

# RURAL INDIA

An Opportunity

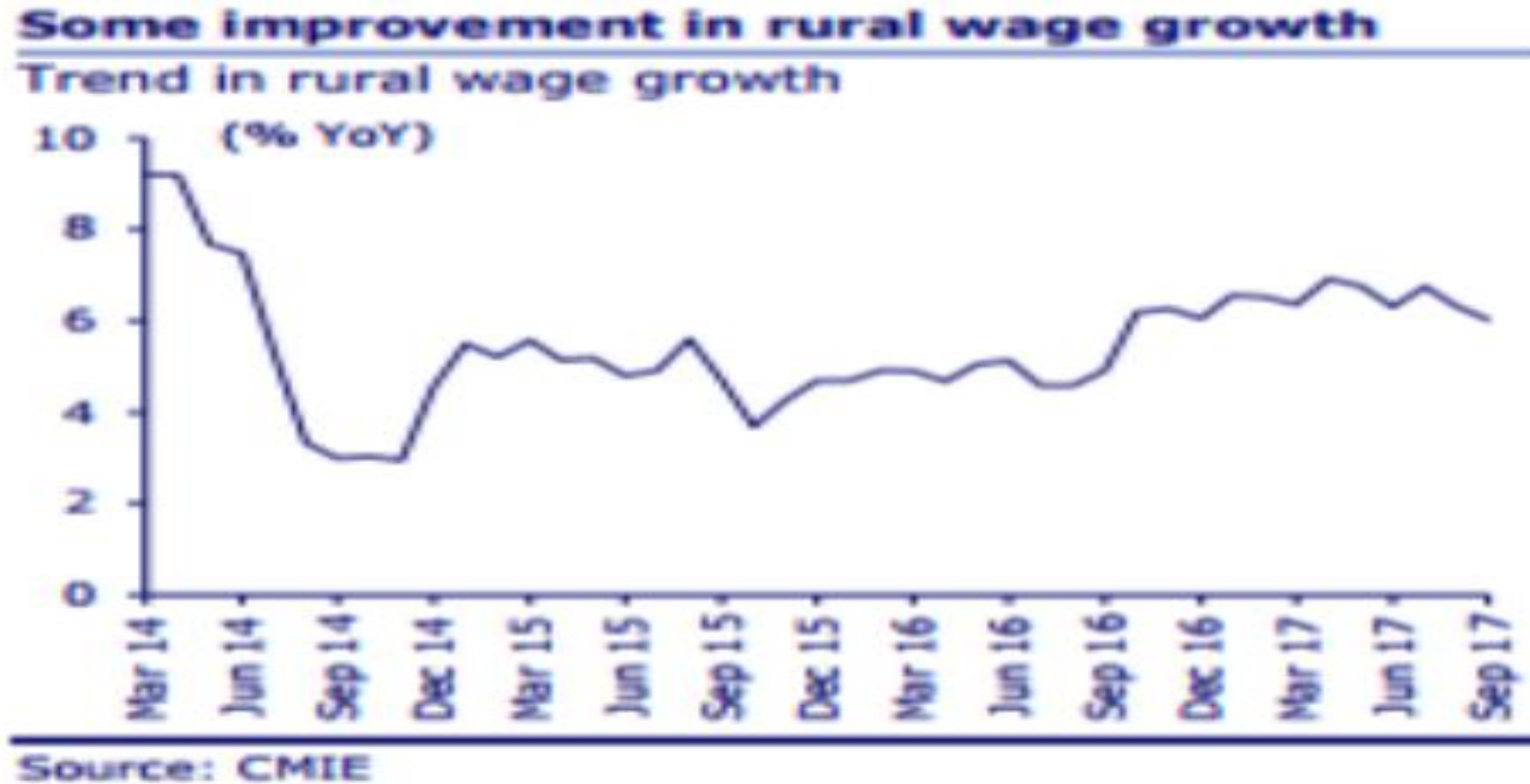
# CHARACTERISTICS OF RURAL ECONOMY

- India is a domestic consumption driven economy
- It's a priority for governments at both centre and state level
- 18 mn households or 45% of working Indian workforce is in rural areas
- 2/3<sup>rd</sup> of rural income is now generated through non farm activities(NITI Aayog Study, Nov 2017)

# KEY FACTORS CONTRIBUTING TO THE TURN AROUND

- Monsoons
  - 55% of agriculture in India is rainfall dependent
  - Last year saw a return to normal monsoons and record food grain production of 273 million tonnes(17 million tonnes more than annual average of last three years)
  - Rainfall 95% of Long Term average
  - Key sowing months of June and July recorded 104% and 102% of rainfall respectively
- Wages and Expenditure
  - Opportunities for wage labour in non farm sector, such as construction has increased the demand for labour and led to an increase in real wages (7.3% in 2016-17 over the previous year)
  - Expenditure on wages in MGNREGA picked up from Rs. 24,209 crs to Rs.40, 836 crs in 2016-17
- Infrastructure
  - Building infrastructure, while creating jobs, can also have a lasting positive impact on human productivity and incomes
  - Construction of new rural roads under PMGSY. This facilitates labour movement to better paid jobs in nearby semi-urban regions
  - Allocation to PM Gram Sadak Yojana including states increased to Rs. 27,000 crs

# TREND IN RURAL WAGES



# TRIGGERS

- Farm Loan Waivers
- Direct Benefit Transfer
  - Transfers of government subsidies and payments directly to beneficiaries has decreased leakage and increased transparency.
  - No of beneficiaries has increased from 357mn in FY17 to 475 mn currently.
  - PAHAL (subsidy on LPG) accounts for more than 50%
- Minimum Support Price
  - 8.3% hike for Rabi crops
  - Wheat, the most procured Rabi crop recorded an increase of 6.8%, the highest in 6 years
- Wider access to Credit
  - Total agriculture credit raised to Rs. 10 Lac crs
  - Interest Subvention Scheme implemented by NABARD
  - Loans upto Rs. 3 lakhs at 7% pa and prompt tax payers to get the loans at 4%

