15th Rural India Trip

Rural India

Down but not out!!!

Monsoon has been weak and untimely >>> expect impact on crop production: We have ended the monsoon season this year with a 14% deficit. However, what the monsoon charts do not capture is the untimely advent of the rains with many regions witnessing heavy rain in the beginning and then a prolonged dry spell. After a poor kharif last year and rabi, impacted due to rains, the current season would end up being the third season of weak agri performance. Kharif crop production across most regions that we surveyed will be impacted. Hopes are now pinned on decent rabi crop barring which greater demand impact will be witnessed.

Auto sales getting impacted: Tractor sales have bourne the biggest brunt of impact. Most regions that we surveyed talked about a 20-30% decline in tractor volumes. Two-wheelers are also seeing their share of slowdown with volumes turning flat. Scooters sub-segment is the only pocket that seems to be bucking this trend. Maruti sales are displaying decent growth but the growth rate has slowed down. September in particular has been a very weak month partly due to a subdued rural environment and partly due to the later advent of the festive season this year.

Consumer Staples demand has not yet been hit, some longer term opportunities remain: FMCG stockists talked about 4-5% growth as an average across commodities. Local brands are present largely in snack foods and detergents and we continue to see much lower presence of look-alike brands. While interacting with villagers it is clearly evident that there is still a long way to go for penetration and consumption even in categories like oral care. Feminine hygiene market is picking up in the South and the West; however, in the east the products are considered as taboo and are not stocked even by semi-urban chemists.

Paints market present a big opportunity: The prevalence of local and unorganised paints is very high with rural stores talking of more that 30% contribution by these products. The painter in most cases decides on the paint and pitches lower cost to the consumer. He makes more money out of the unorganised paint not just on the kickback from the stockist but also as these paints have much lower longetivity. However, a gradual awareness is spreading and a few customers have started participating in the purchasing decision. We also feel that the advent of GST can significantly add to the growth rates of the organised paints industry.

Wealth effect feel goods persist: Most of the rural farm land owners remain content with the increased prices of land over the past three-four years. Baring a few pockets in the west, the land prices have remained flat or have seen further appreciation. The announcement of smart cities, new state capitals, infrastructure development, SEZs, satellite cities has had a positive ripple effect on prices on the rural countryside. We believe this is key factor that has greatly shielded rural India from the pains of a disappointing monsoon.

Stock picks: Asian Paints, Colgate-Palmolive, Kansai Nerolac and Maruti Suzuki.

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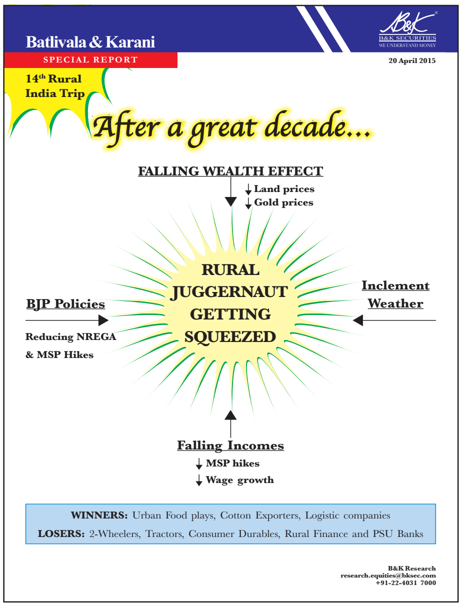

Batlivala & Karani

SPECIAL REPORT

20 April 2015

14th Rural India Trip

After a great decade...

FALLING WEALTH EFFECT
↓ Land prices
↓ Gold prices

RURAL JUGGERNAUT GETTING SQUEEZED

BJP Policies
Reducing NREGA & MSP Hikes

Inclement Weather

Falling Incomes
↓ MSP hikes
↓ Wage growth

WINNERS: Urban Food plays, Cotton Exporters, Logistic companies
LOSERS: 2-Wheelers, Tractors, Consumer Durables, Rural Finance and PSU Banks

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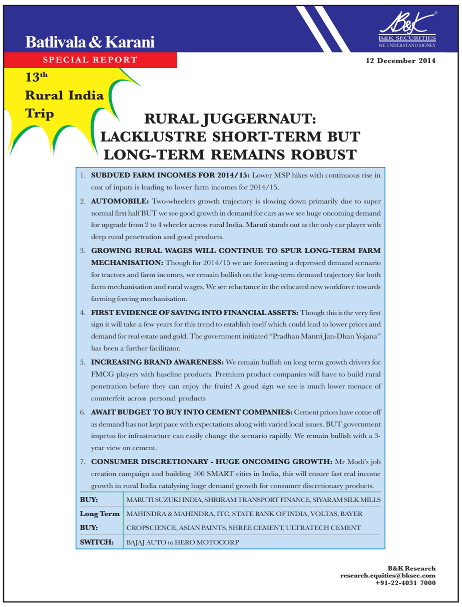

Batlivala & Karani

SPECIAL REPORT

12 December 2014

13th Rural India Trip

RURAL JUGGERNAUT: LACKLUSTRE SHORT-TERM BUT LONG-TERM REMAINS ROBUST

1. **SUBDUED FARM INCOMES FOR 2014/15:** Lower MSP hikes with continuous rise in cost of inputs is leading to lower farm incomes for 2014/15.
2. **AUTOMOBILE:** Two-wheelers growth trajectory is slowing down primarily due to super normal first half BUT we see good growth in demand for cars as we see huge oncoming demand for upgrade from 2 to 4 wheeler across rural India. Maruti stands out as the only car player with deep rural penetration and good products.
3. **GROWING RURAL WAGES WILL CONTINUE TO SPUR LONG-TERM FARM MECHANISATION:** Though for 2014/15 we are forecasting a depressed demand scenario for tractors and farm incomes, we remain bullish on the long-term demand trajectory for both farm mechanisation and rural wages. We see reluctance in the educated new workforce towards farming forcing mechanisation.
4. **FIRST EVIDENCE OF SAVING INTO FINANCIAL ASSETS:** Though this is the very first sign it will take a few years for this trend to establish itself which could lead to lower prices and demand for real estate and gold. The government initiated "Pradhan Mantri Jan-Dhan Yojana" has been a further facilitator.
5. **INCREASING BRAND AWARENESS:** We remain bullish on long term growth drivers for FMCG players with baseline products. Premium product companies will have to build rural penetration before they can enjoy the fruits! A good sign we see is much lower menace of counterfeit across personal products
6. **AWAIT BUDGET TO BUY INTO CEMENT COMPANIES:** Cement prices have come off as demand has not kept pace with expectations along with varied local issues. BUT government impetus for infrastructure can easily change the scenario rapidly. We remain bullish with a 3-year view on cement.
7. **CONSUMER DISCRETIONARY - HUGE ONCOMING GROWTH:** Mr Modi's job creation campaign and building 100 SMART cities in India, this will ensure fast real income growth in rural India catalysing huge demand growth for consumer discretionary products.

BUY:	MARUTI SUZUKI INDIA, SHRIRAM TRANSPORT FINANCE, SIYARAM SILK MILLS
Long Term BUY:	MAHINDRA & MAHINDRA, ITC, STATE BANK OF INDIA, VOLTAS, BAYER CROPSCIENCE, ASIAN PAINTS, SHREE CEMENT, ULTRATECH CEMENT
SWITCH:	BAJAJ AUTO to HERO MOTOCORP

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SPECIAL REPORT

10 December 2013

12th Rural India Trip

Incentive will remain high...price of democracy... Mechanisation = Survival

Rural India is a Juggernaut

Top conclusions from our rural visit

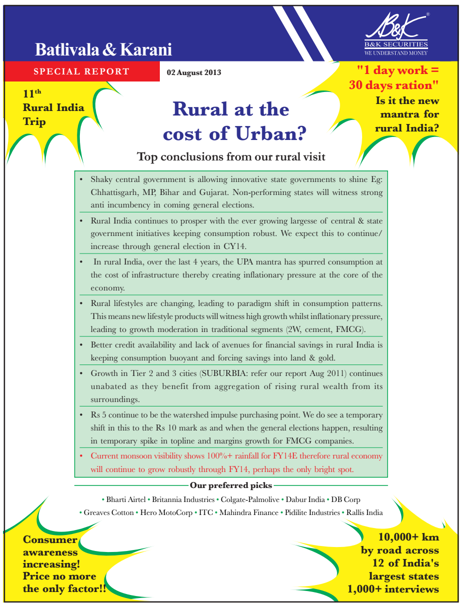
- Kharif summer crop was good, though there was some impact due to unseasonal late rainfall seen in the months of September/October. Due to this late unseasonal rains we expect bumper rabi winter crop, as moisture content is far better than average. Expecting a bumper 3Q for agrochemicals companies like Coromandel International and Rallis India.
- Post monsoon rural demand is stable/good and we expect acceleration in some products/markets driven by good yield/prices and election spending. However, festive demand in urban markets remains impacted by economic slowdown and inflation neutralising the juggernaut.
- FMCG companies are changing the rural market place, district headquarters and Tier-3/4 towns are no more the epicenter of consumption as FMCG companies are expanding distribution to reach the village directly to increase market share. We also see clear evidence of migration up the value chain, rural India is now at a confluence of aspiration and purchasing power. Biggest beneficiary is Britannia and Colgate.
- Populous schemes' relentless dole out continues to drive rural wages. Mechanisation is no more a luxury but is now an ingredient for survival. M&M and VST Tillers to gain.
- Indian two-wheeler market is now a mature 14 mn vehicles per annum, growth rate will flatten out inline with GDP. Aspiration for an upgrade from two-wheeler to car remains very strong theme in semi urban/rural India. Key beneficiary is Maruti.
- *Food inflation remains the bane of the Indian economy. Lack of investment into infrastructure linking production to consumption means India wastes 33% of all its vegetable produce. Even if the government starts investing into infrastructure we see a huge window for secondary food companies in India and companies engaged in food logistics (please refer page no. 22 for detailed explanation).*

Our preferred picks

• Bharti Airtel • Britannia Industries • Colgate-Palmolive • Coromandel International • Dish TV • Gateway Distriparks • Maruti Suzuki India • Mahindra and Mahindra • Rallis India • VST Tillers

Secondary food and wireless data are markets all set to explode over the next couple of years!

8,000+ km by road across 11 of India's largest states



Batlivala & Karani

SPECIAL REPORT

02 August 2013

11th Rural India Trip

"1 day work = 30 days ration" Is it the new mantra for rural India?

Rural at the cost of Urban?

Top conclusions from our rural visit

- Shaky central government is allowing innovative state governments to shine Eg: Chhattisgarh, MP, Bihar and Gujarat. Non-performing states will witness strong anti incumbency in coming general elections.
- Rural India continues to prosper with the ever growing largesse of central & state government initiatives keeping consumption robust. We expect this to continue/ increase through general election in CY14.
- In rural India, over the last 4 years, the UPA mantra has spurred consumption at the cost of infrastructure thereby creating inflationary pressure at the core of the economy.
- Rural lifestyles are changing, leading to paradigm shift in consumption patterns. This means new lifestyle products will witness high growth whilst inflationary pressure, leading to growth moderation in traditional segments (2W, cement, FMCG).
- Better credit availability and lack of avenues for financial savings in rural India is keeping consumption buoyant and forcing savings into land & gold.
- Growth in Tier 2 and 3 cities (SUBURBIA: refer our report Aug 2011) continues unabated as they benefit from aggregation of rising rural wealth from its surroundings.
- Rs 5 continue to be the watershed impulse purchasing point. We do see a temporary shift in this to the Rs 10 mark as and when the general elections happen, resulting in temporary spike in topline and margins growth for FMCG companies.
- Current monsoon visibility shows 100%+ rainfall for FY14E therefore rural economy will continue to grow robustly through FY14, perhaps the only bright spot.

Our preferred picks

• Bharti Airtel • Britannia Industries • Colgate-Palmolive • Dabur India • DB Corp • Greaves Cotton • Hero MotoCorp • ITC • Mahindra Finance • Pidilite Industries • Rallis India

Consumer awareness increasing! Price no more the only factor!!

10,000+ km by road across 12 of India's largest states 1,000+ interviews

Batlivala & Karani

SPECIAL REPORT

17 December 2012

10th Rural India Trip

New demand categories emerge!

Our top five conclusions

For FMCG companies, we forecast higher margins both for rural and companies as expanding coinage effect pushes impulse price point from Re 1 to Rs 5. **ITC, Hindustan Unilever** and **Colgate-Palmolive (India)** have the best sub Rs 5 SKU presence and rural networks.

Rising costs forces thrust on improving productivity. Companies like **Bayer CropScience** will benefit from consumption of new chemistry pesticides and hybrid seeds.

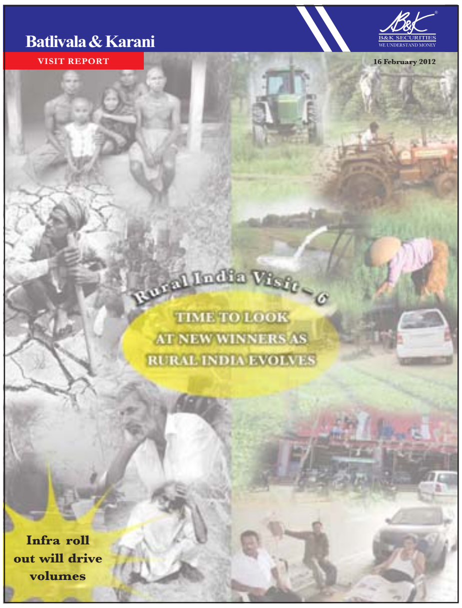
Unabated inflation makes gold a classic magnet. Historical over exploitation and better awareness is forcing people towards branded players. We expect **Titan Industries'** next phase of growth to come from TIER II cities.

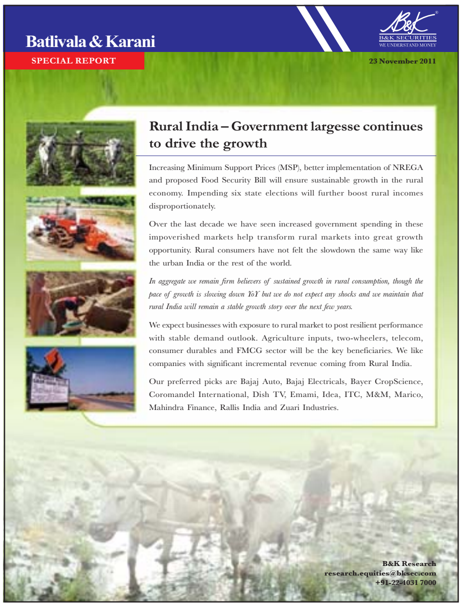
Two-wheeler is now a necessity therefore we see secular strong rural sales on increasing road penetration. Honda is investing into getting products and network in place, which will stress **Hero MotoCorp** in the short to medium term, but in the long-term create a very cosy duopoly.

Brick & Mortar "PUCCA GHAR" housing has now become a Mantra across rural India and will continue to drive cement growth especially in Northern and Central India, which will benefit **Shree Cement** and **Heidelberg Cement.**

Rs 5 to be the new watershed impulse purchase point!

3,000+ km by road through the heart of India!





Batlivala & Karani
SPECIAL REPORT
23 November 2011

Rural India – Government largesse continues to drive the growth

Increasing Minimum Support Prices (MSP), better implementation of NREGA and proposed Food Security Bill will ensure sustainable growth in the rural economy. Impending six state elections will further boost rural incomes disproportionately.

Over the last decade we have seen increased government spending in these impoverished markets help transform rural markets into great growth opportunity. Rural consumers have not felt the slowdown the same way like the urban India or the rest of the world.

In aggregate we remain firm believers of sustained growth in rural consumption, though the pace of growth is slowing down YoY but we do not expect any shocks and we maintain that rural India will remain a stable growth story over the next few years.

