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FIRST LIGHT

09 July 2024

RESEARCH

CONSUMER STAPLES

FMCG roundup: Assessing rural indicators vs rural demand

BOB ECONOMICS RESEARCH | MONSOON UPDATE

Monsoon and Sowing progress

BOB ECONOMICS RESEARCH | MONTHLY CHARTBOOK

Monsoon and Budget developments to drive markets

DABUR INDIA | TARGET: Rs 742 | +22% | BUY

1QFY25 business update: Slightly improving domestic demand

MARICO | TARGET: Rs 699 | +14% | HOLD

Business update: Distributor response to Project SETU

Daily macro indicators

Indicator	04-Jul	05-Jul	Chg (%)
US 10Y yield (%)	4.36	4.28	(8bps)
India 10Y yield (%)	7.00	6.99	(1bps)
USD/INR	83.50	83.49	0.0
Brent Crude (US$/bbl)	87.4	86.5	(1.0)
Dow	39,308	39,376	0.2
Hang Seng	18,028	17,800	(1.3)
Sensex	80,050	79,997	(0.1)
India FII (US$ mn)	**03-Jul**	**04-Jul**	**Chg ($ mn)**
FII-D	83.7	231.4	147.7
FII-E	466.7	660.1	193.4

Source: Bank of Baroda Economics Research

SUMMARY

CONSUMER STAPLES

- Recent trading updates from FMCG companies imply a recovery in rural. The pace of recovery appears to be slow
- To track rural demand effectively, we have analysed drivers of rural income to identify, assess and shortlist commonly used indicators
- Monsoon, agri wages, CPI are key and on an improving trajectory. Coverage assumed on DABUR (BUY), BRIT (BUY), and Marico (HOLD)

Click here **for the full report.**

INDIA ECONOMICS: MONSOON UPDATE

The advancement of South West monsoon (way earlier than anticipated) across the country has resulted in above normal rainfall at 2% above LPA till 8 Jul 2024. This has resulted in overall improvement in sown area, with higher acreage of both paddy and pulses compared with last year. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 21 subdivisions have received normal rainfall during this period and 7 states are in the deficient zone. On storage levels, Central and North Eastern regions have recorded lower rainfall. A major portion of sowing occurs during the July and August period. Coming weeks remain crucial in terms of distribution of rainfall and impact of the same will be reflected on kharif sowing.

Click here **for the full report.**

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INDIA ECONOMICS: MONTHLY CHARTBOOK

This month remains crucial. All eyes will be on the Union Budget where some some support towards propelling consumption demand is expected, as rural demand is showing continued stress. In addition to this, monsoon woes have impinged on the inflation outlook. With unseasonal rains and persistent heatwaves, mandi prices have escalated. Arrivals have also been impacted. Our CPI estimate for Jun'24 is at 4.9% from 4.75% in May'24. We do not rule out the possibility of headline CPI overshooting RBI's projections, if supply side bottlenecks are not addressed through timely policy interventions. From the perspective of markets, changing political landscape globally remains a key watchable. India finally made its entry in the global bond index and with increase in weight in the index, more flows are anticipated. INR would get support from a softer dollar led by expectations of Fed rate cut.

Click here for the full report.

DABUR INDIA

- Dabur's 1QFY25 business update showed improving trends in sales (+MSD to HSD) and earnings growth slightly ahead of sales
- Rural demand is improving albeit at a slow pace. The company expects sales to accelerate further in the rural market post monsoon
- DABUR will be a quicker and greater beneficiary of rural recovery given its exposure to elastic categories in FMCG. Maintain BUY

Click here for the full report.

MARICO

- Marico noted continued improving demand trend with likely further acceleration through FY25. Volume trend improved despite destocking
- Despite a medium to long-term positive for Marico, Project SETU implies sales cannibalisation between channels
- Indirect channel destocking may continue and remain a drag on rural recovery over the next 2-3 quarters. Retain HOLD

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CONSUMER STAPLES

08 July 2024

FMCG roundup: Assessing rural indicators vs rural demand

- **Recent trading updates from FMCG companies imply a recovery in rural. The pace of recovery appears to be slow**
- **To track rural demand effectively, we have analysed drivers of rural income to identify, assess and shortlist commonly used indicators**
- **Monsoon, agri wages, CPI are key and on an improving trajectory. Coverage assumed on DABUR (BUY), BRIT (BUY), and Marico (HOLD)**

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Which rural indicators align well with FMCG demand? Rural FMCG demand has meaningful correlations with agri wages rates, rural CPI, rural unemployment rate and infrastructure spending. Recent trends are favourable and align with the FMCG trading updates implying a recovery in rural. In this note, we outline the income and FMCG demand drivers in rural. We delve into rural's low FMCG consumption relative to urban and other Asian peers to contextualise and ultimately assess the frequently referred rural indicators by managements and the analyst community.

