

## Rural India can be a boon for Emami this year

Firm says rising wages, direct benefit schemes, loan waivers and MSPs will lead to higher disposable income

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Considered Emami's bane last year, the firm's high dependence on rural sales may prove to be a boon this year. Rural sales of the fast-moving consumer goods (FMCG) major count for more than 50 per cent of its top line, the highest compared to its peers such as HUL, Dabur and Marico.

Abneesh Roy, a research analyst with Edelweiss Securities, says growth in rural India will be higher than that in urban areas, and companies like Emami will gain the most from this. "It is natural that when growth in the rural economy outpaces urban growth, companies having the highest exposure in rural pockets will be the largest beneficiaries," he says. Roy says the rural exposure of most of the companies is 35-45 per cent; in case of Nestlé, which has an urban lifestyle tilted portfolio, the dependence on rural economy is further low at around 25 per cent. On the contrary, over 50 per cent of Emami's income comes from rural areas.

Emami is of the view that improvement in rural wages, direct transfer of government benefits and schemes to the beneficiaries, farm loan waivers and minimum support prices for important crops will lead to a higher disposable income for the rural households, which, in turn, will drive the demand



### BIG PUSH

Key metrics of rural India	Emami's rural presence
Population: <b>890 million</b>	No. of super stockists: <b>250</b>
Per capita income: <b>\$464</b>	No. of rural sub-stockists: <b>6,500</b>
FY18 Budgetary Allocation under MGNREGA: <b>\$8.5 billion</b>	No. of villages covered: <b>25,000</b>
Monetary value of direct benefit transfer: <b>₹1.20 billion</b>	No. of direct rural outlets: <b>400,000</b>
Banking penetration of all rural households (at least one account holder): <b>99%</b>	No. of towns covered through van operations: <b>13,000</b>
	Proportion of revenue derived from SKUs less than ₹10: <b>30%</b>

Source: Emami's 2017-18 Annual Report

for FMCG products.

Last year, the company targeted to reduce its exposure to the wholesale channels as it felt a direct sales mechanism, coupled with increased exposure to modern retail, would help it control stocks better, push sales of ancillary products and help avoid trade disruptions like demonetisation.

The note ban had hit Emami the hardest in its peer group and the recovery had been one of the slowest because of its reliance on wholesale and rural channels.

As on March 2018, although rural sales accounted for more than 50 per cent of its

consolidated turnover of ₹28.23 billion, its dependence on the wholesale channels, mainly operating in the rural belts, reduced from 54 per cent to 38 per cent at the end of the last fiscal year. The company expects it to go down further this year.

The decision follows Emami's observation that in the overall FMCG distribution space, in the goods and services tax and digital economy era, the contribution of wholesale channels is expected to decline from the current 24.4 per cent to 13.6 per cent and the direct distribution will increase from 56.7 per cent to 61.7 per cent. In 2016-17, to reduce

rural wholesale channels and to opt for a direct supply chain, the company undertook Project Dhanush.

Under the project, it deployed 250 vans to cater directly to retailers, now covering 3,000 routes across 13,000 towns having population below 5,000. It also increased the count of rural super stockists to 250 and sub-stockists to 2,500, besides upping its presence to direct rural outlets to 4 million, covering 25,000 villages. 30 per cent of its revenues come from SKUs (stock keeping units), which are prices less than ₹10.

Its 2018 Annual Report cites that the 890-million population strong rural India spent \$26 billion towards "looking better" in 2017. Although 64 per cent of it was spent on apparel and footwear, 23 per cent on personal care products and the rest 9 per cent on jewellery.

Besides, shoppers in tier 2 and smaller towns grew three-fold compared to metro shoppers and accounted for 41 per cent of overall online shoppers in 2017.

India's rural FMCG market is expected to touch \$100 billion by 2025 from \$29.4 billion during 2016 and the growth will be led by landowners and labourers alike.

However, high dependence makes Emami susceptible to vagaries of the monsoon. Also, policy disruptions like demonetisation and the GST has hit the rural economy harder than its urban counterpart.