We expect businesses with exposure to rural market to post resilient performance with stable demand outlook. Agriculture inputs, two-wheelers, telecom, consumer durables and FMCG sector will be the key beneficiaries. We like companies with significant incremental revenue coming from Rural India.

Our preferred picks are Bajaj Auto, Bajaj Electricals, Bayer CropScience, Coromandel International, Dish TV, Emami, Idea, ITC, M&M, Marico, Mahindra Finance, Rallis India and Zuari Industries.

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Batlivala & Karani
14 October 2011

The Rural Juggernaut rolls on... & on...

Rise in MSP, NREGA and appreciating land prices are key drivers of incremental wealth and feel good factor in Rural India, resulting in a structural increase in demand for food, clothing, shelter and lifestyle products.

Supply side bottlenecks due to under investment in rural-urban supply chain is leading to constraints in the supply of food products from rural to urban markets and the supply of consumer and manufactured products from urban to rural markets.

Unabated demand growth accompanied with additional purchasing power in rural India has disturbed the equilibrium between demand and supply resulting in sustained food inflation of 10%+ over the past three years. Unless the government invests in improving linkage between Rural and Urban India and allows land reforms which will drive increasing farm output we see no end to the problem of persistent food inflation.

Over the longer term, we think India's infrastructure sector provides a significant investment opportunity but near term concerns like over leverage, increasing interest rates and a lack of political visibility will play spoilsport. For investors with a long-term view we would recommend buying infra plays as most of the infra stocks trade below NAV due to the current regime of high interest rates. **Our top picks** are IRB Infrastructure and GVK Power.

Though the long-term India story remains intact, the near term seems to be fairly opaque given the lack of political visibility in India. We think FOOD continues to be an evergreen sector for the short / medium and long term. India with a population of 1.25 billion growing @ 2% per annum and where 350 million + people still cannot afford 2 square meals a day, further compounded with the fact that average wages in rural India (66% of the population) are now growing at a CAGR of 20% +. We ecpect to see a sustained 5% + demand for food over the next twenty years.

Our top picks are Bayer CropScience, Coromandel International, Rallis India and Zuari Industries.

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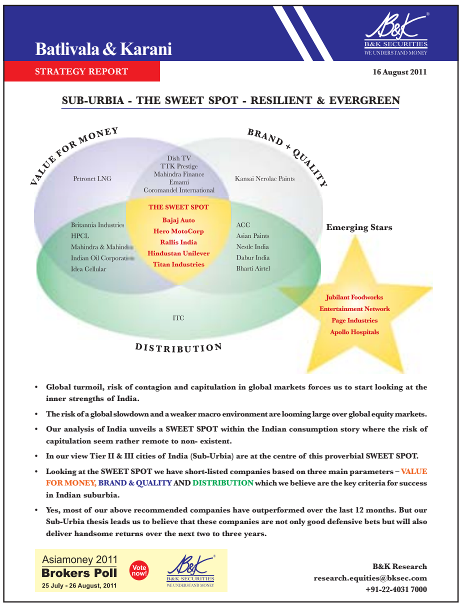

Batlivala & Karani
STRATEGY REPORT
16 August 2011

SUB-URBIA - THE SWEET SPOT - RESILIENT & EVERGREEN

- **Global turmoil, risk of contagion and capitulation in global markets forces us to start looking at the inner strengths of India.**
- **The risk of a global slowdown and a weaker macro environment are looming large over global equity markets.**
- **Our analysis of India unveils a SWEET SPOT within the Indian consumption story where the risk of capitulation seem rather remote to non- existent.**
- **In our view Tier II & III cities of India (Sub-Urbia) are at the centre of this proverbial SWEET SPOT.**
- **Looking at the SWEET SPOT we have short-listed companies based on three main parameters – VALUE FOR MONEY, BRAND & QUALITY AND DISTRIBUTION which we believe are the key criteria for success in Indian suburbia.**
- **Yes, most of our above recommended companies have outperformed over the last 12 months. But our Sub-Urbia thesis leads us to believe that these companies are not only good defensive bets but will also deliver handsome returns over the next two to three years.**

Asiamoney 2011
Brokers Poll
25 July - 26 August, 2011
Vote now!

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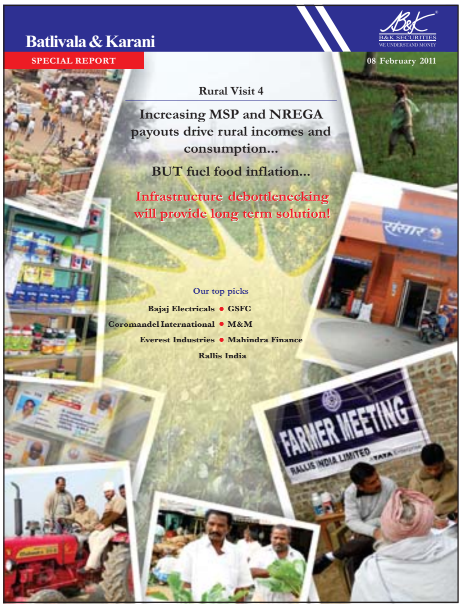
Batlivala & Karani
VISIT REPORT
13 April 2011

Rural India Visit – 5

KILLING TWO BIRDS WITH ONE STONE

NREGA driving socio economic revolution

Our Top Picks
Rallis India • Kaveri Seed
Bayer CropScience • Mahindra Finance
Bharti Airtel • ACC
Bajaj Auto • Mahindra & Mahindra
United Spirits • Jagran Prakashan
Dish TV • Nestle India



Batlivala & Karani
SPECIAL REPORT
08 February 2011

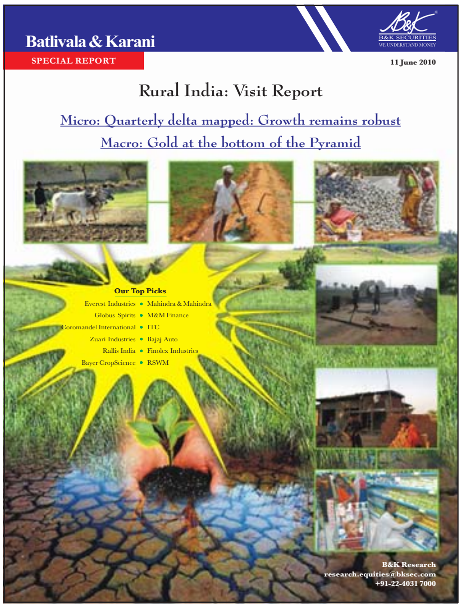
Rural Visit 4

Increasing MSP and NREGA payouts drive rural incomes and consumption...

BUT fuel food inflation...

Infrastructure debottlenecking will provide long term solution!

Our top picks
Bajaj Electricals • GSFC
Coromandel International • M&M
Everest Industries • Mahindra Finance
Rallis India



Batlivala & Karani
SPECIAL REPORT
11 June 2010

Rural India: Visit Report

Micro: Quarterly delta mapped: Growth remains robust

Macro: Gold at the bottom of the Pyramid

Our Top Picks
Everest Industries • Mahindra & Mahindra
Globus Spirits • M&M Finance
Coromandel International • ITC
Zuari Industries • Bajaj Auto
Rallis India • Finolex Industries
Bayer CropScience • RSWM

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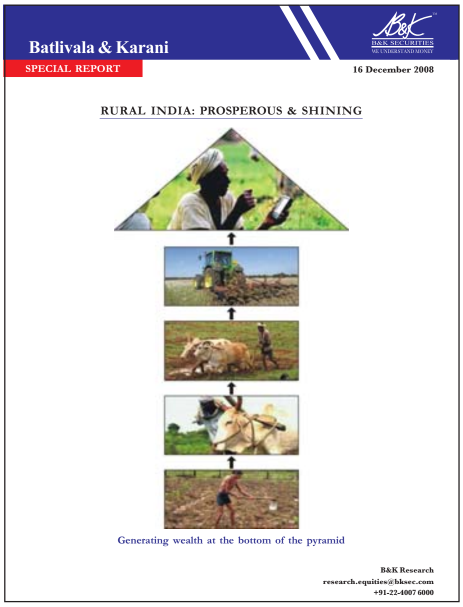
Batlivala & Karani
SPECIAL REPORT
19 February 2010

Rural India - Converting 600 mn Aspirations

Secular, Structural, Sustainable Growth

Our Top Picks
Bajaj Auto • Dish TV
Hero Honda • Jagran Prakashan
Mahindra & Mahindra • Bayer CropScience
ITC • Rallis India
United Spirits • Everest Industries
Globus Spirits • State Bank of India
M&M Finance



Batlivala & Karani
SPECIAL REPORT
16 December 2008

RURAL INDIA: PROSPEROUS & SHINING

Generating wealth at the bottom of the pyramid

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Index .... Page No.

Executive summary

As part of our regular endeavour to understand the developments on the rural and semi-urban side we conducted our 15th rural India trip. We had four teams that covered ~4,000 kms by road pan-India. On our way we interacted with farmers, village heads, auto dealers, cement outlets, NBFCs, agri dealers and other intermediaries to get a flavour of what is happening on the semi-urban and rural side.

A deficient and irregular monsoon has had its impact on crop production. Paddy output in Uttar Pradesh and Bihar is expected to be down by 20-30%, chillies production in the Guntur district is down by 40% and in the northwest the prices of basmati and guar gum have corrected significantly. Expectation of lower farm income this year is resulting into lack of demand especially in segments such as tractors and two-wheelers. For the current year, there is ready availability of labour and wage rates for farming are at similar levels like previous year.

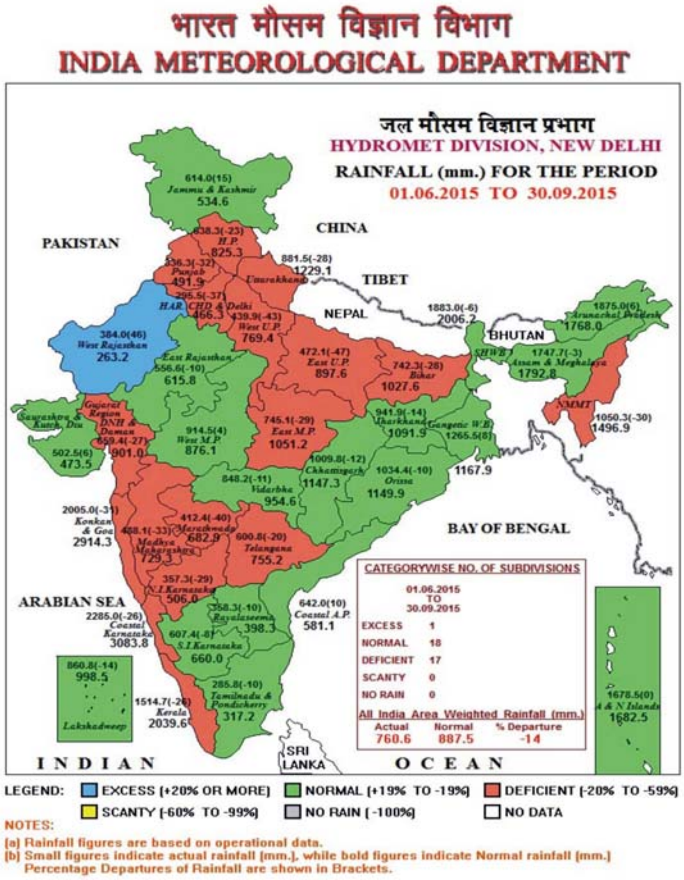
While the rural environment for the current year was fairly dull, we could not help but notice some medium term opportunities that stand out. Organised paints as a segment is bound to see very strong growth driven by increasing penetration and more importantly a shift away from the local paints driven by better consumer awareness. Increasing education levels will also be a strong demand generator for areas like oral care and feminine hygiene.

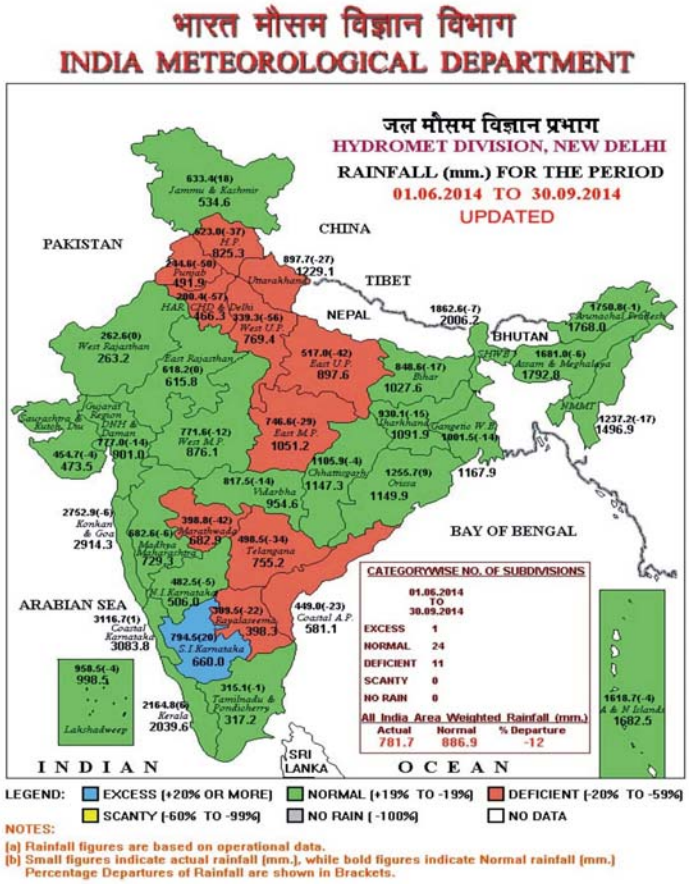
The increase in the prices of land across most places has sustained. Select pockets where infra development is expected to be driven by smart cities, SEZs, infra hubs are showing traction in prices with decent frequency of transactions. The increase in prices is having a positive ripple effect on the price of land in the adjoining rural areas as well with the higher prices having extended to a fair radius around the expected area of development. To sum up on an overall basis the wealth effect remains fairly intact which has helped the farmers cope with the impact of another poor agriculture season.

For now rural India is down...but definitely not out!!!

A disappointing monsoon

Current year has been the second year of lacklustre monsoons. The monsoon last year was also deficient with select parts of the country impacted by significantly deficient rains. 2015 is the second year in succession where the rainfall has greatly been subpar.





The total rainfall deficit for the current year has been 14% back to back to a 12% rainfall deficit witnessed during 2014. The rabi crop in the beginning of the current year had also been impacted due to unseasonal heavy rain. **State-wise data of area affected by rains and hailstorm is estimated to be 19 mn hectares. Normal area planted during rabi season on a pan-India basis stands at 63 mn hectares.**

Thus the current season would end up being the third weak agriculture season in succession.

A peculiarity about the rains in the current year was that in many places the rainfall was front ended. Many regions received heavy rains in the beginning of the season which was followed by a prolonged dry spell. There was some rain thereafter but it was too late to have a normal crop.

Non-irrigated states feeling brunt of dismal rainfall

Amongst the regions surveyed Central Maharashtra and Andhra Pradesh face a challenging time as unlike the other states these areas are largely rain fed with very little canal irrigation.