Exhibit 2: Number of schemes covered under DBT

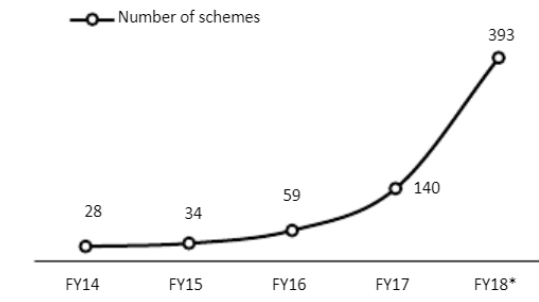
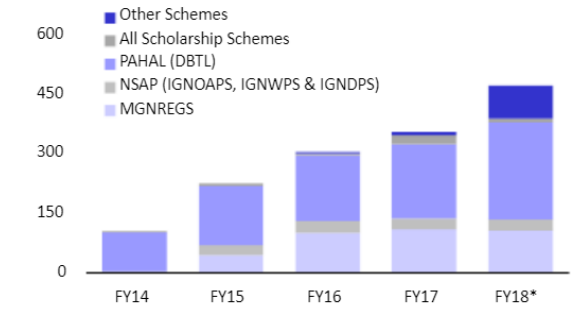


Exhibit 3: Number of beneficiaries covered under DBT



# TREND - MSPs

**Exhibit : Changes in MSP of Rabi crops over the past six years**

% YoY, MSP	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Wheat	5.1	3.7	3.6	5.2	6.6	6.8
Barley	0	12.2	4.5	6.5	8.2	6.4
Gram	7.1	3.3	2.4	10.2	14.3	10.0
Masur (Lentil)	3.6	1.7	4.2	10.6	16.2	7.6
Rapeseed/Mustard	20	1.7	1.6	8.1	10.4	8.1
Safflower	12	7.1	1.7	8.2	12.1	10.8
Simple average	8.0	5.0	3.0	8.1	11.3	8.3

**Exhibit : Changes in kharif MSPs over the past six years**

% YoY, MSP	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Paddy, common	15.7	4.8	3.8	3.7	4.3	5.4
Paddy, Grade A	15.3	5.1	4.1	3.6	4.1	5.3
Jowar, hybrid	53.1	0.0	2.0	2.6	3.5	4.6
Jowar, Maldandi	52.0	0.0	2.0	2.6	3.8	4.5
Bajra	19.9	6.4	0.0	2.0	4.3	7.1
Maize	19.9	11.5	0.0	1.1	3.0	4.4
Ragi	42.9	0.0	3.3	6.5	4.5	10.1
Tur (Arhar)	20.3	11.7	1.2	6.3	9.2	7.9
Moong	25.7	2.3	2.2	5.4	7.7	6.7
Urad	30.3	0.0	1.2	6.3	8.1	8.0
Cotton, Medium staple	28.6	2.8	1.4	1.3	1.6	4.1
Cotton, Long staple	18.2	2.6	1.3	1.2	1.5	3.8
Groundnut in shell	37.0	8.1	0.0	0.8	4.7	5.5
Sunflower seed	32.1	0.0	1.4	1.3	3.9	3.8
Soyabean, yellow	32.5	14.3	0.0	1.6	6.7	9.9
Sesamum	23.5	7.1	2.2	2.2	6.4	6.0
Simple average	27.7	5.1	1.6	3.1	4.9	6.2

Source: Department of Agriculture, MoSL

# POLITICS OF FARM LOAN WAIVERS

## Several states announce farm loan waivers

### Farm loan waivers

Geography	Announcement time	Amount (Rsbn)
National	Feb08	525
AP	May14	240
Telangana	May14	164
Tamil Nadu	May16	60
UP	May17	364
Maharashtra	Jun17	342
Punjab	Jun17	205
Karnataka	Jun17	82
Rajasthan	Sep17	200



# HOUSING AND POWER

- Housing

- Govt plans to build 1 cr houses by 2019 for the houseless and those in kutchha houses
- Aims to bring 1 cr households out of poverty and 50,000 gram panchayats poverty free by 2019
- 100% village electrification by 1<sup>st</sup> May, 2018. Investment outlay of Rs 7.09 Lac crs

Particulars	Urban (crore units)	Rural (crore units)	Total (crore units)
Programme housing target	1.2	4.4	5.6
Delivered till date	0.0	0.6	0.6
Yet to be delivered	1.2	3.8	5.0
Anticipated completion over next 5 years	1.0	3.0	4.0
<b>Anticipated investment (₹ lakh crore)</b>	<b>5.0</b>	<b>15.0</b>	<b>20.0</b>

