG and durables dealers
- Well-stocked supermarkets, robust growth momentum and higher rural income are creating a semi-urban ecosystem in rural areas
- Notably, premiumisation trends have percolated beyond urban markets; we prefer plays on this theme: NEST, BRIT, HUVR, and HAVL

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Following up on our Jun’23 rural thematic, [Rural recovery taking root](#), we present interesting findings from our recent visit to Tamil Nadu and Karnataka in South India, where we met dealers and retailers across metros, tier-1-to-4 cities and mofussil markets.

**Southern rural markets no longer ‘rural’:** Our trip revealed the fast-changing face of India’s tier-3/4 towns and rural markets. Every small town we visited housed a supermarket with heavy footfalls and shelves lined with premium products such as imported chocolates and coffee, rural markets were dotted with *pucca* (permanent) houses and boasted new road connectivity, and farmers pointed to higher income levels YoY due to improved productivity (~40% of large farms are mechanised) and better realisations. In a key recurring theme, we saw that premiumisation is no longer an urban play in the south but has spread into semi-urban and rural markets as well.

**FMCG – Organised market gaining traction:** South India is a large market for FMCG companies, populated by a brand-conscious and loyal customer base. NEST, BRIT, HUVR and ITC have a strong footing in the rural pockets we visited, despite a stiff fight from regional brands in most categories. We met several longstanding NEST dealers across markets, who concurred that all of the company’s products attract strong demand. Nutrition, confectionary and coffee are NEST’s top selling categories. For BRIT, biscuit brands *Milk Bikis*, *Marie Gold* and *Good Day* are bestsellers.

**Durables – In need of festive cheer:** The south is a brand-conscious market for durables as well. However, there is a palpable slowdown as inflation has diverted income to more basic needs. Dealers, however, are optimistic of recovery during the upcoming festive stretch (Aug-Jan). In the fans segment, we noted sluggish acceptance of new, rated products. Dealers reckon that old inventory will be exhausted by October, following which sales of rated fans will pick up. The wires and cables market is faring well in the south, and players expect double-digit growth to continue.

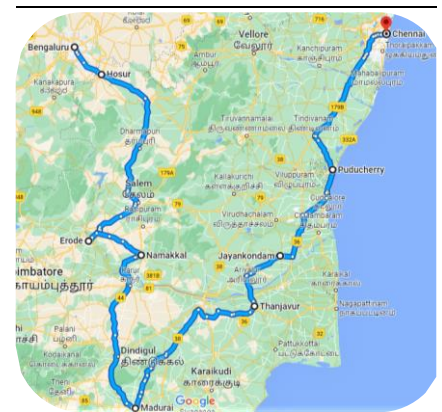
**Top BUYs:** We restate our view that the premiumisation story will first play out in staples and then in durables. To ride this theme, we prefer NEST (TP Rs 26,430), BRIT (Rs 5,844), ITC (Rs 523) and HUVR (Rs 3,069) in staples, and HAVL (Rs 1,600) in durables.

**Recommendation snapshot**

Ticker	Price	Target	Rating
BRIT IN	4,570	5,844	BUY
HAVL IN	1,397	1,600	BUY
HUVR IN	2,476	3,069	BUY
NEST IN	22,639	26,430	BUY

Price & Target in Rupees | Price as of 25 Sep 2023

**Places we visited**



**Karnataka**

Bengaluru

**Tamil Nadu**

Hosur	Erode
Namakkal	Paramati Velur
Dindigul	Madurai
Thanjavur	Thirukadaiyur
Jayankondam	Puducherry
Chennai	



**HOLD**

TP: Rs 275 | ▲ 14%

**PETRONET LNG**

| Oil & Gas

| 26 September 2023

### Cloudy medium-term demand visibility; HOLD

- Volume revival surprised in H1FY24 but further upside constrained by higher availability of domestic gas in the near term
- Utilisation of expanded capacity to depend on RLNG demand pickup and competitive intensity under merchant model
- We value PLNG at a 1Y fwd target P/E of 11.7x (5Y median) and assume coverage with HOLD

**LNG volume recovery surprises...:** PLNG's recovery in LNG volumes has been ahead of market expectations, with near-100% utilisation at Dahej in Q1FY24 and July-September offtake only 3% below Q1 levels (per Bloomberg data), supported by additional cargoes upon closure of Konkan LNG's Dabhol jetty during the monsoon.