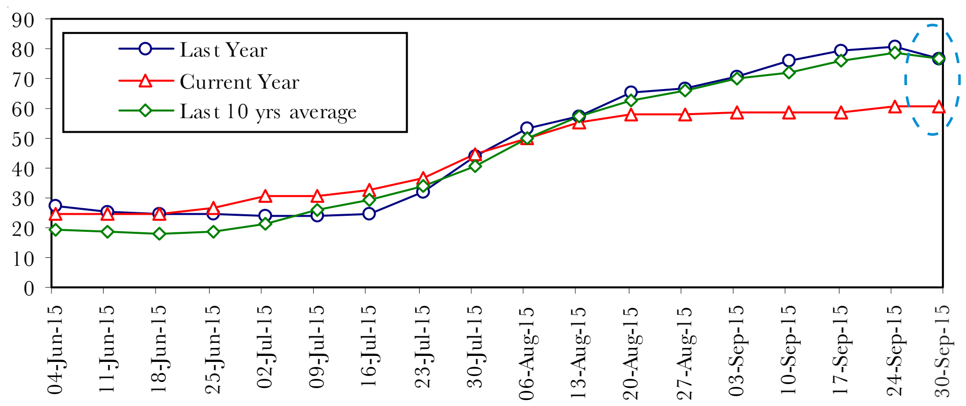
A particularly alarming fact as a consequence of deficient rainfall this year is the low water reservoir levels. This in our view will post a few challenges for the areas that are largely rain fed for the forthcoming Rabi season. Rabi as a season contributes about 1/3rd of the overall agri income of the country.

As on 30th September overall storage in 91 reservoirs is 95.7 bcm compared with 124.3 bcm same period last year and 124.3 bcm (10 year average). Overall live storage is at 60.6% of full reservoir level of 157.79 bcm, which is lower than last year level of 78.8% and also lower than 78.8%, which is average of last 10 years.

Region-wise live storage as % of full reservoir level is as follows

Region	Storage as % of reservoir level
Northern	86.2
Eastern	70.5
Western	62.2
Central	76.8
Southern	34.1
India	**60.6**

Storage as % Full Reservoir Level

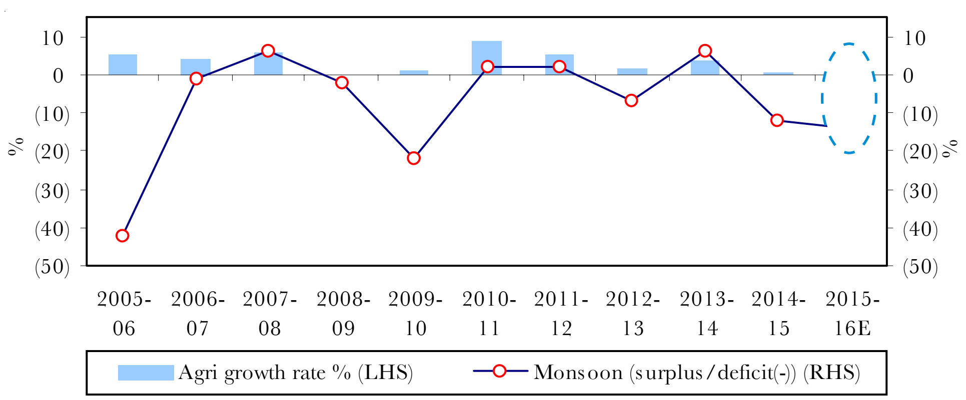


Source: Central Water Commission, India

Expect Agri GDP to be impacted

We expect the second year of unfavourable rains to impact, signs of which will be visible on the current year's agri GDP. Our economist is currently at 1.4% Agri GDP growth for the current year which he believes will be driven by the non-food part of Agri GDP (which constitutes ~40% of overall Agri GDP).

Monsoon and its impact on Agri GDP



Source: Central Statistical Organisation (CSO), India

Impact on production expected

Our 4 teams extensively interacted not just with farmers but also other intermediaries to gauge the impact of current year's monsoon.

Paddy crop damaged

In **Bihar** and **Uttar Pradesh**, the paddy crop has been impacted on account of the deficient and untimely rains. The farmers expect damage to Kharif-grown paddy to the tune of 20-25%. The impact would have been much higher had the region not had the benefits of canal irrigation. Paddy as a crop, however, requires a lot of water and irrigation has just helped the impact from being more severe. Some farmers were also complaining about select canals running dry. The reason for this has been non-release of water from rivers from neighbouring states.

The existing Nitish government in Bihar is giving a token subsidy for diesel usage on account of the higher usage of pumps for irrigation but the quantum is small to have a meaningful impact.

Front ended rainfall impacts crop production in Andhra Pradesh

In **Andhra Pradesh** (region that looks normal in terms of monsoon) farmers are talking about impact on select crops like Chillies. The production will be down by 40-50% on account of the untimely rains and the representative of the Chillies Board whom we me talked about there being a sharp increase in chilly prices. **Telangana** region was not impacted as they were recipients of late rainfall which was beneficial.

In **Vidarbha** the main crops during kharif are cotton, soya. Yavatmal is the largest cotton growing area within Vidarbha. Our interactions suggested that though rains were deficient in July and August in Vidarbha district, it rained heavily for three-four days in Vidarbha during mid September. Hence, fears of loss in cotton crop got allayed. Farmers were happy with the amount of rains they had got in mid September and sentiments turned out to be positive.

For **Marathwada** the main cash crops grown in this region during kharif are cotton and sugarcane. Marathwada is a drought-prone district and it has been suffering in the last two-three years due to low rains. This year also rains turned out to be severely deficient in Marathwada region. Our interaction with locals suggested that rains were deficient by more than 50% and reservoir levels are precariously low. Crop damage in this region is expected to be at least 30-40%. Some locals also pointed out to the fact that they receive drinking water after every three days.

Near **Karnataka border** the main crops are rice, jowar, maize, sugarcane, etc. Since the borders were close to Marathwada, we learnt that rains were also deficient in this region and crop damage was to the extent of 20%.

Whitefly pest attack on cotton in Punjab

Cotton crop in **Punjab** has been impacted by whitefly pests. Area under cotton cultivation in Punjab is 4.5 lakh hectares of which whitefly has hit crop in nearly 1.4 lakh hectares. More than 50% of cotton crop got damaged in some regions. Punjab accounts for 5-6% of total cotton acreage in the country. While this may not have great implication for the overall cotton crop in the local areas it has been an issue of concern.

Historical major Kharif crop production (mn tonnes)

Crop	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Rice	75.9	80.7	92.8	92.4	91.5	89.6
Pulses	4.2	7.1	6.1	5.9	6.0	5.5
Coarse cereals	23.8	33.1	32.4	29.8	31.2	28.7
Oil seeds	15.7	21.9	20.7	20.8	22.6	20.1
Sugarcane	292.3	342.4	361.0	341.2	352.1	355.0
Jute & Mesta	11.8	10.6	11.4	10.9	11.7	11.5
Cotton*	24.0	33.0	35.2	34.2	35.9	35.2

*Cotton in lakh bales of 180 kg each.

Dried river beds in Marathwada

Paddy crop in Bihar impacted

Expect 20-30% hit on paddy production

Wealth effect still in play while farm wages have hit a pause

Over the past 10-15 years rural India has been a benefactor of increasing price of land. Land in many places is 100x the price over this period.

Smart cities announcement driving prices

Prices of land are either flat or on an uptrend in the Bihar and Uttar Pradesh region. The key reason for this has been better infrastructure, announcement of industrial belts, satellite cities, new state capitals and off late smart cities. The land prices in the vicinity of these areas have seen substantial increase and there is also a decent frequency of transactions. Prices in the Telangana and Andhra Pradesh belt are also firm after a sharp jump in the preceding two years. Development of a new state capital in Andhra Pradesh as well as expectation of better infrastructure development has helped sustain higher prices.

Our team covering the West belt saw a correction in prices in select pockets of Gujarat, Rajasthan and Punjab. The prices in these regions have already seen a big spike and people attribute this to a general correction along with sharp impact in a few commodities like Guar Gum and Basmati which have seen a price correction of 70-80% and 30-40%, respectively.

Marathwada-Nagpur region has benefitted on account of the announcement of smart city as well as the fact that the current chief minister Mr Devendra Phadnavis is from the same city which is expected to drive development.

The wealth effect continues to be the silver lining on the current dark cloud of consecutively impacted agri seasons. The hit on overall sentiment and subsequently demand would have been much higher had it not been for the lingering feel good caused by higher price of land.

Further de-linkage of land prices from yield

The de-linkage of farm land prices from the farm yield continues.

The current season on account of subdued demand and not much work under NREGA is seeing very decent labour availability. The wages rates for farm labour across most of the regions surveyed have been largely flat.

Rural wage growth is flat

State	Farmer wages (Rs)		NREGA wages (Rs)	
	2014	2015	2014	2015
Maharashtra	200-250	200-250	168	184
Gujarat	200-250	250-300	167	178
Rajasthan	175-225	200-250	163	173
Uttar Pradesh	200-250	200-250	156	161
Punjab	250-300	300-350	200	210
Telangana	250-300	250-300	169	180
Andhra Pradesh	300-600*	300-600	169	180
Bihar	150-200	150-200	158	162
Tamil Nadu	200-300	200-300	167	183

*Closer to Rajahmundry belt which is a relatively prosperous region.

Sector-wise feedback

Agri sector

During our trip, we met up with number of dealers/farmers/intermediaries to gauge the market situation and understand rural dynamics. Deficient monsoons have again played a spoilsport impacting sowing patterns, yields, prospective farmer incomes. This is the 3rd consecutive weak season (after weak kharif and rabi last year) and farmers' sentiments have taken a big hit.

Weak monsoons this year coupled with uneven rainfall impacted sowing patterns as farmers shifted to short-cycle crops. Weak crop prices and lower increase in MSPs also led to crop shifts as farmers shifted from cotton to soya. Maize sowing was also impacted due to weak prices.

On the other hand, overall pulses benefitted due to the bonus announced of Rs 200/qtl by the Central Government. As we see from the sowing data available with the Ministry of Agriculture, cotton sowing was down by 8% YoY while pulses sowing were up by 12% YoY. Coarse cereals and oilseeds are up by 3% and 4%, respectively.

Generics face pricing pressure on account of high inventory

On the agri-inputs side, pressure on farmers' profitability has impacted consumption of agri-inputs. Volume growth for agrochemicals is likely to be muted. On pricing side, generics continue to face pricing pressure due to higher inventory in system.

Amongst the preferred companies, MNCs including Bayer, Syngenta and DuPont have the highest brand recall. We were surprised to note that despite pressure on farmers' profitability, their demand for this premium MNC products have not gone down significantly. Dealers attributed this to the high brand recall, higher on-the-ground activities and success of these products earlier in addressing pest attacks. Amongst domestic companies, Dhanuka Agritech and UPL garnered positive responses. Rallis is trying to come back after losing market share in the last two-three years but it will still take them sometime.

Urea performed over complex fertilisers

On fertilisers side, demand scenario remained muted due to weak monsoons. Farmers continue to prefer urea over complex fertilisers. On pricing side, complex fertiliser companies have raised prices by ~Rs500-1,000/mt due to the recent rupee depreciation. Imports continue to be prevalent in the industry.

Whitefly attack on cotton

On seeds side, cottonseed players have faced a tough year due to decline in cotton acreages and industry volumes have declined by 20% YoY. In Northern India, substantial crop (~30-40%) has been damaged due to whitefly attacks. Maize sowing has declined by 10-12% YoY even on a lower base of last year.

Auto tractors

On our interaction with tractor dealers and customers, following are some of the key takeaways from our interactions with numerous tractor dealers:

Tractor rates decline in spite of discounting

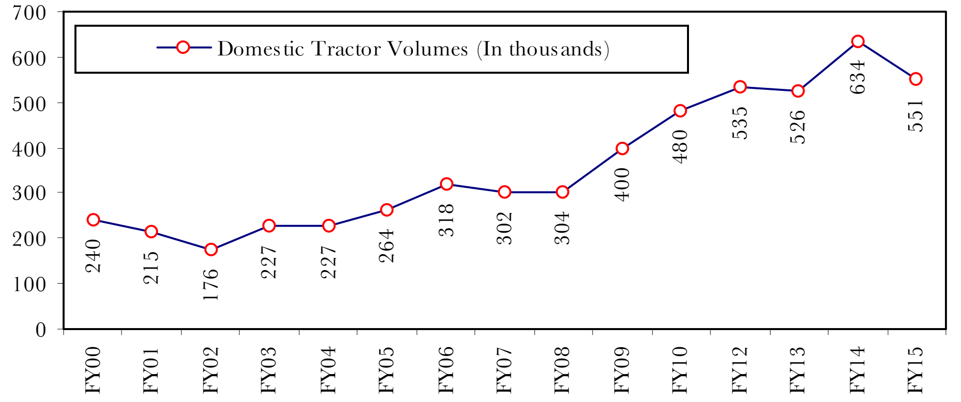
On a pan-India basis, tractor industry witnesses big drop in volumes ranging from ~20% in northern India to ~40% YoY drop in southern India. Dealers also expect persisting weakness to continue till the next harvesting season. Discounting and inventory levels have increased significantly as compared to previous year due to weak retail sales. Main reasons were primarily weak monsoons along with inadequate irrigation facilities in southern region and no improvement in haulage activity. In southern India, dealership viability for tractors is now becoming a big issue and many dealers are planning to close dealership in the southern India due to losses in dealerships.

NBFCs and Private Banks preferred financiers

Finance options available are numerous and despite many PSU banks across the regions, Private banks and NBFC (M&M, Chola, Magma, etc.) are preferred due to ease in process and faster turnaround time of around a week in NBFC and private segment as compared to month in case of PSU banks. Around ~60% of tractors are financed and dealers do not expect major increase in sale even on rate cut and only revival in farm incomes holds the key for growth in tractor industry.

Despite weakness in the segment, M&M's Mahindra brand leads followed by TAFE's Massey Ferguson brand in majority of the markets visited. Despite long presence, MNC brands (John Deere and New Holland) are yet to gain traction in the market.

Domestic tractor volumes (in thousands)



Source: TMA, B&K Research

Auto two-wheeler

Following are some of the key takeaways from our interactions with numerous two-wheeler dealers:

Growth has turned flat and September as a month is turning out to be challenging. In addition to the poor demand of the monsoon the festive season has also got delayed. Thus on a YoY basis majority of the dealers surveyed are seeing marginal de-growth.

Scooters continue to outperform

In terms of segments, scooters continue to outperform the overall bike market across geographies. Scooters are viewed as a family bike which can be used by all members of the family. Some elderly customers are also now demanding scooters. Additionally, some parents consider as a safer alternative to bikes for their children. Honda Activa is the most popular brand and TVS Jupiter has gained popularity on account of decent features.

In two-wheelers, Hero has a dominant presence. However, the new launches from Bajaj CT 100 and Platina are at a lower price as compared to HF Delux which is resulting into some loss of business. Mopeds.

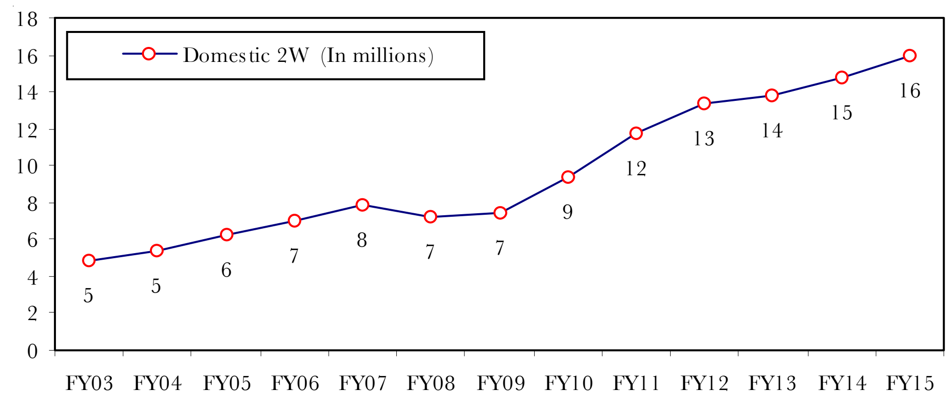
Honda Dream series has not been a successful venture for the company. The company in the process defocused on Honda Shine which was a hot selling product and this has backfired for Honda.

Fuel efficiency remains key buying consideration

The key demand determinant on the rural side remains fuel efficiency since the running generally is fairly high. The customer is greatly cost conscious and it is common to see the customer replace an earlier bike with the same bike model.