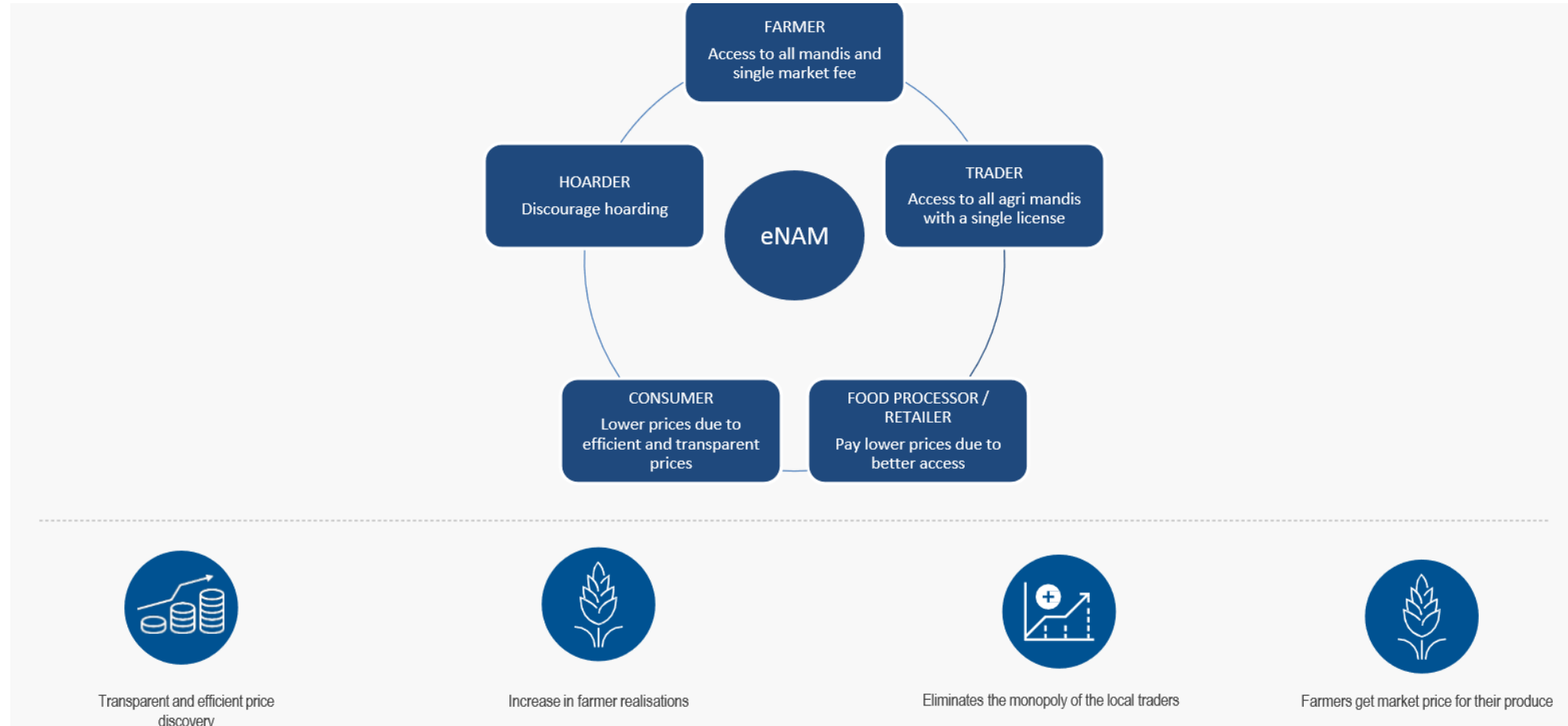




# BUSINESS POTENTIAL IN FARM SECTOR

- Double Farm Income by 2022
  - Improve agricultural yields
  - Optimize delivery of inputs
  - Enable better price discovery mechanism
  - Single trader license to be valid across all markets in the state
  - Protect them from risks by way of improved insurance coverage. PM Fasal Bima Yojana increased to 40% of cropped area for 2018 with a premium of 2-5% and an increased coverage to 50% by 2019
- Launch of electronic national agricultural market (eNAM)
- As leakages are addressed, growth in absolute amount of government spend may reduce but effectiveness will go up

# eNAM – e NATIONAL AGRICULTURE MARKET



# INDUSTRIES TO WATCH FOR

This will be used for Consumption

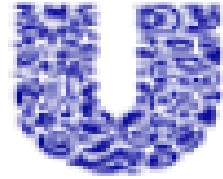
- Two Wheelers
- Commercial Vehicles
- Cement
- FMCG
- Convenience
- Health care
- Discretionary Spend
- Ploughed back to the farm to raise productivity via automation, irrigation and quality inputs

# CHALLENGES

- Governance and execution at the last mile
- Government Programs are constrained because of local participations and inadequate capacity of local bodies
- Investment required in modern supply chains and logistic services
- Fruits and vegetables give 4-10 times more returns than other crops, direct linkage between small holders producing fruits and vegetables and large buyers
- Essential Commodities Act discourages large scale in agricultural markets
- Skill development- Current size of Indian apprenticeship is small(0.2 mn youth apprentice against a workforce that is growing by 12 mn a year; Japan and Germany have 3mn and 1 mn respectively)
- Trained Manpower cannot be absorbed till MSMEs flourish. Though Ease of Doing Business has improved, there is a long way to go

