CONSUMERS

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Rural to drive growth for consumer goods companies in coming days

Last few years remained very challenging for Consumer Companies due to first, demonetization (8 Nov.2016) and secondly disruption related to GST(July 2017). Before 2016, rural growth was impacted due to two consecutive below normal monsoon.The South-West monsoon was 14% lower than normal; leaving ~40% of the country deficient rains in 2015 while it was lower by12% in 2014. Now as disruption is almost settled, Companies are getting back to their business. Strong new launches platform suggest that managements are foreseeing better demand scenario going ahead. One of the reasons for the management being optimistic is coming back of rural growth.

Rural to drive growth going forward:

A recent Crisil report(for FY18) suggests, rural contributes ~45% of the total FMCG revenue. Better growth in rural boosts the overall growth of the sector and lower rural penetration makes sure ample growth opportunity for the sector. Going forward, improvement in rural demand hypothesis is based on the premises that being an election year government thrust on rural spending will translate into better demand generation and improvement in the income level of rural people which in turn improve rural demand. Increasing government's allocation toward MGNREGA and sharp & focused increase in Direct Benefits Transfer (DBT) will pave the way for better rural growth going ahead. Funds transferred in DBT have increased approx. four fold in last 3-4 years. Other new schemes like PM Kisan Scheme where government will transfer Rs 6000 to 1 cr farmers is likely boost demand further.

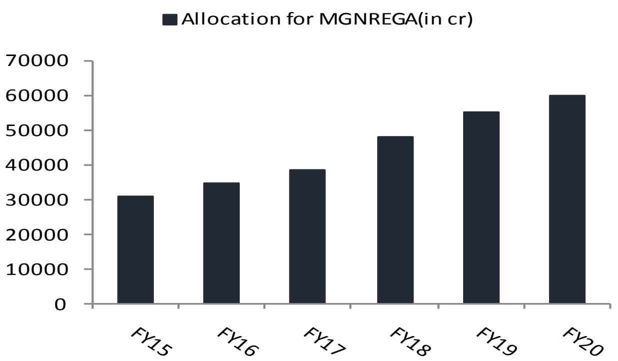
Southwest Monsoon Increase/Shortfall Trends from normal:

Source:www.mospi.gov.in

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
% inc/shortfall of SW monsoon	-1%	-21%	3%	2%	-7%	6%	-12%	-14%	-3%	-5%	-9%

Exhibit: Allocation of MGNREGA

The government is continuously increasing its allocation towards MGNREGA.



Source:From Budget

Exhibit: Funds transferred in DBT

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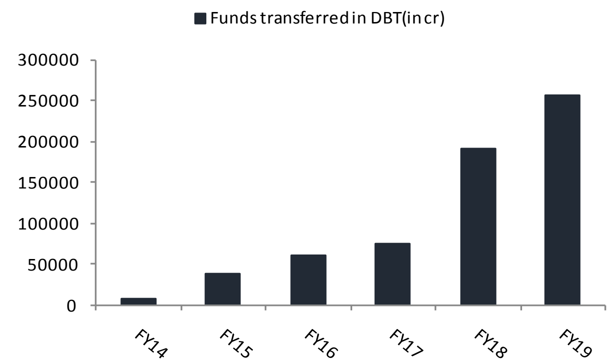


Source:dbtbharat.gov.in

Note:DBT includes Rs 205.8 bn and Rs 869 bn transferred in kind for FY18 and FY19 respectively rest are in cash.

MSP hike likely to boost farm income

MSP hike is the other step which likely to boost farm income. Government has hiked MSP of 22 crops to a minimum of 50% over cost for the season 2018-19. The MSP for paddy has been increased from Rs 1550 to Rs 1750 while Jowar, the MSP has been increased from Rs 1700 to Rs 2430, which remained highest. The MSP of Safflower & Sunflower seeds have been increased by 21% and 31% respectively. The impact of revision of MSP is now visible in respective crop prices and commentary of management of different companies. MSP hike in different crops are as follows:

Research Analyst
RAJEEV ANAND
rajeev.anand@narnolia.com
+91-22-62701229

Statement Showing Minimum Support Prices - Fixed by Government (Rs.quintal)