Finance options available are numerous and it the dealers channels the customers to an appropriate financier based on the percentage of funding required, speed of financing and the risk profile.

Domestic two-wheeler volume (in millions)



Source: SIAM, B&K Research

Auto four-wheelers

During our rural trips, our focus was largely on meeting dealers of Maruti. The good old story of Maruti continues to work in its favour for semi urban and rural demand.

- Great Value for Money – Cost and Fuel Efficiency.
- Easy access to service centres.
- Best-in-class resale value.

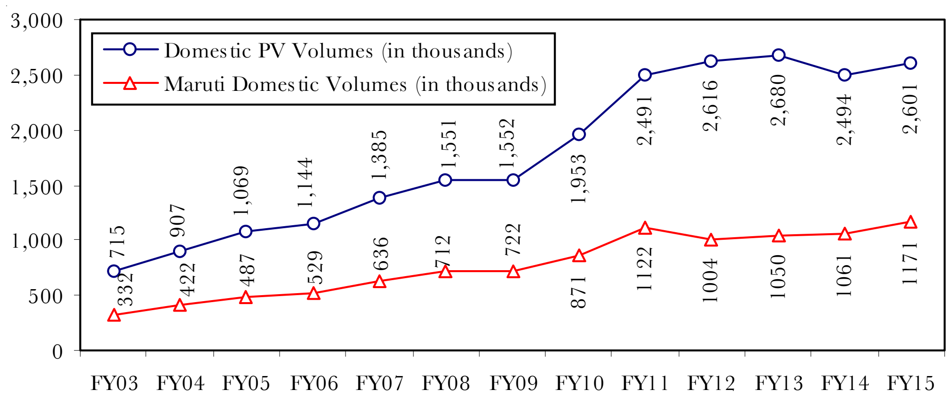
The preferred Maruti brand for first time buyers continues to be Alto 800 and Wagon R. Swift and Swift Desire are models for upgrades.

Maruti growth story intact

We witnessed growth in most Maruti outlets that we surveyed other than in select areas impacted by a great drop in crop prices. In the growing outlets, growth numbers ranged from 5-18% but on an average these numbers were 5% lower than the growth displayed in the previous calendar year.

Upgrading to cars from two-wheelers is a continuing phenomenon in the rural space and it is good to know that growth is visible even in a fairly weak macro economic environment.

Domestic four-wheeler volume (in thousands)



Source: SIAM, B&K Research

Cement

For cement sector, we interacted with dealers, distributors, real estate developers and marketing officers of various companies across regions. The inherent weakness in demand was visible in most part of the areas. Key reasons were poor construction activity, lack of real estate demand and absence of agriculture-based housing activity.

Our interaction highlighted that during the last one year consumption pattern of cement has changed. Rural areas (primarily agriculture-based income led housing demand and government projects) have witnessed de-growth but urban demand and infrastructure segment has shown some traction. **Most of the regions have witnessed price correction in the range of Rs 10-30/bag except for northern region where prices have increased by Rs 70-80/bag during the last two months primarily led by production discipline.**

Southern region demand continued to remain weak but industry players expect rebound in the coming quarters led by start of construction activity in Andhra Pradesh to develop the new capital. However, cement prices continue to trade at higher levels.

Though demand growth in western region was stable at lower level, region has witnessed maximum price volatility during the last six months.

Eastern region demand growth has moderated during the last two months but still growth rate (~9%) is higher than other parts of country. However, cement prices have witnessed correction in the range of Rs 20-30/bag primarily due to completion of incremental capacities.

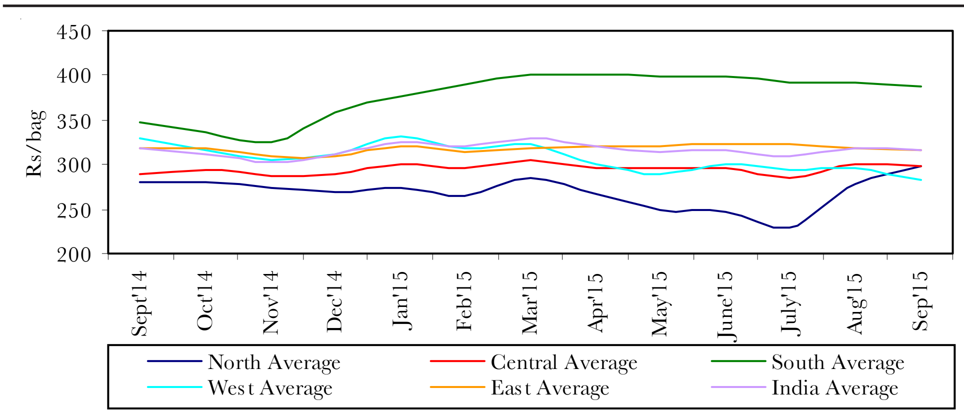
North region demand was subdued but prices have increased in the range of Rs 75-80/bag prices primarily led by production discipline. Intermediaries are not expecting any major change in demand pattern in the near term.

Price difference between tier I&II brand has narrowed which indicates weakness in consumption of IHB segment demand.

Central region demand is growing in the range of 4-5% and major support is coming from western Uttar Pradesh where infrastructure projects (like Lucknow metro and road projects) are progressing well. Region has witnessed marginal increase in prices led by lower inflow from northern region and stable demand.

Most of the intermediaries highlighted that demand would improve from the coming months but they expect robust demand growth would start only from 2HFY17.

Cement prices across regions



Source: Company, B&K Research

Consumer Staples

For FMCG, we interacted with rural consumers, shop owners and distributors. We also did some channel checks across small town chemists. The market remains dull with lower new launches. However, the macro weakness has not percolated down to staples consumption. Large stockists talked about volume growth of 4-5% as an average for most categories which is lower than high single digits performance logged in for the previous year.

Good part about the rural areas is that a huge majority of the children are now going to school. Even in a town with 300 households in Uttar Pradesh there was a school till Standard 5. For higher education there was a school that was 4 kms away. Even in a lesser developed regions of Uttar Pradesh and Bihar education is now viewed as a must from the point of view of marriage.

We came across interesting comments from farmers in Uttar Pradesh and Bihar. They viewed toothpaste as a "fad of the younger educated generation". Datoon (tree twigs esp. neem) is the normal product used by most of the middle aged villagers. Over the years, as the mix of the educated increases in the overall population we will witness a huge growth opportunity for the oral care manufacturers.

Large opportunities in oral care and feminine hygiene

Feminine Hygiene as a segment is gaining great popularity especially in the south and the west. We saw many stores where feminine hygiene products were front display and the shop owners talked of brisk business growth albeit on a low base. However, in the Uttar Pradesh and Bihar feminine hygiene products are still very much taboo. Even in small towns the chemist does not store these products and consumers do not ask for them.

Look-alike brands in packaged food

The presence of local and look-alike brands was more prevalent in categories like snacking, branded food products like salt, detergents and in a few cases soap. The unit profit earned by the shop owners in these products is 4-5x the organised brands. For e.g. we saw a show owner selling "Tatva Salt" which was a look-alike in terms of packaging and name to "Tata Salt" a prominent branded salt brand. "Tatva Salt" sells for Rs 10 per kg with the shop owner earning a profit of Rs 4 as compared to "Tata Salt" which sells for Rs 17 per kg with the shop owner earning Re 1 per kg.

Paints

Unorganised paints account for 20% to 40% of volumes depending on region

Paints is a segment where we see great opportunity in the rural areas not just from demand growth but also from a shift to the organised players from the locals. Meetings with dealers just outside cities make us aware of the extent of local players in the market. Many local players do not pay taxes and are able to provide plain vanilla paints at a much lower rate than the organised segment. They contribute to 30-40% of volumes on an average in the Uttar Pradesh, Bihar and up to 20-25% of volumes in the western and southern states.

We spoke to paint dealers to understand the dynamics of the paints market on the semi-urban/ rural side.

The painter is the key decision maker for the paint used in the rural areas. The rural consumer as expected is very price conscious. The painter pitches that he can get the work done cheaper using a local paint which he claims is as good as the more expensive paints. The total cost ends up being cheaper by 15-20% as the local paint is 1/3rd cheaper than the paint from the organised players.

Brand and quality awareness setting in

However, this system has a great built in benefit for the painter. He gets a decent kickback from the stockist. Again the local paint has a much lower lifespan. The paints from the organised players can last up to 2x of that of a local paint. The painter once again gets an opportunity for repainting.

Our interactions, however, suggested that customer awareness is gradually increasing. Earlier on the rural/semi urban side almost all the paint decisions were made by the painter. However, now dealers suggest that 10-20% of the paint sales are decided upon by the customer. The labour costs over the years have moved up significantly and now the smarter customers realise that it actually would be more economical to get a better paint.

Putty market being targeted by paint companies

The paint companies are also getting more aggressive in the putty market. Asian and Nerolac are gaining market share from the cement companies who were the erstwhile putty providers.

Structural shift in demand to organised paints expected

We see paints as being a huge area of opportunity on the rural side. Though currently demand is flat, we see a structural opportunity for growth emerging not just from under penetration and housing demand but also a shift to the organised larger players. Advent of GST will help further accelerate this process by reducing the price differential between the organised and unorganised cost the paints. If the overall cost differential for a total painting job will come to ~10% it could emerge as a greater trigger for the organised paints players.

NBFCs

We had stopped over at a few NBFCs along our journey in smaller cities in order to gauge their assessment of the environment and the relevant impact on their business. Every NBFC branch that we met talked about challenges on the agri side of their portfolio. Tractor business across branches that we surveyed between 20-50%. **Our team surveying Maharashtra and Andhra Pradesh experienced the greatest impact on NBFC growth.** In the other regions while growth has become a problem impact is not being seen on collections. However, the NBFCs in Maharashtra and Andhra Pradesh have their field officers putting in extra effort to see that there are no slippages.

NBFCs targeting new areas for growth

The agri NBFCs in the smaller cities are targeting newer areas for growth like passenger cars. In certain places on account of permits being issued three-wheeler loan performance has picked up. On the flip side, competition in traditional areas is also heating up. New entrants like Kotak, IndusInd Bank, Chola for example are becoming more aggressive in the tractors market.

Concerned about reducing "days pending due"

The agri linked NBFC are also concerned about the proposed reduction in the number of days for declaring NPAs. Incomes in agriculture typically tend to be lumpy in nature and hence migration to lower days would end up being a tricky affair. It will result into an optical ballooning of NPAs.

Rural routes map

Rural study notes segment 1: Patna-Arrah-Varanasi-Allahabad-Kanpur-Lucknow

On our first day, we travelled from Patna to Bitha to Arrah. Along the way, we met dealers and intermediaries covering tractors, two-wheelers, cement, NBFCs. We also spoke to a few locals to get a perspective of government initiatives and development.

Canal irrigation has mitigated impact

The rainfall had been greatly deficient. Paddy is the key crop **areas that are dependent on rainfall will see between 40-50 % lower production.** However, the impact on overall production will not be too great as canal irrigation and ground water resources supplement rainfall in a large part of the state. The government on its part is giving diesel subsidy to farmers for greater pump usage.

Tractor sales in Bihar are holding on for the moment. July and August were dull months but there has been a decent recovery in September. The key reason behind this had been the release of funds for crops procured from the farmers by the government which had been pending for the past four months. The busy season traditionally had been 15th June to 15th September accounting for 40% of annual tractor sales. However, our discussions revealed that a slack in tractor demand could come in six months down the line as the affected farmers come to face their losses.

In two-wheelers, the areas surveyed are dominated by Hero. The dealers we spoke to talked about moderate growth but this was being more helped by land price increase (over the past three to four years) than rural income growth. Scooters are being marketed as a product that is unisex and can also be used by the elderly. However, female usage of scooters in this region is under 10%. TVS dealer whom we met complained about marginal de-growth even though he pointed out that Jupiter and mopeds were the relative better performers.

Expect cement demand to improve post election

We met the East India head of Bangur Cement (part of Shree Cement). Bihar as a region has grown 9% year to date. This is lower than the 15-20% growth over the preceding years but is largely due to the lull in project work before elections. Demand growth should pick up in a meaningful way after December. Prices have come off by Rs 20 per bag in both A and B grade cement. However, this is a function of Greater supply by New players rather than slack demand. A Grade Cement sells at Rs 320 per bag whereas B Grade Cement sells at Rs 280 per bag. Rural and rural linked demand account for 25-30% of total demand in the region. At present there are no signs of overall demand getting impacted.

Infra improved but long way to go

All people whom we spoke to talk about the great strides in infrastructure that Bihar has made over the past seven to eight years. Irrespective of the new state government that comes into power, the people expect the strong work in infrastructure to continue. Pockets have seen strong jumps in land prices due to infra development. We were personally expecting great roads after our interactions; however, there still remains a lot to be achieved if one were to compare it to the other states.

On an overall basis, there is no significant demand impact that is currently visible on account of lack of rains. **Wealth effect, election spending and good irrigation** have till now helped meaningfully mitigate any demand lapse.

On the second day, we travelled from Arrah-Kharoune-Buxar District-Mohania- Varanasi. Our visits included two-wheelers dealerships, local mandi, farmers, village head, tractor dealers and NBFCs.

As we travelled west away from Patna district within Bihar the mood turned more sombre. Some areas which were assisted from single canal irrigation are facing problems on account of **non-release of water from dams of neighbouring states.**

Outstanding crop payments yet to be received

Clearly the tractor sales in these areas have got more impacted. In Arrah suburbs and other covered parts of Bihar the tractor sales are down 30% to 40%. Unlike Bitha, these areas are yet to receive outstanding dues from middlemen which have impacted demand compared to last year which had also received deficient rainfall. Mandi farmers also talked about insufficient receipt of damages for the last year's failed crop. However, on the brighter side, land prices have not seen any correction even though the transactions have become less. **NREGA is greatly inefficient** and the system has turned more corrupt with greater amounts being required to be passed back to the money dispensers.

No shortage of labour

There is no shortage of labour in Bihar with unskilled labour now available at Rs 200 to Rs 250 a day. The rates in Uttar Pradesh are higher by about Rs 100 but there is no shortage of labour. Nitish Kumar has contemplated to give the normal diesel subsidy of Rs 300 per acre to help with more pumping from bore wells.

Hero is witnessing marginal growth in volumes and in this region Passion is the best selling brand. Honda continues to perform well and has displayed 30% growth YoY. The dealership believes that the customers have slowly started understanding the difference between Honda and Hero which is helping them drive sales. Royal Enfield sprung up a surprise in Arrah for us as the dealer is selling 60 bikes per month and currently there is a two-month waiting period.

Though all whom we interacted with talked about great improvement in road infrastructure in Bihar we figured that the change was relative to the earlier condition.

NBFCs eyeing new areas for growth

NBFCs whom we spoke to are trying to make up for the loss of business from the agricultural side by focusing on other segments like cars, three-wheelers and commercial vehicles. All of the NBFCs talked about an increasing number of NPAs chiefly due to the transitioning to lower days pending due (DPD). There is some relaxation offered to them till September end but thereafter they will **see the NPAs numbers move up considerably.**

The drop in agriculture and linked business in east Uttar Pradesh is between 20% to 30%. Infrastructure development in the region has in the near term been lacklustre. However, the first signs of pick-up are visible and this should help with growth in various linked segments.

Similar to our experience in Vijayawada last year, the land prices in Varanasi have increased by 2-2.5x over the past two years.

On day three, we travelled from Varanasi to Kanpur via Allahabad. Along the way we met farmers' dealers' intermediaries and executives of companies catering to the rural and semi urban market.

Monsoon in Uttar Pradesh has been greatly deficient and **paddy crop has been greatly impacted.** Production is expected to be 30% to 50% lower depending upon access to irrigation. The only factor that they are all happy about is the increase in land prices as it provides them with a mental safety net in the face of a failed crop.