# FOCUS COMPANIES

- Dabur
- HUL
- Mahindra and Mahindra

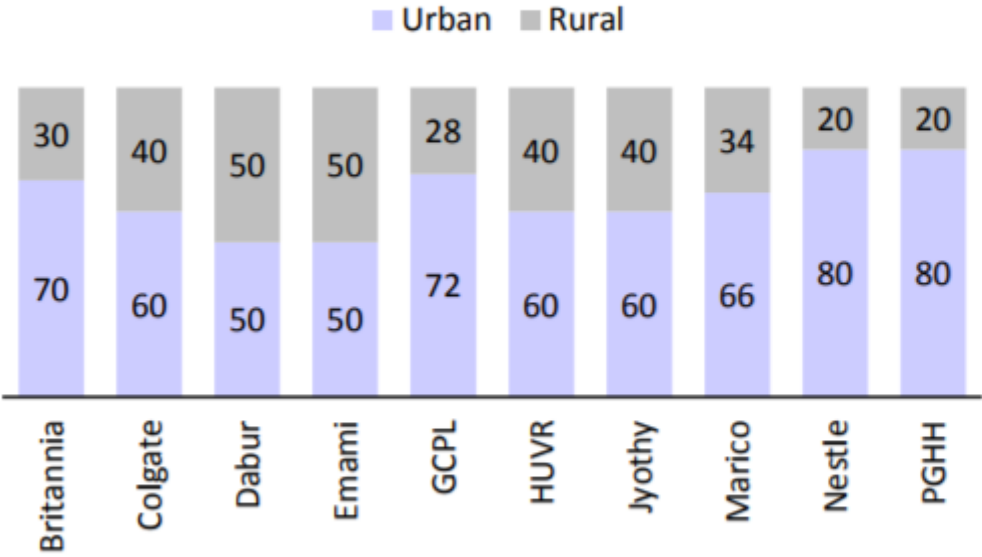


*Hindustan Unilever Limited*



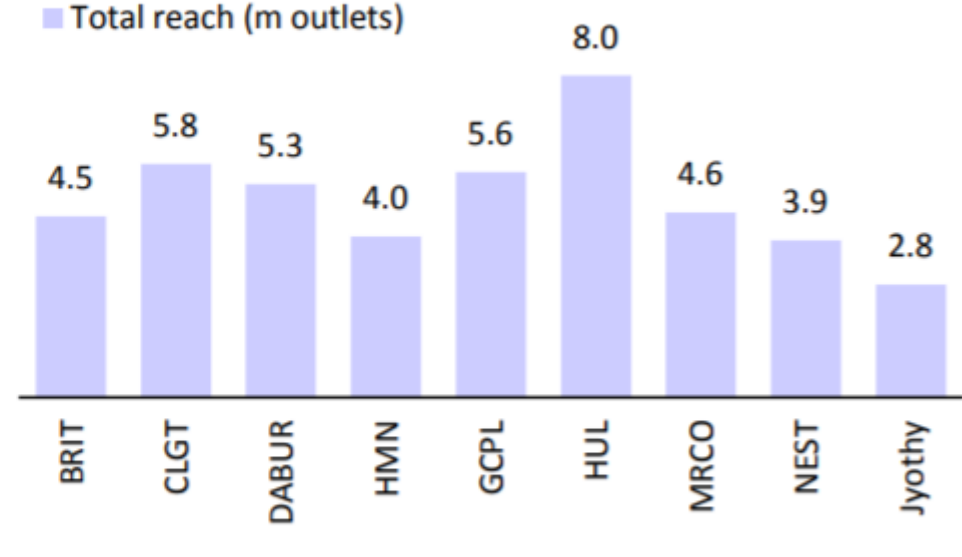
# RURAL REACH

**Exhibit : HUVR has a high proportion of rural sales**



Source: Company

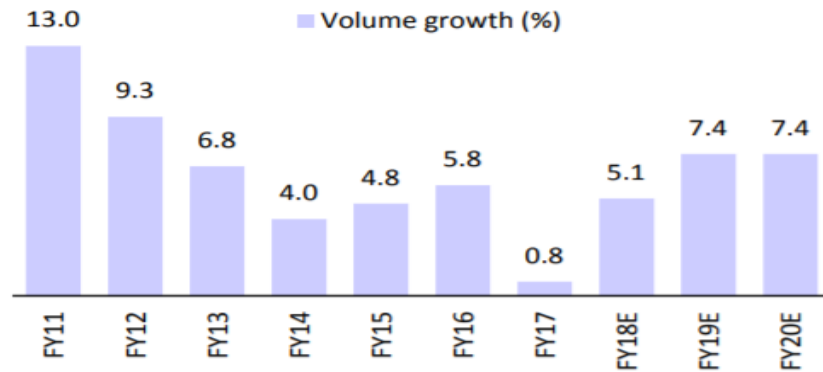
**Exhibit : Its outlet reach is the highest among peers**