Monsoon, real agri wage rates and rural CPI are key: Monsoon has a 75% correlation with agricultural gross value added. Agri wages are at 52% direct, while rural CPI is at 45% inverse with rural FMCG demand. Agriculture has an impact on the overall rural demand due to its spillover effect on other income streams.

We prefer exposure to rural and elastic categories: Companies with established distribution networks, high sales contribution from rural, and exposure to elastic categories stand to benefit. During recovery cycles, demand tends to respond first on high elasticity items such as personal care before spreading to packaged foods.

Dabur and Britannia well placed with 40-45% sales exposure: Continued focus on expanding rural footprint during recent weak rural demand period is likely to now drive sales acceleration with the rise in volume churn. We prefer Dabur over Britannia, given Dabur's exposure to the relatively elastic categories of Personal Care (30% of sales) and Healthcare (23% of sales). In 1QFY25, Britannia likely had an adverse impact on volumes due to a warmer than usual summer.

Downgrade Marico to HOLD: Project SETU is aimed at increasing direct reach by 50% over 3 years. The distributor reaction is natural given likelihood of sales cannibalisation – there remains a destocking risk over the next two to three quarters, in our view. While rural recovery may reflect in consumer offtake, at this stage, we expect both margin and inventory pressure from the indirect channel.

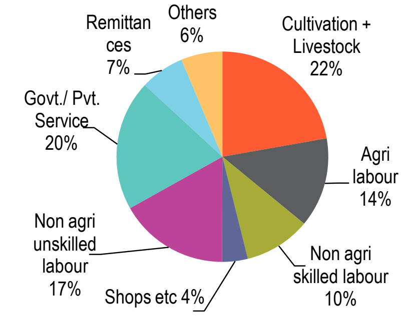
Valuation: We change valuation methodology from historical P/E average to index relative average. We raise TPs for Dabur (Rs 742 from Rs 673), Britannia (Rs 6,577 from Rs 5,980) and Marico (Rs 699 from Rs 668).

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	5,547	6,577	BUY
DABUR IN	606	742	BUY
MRCO IN	615	699	HOLD

Price & Target in Rupees | Price as of 5 Jul 2024

Rural income breakdown: FY24



Source: NSSO, NABARD, BOBCAPS Research

MONSOON UPDATE

08 July 2024

Monsoon and Sowing progress

Jahnavi Prabhakar
Economist

The advancement of South West monsoon (way earlier than anticipated) across the country has resulted in above normal rainfall at 2% above LPA till 8 Jul 2024. This has resulted in overall improvement in sown area, with higher acreage of both paddy and pulses compared with last year. The actual rainfall for this period has exceeded and moved past the normal range. Out of 36, 21 subdivisions have received normal rainfall during this period and 7 states are in the deficient zone. On storage levels, Central and North Eastern regions have recorded lower rainfall. A major portion of sowing occurs during the July and August period. Coming weeks remain crucial in terms of distribution of rainfall and impact of the same will be reflected on kharif sowing.

Where does Kharif sowing stand?

As of 5th Jul 2024, overall sown area has improved by 14% compared with last year. Total sown area of rice (19.4%) and oilseeds (54.7%) has risen. Amongst coarse cereals, the sowing area of crops such as Bajra and Jowar has dropped the most. However, higher acreage has been registered for pulses (19.4%), and sugarcane (2.6%) for the same period. Within pulses, sown area of Arhar and Urad has increased the most. Notably, sown area for cotton and jute and Mesta crops has fallen.

Table 1: Kharif Sowing

	Area sown in 2024-25 (Lakh ha)	Area sown in 2023-24 (lakh ha)	Growth (YoY %)
Coarse Cereals	54.5	82.1	(33.6)
Paddy	36.8	23.8	19.4
Pulses	36.8	23.8	54.8
Oilseeds	80.3	51.9	54.7
Cotton	80.6	62.3	(29)
Sugarcane	56.8	55.4	2.6
Jute and Mesta	5.6	6.0	(6.5)
All Crops	378.7	331.9	14.1

Source: CEIC, Bank of Baroda | Data as of 5 Jul 2024

Monsoon:

For the period 1 Jun 2024 to 8 Jul 2024, South West Monsoon is 2% above LPA compared with last year.

- Western and Central region of India including states such as Rajasthan, Gujarat, Maharashtra, Madhya Pradesh have received normal rainfall.