**...but near-term constraints exist:** Improved availability of domestic gas has led to a 20mmscmd rise in its consumption over the past four years, in turn keeping RLNG demand flattish. This apart, in H2FY24, Dahej will lose the benefit of Dabhol monsoon cargoes as the latter has been converted to an all-season jetty. Gas-based power generation can offer only limited demand upside (at an estimated 5% over the July base given India envisages plant use only at peak hours for 20 days over Sep-Nov).

**Medium-term visibility lacking:** Though Dahej is raising capacity by 5mmtpa, usage will depend on RLNG demand evolution in India. In our view, PLNG must have at least 60% utilisation to earn a 15% post-tax return on proposed expansion capex of Rs 35bn, assuming a Rs 70/MMbtu tariff. Kochi ramp-up hinges on offtake pipeline completion.

**Long-term options still evolving:** While PLNG is targeting Rs 400bn of investment, commitment to the Dahej petrochemical complex is still in the pre-approval stage. Though PDH-PP plants have proliferated in China, India is yet to have an operational facility (GAIL's is still in progress). Further, the company's Gopalpur FSRU project is facing a tight global market, and it may have to settle for a land-based terminal.

**Earnings growth modest:** We build in flat EBITDA growth in FY24, assuming higher offtake sets off benefits of take-or-pay revenue and spot margins last year. For FY23-FY26, we factor in a 5% CAGR in EBITDA, assuming partial pickup at Dahej to 18.3mmtpa in FY26 as we await visibility on RLNG demand from the merchant model.

**HOLD, TP Rs 275:** Our TP of Rs 275 values PLNG at a 1Y forward target P/E of 11.7x, which is the stock's 5Y median. The current recovery is supportive, but visibility on RLNG demand within the country is essential to build comfort on utilisation of the new capacity. We thus assume coverage with a HOLD rating.

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### Key changes

Target	Rating
▼	▼

Ticker/Price	PLNG IN/Rs 240
Market cap	US\$ 4.4bn
Free float	50%
3M ADV	US\$ 7.2mn
52wk high/low	Rs 254/Rs 196
Promoter/FPI/DII	50%/34%/5%

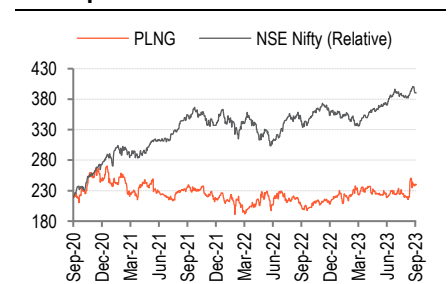
Source: NSE | Price as of 26 Sep 2023

### Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	5,98,994	5,65,401	5,76,360
EBITDA (Rs mn)	48,558	48,505	51,364
Adj. net profit (Rs mn)	32,399	32,008	33,855
Adj. EPS (Rs)	21.6	21.3	22.6
Consensus EPS (Rs)	21.6	21.9	23.7
Adj. ROAE (%)	22.8	20.4	19.6
Adj. P/E (x)	11.1	11.3	10.6
EV/EBITDA (x)	6.7	6.6	6.0
Adj. EPS growth (%)	(3.4)	(1.2)	5.8

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



## MONSOON UPDATE

26 September 2023

## Monsoon and Sowing progress

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**Jahnvi Prabhakar**  
Economist

## Where does Kharif sowing stand?

Overall kharif sowing is higher/lower as of 22 Sep 2023 by 0.3% compared with last year. The sown area of coarse cereal has improved owing to higher sowing for Bajra (0.5%) and Maize (3.2%). Sown area of rice and sugarcane have advanced further by 2.7% and 7.6% respectively. However pulses acreage continue to lag behind, down by (-) 4.6% (-5.2% in the previous week) on the back of scanty rainfall with Arhar sowing down by (-) 5.1% and Urad sowing lower by (-) 1.6%. Moreover, sowing area under cultivation for cotton as well as Jute and Mesta crops has also declined by (-) 3.3% and (-) 5.6% respectively for the same period. Oilseeds sowing area has dropped by (-) 1.6% even as soyabean continue to register an uptick.