Source: Company

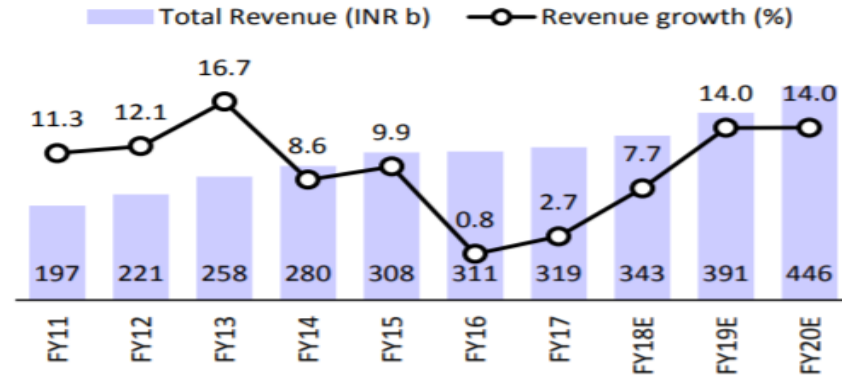
# EXPECTATION

**Exhibit** Volume growth is expected to revive as a result of rural revival...



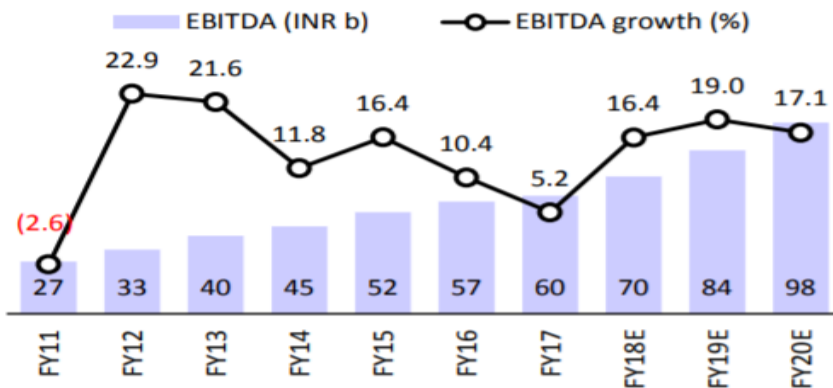
Source: Company, MOSL

**Exhibit** ...and abetted by continued premiumization and end of commodity deflation, sales growth will be high



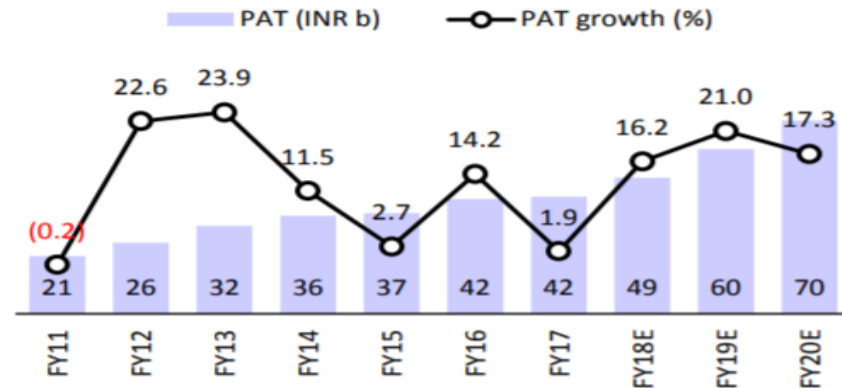
Source: Company, MOSL

**Exhibit** Strong sales growth, premiumization, mix improvement and cost savings will boost EBITDA...



Source: Company, MOSL

**Exhibit** ...and PAT growth



Source: Company, MOSL





# ESTIMATES

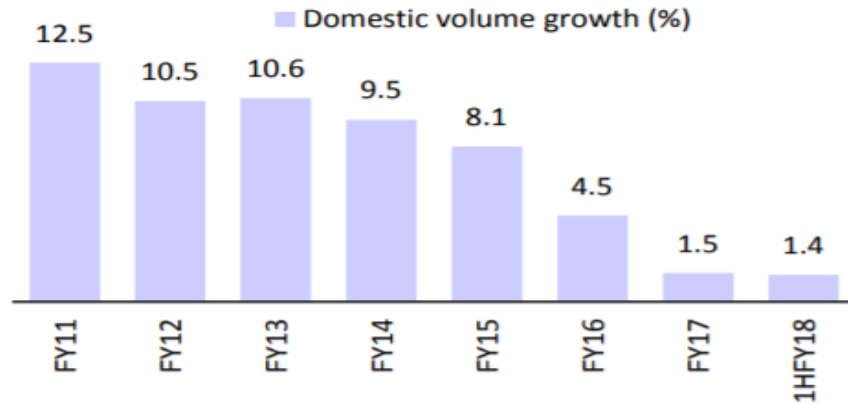
## Financials and valuations

Income Statement						(INR Million)
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>301,705</b>	<b>304,990</b>	<b>312,980</b>	<b>336,865</b>	<b>384,228</b>	<b>438,293</b>
Other Oper. Income	6,351	5,619	5,920	6,512	7,163	7,880
<b>Total Revenue</b>	<b>308,056</b>	<b>310,609</b>	<b>318,900</b>	<b>343,377</b>	<b>391,391</b>	<b>446,172</b>
<i>Change (%)</i>	9.9	0.8	2.7	7.7	14.0	14.0
COGS	156,236	153,053	156,850	162,866	183,977	207,392
<b>Gross Profit</b>	<b>151,821</b>	<b>157,556</b>	<b>162,050</b>	<b>180,511</b>	<b>207,414</b>	<b>238,780</b>
Gros Margin (%)	49.3	50.7	50.8	52.6	53.0	53.5
Operating Exp	99,738	100,070	101,580	110,154	123,668	140,736
<i>% of sales</i>	32.4	32.2	31.9	32.1	31.6	31.5
<b>EBIDTA</b>	<b>52,082</b>	<b>57,486</b>	<b>60,470</b>	<b>70,358</b>	<b>83,746</b>	<b>98,044</b>
<i>Change (%)</i>	16.4	10.4	5.2	16.4	19.0	17.1
<i>Margin (%)</i>	16.9	18.5	19.0	20.5	21.4	22.0
Depreciation	2,867	3,208	3,960	4,611	4,818	4,958
Int. and Fin. Charges	168	150	220	242	242	242
Other Income - Recurring	6,184	5,640	5,260	5,018	6,633	7,249
<b>Profit before Taxes</b>	<b>55,231</b>	<b>59,769</b>	<b>61,550</b>	<b>70,522</b>	<b>85,319</b>	<b>100,094</b>
<i>Change (%)</i>	15.1	8.2	3.0	14.6	21.0	17.3
<i>Margin (%)</i>	18.3	19.6	19.7	20.9	22.2	22.8
Tax	19,060	18,160	18,650	20,663	24,998	29,327
Deferred Tax	-338	-70	410	494	597	701
<i>Tax Rate (%)</i>	33.9	30.3	31.0	30.0	30.0	30.0
<b>Profit after Taxes</b>	<b>36,510</b>	<b>41,679</b>	<b>42,490</b>	<b>49,366</b>	<b>59,723</b>	<b>70,066</b>
<i>Change (%)</i>	2.7	14.2	1.9	16.2	21.0	17.3
<i>Margin (%)</i>	12.1	13.7	13.6	14.7	15.5	16.0
Non-rec. (Exp)/Income	6,643	-310	2,410	0	0	0
<b>Reported PAT</b>	<b>43,153</b>	<b>41,369</b>	<b>44,900</b>	<b>49,366</b>	<b>59,723</b>	<b>70,066</b>