बैंक ऑफ़ बड़ौदा
Bank of Baroda

MONTHLY CHARTBOOK

08 July 2024

Monsoon and Budget developments to drive markets

Economic Research Department
Dipanwita Mazumdar | Sonal Badhan
Aditi Gupta | Jahnavi
Economist

This month remains crucial. All eyes will be on the Union Budget where some some support towards propelling consumption demand is expected, as rural demand is showing continued stress. In addition to this, monsoon woes have impinged on the inflation outlook. With unseasonal rains and persistent heatwaves, mandi prices have escalated. Arrivals have also been impacted. Our CPI estimate for Jun'24 is at 4.9% from 4.75% in May'24. We do not rule out the possibility of headline CPI overshooting RBI's projections, if supply side bottlenecks are not addressed through timely policy interventions. From the perspective of markets, changing political landscape globally remains a key watchable. India finally made its entry in the global bond index and with increase in weight in the index, more flows are anticipated. INR would get support from a softer dollar led by expectations of Fed rate cut.

All eyes on rain: In line with IMD's expectation, there was an early onset of monsoon in Kerala, however there has been a delay in momentum for the North West and Central region. Due to this, the country recorded rainfall at 11% below LPA in Jun'24. The El-Nino conditions are likely to turn ENSO neutral during the crucial phase of monsoon and will be closely monitored. The water storage levels continue to be lower than last year (22% versus 28%) in major reservoirs and below the decadal average. Notably, sown area of kharif crops has registered improvement over last year. For rural demand, there has been slower pace of growth for both tractor and two-wheeler sales sequentially, along with lower demand for work by households under MGNREGA.

Budget to focus on consolidation: Centre's fiscal deficit ratio (% of GDP) eased to 4.9% as of May'24 (12MMA basis) from 5.8% as of Apr'24. This was on account of sharp reduction in government spending as total expenditure was lower by (-) 0.4% as of May'24 (FYTD basis) compared with 39.3% in Apr'24. Both capex (-14.4% versus 26.5%) and revenue (4.7% versus 43.7%) spending fell. On the other hand, net revenue growth noted sharp improvement (38.3% versus 16.4%), led by jump in direct tax collections (22.7% versus 12.1%). Indirect tax collections slowed. In the upcoming final budget, we expect government to keep the fiscal deficit target unchanged at 5.1%.

Yields rangebound: India's 10Y yield traded broadly stable in Jun'24 and Jul'24 as well. There were anticipation of higher pace of frontloading by FPI's but much of the buying by FPIs in debt segment already happened before the inclusion.

BUY
TP: Rs 742 | 22%

DABUR INDIA | Consumer Staples | 08 July 2024

1QFY25 business update: Slightly improving domestic demand

- **Dabur's 1QFY25 business update showed improving trends in sales (+MSD to HSD) and earnings growth slightly ahead of sales**
- **Rural demand is improving albeit at a slow pace. The company expects sales to accelerate further in the rural market post monsoon**
- **DABUR will be a quicker and greater beneficiary of rural recovery given its exposure to elastic categories in FMCG. Maintain BUY**

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1QFY25 business update: DABUR issued 1QFY25 business update on Friday after market close. Sales were up in mid-single digits (MSD) to high single digits (HSD) with operating profit growth slightly ahead of sales growth. The company expects sales growth to accelerate through FY25 given government initiatives and recovery in rural.

Positives: (1) **Domestic volumes reported sequential improvement** with 1QFY25 up in MSD vs +5.5% in 4QFY24. Rural continued to improve sequentially with DABUR expecting further acceleration in demand post monsoon; (2) Home and Personal Care (HPC) and Healthcare volumes were up in HSD likely reflecting a stronger and quicker response to rise in rural incomes; (3) International constant forex (FX) sales up in double digits (DD) partly offset by weaker currency in Turkey and Egypt. (3) Gross margins to expand given stable commodities, but higher A&P run rate to keep earnings growth only slightly ahead of revenue growth.

Negatives: (1) Food & Beverages business in travel and out of home was adversely impacted by the heatwave.

FY25 outlook: Dabur expects sales growth run rate to improve through the year. 1QFY25 sales increased in the mid to high single digits. We forecast FY25E sales growth of 12% vs consensus at 10%. Our EBITDA growth forecast of 14% is in line with Bloomberg consensus.