We were pleasantly surprised that even a village of 200 families had a school up to 5th standard. For higher standards there was a school 4 km away. **Education is now being looked at as a necessity for getting a good partner for marriage.**

Oral care preferences surprise

The elders in the village used 'datoon' and viewed toothpaste as "a fad of the younger generation". This as we found out is the view in a large part of rural Uttar Pradesh and Bihar. As education levels in these states move up it will translate into a huge opportunity.

Discussions with FMCG stockists revealed that the market is fairly dull with most categories reporting growth in the mid single digits. Local brands were present in detergents and snacks. HUL has been focussing on lower price sachets at Re 1/Rs 2 price point to facilitate trial and draw customers away from the local brands usage.

Large presence of local brands in paints

Paints is another area where there is strong presence of local produce. The local paints do well as the painter makes better margin and gets a kickback from the stockist. However, these paints have a shorter life span. The rural customers are gradually becoming aware of the benefits of longer life of paints especially as labour is becoming more expensive. The organised paint market is currently flat in this region.

In the putty market established players like Birla and Shree Cement are facing heightened competition from Nerolac and Asian.

For cement, prices are down by rupees 10 per bag and currently A Grade Cement rates at Rs 280-290 per bag. Lack of rains has assisted demand in an overall weak economic environment.

Maruti growing in a dull market

The Maruti dealerships that we surveyed talked about decent growth ranging from 7% to 18%. However, this number is on an average 5% below the growth displayed last year. More than 3/4th of car sales are on finance with a variety of financiers available. It is the dealership that helps decide on the **financiers depending upon the risk profile of the customer**. For the first time buyers, Alto and Wagon R are the preferred brands whereas Swift and Desire are upgrade preferences for existing Maruti customers. Maruti had also launched a 2 gm gold coin scheme for Alto which is meeting with success. Maruti formula for success remains the same as in our earlier trips.

Tractors sales are seeing pressure in the month of September. On a financial YTD basis, the sales are marginally lower. Competition has picked up significantly in the tractor financing space with the entry of new players like Kotak, Chola, IndusInd Bank.

Smart city initiates drive land prices

The proposed smart cities in Uttar Pradesh, Varanasi and Allahabad have seen increase in property rates by 50% to 100%. The markets are seeing decent activity in transactions.

Migration continues from rural areas to larger cities and other states. According to farmers almost all of the shared farming landless labourers have migrated.

An alternate view on NREGA. Currently, the government is remodeling the system to enable direct transfer to the farmers much like the LPG subsidy amount. Though the process will take time the government can increase the end amount in the hands of the consumers through disintermediation.

On day four, we travelled from Kanpur to Lucknow via Unnav and Mahboobgang.

Monsoon in this pocket is also weak and crop damage would be in the range 50-60%. The major crop in this pocket is paddy, wheat and sugarcane.

Kissan credit exhausted

This is the third crop on continuous basis (during last 1.5 years) has been either damaged or output is lower. This has led to poor income for farmers and non repayment of loan amounts as **most of the farmers have exhausted their Kisan credit limit**. Hence, it would lead to lower sowing of the next crop.

Surprisingly, despite better infrastructure and proximity to the state capital, land rates in this pocket are lower than eastern Uttar Pradesh. Land deal volumes have increased but rates are either flat or lower than last year. Farmers have started disposing some land parcels out of compulsion (health issue, marriage) in the absence of crop income.

Daily wages rate are flat in this pocket (Rs 200/day) and labour availability is not an issue.

Scooters chosen as safe family option

Interaction with two-wheeler dealers highlights that demand for the month of September is very weak due to shift of festive season from September to October. Hero has witnessed pressure on volume during this month but YTD volume is flat on YoY basis. Passion Pro is the key brand for Hero which has continued its growth momentum and getting repeat customers for this model. Scooter is considered to be a family bike and has continued to grow.

Counterfeit products offer retailer great margins

In rural areas, we have witnessed some counterfeit products like Tatva Salt, RIM Soap, local edible oil. Key reason behind sale of these products is lower price and higher margin for shopkeepers (like for Tata salt price is at Rs 17 in which shopkeeper margin is Re 1 versus Tatar Salt is priced at Rs 10 and shopkeeper margin is at Rs 4). FMCG Female products (like sanitary napkin) are still considered to be **taboo products** in rural areas. Chemist don't stock it as well as customers also have not asked for it.

Four-wheelers (Maruti) demand during this month was weak (10% lower on YoY) but YTD demand growth was in the range of 10%. They expect recovery in coming months given start of festive season.

Urban demand in cement making up for rural loss

Cement demand from rural areas is weak but from urban areas demand is satisfactory. Lucknow metro is going on full stream which is supporting the demand growth in this pocket. Prices are more or less flat in the last two months.

We are positively surprised with the road quality and infrastructure of Lucknow.

Key difference of this rural trip as compared to the last two rural trips is that in earlier trips only farmers were unhappy and highlighting lower income but intermediaries and dealers were hopeful and highlighting positive drivers in the coming days. However, during this trip farmers as well as intermediaries, dealers, bankers everyone have highlighted the challenging environment and were not very hopeful for recovery in demand in the near term.

Rural study notes segment 2: Ahmedabad-Abu Road-Jodhpur-Bikaner-Ganganagar-Amritsar

Electricity shortage an issue

While driving from Ahmedabad, we were impressed by the roads and the overall infrastructure. We did a couple of stops along the way to Abu Road; our first stop was at Kalol which is a semi-urban city near Gandhinagar. Rains have been weak and will impact the farm income, real estate and land prices have reduced impacting the overall wealth of the people. Construction activities are slow and lower demand real estate has impacted sales of cement and steel. Two-wheeler and four-wheeler players spoke of weak demand, scooters were relatively doing well and Jupiter is gradually increasing presence in these areas. To revive tractor sales, some of the dealers have put up hoardings of offers and schemes for Navaratri. **Shortage of electricity** was one of the major concerns shared, with ~8 hours of power cut while Gujarat industrial development corridor gets 24 hours of power.

Better HCV demand driven by select segments

We moved to Mehsana, which is another prominent city having a large dairy industry in addition to agriculture and small/medium industries. Demand was better, especially under the heavy commercial vehicles (HCV) witnessing strong growth with doubling of sales annually. Milk and water tanker demand has been one of the key drivers for this segment and some of the truck players are moving towards more economical HCV instead of small/medium commercial vehicles. We halted at APMC-UNJA market, which is Asia's largest cumin, fennel and psyllium seed market. Cumin is a rabi crop and pricing is done through auctions, last year the production was less and the prices had increased by 30-40%.

On our way to Jodhpur, the next prominent city, we stopped at Sirohi which is a backward region where you can still find **caste inequities even in the land prices**. Unseasonal rains has impacted overall demand in the region, we were surprised to see good demand for TVS mopeds. Here again, the demand for commercial vehicle market is good at 15-20% growth driven by demand for transportation of marble, cement (factories of JK Lakshmi and Binani). Rains were heavy initially but dried up consequently impacting the farm output. Maruti holds the major share and has a dedicated dealer outlet, growth outlook is muted currently.

Tractor sales see a slump

We had a halt at Sumerpur, which is a small town and has one of the biggest dams in western Rajasthan. Initial rains were strong and the reservoir currently holds 52 ft of water, water till 45 ft is used for drinking and above this they are supplied for irrigation purpose. Water is given out for irrigation for only rabi crop. Moong production was low impacting the overall farm income thereby impacting the sales of tractors. Most houses have digital set-top boxes led by Airtel and Videocon, given their superior service.

Then we moved to another nearby town Pali, where the rainfall had been better with stable growth in tractor sales and 10-15% uptick in CV volumes. CV demand is driven by water tankers used by textile mills given the restriction on usage of ground water as textiles is one of the key industries in Pali.

Real estate demand is weak despite lower prices in Jodhpur impacting the building consumable demand like cement, paints, etc. Here again lower farm income is impacting the overall demand of two-wheelers, cars and tractors. Road infrastructure was bad on our way to Bikaner; road construction is happening in terms of repairs and doubling of roads to four lane from two lane. On our way to Nagaur, we stopped at a small village Bawadi, whose major crops are cotton and

Bajra. Rainfall has been low impacting the overall demand; two-wheeler demand is expected to drop by 30-40% in FY16E given the reduction in farm income. **Toilet subsidy scheme of central government is a huge success with Rs 12,000 per household.** Interactions with a cross section of dealers/distributors in Nagaur painted a weak picture of the market. Apart from some of the established dealers like TAFE tractors who are improving market share, all others like car and two-wheeler dealers shared a sluggish outlook. Tata has launched its new sedan Zest which is witnessing good enquiries.

Crash in Guar gum price

Our next halt was in Nokha, another small town on our way to Bikaner, one of the key crops, the **gaur seed prices has witnessed a sharp drop from Rs 30,000 per quintal to Rs 3,000 per quintal**. Reduction in price along with lower production is impacting the overall farm income. Surprisingly, the demand for bikes has grown driven by replacement demand. Tractor dealers of Bikaner shared a challenging outlook largely hit by non-remunerative gaurgum economics and overall deficiency in rainfall. Other crops are groundnut and moong in Kharif season, here again the production has been low but prices haven't increased impacting the overall income of farmers. Electricity availability for farmers is for 6-7 hours with ~50% subsidy.

Property prices impacted

On our way to Suratgarh, we stopped at Lunkarnsar, given the poor viability of gaur seeds, the farmers are shifting to moong dal. Lower rains and lack of power availability has impacted the overall demand growth in the region. Property prices have dropped, however, labour cost continues to be stable and farm labour is higher compared to other normal labour. We moved to Suratgarh, which is one of the prominent towns near Ganganagar, in addition to farm income there is an army cantonment and various industries which drives the economy. Demand is muted, however, not as low as we had witnessed in other parts like Bikaner and Nagaur. Cotton/Gaur seed are grown in Kharif and Wheat is produced during Rabi. We saw a lot of **local brands in FMCG shops like Nirole washing soap and non-branded detergents**. Education levels have improved and increasing awareness is resulting in higher consumption of branded products. Car sales are flat with Maruti leading the market with ~46% market share.

Whitefly attack on cotton

We started off the next day meeting with farmers near the Rajasthan-Punjab border. **Cotton crop has been extensively damaged due to whitefly** attack and this has impacted the overall farm income. Despite lower production, the cotton prices haven't increased, electricity is available throughout the day and rains have been better compared to other places we had visited. Moving towards Punjab the crop variety also changed more towards water dependent paddy. Basmati is a major crop grown around Fazilka, Ferozpur and Amritsar. The price of Basmati has reduced by 30-40% YoY and this is impacting the overall wealth in these regions. Farmers in Fazilka are gradually reducing cotton given the higher cost of production and lower prices impacting the overall margins. With the introduction of CT-100, Bajaj is able to gain foothold in the entry segment of two-wheelers and TVS Jupiter is also able to make inroads into the scooter segment. But overall the market is weak in all these regions. First term buyers are now opting for swift and desire, interestingly, the domination of Hyundai is more in Amritsar market with good demand for its SUV model Creta. Farmers are hopeful that the prices of Basmati will improve giving them some relief.

Basmati prices corrected

Rural study notes segment 3: Chennai to Hyderabad

Sricity project assisting overall demand

We started off our Rural Trip at Gummidipundi, outskirts of Chennai, invited by good quality of highway stretch. On our stretch we stopped at 'SIPCOT' area and met a cement dealer who was quite positive on demand with more factories coming in the vicinity. Brands preferred are Ramco and Coromandel. We also met the Branch Manager of Indian Overseas Bank to understand the business scenario in this region and learnt from him that there is no stress on loans repayment. En route to Nayudupet we stopped at a Hero two-wheeler dealer who shared that the demand of two-wheelers has picked up because of **Sricity Project.**

At Naidupet our interaction with Crop Care, Seed and Fertiliser dealers spoke of their **inventory pile up because of weak off take** and on Crop Care, Bayer and Cheminova have strong brand recall compared to local players. In fertilisers, Coromandel International (Murugappa Group), IFFCO and FACT products are sold. Coromandel Brand Urea dominates while application of complex fertilisers is yet to catch up in this region. Even though there is an improvement in brand awareness among farmers choosing the Brand, Store owner influences the final decision.

Paints trend towards premiumisation

We visited a 'Muthoot Finance' branch at Naidupet and learnt that 40% to 50% of customers forfeited their mortgaged Gold towards Gold loan taken and the same was because of fall in Gold rates. Our interaction with Paint dealer at Naidupet brought out that premiumisation trend is clearly witnessed as there is more inclination towards emulsion as compared to distempers. Asian and Nerolac are the dominant players in this market. Asian paints especially has strong leadership in ENAMEL category of paints.

In our chat with a Mahindra Tractor dealer at Naidupet, he expressed his disappointment of falling tractor sales YoY by 30% to 40% because of monsoon failure and can expect the demand revival basis on arrival of monsoon only.

At Nellore, the environment depends on Agriculture & Aquaculture; it's a feeder market for a radius of 100 kms.

In our meeting with a Maruti Suzuki dealer at Nellore it was evident that Maruti has reaped the benefits of the premiumisation trend. Recently launch S-Cross to facing intense competition from Hyundai Creta. We also learnt, of late discounting has gone up sequentially due to competition (dealer contribution has gone up).

We visited a liquor store, it was quite evident even at 11 am customers thronging the stores, the counter boy was quite busy in his transactions and looks like industry will be merrier always. Large selling brands: Officer's Choice and McDowell's. Customer again looks at Value for Money and the marginal increase won't affect their routine sip.

We next stopped at a consumer durable store Sono Vision at Nellore who has 23 stores spread across Telangana and Andhra Pradesh and is the largest chain in Andhra Pradesh. Refrigerators, LED, Washing Machine and AC are the best selling categories. Consumer durable demand continues to be strong and is growing at 10% YoY. Dealer is quite buoyant of the demand despite deficit rainfall. Major factor pulling the customers is on technology innovation and new models. LG, Samsung dominates the space while among Indian brands, Symphony is strong in coolers and Crompton is doing good in select segment. Bajaj Electricals is currently facing supply side issues and is less preferred. Best after sales support is of LG/Samsung. Dealer perceives at this juncture threat from Online Platform is negligible and can thwart the trend.

LCV demand at Nellore continues to be subdued and is witnessing high discounts across brands; market demand is being shifted from Tata products to M&M, Dost (AL-Nissan). M&M: Winning the small LCV game with the new LCV product "Jeeto". We also could meet a snacks distributor, who has doubled his turnover in four years and there is no issue in off takes, distributor is confident of the momentum to continue even if the region gets affected by monsoon repercussions.

Farm production impacted in Guntur region

At Guntur an agrarian region, is in stress due to scanty rainfall. Farmers are experiencing **difficulty even in repaying the interest free farm credit given by government of Rs 50k per acre**. Only short-term positive is the wealth effect due to sharp rise in land prices. However, long-term farm potential is impacted by conversion of farm land to plotted development which will impact food security for growing consumption. Farm wages are in increasing trend, however, the rate of increase has come down drastically. All crops (cotton, chilly and paddy) are expected to witness drop in yields in the upcoming harvest months.

Weak produce expect to drive up prices of chillies

Surprised that 4,000 population town had no direct FMCG distribution

Chilly market in Guntur is the largest chilly market in the world with sales of over Rs 35 bn in FY15. Indian chillies have wide acceptance across many countries in the world and exports constitute 65% of Guntur market sales and domestic 35%. Current year, Guntur has seen big fall in cultivated acreages (40% drop YoY). Chilly is a one season crop and harvested in December-January month. Prices are set to increase due to short supply as there is no alternative channel like imports. We could visit a few retail stores at a Pothur village of 4,000 population most of the National & Regional FMCG brands have penetrated these stores, but we got a significant input, even though this village is 10 kms from Guntur town. We were surprised to find that no FMCG company has a direct supply in these stores. As expressed by the store owner, if the companies deliver at their doorstep, store sales would augment by 30% as he loses margin by sourcing the stocks on his own from nearby wholesale market.