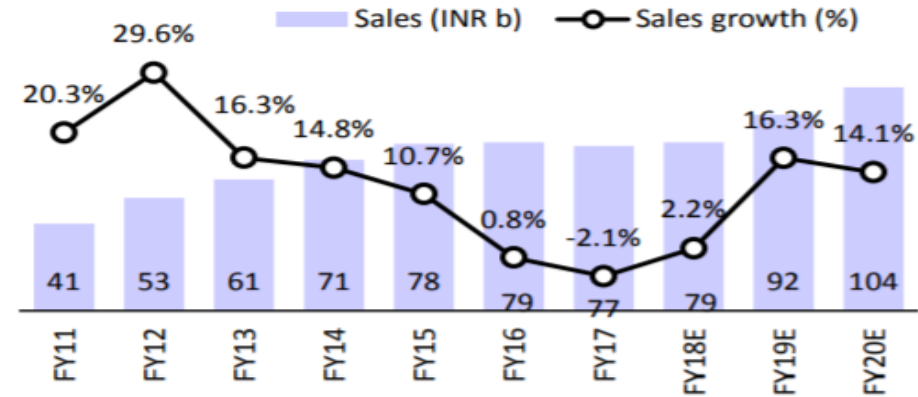
# DABUR QUANTS

**Exhibit 1 : Volume growth is expected to revive as a result of rural revival in domestic business...**



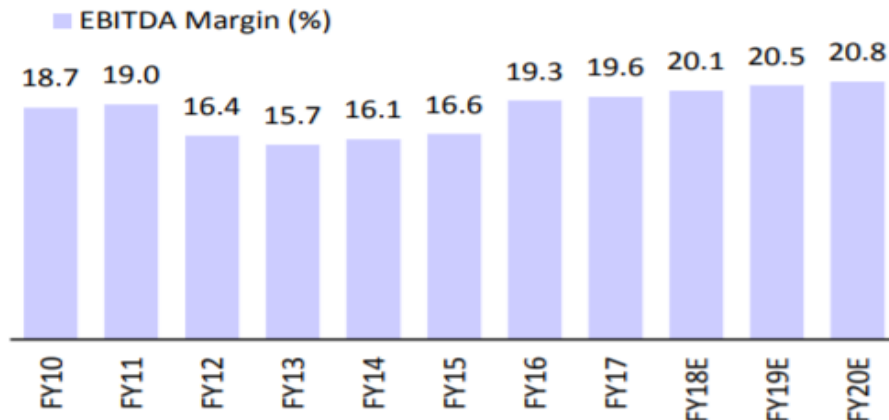
Source: Company

**Exhibit 2 : ...and abetted by international growth sales growth will be high**

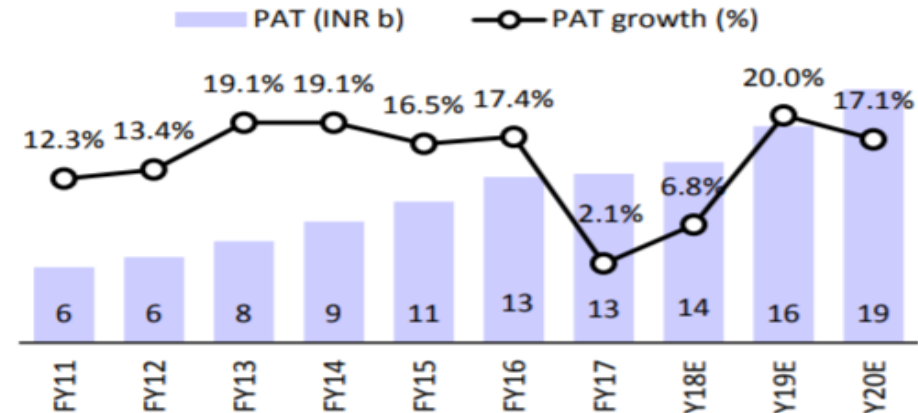


Source: Company

**Exhibit 3 : Strong sales growth and cost savings will boost EBITDA margins...**



**Exhibit 4 : ...and PAT growth**



# ESTIMATES

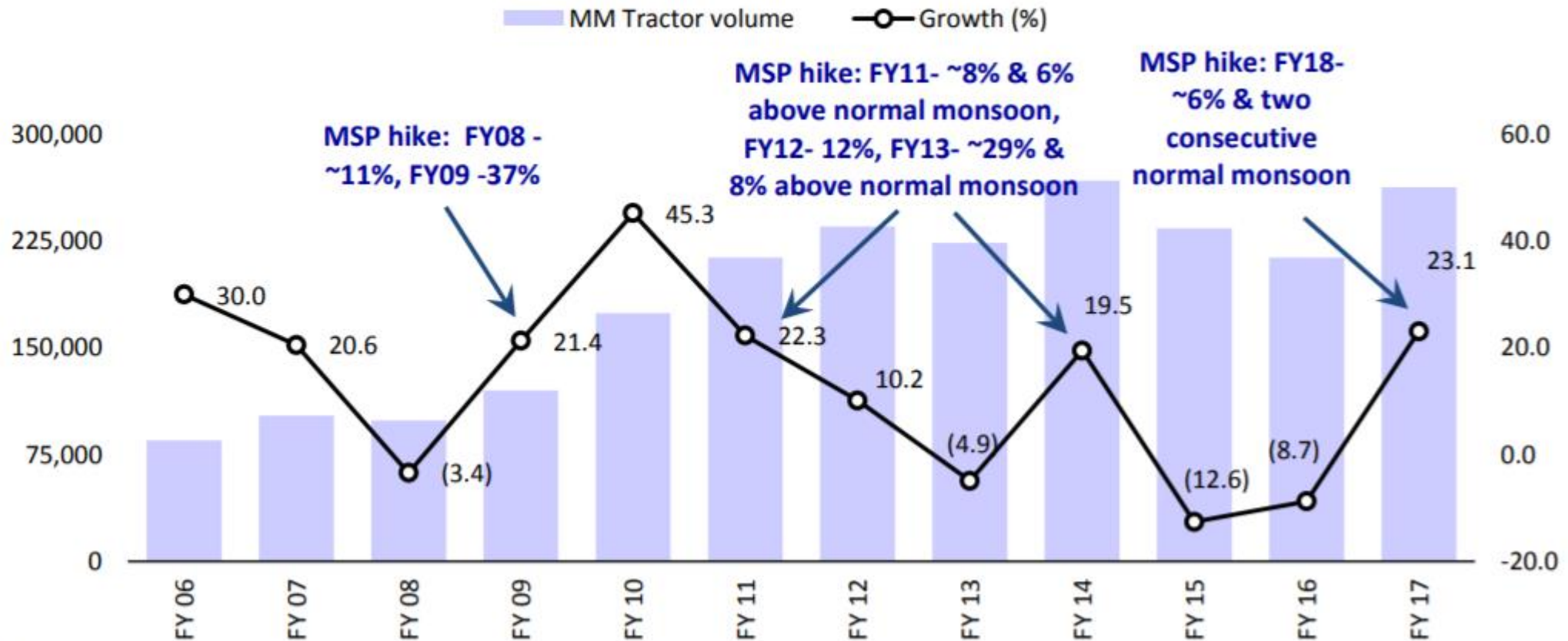
## Financials and valuations

Income Statement		(INR Million)				
Y/E March	2015	2016	2017	2018E	2019E	2020E
<b>Net Sales</b>	<b>78,065</b>	<b>78,688</b>	<b>77,014</b>	<b>78,740</b>	<b>91,565</b>	<b>104,457</b>
Change (%)	10.7	0.8	-2.1	2.2	16.3	14.1
Total Expenditure	65,108	63,505	61,925	62,924	72,790	82,731
<b>EBITDA</b>	<b>12,957</b>	<b>15,183</b>	<b>15,089</b>	<b>15,816</b>	<b>18,775</b>	<b>21,726</b>
Change (%)	13.8	17.2	-0.6	4.8	18.7	15.7
Margin (%)	16.6	19.3	19.6	20.1	20.5	20.8
Depreciation	1,150	1,332	1,429	1,539	1,590	1,641
Int. and Fin. Charges	401	485	540	526	523	495
Other Income - Recurring	1,788	2,172	2,984	3,282	3,774	4,340
<b>Profit before Taxes</b>	<b>13,194</b>	<b>15,538</b>	<b>16,104</b>	<b>17,033</b>	<b>20,437</b>	<b>23,930</b>
Change (%)	16.1	17.8	3.6	5.8	20.0	17.1
Margin (%)	16.9	19.7	20.9	21.6	22.3	22.9
Tax	2,347	2,840	3,110	3,270	3,924	4,595
Tax Rate (%)	19.0	19.3	20.5	19.8	19.8	19.8
<b>Profit after Taxes</b>	<b>10,685</b>	<b>12,539</b>	<b>12,801</b>	<b>13,661</b>	<b>16,390</b>	<b>19,192</b>
Change (%)	16.5	17.4	2.1	6.7	20.0	17.1
Margin (%)	13.7	15.9	16.6	17.3	17.9	18.4
Minority Interest	26	28	31	29	34	40
<b>Adjusted PAT</b>	<b>10,658</b>	<b>12,512</b>	<b>12,769</b>	<b>13,632</b>	<b>16,357</b>	<b>19,152</b>