Our view and valuation: We value DABUR based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use FY26E 57x P/E to derive our target price. Rural recovery is on its way and we expect Dabur to have an above-average benefit vs the broader FMCG group given its "natural" focused portfolio which has greater resonance with the rural consumer base. We maintain our BUY rating and TP of Rs 742.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DABUR IN/Rs 606
Market cap	US$ 13.1bn
Free float	33%
3M ADV	US$ 27.0mn
52wk high/low	Rs 633/Rs 489
Promoter/FPI/DII	66%/17%/17%

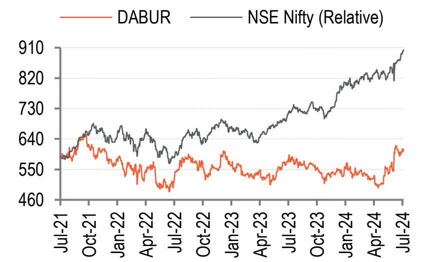
Source: NSE | Price as of 5 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,040	138,645	152,867
EBITDA (Rs mn)	24,002	27,437	31,015
Adj. net profit (Rs mn)	18,427	20,776	23,260
Adj. EPS (Rs)	10.4	11.7	13.1
Consensus EPS (Rs)	11.4	13.9	13.9
Adj. ROAE (%)	18.7	19.1	19.3
Adj. P/E (x)	58.3	51.7	46.2
EV/EBITDA (x)	44.8	39.2	34.6
Adj. EPS growth (%)	7.9	12.7	12.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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HOLD
TP: Rs 699 | ⮝ 14%

MARICO | Consumer Staples | 08 July 2024

Business update: Distributor response to Project SETU

- **Marico noted continued improving demand trend with likely further acceleration through FY25. Volume trend improved despite destocking**
- **Despite a medium to long-term positive for Marico, Project SETU implies sales cannibalisation between channels**
- **Indirect channel destocking may continue and remain a drag on rural recovery over the next 2-3 quarters. Retain HOLD**

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1QFY25 business update: MRCO issued its 1QFY25 business update last week on Friday after market close. Sales were up in High-Speed Digits (HSD) with operating profit growth slightly ahead of sales. MRCO's FY25 outlook is for sales growth to accelerate further during the year on improving demand in the domestic market and favourable pricing.

Positives: (1) Sequential demand improved reflecting slight improvement in volume growth post distributor destocking. Parachute up in low single digits and Saffola up in mid-single digits. (2) Gross margins to improve on favourable mix – copra prices in line with forecasts, while edible oil and crude oil derivatives remained rangebound.

Negatives: (1) Value Added Hair Oil (VAHO) volumes remained negative with continued pressures in the Bottom of The Pyramid (BoP) segment, even as the mid and premium fared better. (2) Distributor destocking negatively impacted volumes. (3) Operating profit growth to be only slightly ahead of revenue growth despite gross margin expansion given business reinvestments.

FY25 outlook: Consolidated revenue growth to accelerate through the year on improving volume trend and higher price realisation on favourable pricing cycle. The 1QFY25 sales run rate is at high single digits. For FY25, we are at sales of +10% (Bloomberg consensus at +10%) and EBITDA of +11% (consensus +14%).

Valuation and our view: We value MRCO based on P/E relative to the NIFTY 50 index and apply a 10% premium. We use 51x FY26E P/E to derive the TP of Rs 699. Project SETU is aimed at increasing direct reach by 50% by FY27. In our view, the distributor reaction is natural given sales cannibalisation – destocking remains a risk over the next two to three quarters. While rural recovery may reflect in consumer offtake, we expect both margin and inventory stocking pressure on MRCO from the indirect channel. We maintain our HOLD rating.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	MRCO IN/Rs 615
Market cap	US$ 9.7bn
Free float	40%
3M ADV	US$ 23.9mn
52wk high/low	Rs 667/Rs 486
Promoter/FPI/DII	59%/25%/16%

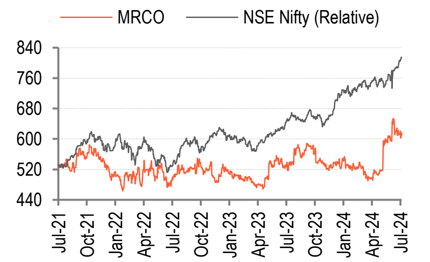
Source: NSE | Price as of 5 Jul 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,530	106,242	116,640
EBITDA (Rs mn)	20,260	22,471	24,229
Adj. net profit (Rs mn)	14,810	16,281	17,679
Adj. EPS (Rs)	11.5	12.6	13.7
Consensus EPS (Rs)	11.5	12.9	14.4
Adj. ROAE (%)	36.5	37.1	36.6
Adj. P/E (x)	53.6	48.8	44.9
EV/EBITDA (x)	39.2	35.3	32.8
Adj. EPS growth (%)	13.7	9.9	8.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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Note: Recommendation structure changed with effect from 21 June 2021

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