Further on to Vijayawada Auto Nagar, one of the largest after-market hub, our interaction with dealers suggested that **organised listed players in auto ancillaries are gaining market share over the unbranded players**. Branded quality products are the first choice of the auto customers over unbranded products despite higher pricing. In lighting segment (headlamps and assemblies), Lumax Industries is most preferred brand across categories. In bearings, across the brands there is a preference in different segment and NRB Bearings has a niche presence with good quality and brand perception. In fasteners, Sundram Fasteners were preferred followed by sterling tools. In springs for CV, Lamina and Jamuna Auto leads while unorganised players are losing market share due to inferior quality. In lubricants, Castrol leads followed by Servo (Indian Oil Corporation).

Replacement demand towards heavier tonnage

Our takeaways on CV dealers visit on the highway of Vijayawada to Khammam – Trucking the strong growth on fleet replacement demand. Across the dealerships, there is a strong growth witnessed in heavy trucking segment and structural shift witnessed towards heavy trucks. Fleet replacement demand is towards heavier truck tonnage due to better payback. Discounting (except Bharat Benz) continues to be at highest levels due to intense competition. Freight rate continues to be at higher levels and consequentially, profitability of fleet operator is much better due to lower fuel prices. Dealers expect demand to be strong in the coming months across the product segment. Bharat Benz (Daimler CV) and Ashok Leyland taking the lead in the MHCV segment while Tata trailing in CV market.

Basic education for all

On our journey in Telangana from Andhra we visited a Veeramam village. Although all kids go to the school in this village, Education Infrastructure and Skill development is very weak at the schools. No Health care (primary/hospitals) is available in this region. Key positive outliers which we witnessed were penetration of sanitation facilities across all houses through government schemes. DTH was seen across the remote villages almost all of the houses (Sun and Dish TV). Two-wheeler penetration is very strong (50 % of household) due to non-availability of an alternate transport facility.

Last mile delivery a concern

On FMCG front, as we visited a wholesale grocer in Bangala town en route to Warangal of POP 10 K +, direct service is happening to these Stores and we can conclude their presence in 10 K + POP Towns Distribution Infra is strong of all leading listed FMCG companies but in less than 5 K Towns, last mile delivery is still a concern, covering these small towns is quite critical for FMCG companies to enter the next orbit of growth.

On our journey from Warangal to Hyderabad we interacted with a Crompton dealer at Warangal and learned that Crompton continues to enjoy strong leadership in fans category. In lighting category, Philips enjoys the best brand equity while Crompton is also seeing good growth in the market. Crompton is also seeing big volume growth in LED lighting as a substitute to CFL. However, prices have reduced by 50% YoY. Dealer expects LED prices to come at par with CFL lighting. Dealers also worried about price erosion in the LED lighting as it will lead to unmovable stocks and inventory losses.

Inventory pile-up at some FMCG distributors

In our meeting with a Britannia distributor in Warangal who does a turnover of 55 lakhs, expressed his displeasure with the present management as their inventory levels have doubled in the last one year. The mismatch between primary and secondary volumes has led to the increase in their inventory levels. To validate the scenario we also met another semi urban Britannia Stockist Ganjur who does a turnover of 12 lakhs who echoed the same displeasure of doubling inventory levels. Also we understand Marie segment is experiencing flat growth, Tiger is de-growing, even though this is being compensated with Good Day, Sunfeast Moms Magic is giving a big fight in the market place, Cake & Premium segment has less than 1% contribution in these markets. Dairy segment is negligible.

Select Emami products facing challenges

We also met an Emami distributor at Hanamkonda, associated with Emami for the past nine years and has witnessed 8% growth in volumes over the last year. Navaratna Oil continues to be bullish, Men's Fair & Handsome spurt in sales happens during media burst, Zandu and Emami balm continue to dominate the category. Even though sanitary napkin category is on the growth trajectory Emami's 'SHE" brand is facing a complete failure in off takes and dealers have returned the stock.

Rural study notes segment 4: Nagpur-Vardha-Yavatmal-Nanded-Kolhapur-Panjim

Our recent rural trip took us to the internal regions of Maharashtra. We started our journey from the outskirts of Nagpur and travelled 1,100 kms till Panjim (Goa). Along the way we met several dealers, intermediaries, farmers and heads of NBFC's and banks in the region. Our route took us along the Vidarbha and the drought hit Marathwada region and then slowly towards parts of Western Maharashtra. Our interactions lead us to the following observations:

Vidarbha relatively better placed after a hiatus of two years

Increased penetration of scooters

Starting out from Nagpur we visited small towns in the Vidarbha region, namely Wardha, Yavatmal and Mahur. Since the past two years, Vidarbha has been a region hit by severe drought and crop damage. **However, this year timely rainfall has provided some relief to the region and the farmers we met are hopeful of a better yield on their crop.** We sensed a sigh of relief amongst some of the branch managers of NBFC's as they are expecting recoveries to improve from the Vidarbha region. Tractor sales are down 40% YoY as two years of weak monsoons have taken their toll on demand. We witnessed an increasing penetration of scooters with Honda Activa leading the way in terms of market share. Increasing acceptability amongst rural families of women riding scooters and attractive prices have fuelled demand in the region.

Nagpur evolving as the epicentre of activity

Nagpur smart city announcement helping drive economic activity

Nagpur being named as a smart city has created a flurry of activity in and around the belt. As per our interactions land prices in and around the Nagpur region have been increasing steadily since the past two years and there are no signs of any correction. **Mihan SEZ, a project which has been stalled nearly since its inception has begun to gain traction**. Renewed Government and investor interest in the project and increasing investments have also aided to the land price increase. In the past, Chief Ministers of Maharashtra have always been biased towards the constituencies they had been elected from. **In the past, Nanded and Latur had been big beneficiaries of this bias. The same thing now seems to be happening in the Nagpur region.**

Deficient rainfall has led to a drought in Marathwada

Marathwada region most impacted

As we moved from the Vidarbha region into Marathwada the reality of the drought was clear to us. The region has witnessed very poor rainfall this season and this has taken a toll on demand. The region depends on a few reservoirs with the main one being Ujani dam which was only at the 2% level. **Water is only supplied once in four days** that too only for about one hour and this has created severe stress in the region. Several auto dealerships we met with in Nanded, Latur and Osmanabad were complaining of poor market conditions and decreasing sales. **Even market leader Maruti has been feeling the impact.** A Maruti dealership we visited also told us that sales had been impacted and new launches like the Ciaz were making very little headway as demand has dried up. Tractors and two-wheelers especially bikes were facing the same fate with sales declining by 35% as per several dealers. The sluggish demand has also spread to other sectors like Paints, Cements, Consumer Durables and to some extent FMCG products. Cement prices have languished at around Rs 250/bag as infrastructure activity has come to a standstill. **A paint dealer we visited in Osmanabad told us that**

it had been six days since he had made a sale. Consumer durables remain a dog fight with all players like LG, Samsung and Videocon scrambling for market share. As per several dealers the quality difference between several brands is minimal and there is not much distinction between the after-sales service provided. In the FMCG pack, HUL brands were the clear favourite, however, what was surprising was the penetration of sanitary napkins in the region.

Sanitary napkins display strong sales growth

Sanitary napkins were being openly advertised and placed as front of the line products in several FMCG shops. As per some stockists sales of the product are increasing and it's no longer the Taboo product it used to be in the region.

Green House farming to boost income

As we moved into Western Maharashtra (Solapur, Kolhapur and Panjim) the situation was not very different in terms of demand. While this time around the western part has also been hit by deficient rainfall, however, the water supply situation is not as critical as in Marathwada. The region had several initiatives like green house farming which was providing the farmer with some additional support. Demand was weak across sectors and dealers were yet to witness any uptick in activity.

Poor farm economics impacting demand and NBFC recoveries

Dues outstanding from sugar mills

A majority of the regions we visited form a major chunk of Maharashtra's sugar belt. Delayed payments by the sugar mills to farmers and in several cases no payments at all have impacted the entire economics of the region. **We met several farmers along our route who hadn't received their dues from the sugar mills for over 10 months now**. With no indication as to when they would receive payments, farmers have delayed purchases which have impacted growth across all the sectors.

The lack of payments has not deterred the farmer from growing more sugarcane and shift to other crops has not been witnessed. Sugarcane remains one of the most viable and cost effective crops for the farmer to grow. A low labour rate (~Rs 220/hour) in the region also implies that labour cost (used for cutting the crop) remains low and hence the farmer can gain maximum return from this crop. Farmers in the region continue to prefer sugarcane as it is hardy, has a long cycle of 11 to 17 months, the farmer bears no processing cost as the mills buy the cane directly, long standing government support and political patronage implies that come what may the industry will be bailed out.

NBFCs concerned about recoveries

The stress of delayed payments has also spread to the NBFC's. Our interaction with the regional heads of a few NBFC's in the region suggests that recoveries are going to be under pressure and the situation remains bleak. In fact one of the heads we met had just spent eight days in the field trying to speed up the recovery process. All he managed according to him were commitments from the farmers, but the payments remain some time away. With over 70 of the 200 sugar factories falling in the Marathwada region and each factory requiring 4 lakh litres of water a day to operate the situation remain weak at best.

Reduction of counterfeit/look-alike brands

Look-alike and local brands in packaged foods, soaps and detergents

Counterfeit packaged salt

"Tatva salt" local brand copying "Tata Salt"

Proliferation of local brands

Counterfeit Bisleri bottle

Local brands visible under packaged foods

Sanitary napkins – In front display

Feminine hygiene seeing strong growth in the south and west

Significant presence of unorganised paints

Paints offer great opportunity

Bihar rural infra – Long way to go

NH-37 in Bihar

Poor road infrastructure in Rajasthan

Widening of roads to four lane in Rajasthan

Long way to go for oral care

Understanding the Rural Consumer

Guar gram prices have seen a collapse

Crisis for Gaurgum trade

Weak rabi output impact jeera (UNJHA market)

Cotton farmers concerned about lack of rains

Bihar/Uttar Pradesh – Election campaigning in

Attracting villagers to poll avenues

Drop in LED prices attracts rural customers

New trends facilitated by price drop

Rajasthan state sponsored farmer welfare programme

Green housing initiatives for exports

Technology at work in rural India

LARGE CAP

Share Data

Price (Rs)	854
BSE Sensex	27,080
Reuters code	ASPN.BO
Bloomberg code	APNT IN
Market cap. (US$ mn)	12,643
6M avg. daily turnover (US$ mn)	18.0
Issued shares (mn)	959
Target price (Rs)	900

Performance (%)	1M	3M	12M
Absolute	4	7	30
Relative	(1)	9	28

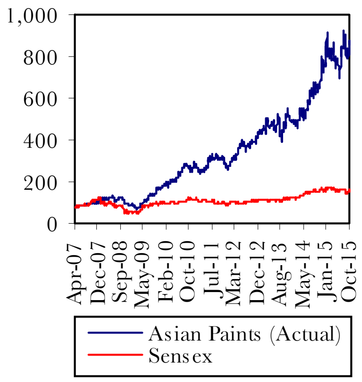
Valuation Ratios (Consolidated)

Yr to 31 Mar	FY15	FY16E	FY17E
EPS (Rs)	14.8	20.6	25.0
+/- (%)	15.8	39.1	21.1
PER (x)	84.5	33.5	27.6
PBV (x)	25.3	11.4	9.3
Dividend/Yield(%)	0.5	1.2	1.4
EV/Sales (x)	8.5	4.0	3.5
EV/EBITDA (x)	53.3	21.6	18.2

Major shareholders (%)

Promoters	53
FIIs	17
MFs	2
BFSI's	8
Public & Others	20

Relative performance



Asian Paints

Maintain BUY

A key beneficiary of rising premiumisation

Asian Paints Ltd. (APNT) is India's largest and Asia's third largest paint manufacturing company. It has been the undisputed leader in Indian markets since several decades and enjoys strong brand recall. The company is ahead of the competition with installed capacity in excess of 1.0 mn MT (~3x its nearest competitor) and distribution network of 32,000 dealers (2x its nearest competitors).

Steady volume growth: The average volume growth for the company during the last decade has been at 12%, i.e. irrespective of slowdown and financial turmoil, the company has been delivering healthy volume growth. We, therefore expect the company to register volume growth CAGR of 10-12% for the next few years, led by two key drivers a) Repainting demand and b) Shift towards organised market.

Strong brand equity and extensive dealers' network: A consistent effort in branding and expanding dealer's network has culminated into a clear advantage as the company enjoys strong brand recall and unmatchable reach. Further presence across multiple price and product categories helps it to capture growth emanating from across the segments.

Absence of price led competition: Benign competition among the peers with respect to pricing has led the companies to follow APNT in terms of price increases/decreases. Also the peers have never significantly undercut each other to gain market share, which augurs well for the industry.

Remains biggest beneficiary of benign crude: Paint companies are the biggest beneficiaries of falling crude as bulk of its raw materials are crude derivatives. Further, the company enjoys strong pricing power and has taken only ~2% price cut in March 2015. The price cut being minimal when compared to quantum fall in crude prices, the company is staring at windfall gains in the near term.

Serious about its intent to venture into Home Décor: The company remains serious about diversifying business model into Home Décor. It has so far acquired part stake in modular kitchen solutions provider, Sleek Group and ESS bathroom products.

Outlook and valuation: Increasing aesthetic awareness on the back of rising disposable income is driving the shift in the market place towards premium products. This coupled with the demand emanating from healthy repainting cycle will be a key growth driver. As a result, the companies with strong brand presence and extensive spread will continue to deliver healthy volume growth, led by graduation towards premium quality paints. We therefore, expect Asian Paints to be a key beneficiary of this trend. We have a Buy rating on the company with a target price of Rs 900.

Key risks: Imports of raw materials (foreign exchange risks) and aggressive ramp-up in Home Décor space resulting into dilution of return ratios remains a key risks.