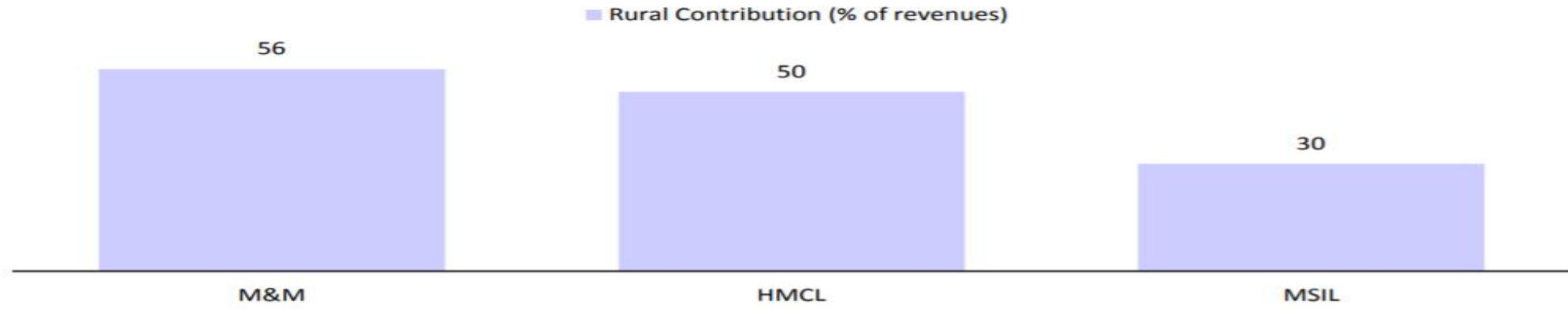
# TRACTOR SALES AND MSP

**Exhibit : MSP hikes and normal monsoon lead to higher growth for tractor sales in general**



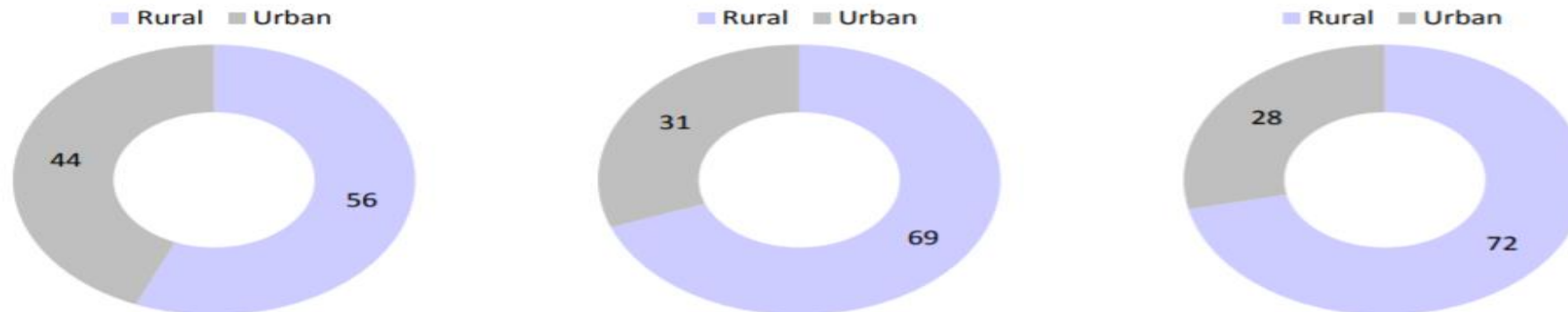
# M&M RURAL LINKAGES

**Exhibit 1: MM has the highest rural exposure among key OEMs**



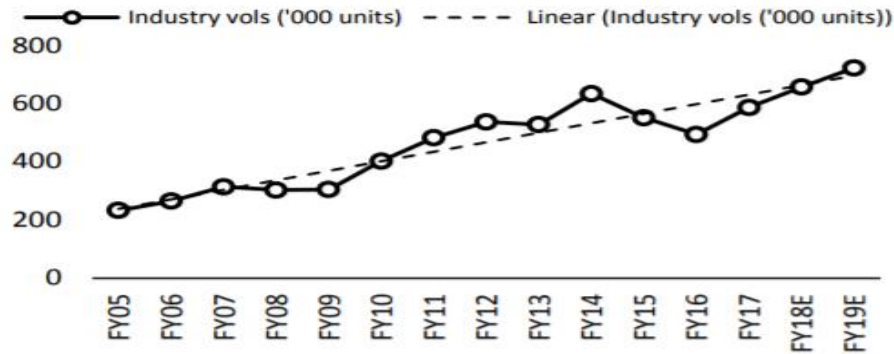
Source: Company,

**Exhibit 2: Rural markets contribute ~56% to MM's revenue, 69% to PAT, and ~72% to SOTP value**

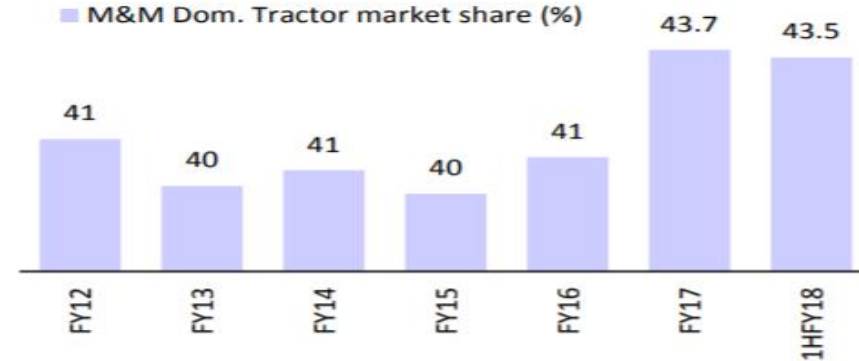


# M&M - FUNDAMENTALS

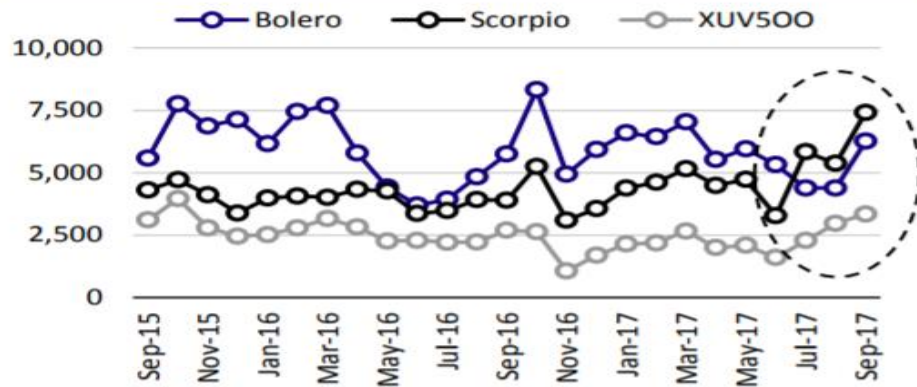
**Exhibit 1 Industry tractor volumes trending below long term average**



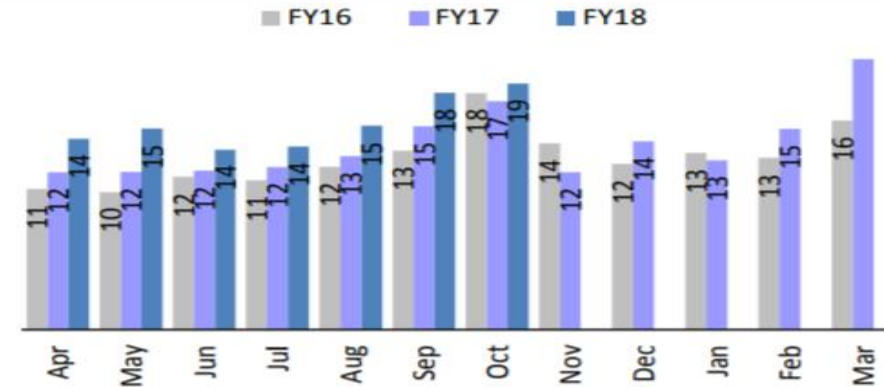
**Exhibit 2 MM's tractor market share improved considerably in FY17, on the back successful new launches**



**Exhibit 3 Key models recovering post demonetization**



**Exhibit 4 MM's pick-up+SCV volumes pick up growth (in '000 units)**





# Financials and Valuations

Income Statement						(INR Million)
Y/E March	2015	2016	2017	2018E	2019E	2020E
<b>Net Op. Income</b>	<b>384,448</b>	<b>408,751</b>	<b>437,854</b>	<b>478,935</b>	<b>540,061</b>	<b>599,106</b>
Change (%)	-5.1	6.3	7.1	9.4	12.8	10.9
Total Expenditure	342,714	362,551	390,161	419,141	473,495	523,810
<b>EBITDA</b>	<b>41,734</b>	<b>46,199</b>	<b>47,693</b>	<b>59,794</b>	<b>66,565</b>	<b>75,296</b>