Table 1: Kharif Sowing

	Area sown in 2023-24 (Lakh ha)	Area sown in 2022-23 (Lakh ha)	Change (YoY %)
Coarse Cereals	186.1	183.7	1.3
Jowar	14.3	15.7	(9.1)
Bajra	70.9	70.6	0.5
Maize	84.7	82.0	3.2
Rice	411.5	400.7	2.7
Pulses	122.6	128.5	(4.6)
Oilseeds	192.9	196.1	(1.6)
Cotton	123.4	127.6	(3.3)
Sugarcane	59.9	55.7	7.6
Jute and Mesta	6.6	7.0	(5.6)
All Crops	1103.0	1099.2	0.3

Source: CEIC, Bank of Baroda | Data as of 22 Sep 2023

## Monsoon:

For the period 1 Jun 2023 to 25 Sep 2023, South West Monsoon is 5% below LPA compared with last year.



**NOT  
RATED**
**ELECON ENGINEERING** | Capital Goods

| 26 September 2023

### Plant visit: Focusing on value addition

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- Management expects value-added product contribution to rise (50% of revenue in FY23), supporting margins
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We visited Elecon Engineering's (ELCN IN, Not Rated) plant, at Anand in Gujarat.  
 Takeaways:

**Large market potential:** ELCN estimates India's gearbox and components market at Rs 30bn and the global market at ~US\$ 12bn. The company reported Rs 12bn in gearbox segment sales in FY23, implying ~40% market share in India. Shanthi Gears and Triveni Engineering are key competitors in the high speed gear segment.

**Plans to raise share of engineered products (EP) in the mix:** Value-added and standardised products are split equally in the revenue mix (FY23). ELCN expects the contribution from value-added products to rise as demand for larger gearboxes is growing and believes this will sustain EBITDA margin at the FY23 level of 22% in the long run.

**Caters to key industries:** The company caters to industries such as sugar, power, steel, cement, rubber and fertilisers. Production capacity currently stands at 5,000-6,000 gear components and 1,000 gearboxes per month. Per the company, this can be raised 2x with minimal capex, depending on product demand. Capacity utilisation for FY23 was 77%.

**Strong product portfolio:** ELCN has a wide array of catalog products and offers customisation with a lead time ranging from 12-14 days to 12-14 weeks (depending on the requirement) and performance guarantees ranging from 30,000 hours to 100,000 hours (depending on the size). It also assembles gearboxes for a few customers under its EP business.

**R&D focus:** The company has 80 engineers on board, with 15-18 for Catalog Products and 30 for EP, apart from industry specialists. It currently holds five patents (four product, one process).

**Balance sheet robust:** Working capital cycle has reduced from 122 days in FY22 to 98 days in FY23. Net cash stood at Rs 2bn as of Mar'23.

Ticker/Price	ELCN IN/Rs 734
Market cap	US\$ 992mn
Free float	39%
52wk high/low	Rs 983/Rs 318
Promoter/FPI/DII	59%/3%/38%

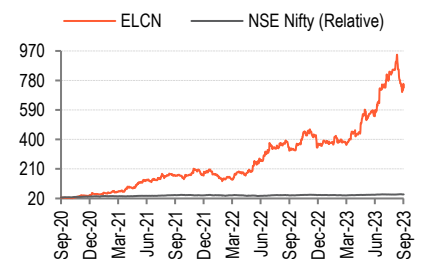
Source: NSE | Price as of 26 Sep 2023

### Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	10,447	12,119	15,297
EBITDA (Rs mn)	1,856	2,464	3,389
Adj. net profit (Rs mn)	576	1,405	2,375
Adj. EPS (Rs)	5.1	12.5	21.2
Consensus EPS (Rs)	5.1	12.5	21.2
Adj. ROAE (%)	6.5	14.3	20.4
Adj. P/E (x)	142.8	58.6	34.7
EV/EBITDA (x)	44.6	33.6	24.4
Adj. EPS growth (%)	(35.8)	143.8	69.0

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE



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**Note:** Recommendation structure changed with effect from 21 June 2021

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