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Asian Paints

Income Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	**125,141**	**140,053**	**160,231**	**182,560**
Growth (%)	*15.2*	*11.9*	*14.4*	*13.9*
Operating expenses	(107,206)	(119,474)	(132,441)	(150,195)
Operating profit	**17,936**	**20,579**	**27,790**	**32,365**
Other operating income	2,043	1,775	2,147	2,368
EBITDA	**19,979**	**22,354**	**29,937**	**34,733**
Growth (%)	*15.4*	*11.9*	*33.9*	*16.0*
Depreciation	(2,457)	(2,659)	(2,924)	(3,106)
Other income	1,342	1,697	1,791	2,475
EBIT	**18,865**	**21,392**	**28,805**	**34,103**
Finance cost	(422)	(348)	(335)	(340)
Exceptional & extraordinary	(100)	(276)	0	0
Profit before tax	**18,343**	**20,769**	**28,470**	**33,763**
Tax (current + deferred)	(5,715)	(6,495)	(8,527)	(9,611)
P/(L) for the period	**12,628**	**14,273**	**19,942**	**24,151**
P/L of Associates, Min Int, Pref Div	(440)	(322)	(159)	(195)
Reported Profit/(Loss)	12,188	13,952	19,783	23,957
Adjusted net profit	12,288	14,227	19,783	23,957
Growth (%)	*10.3*	*15.8*	*39.1*	*21.1*

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Share capital	959	959	959	959
Reserves & surplus	39,436	46,464	57,197	70,488
Shareholders' funds	**40,396**	**47,424**	**58,156**	**71,447**
Minority Interest and others	2,460	2,637	2,796	2,990
Non-current liabilities	**3,491**	**3,892**	**3,994**	**4,096**
Long-term borrowings	414	783	783	783
Other non-current liabilities	3,077	3,109	3,211	3,313
Current liabilities	**34,051**	**35,172**	**40,495**	**45,802**
ST borrowings, Curr maturity	2,119	3,444	3,444	3,444
Other current liabilities	31,932	31,728	37,051	42,358
Total (Equity and Liab.)	**80,397**	**89,125**	**105,441**	**124,336**
Non-current assets	**29,830**	**35,573**	**39,707**	**39,296**
Fixed assets (Net block)	24,918	26,102	30,184	29,714
Non-current Investments	1,921	3,859	3,859	3,859
Long-term loans and advances	1,555	3,152	3,205	3,263
Other non-current assets	1,436	2,460	2,460	2,460
Current assets	**50,568**	**53,552**	**65,734**	**85,040**
Cash & current investment	14,611	14,063	20,398	33,386
Other current assets	35,957	39,489	45,336	51,654
Total (Assets)	**80,397**	**89,125**	**105,441**	**124,336**
Total debt	2,533	4,227	4,227	4,227
Capital employed	48,466	57,397	68,390	81,978

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Profit before tax	18,343	20,769	28,470	33,763
Depreciation	2,457	2,659	2,924	3,106
Change in working capital	(530)	(3,687)	(2,934)	(2,696)
Total tax paid	(6,002)	(6,477)	(8,396)	(9,466)
Others	422	348	335	340
Cash flow from oper. (a)	**14,690**	**13,612**	**20,398**	**25,047**
Capital expenditure	(3,053)	(5,326)	(7,005)	(2,636)
Change in investments	(4,405)	(8,666)	0	0
Cash flow from inv. (b)	**(7,458)**	**(13,992)**	**(7,005)**	**(2,636)**
Free cash flow (a+b)	**7,232**	**(380)**	**13,393**	**22,411**
Debt raised/(repaid)	24	1,694	0	0
Dividend (incl. tax)	(5,226)	(6,987)	(6,698)	(9,317)
Others	(229)	(1,604)	(360)	(105)
Cash flow from fin. (c)	**(5,431)**	**(6,897)**	**(7,058)**	**(9,422)**
Net chg in cash (a+b+c)	**1,801**	**(7,277)**	**6,335**	**12,989**

Key Ratios (Consolidated)

Period end (%)	Mar 14	Mar 15P	Mar 16E	Mar 17E
Adjusted EPS (Rs)	12.8	14.8	20.6	25.0
Growth	10.3	15.8	39.1	21.1
CEPS (Rs)	15.4	17.6	23.7	28.2
Book NAV/share (Rs)	42.1	49.4	60.6	74.5
Dividend/share (Rs)	5.7	6.1	8.0	9.7
Dividend payout ratio	52.4	49.0	45.4	45.3
EBITDA margin	15.7	15.8	18.4	19.0
EBIT margin	15.1	15.3	18.0	18.7
Tax rate	31.0	30.9	30.0	28.5
RoCE	42.4	40.4	45.8	45.4
Total debt/Equity (x)	0.1	0.1	0.1	0.1
Net debt/Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Du Pont Analysis - ROE				
Net margin	9.8	10.2	12.3	13.1
Asset turnover (x)	1.7	1.7	1.6	1.6
Leverage factor (x)	2.0	1.9	1.8	1.8
Return on equity	33.1	32.4	37.5	37.0

Valuations (Consolidated)

Period end (x)	Mar 14	Mar 15P	Mar 16E	Mar 17E
PER	42.8	54.7	41.4	34.2
PCE	35.6	46.1	36.1	30.3
Price/Book	13.0	16.4	14.1	11.5
Yield (%)	1.0	0.8	0.9	1.1
EV/EBITDA	25.7	34.4	26.8	22.7

LARGE CAP

Share Data

Price (Rs)	931
BSE Sensex	27,080
Reuters code	COLG.BO
Bloomberg code	CLGT IN
Market cap. (US$ mn)	3,909
6M avg. daily turnover (US$ mn)	6.7
Issued shares (mn)	272
Target price (Rs)	1,003

Performance (%)	1M	3M	12M
Absolute	1	(8)	8
Relative	(4)	(6)	6

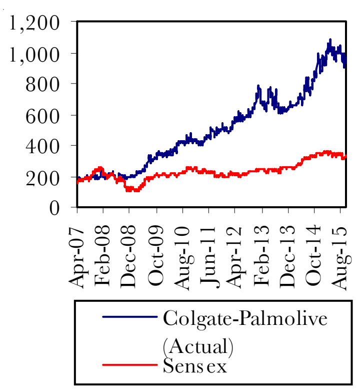
Valuation Ratios

Yr to 31 Mar	FY16E	FY17E	FY18E
EPS (Rs)	23.6	28.7	34.0
+/- (%)	15.0	21.3	18.6
PER (x)	39.4	32.5	27.0
PBV (x)	25.8	20.4	15.9
Dividend/Yield (%)	1.5	1.8	1.9
EV/Sales (x)	5.7	4.9	4.2
EV/EBITDA (x)	26.4	21.1	17.6

Major shareholders (%)

Promoters	51
FIIs	21
MFs	2
BFSI's	3
Public & Others	23

Relative performance



Colgate-Palmolive

Maintain Outperformer

All smiles

Oral care opportunity compelling

Current per capita toothpaste consumption in India is 136 gm, one of the lowest in the world. Over the years, while the penetration levels of toothpaste have improved, there still remains a long way to go especially on the rural side. Better affordability, greater exposure to media and increase in education levels in the rural markets will be the key catalysts for strong volume driven growth in the future.

Increasing dominance in the oral care market

Colgate not just remains the largest player in the oral care industry but has also successfully gained market share. In volume terms, Colgate has a 57.8% market share in the toothpaste market which is 2.9x larger than the share of its largest competitor. Moreover, it has consistently grown market share; its market share in the toothpaste segment has grown 300 bps over the past three years. This is in the face of heightened competition from the existing players as well as P&G trying to make an entry into the Indian oral care market.

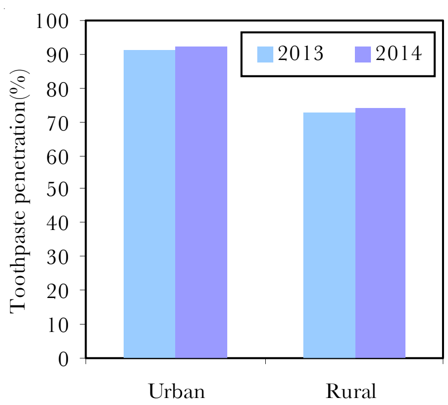
Margins to be on an upswing

Gross margins are expected to improve on the back of low packaging cost (crude linked), improved mix and price hikes initiated by the company. We expect gross margins to expand from 62.9% in FY15 to 64.2% in FY18E.

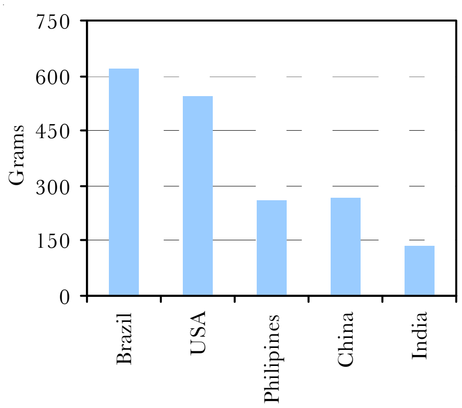
In the five-year period from FY09 to FY13 (pre-P&G launch), the A&P spends used to be 15-16% of sales. We feel that there could be greater scope of reducing future A&P spends from the current 18% levels, which would help with further margin expansion.

Currently, the stock trades at 32.5x FY17E and 27.0x FY18E earnings, 29.2x FY17E and 24.8x FY18E cash earnings. We expect Colgate to post strong revenue growth going forward, led by volume growth in its toothpaste segment; furthermore premiumisation in our view will help improve profitability going forward. The above factors along with the low per capita toothpaste consumption in India, which gives Colgate good room to grow, justify Colgate's premium valuations in our view. We currently have an Outperformer rating on the stock and value it at 35x FY17E earnings at Rs 1,003/share.

Indian market toothpaste penetration



Per capita consumption toothpaste CY14



Source: Company, B&K Research

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Colgate-Palmolive

Income Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Net sales	**39,548**	**43,403**	**49,890**	**57,805**
Growth (%)	*11.6*	*9.7*	*14.9*	*15.9*
Operating expenses	(31,597)	(34,048)	(38,309)	(44,178)
Operating profit	7,951	9,355	11,581	13,627
EBITDA	**7,951**	**9,355**	**11,581**	**13,627**
Growth (%)	*26.2*	*17.7*	*23.8*	*17.7*
Depreciation	(750)	(815)	(888)	(970)
Other income	603	772	941	1,145
EBIT	**7,804**	**9,313**	**11,635**	**13,802**
Profit before tax	**7,804**	**9,313**	**11,635**	**13,802**
Tax (current + deferred)	(2,214)	(2,887)	(3,839)	(4,555)
P/(L) for the period	**5,590**	**6,426**	**7,795**	**9,247**
Reported Profit/(Loss)	5,590	6,426	7,795	9,247
Adjusted net profit	5,590	6,426	7,795	9,247
Growth (%)	*14.4*	*15.0*	*21.3*	*18.6*

Balance Sheet

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Share capital	136	272	272	272
Reserves & surplus	7,567	9,417	11,979	15,518
Shareholders' funds	**7,703**	**9,689**	**12,251**	**15,790**
Non-current liabilities	**960**	**866**	**924**	**991**
Other non-current liabilities	960	866	924	991
Current liabilities	**8,666**	**10,115**	**11,485**	**13,015**
Other current liabilities	8,666	10,115	11,485	13,015
Total (equity and liabilities)	**17,328**	**20,669**	**24,661**	**29,796**
Non-current assets	**10,431**	**11,645**	**12,416**	**12,841**
Fixed assets (net block)	9,228	10,417	11,159	11,553
Non-current investments	301	301	301	301
Long-term loans and advances	555	580	609	640
Other non-current assets	347	347	347	347
Current assets	**6,897**	**9,024**	**12,245**	**16,954**
Cash & current investment	2,615	4,221	6,838	10,821
Other current assets	4,283	4,803	5,407	6,134
Total (assets)	**17,329**	**20,669**	**24,661**	**29,796**
Capital employed	8,663	10,554	13,176	16,781

Cash Flow Statement

Period end (Rs mn)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Profit before tax	**7,804**	**9,313**	**11,635**	**13,802**
Depreciation	750	815	888	970
Change in working capital	39	(45)	513	621
Total tax paid	(2,056)	(2,692)	(3,564)	(4,348)
Others	(264)	(343)	(446)	(580)
Cash flow from oper. (a)	**6,273**	**7,047**	**9,026**	**10,466**
Capital expenditure	(3,004)	(2,004)	(1,630)	(1,364)
Others	247	343	446	580
Cash flow from inv. (b)	**(2,757)**	**(1,661)**	**(1,184)**	**(784)**
Free cash flow (a+b)	**3,516**	**5,386**	**7,842**	**9,682**
Dividend (incl. tax)	(3,848)	(3,781)	(5,226)	(5,701)
Others	6	2	2	2
Cash flow from fin. (c)	**(3,842)**	**(3,779)**	**(5,224)**	**(5,700)**
Net change in cash (a+b+c)	**(325)**	**1,607**	**2,617**	**3,982**

Key Ratios

Period end (%)	Mar 15	Mar 16E	Mar 17E	Mar 18E
Adjusted EPS (Rs)	20.6	23.6	28.7	34.0
Growth	14.4	15.0	21.3	18.6
CEPS (Rs)	23.3	26.6	31.9	37.6
Book NAV/share (Rs)	28.3	35.6	45.0	58.1
Dividend/share (Rs)	12.0	14.0	16.5	18.0
Dividend payout ratio	69.5	69.1	67.1	61.7
EBITDA margin	20.1	21.6	23.2	23.6
EBIT margin	19.7	21.5	23.3	23.9
Tax rate	28.4	31.0	33.0	33.0
RoCE	102.9	96.9	98.1	92.1
Net debt/Equity (x)	(0.3)	(0.4)	(0.6)	(0.7)
Du Pont Analysis - ROE				
Net margin	14.1	14.8	15.6	16.0
Asset turnover (x)	2.4	2.3	2.2	2.1
Leverage factor (x)	2.4	2.2	2.1	1.9
Return on equity	81.6	73.9	71.1	66.0

Valuations

Period end (x)	Mar 15	Mar 16E	Mar 17E	Mar 18E
PER	49.0	39.4	32.5	27.0
PCE	43.2	35.0	29.2	24.8
Price/Book	35.6	25.8	20.4	15.9
Yield (%)	1.2	1.5	1.8	1.9
EV/EBITDA	34.1	26.4	21.1	17.6

MID CAP

Kansai Nerolac Paints

Maintain BUY

Share Data

Price (Rs)	239
BSE Sensex	27,080
Reuters code	KANE.BO
Bloomberg code	KNPL IN
Market cap. (US$ mn)	1,989
6M avg. daily turnover (US$ mn)	0.9
Issued shares (mn)	539
Target price (Rs)	290

Performance (%)	1M	3M	12M
Absolute	(2)	(1)	27
Relative	(7)	1	24

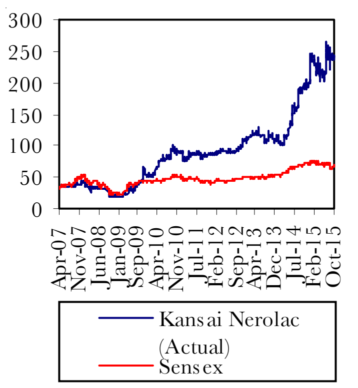
Valuation Ratios

Yr to 31 Mar	FY15	FY16E	FY17E
EPS (Rs)	5.0	7.0	8.3
+/- (%)	24.9	37.9	19.6
PER (x)	42.9	34.4	28.7
PBV (x)	7.3	6.9	5.8
Dividend/Yield (%)	0.6	0.6	0.7
EV/Sales (x)	3.2	3.1	2.7
EV/EBITDA (x)	25.8	21.0	17.4

Major shareholders (%)

Promoters	69
FIIs	8
MFs	3
BFSI's	5
Public & Others	15

Relative performance



Biggest beneficiary of benign crude oil

Kansai Nerolac Paints (KNPL) is the second largest coating company in India and is a market leader in Industrial coatings. The company is a subsidiary of Japan-based Kansai Paint Company Ltd., which is one of the top 10 coating companies in the world. KNPL caters to the coating demands of both the decorative as well as industrial segment.

Strong parentage: Strong support from its parent "Kansai Paints" helps the company in providing high performance coating solutions to its OEM customers. The company has been able to protect its market share (~60%), in spite of higher competitive intensity in industrial paints.

Huge addressable market for industrial paints: Car penetration in India is one of the lowest in the world at less than 2%. Hence, there is a huge addressable market for cars in India. Strong support from its Japanese parent, "Kansai Paints" (which is a supplier to Suzuki in Japan as well) helps Kansai Nerolac in providing high performance coating solutions to its OEM customers.

Beneficiary of raw material cost decline: KNPL is a beneficiary of the benign crude oil prices as it forms more than 60% of KNPL's raw material cost. Further, the industrial segment margins which are currently lower are expected to improve in the near term. The company was unable to pass on the entire input cost pressure in the recent years which impacted its overall margins. With the fall in crude prices, the company intends to retain some benefits before passing it on to its OEM customers.

Decorative segment to do well: Increasing presence in decorative segment through product launches and expanding dealership network. The company has been taking several initiatives for its decorative paints and is gradually gaining ground.

Strong balance sheet: KNPL is a debt free company with current RoE of 18.0% and RoCE of 24.0% which we expect will improve to 22.0% and 30.1%, respectively, by FY17E.

Outlook and valuation: KNPL has been focusing on decorative segment to tide over sluggishness in industrial segment for the last couple of years. The company's initiative has started bearing results as the segment has started to post growth in-line with the industry. Further, the industrial segment has started to look up with market share gains by one of its largest OEM customer. Additionally, the cooling off crude price is expected to benefit KNPL most among the industry players as it derives ~45% of its revenues from industrial paints. Therefore, the leverage to crude oil is highest for KNPL among other industry players.