Source-Farmer.gov.in

Commodity	Variety	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
PADDY	Common	1000	1080	1250	1310	1360	1410	1470	1550	1750
YoY gr			8%	16%	5%	4%	4%	4%	5%	13%
	Grade 'A'	1030	1110	1280	1345	1400	1450	1510	1590	1770
YoY gr			8%	15%	5%	4%	4%	4%	5%	11%
JOWAR	Hybrid	880	980	1500	1500	1530	1570	1625	1700	2430
YoY gr			11%	53%	0%	2%	3%	4%	5%	43%
	Maldandi	900	1000	1520	1520	1550	1590	1650	1725	2450
YoY gr			11%	52%	0%	2%	3%	4%	5%	42%
WHEAT		1120	1285	1350	1400	1450	1525	1625	1735	1840
YoY gr			15%	5%	4%	4%	5%	7%	7%	6%
BARLEY		780	980	980	1100	1150	1225	1325	1410	1440
YoY gr			26%	0%	12%	5%	7%	8%	6%	2%
SAFFLOWER		1800	2500	2800	3000	3050	3300	3700	4100	4945
YoY gr			39%	12%	7%	2%	8%	12%	11%	21%
COPRA	Milling	4450	4525	5100	5250	5250	5550	5950	6500	7511
YoY gr			2%	13%	3%	0%	6%	7%	9%	16%
SUNFLOWER SEED		2350	2800	3700	3700	3750	3800	3950	4100	5388
YoY gr			19%	32%	0%	1%	1%	4%	4%	31%
COTTON	Medium Staple	2500	2800	3600	3700	3750	3800	3860	4020	5150
YoY gr			12%	29%	3%	1%	1%	2%	4%	28%
	Long Staple	3000	3300	3900	4000	4050	4100	4160	4320	5450
YoY gr			10%	18%	3%	1%	1%	1%	4%	26%
MOONG		3170	3500	4400	4500	4600	4850	5225	5575	6975
YoY gr			10%	26%	2%	2%	5%	8%	7%	25%

Different management's commentary on rural in recent concall:

- HUL: Rural is growing ahead of urban. Rural is 1.3 times of Urban growth and it is contributing ~35-40%.
- BAJAJCON: Rural continues to grow better, while urban retail remains stable.
- DABUR: Rural outgrowing urban by 2% and it is expected to grow even better going forward led by improvement in rural demand backed by government initiatives.
- EMAMILTD: Rural is doing slightly better than urban.
- GSKCONS: Rural channel continues to grow at an accelerated pace of high double digit.
- JYOTHYLAB: Rural Demand expected to stay strong. At current level of crude prices, input price pressures at ease.
- MARICO: Rural, Modern trade (MT) & E-commerce continue to grow healthily while witnessed slight recovery in CSD.
- GODREJCP: The Mgt expects Rural growth to be 1.5-2 times of Urban growth on account of lower base.

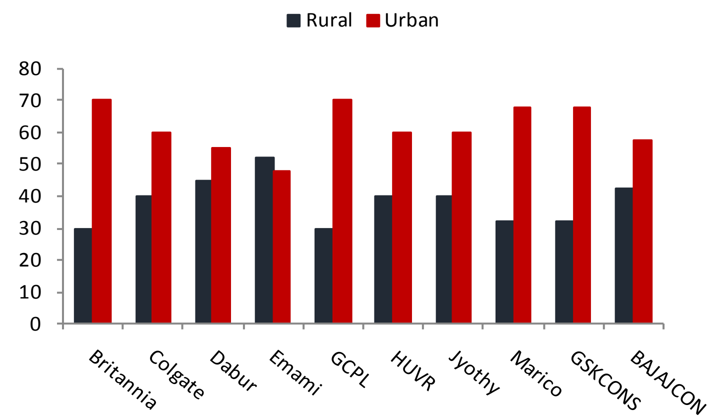
Different Consumer Company's dependence on rural market(%):

Source-From confer. call of diff. quarters

	Britannia	Colgate	Dabur	Emami	GCPL	HUVR	Jyothy	Marico	GSKCONS	BAJAJCON
Rural	30	40	45	52	30	40	40	32	32	43
Urban	70	60	55	48	70	60	60	68	68	57

Note: Bajajcon(off -take) & Emami number is taken from Q3FY17& Q4FY18 concall respectively.

Different Consumer Company's dependence on rural market:



VALUATION

Companies name	Rating	Target price	Sales gr. at CAGR(FY18-20E)	PAT gr. at CAGR(FY18-20E)	ROE			P/E		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E
BAJAJCON	BUY	481	12%	12%	43%	48%	54%	32	23	20
BRITANNIA	HOLD	3,283	14%	22%	29%	29%	31%	67	63	49
COLPAL	NEUTRAL	1,383	10%	15%	44%	51%	54%	43	43	38
DABUR	HOLD	484	13%	18%	24%	26%	28%	48	52	41
EMAMILTD	HOLD	447	12%	28%	15%	15%	21%	78	54	36
GODREJCP	NEUTRAL	792	10%	5%	26%	26%	23%	48	42	39
GSKCONS	NEUTRAL	7,852	12%	19%	20%	24%	23%	34	32	31
HINDUNILVR	ACCUMULATE	1,983	13%	20%	72%	83%	101%	63	60	50
JYOTHYLAB	BUY	228	9%	13%	23%	25%	26%	51	36	32
MARICO	BUY	460	17%	13%	33%	35%	40%	52	45	36

Outlook:

Better growth in rural boosts the overall growth of the sector and lower rural penetration makes sure ample growth opportunity for the sector. Going forward government thrust on rural growth will have a positive impact on FMCG sector. Higher spending on rural employment guarantee scheme, direct benefit transfer and hike in Minimum Support Prices(MSP) are most likely to boost rural disposable income going ahead. Different company's managements' commentary suggests the same. Most of the companies trying to ride this wave by expanding their distribution reach to rural market and launching more products in lower denomination. Premiumization in LUP is another trend which is now visible. Hence, going forward, the companies which have higher rural exposure is expected to benefit. Considering wider distribution reach, better operating matrix and higher rural exposure we like HINDUNILVR and DABUR .

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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