Margins (%)	10.9	11.3	10.9	12.5	12.3	12.6
<b>Margins (%), incl MVML)</b>	<b>12.5</b>	<b>13.5</b>	<b>13.5</b>	<b>14.4</b>	<b>14.2</b>	<b>14.5</b>
Depreciation	9,749	10,681	13,272	15,195	17,480	19,655
<b>EBIT</b>	<b>31,985</b>	<b>35,518</b>	<b>34,421</b>	<b>44,599</b>	<b>49,085</b>	<b>55,641</b>
Deferred Revenue Exp.	0	0	0	0	0	0
Int. & Finance Charges	2,143	1,861	1,456	1,369	1,506	1,506
Other Income	9,883	8,499	13,425	12,693	13,923	15,365
Non-recurring Expense	0	0	0	0	0	0
Non-recurring Income	3,357	687	0	0	0	0
<b>Profit before Tax</b>	<b>43,082</b>	<b>42,845</b>	<b>46,390</b>	<b>55,924</b>	<b>61,502</b>	<b>69,500</b>
Tax	8,478	10,799	12,319	16,833	17,836	19,460
Eff. Tax Rate (%)	19.7	25.2	26.6	30.1	29.0	28.0
<b>Profit after Tax</b>	<b>34,604</b>	<b>32,046</b>	<b>34,072</b>	<b>39,091</b>	<b>43,666</b>	<b>50,040</b>
Change (%)	-7.9	-7.4	6.3	14.7	11.7	14.6
% of Net Sales	9.0	7.8	7.8	8.2	8.1	8.4
<b>Adj. Profit after Tax</b>	<b>31,908</b>	<b>31,532</b>	<b>34,072</b>	<b>39,091</b>	<b>43,666</b>	<b>50,040</b>
Change (%)	(14.1)	(1.2)	8.1	14.7	11.7	14.6
<b>Adj. PAT (incl MVML)</b>	<b>31,595</b>	<b>33,394</b>	<b>37,429</b>	<b>41,105</b>	<b>46,305</b>	<b>53,006</b>

# REFERENCES

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- <https://www.sundarammutual.com>
- <http://www.livemint.com/>
- <https://www.valueresearchonline.com/>

THANK YOU