Key risks: Imports of raw materials (foreign exchange risks) and slowdown in automobile industry remains a key risks.

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Kansai Nerolac Paints

Income Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	**31,361**	**35,324**	**40,142**	**46,293**
Growth (%)	*10.4*	*12.6*	*13.6*	*15.3*
Operating expenses	(27,813)	(31,042)	(34,388)	(39,446)
Operating profit	**3,548**	**4,282**	**5,754**	**6,846**
Other operating income	182	167	210	220
EBITDA	**3,731**	**4,448**	**5,964**	**7,066**
Growth (%)	*11.0*	*19.2*	*34.1*	*18.5*
Depreciation	(650)	(677)	(677)	(714)
Other income	103	218	224	239
EBIT	**3,185**	**3,989**	**5,511**	**6,591**
Finance cost	(5)	(0)	(1)	(1)
Profit before tax	**3,180**	**3,989**	**5,510**	**6,590**
Tax (current + deferred)	(1,004)	(1,272)	(1,763)	(2,109)
P/(L) for the period	**2,176**	**2,717**	**3,747**	**4,481**
Reported Profit/(Loss)	2,176	2,717	3,747	4,481
Adjusted net profit	2,176	2,717	3,747	4,481
Growth (%)	*9.1*	*24.9*	*37.9*	*19.6*

Balance Sheet

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Share capital	539	539	539	539
Reserves & surplus	13,693	15,429	18,222	21,531
Shareholders' funds	**14,232**	**15,968**	**18,761**	**22,070**
Non-current liabilities	**1,463**	**1,421**	**1,426**	**1,431**
Long-term borrowings	517	415	415	415
Other non-current liabilities	946	1,006	1,011	1,016
Current liabilities	**6,856**	**6,044**	**6,587**	**7,425**
ST borrowings, Curr maturity	51	51	51	51
Other current liabilities	6,805	5,993	6,536	7,374
Total (Equity and Liab.)	**22,551**	**23,434**	**26,774**	**30,927**
Non-current assets	**10,310**	**10,488**	**10,621**	**10,749**
Fixed assets (Net block)	9,582	9,489	9,532	9,543
Non-current Investments	331	331	331	331
Long-term loans and advances	396	667	758	875
Current assets	**12,242**	**12,946**	**16,153**	**20,178**
Cash & current investment	783	2,165	3,930	6,112
Other current assets	11,459	10,781	12,224	14,066
Total (Assets)	**22,551**	**23,434**	**26,774**	**30,927**
Total debt	568	466	466	466
Capital employed	15,746	17,441	20,239	23,553

Cash Flow Statement

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Profit before tax	3,180	3,989	5,510	6,590
Depreciation	650	677	677	714
Change in working capital	(1,041)	(363)	(959)	(1,063)
Total tax paid	(750)	(1,179)	(1,763)	(2,109)
Others	(97)	(179)	(184)	(199)
Cash flow from oper. (a)	**1,942**	**2,945**	**3,281**	**3,934**
Capital expenditure	(1,207)	(855)	(810)	(842)
Change in investments	41	(1,591)	(200)	(200)
Others	102	179	185	200
Cash flow from inv. (b)	**(1,063)**	**(2,267)**	**(825)**	**(842)**
Free cash flow (a+b)	**878**	**678**	**2,456**	**3,092**
Debt raised/(repaid)	(122)	(102)	0	0
Dividend (incl. tax)	(694)	(694)	(890)	(954)
Others	(115)	(90)	(1)	(156)
Cash flow from fin. (c)	**(930)**	**(886)**	**(891)**	**(1,110)**
Net chg in cash (a+b+c)	**(52)**	**(208)**	**1,564**	**1,982**

Key Ratios

Period end (%)	Mar 14	Mar 15	Mar 16E	Mar 17E
Adjusted EPS (Rs)	4.0	5.0	7.0	8.3
Growth	9.1	24.9	37.9	19.6
CEPS (Rs)	5.2	6.3	8.2	9.6
Book NAV/share (Rs)	26.4	29.6	34.8	41.0
Dividend/share (Rs)	1.1	1.4	1.5	1.6
Dividend payout ratio	31.9	32.8	25.5	22.7
EBITDA margin	11.8	12.5	14.9	15.3
EBIT margin	10.2	11.3	13.7	14.2
Tax rate	31.6	31.9	32.0	32.0
RoCE	21.2	24.0	29.3	30.1
Net debt/Equity (x)	(0.0)	(0.1)	(0.2)	(0.3)
Du Pont Analysis - ROE				
Net margin	6.9	7.7	9.3	9.7
Asset turnover (x)	1.5	1.5	1.6	1.6
Leverage factor (x)	1.6	1.5	1.4	1.4
Return on equity	16.1	18.0	21.6	22.0

Valuations

Period end (x)	Mar 14	Mar 15	Mar 16E	Mar 17E
PER	29.3	42.9	34.4	28.7
PCE	22.6	34.3	29.1	24.8
Price/Book	4.5	7.3	6.9	5.8
Yield (%)	0.9	0.6	0.6	0.7
EV/EBITDA	17.0	25.8	21.0	17.4

LARGE CAP

Share Data

Price (Rs)	4,232
BSE Sensex	27,080
Reuters code	MRTI.BO
Bloomberg code	MSIL IN
Market cap. (US$ mn)	19,743
6M avg. daily turnover (US$ mn)	28.9
Issued shares (mn)	302
Target price (Rs)	4,928

Performance (%)	1M	3M	12M
Absolute	(1)	9	42
Relative	(6)	11	40

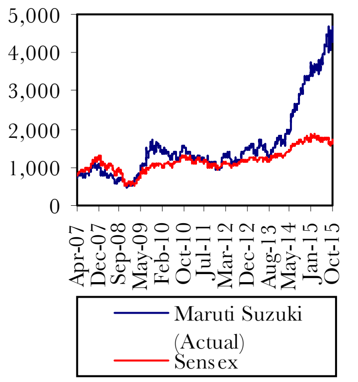
Valuation Ratios (Standalone)

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	191.9	223.9
+/- (%)	56.2	16.7
PER (x)	22.0	18.9
PBV (x)	4.5	3.6
Dividend/Yield (%)	0.7	0.9
EV/Sales (x)	2.0	1.6
EV/EBITDA (x)	12.7	9.7

Major shareholders (%)

Promoters	56
FIIs	22
MFs	8
BFSI's	7
Public & Others	7

Relative performance



Maruti Suzuki India

Maintain BUY

Play on the economic recovery...

Maruti Suzuki (MSIL) is the largest passenger vehicle manufacturer in India, with 47.3% market share. Suzuki Motor Corporation of Japan has 56.2% stake in MSIL. MSIL has plants at Manesar and Gurgaon, with a combined vehicle capacity of 1.5 mn units per annum. Maruti is the brand of choice in the rural areas on account of the lowest ownership and running cost along with an unmatched service network that provides convenience. Currently, rural India accounts for ~30% of MSIL's volumes.

Strong improvement in domestic PV market share

In a competitive environment, MSIL has improved its market share in passenger vehicle market from 38% in FY12 in the passenger to 47.3% in the 1HFY16 supported by strong performance in compact segment (Swift, Dzire and Celerio) and success of recently launched Ciaz. We expect MSIL to maintain market share, supported by new launches and variants.

Aggressive new product pipeline

Maruti has recently launched Celerio diesel variant and S-Cross in the compact UV segment. To strengthen leadership position, MSIL has lined up new launches which include:

- XA Alpha – SUV.
- Baleno in the premium hatchback segment.
- LCV based on Suzuki Carry.

Maruti had also launched diesel hybrid variants for Ciaz and Ertiga.

Multiple favourable triggers to maintain margins at elevated levels

Despite increase in marketing spends on new product and variant launches and increasing discounts, we expect MSIL to maintain current levels of margins considering scale on improvement in demand and soft commodity prices.

Outlook and valuation

In the domestic market, the passenger car industry is under pressure for the last two to three years on weak sentiments and slowdown in economy. Going forward, passenger vehicle demand is likely to improve on improvement in sentiments, revival of economy, implementation of pay commission by the government and release of pent up demand.

We expect MSIL to maintain market share considering the strong product portfolio, brand recall, launch of compact UV and other premium products under NEXA dealerships and widest dealership network in the PV industry.

On the margin front, we expect MSIL to sustain margins going forward due to operating leverage, soft commodity prices, increased localisation, favourable Yen and cost reduction initiatives.

At the current market price of Rs 4,232, MSIL trades at 22.0x FY16E EPS of Rs 191.9 and 18.9x FY17E EPS of Rs 223.9. We have Buy rating on the stock with a target price of Rs 4,928.

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Maruti Suzuki India

Income Statement (Standalone)

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Net sales	**437,918**	**499,706**	**584,936**	**690,736**
Growth (%)	*0.5*	*14.1*	*17.1*	*18.1*
Operating expenses	(386,959)	(433,646)	(490,357)	(579,949)
Operating profit	**50,959**	**66,059**	**94,579**	**110,787**
EBITDA	**50,959**	**66,059**	**94,579**	**110,787**
Growth (%)	*20.5*	*29.6*	*43.2*	*17.1*
Depreciation	(20,844)	(24,703)	(25,750)	(28,091)
Other income	8,229	9,386	12,173	12,000
EBIT	**38,344**	**50,742**	**81,002**	**94,696**
Finance cost	(1,759)	(2,060)	(2,500)	(3,000)
Profit before tax	**36,585**	**48,682**	**78,502**	**91,696**
Tax (current + deferred)	(8,755)	(11,570)	(20,524)	(24,052)
P/(L) for the period	**27,830**	**37,112**	**57,978**	**67,644**
Reported Profit/(Loss)	27,830	37,112	57,978	67,644
Adjusted net profit	27,830	37,112	57,978	67,644
Growth (%)	*16.3*	*33.4*	*56.2*	*16.7*

Balance Sheet (Standalone)

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Share capital	1,510	1,510	1,510	1,510
Reserves & surplus	208,270	238,136	285,345	351,356
Shareholders' funds	**209,780**	**239,647**	**286,856**	**352,866**
Non-current liabilities	**14,836**	**12,947**	**12,534**	**10,775**
Long-term borrowings	4,604	2,715	2,302	543
Other non-current liabilities	10,232	10,232	10,232	10,232
Current liabilities	**87,651**	**86,067**	**96,488**	**100,237**
ST borrowings, Curr maturity	12,247	11,500	12,000	4,000
Other current liabilities	75,404	74,567	84,488	96,237
Total (Equity and Liab.)	**312,267**	**338,660**	**395,877**	**463,878**
Non-current assets	**170,550**	**173,889**	**186,730**	**188,570**
Fixed assets (Net block)	134,118	131,199	139,156	138,067
Non-current Investments	13,048	18,698	23,698	25,698
Long-term loans and adv.	16,384	17,992	18,876	19,805
Other non-current assets	7,000	6,000	5,000	5,000
Current assets	**141,717**	**164,771**	**209,147**	**275,308**
Cash & current investment	94,428	110,457	148,444	206,401
Other current assets	47,289	54,315	60,703	68,908
Total (Assets)	**312,267**	**338,660**	**395,877**	**463,878**
Total debt	16,851	14,215	14,302	4,543
Capital employed	236,863	264,093	311,390	367,641

Cash Flow Statement (Standalone)

Period end (Rs mn)	Mar 14	Mar 15	Mar 16E	Mar 17E
Profit before tax	36,585	48,682	78,502	91,696
Depreciation	20,844	24,703	25,750	28,091
Change in working capital	15,033	(14,784)	133	143
Total tax paid	(8,320)	(10,850)	(19,776)	(23,699)
Others	(8,197)	(7,326)	(9,673)	(9,000)
Cash flow from oper. (a)	**55,945**	**40,425**	**74,936**	**87,231**
Capital expenditure	(34,927)	(30,937)	(33,707)	(27,002)
Change in investments	(16,493)	33,481	(8,000)	(14,000)
Others	(4,419)	10,386	5,173	4,000
Cash flow from inv. (b)	**(55,839)**	**12,930**	**(36,534)**	**(37,002)**
Free cash flow (a+b)	**106**	**53,355**	**38,401**	**50,229**
Debt raised/(repaid)	3,784	(2,637)	88	(9,759)
Dividend (incl. tax)	(2,827)	(4,241)	(8,835)	(10,603)
Others	(1,616)	8,682	(2,666)	8,090
Cash flow from fin. (c)	**(659)**	**1,805**	**(11,414)**	**(12,272)**
Net chg in cash (a+b+c)	**(553)**	**55,160**	**26,987**	**37,957**

Key Ratios (Standalone)

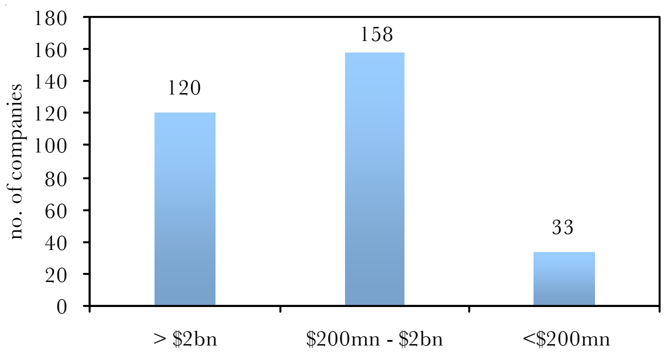
Period end (%)	Mar 14	Mar 15	Mar 16E	Mar 17E
Adjusted EPS (Rs)	92.1	122.9	191.9	223.9
Growth	16.3	33.4	56.2	16.7
CEPS (Rs)	161.1	204.6	277.2	316.9
Book NAV/share (Rs)	664.2	793.3	949.6	1,168.1
Dividend/share (Rs)	12.0	25.0	30.0	36.0
Dividend payout ratio	15.2	23.8	18.3	18.8
EBITDA margin	11.6	13.2	16.2	16.0
EBIT margin	8.8	10.2	13.8	13.7
Tax rate	23.9	23.8	26.1	26.2
RoCE	17.2	20.3	28.2	27.9
Total debt/Equity (x)	0.1	0.1	0.0	0.0
Net debt/Equity (x)	(0.4)	(0.4)	(0.5)	(0.6)
Du Pont Analysis - ROE				
Net margin	6.4	7.4	9.9	9.8
Asset turnover (x)	1.5	1.5	1.6	1.6
Leverage factor (x)	1.5	1.5	1.4	1.3
Return on equity	14.8	16.9	22.0	21.1

Valuations (Standalone)

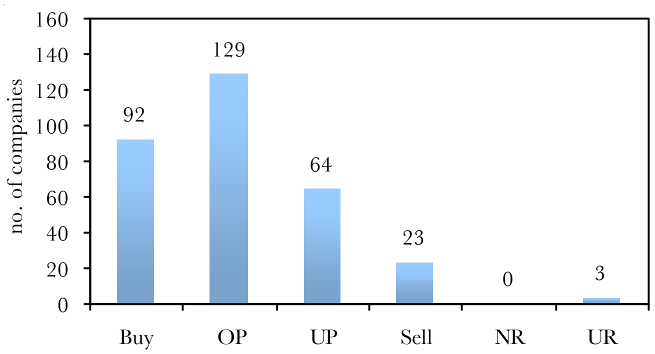
Period end (x)	Mar 14	Mar 15	Mar 16E	Mar 17E
PER	45.9	34.4	22.0	18.9
PCE	26.3	20.7	15.3	13.4
Price/Book	6.4	5.3	4.5	3.6
Yield (%)	0.3	0.6	0.7	0.9
EV/EBITDA	23.6	17.9	12.1	9.7

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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BUY	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
OUTPERFORMER	+10% to +20%	+15% to +25%	+20% to +30%
UNDERPERFORMER	+10% to -10%	+15% to -15%	+20% to -20%
SELL	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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