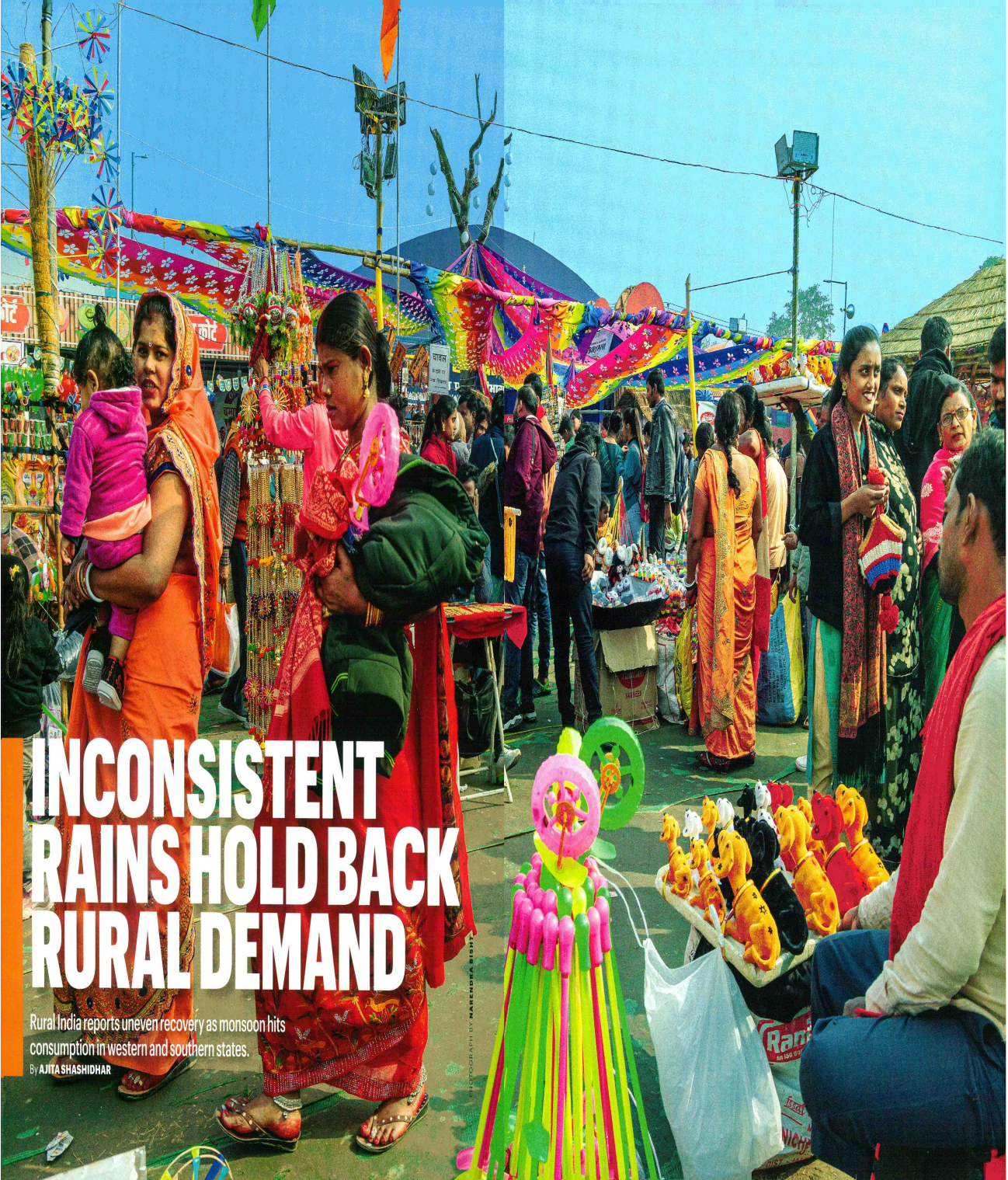


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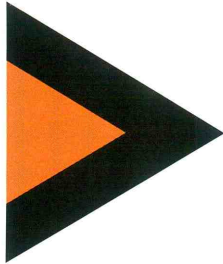
INCONSISTENT RAINS HOLD BACK RURAL DEMAND

Rural India reports uneven recovery as monsoon hits consumption in western and southern states.

By AJITA SHASHIDHAR

PHOTOGRAPH BY NARENDRA BIRHT

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DHANESHWAR SHARMA, a 60-year-old farmer from Bihta town in Bihar, shows off two large silver coins he bought on Diwali this year. As he digs into piping hot *litti chokha* at a highway *dhaba*, he breaks into local *'magadhi'* while discussing the positive mood in his village. Despite moderate monsoon this year, the yield on his 11-acre farm (where he grows rice, chana dal, mustard and wheat) has been good.

Other farmers also have had a good year. However, he has his share of complaints. "It is not so much rains that have caused a problem. It is government mandis. They claim to pay in 48 hours but it's been 48 days now. More than ₹2 lakh cash is stuck," he says. He had to sell rice in open market for ₹1,800 per quintal, ₹500 less than the ₹2,300 MSP (minimum support price). But Sharma's situa-

tion is far from bleak. He recently bought a tractor for ₹6.5 lakh. He also runs a car rental business and plans to buy his third Mahindra Bolero. It is wedding season and both his Boleros are booked for next one month. Sharma's friend, Bramhans Singh, the owner of the *dhaba*, also runs a *kirana* store in adjoining Gorna village. Business at both the *dhaba* and the store is roaring. "People have got jobs in infrastructure projects. Farm yield has also been good. This has led to higher consumption," says Singh. He also made a killing by selling onions at ₹3,500 a quintal when there was a shortage a few months ago. "I had bought 35 quintals at ₹900 a quintal and stored in my warehouse." Singh bought a silver tea

set worth ₹80,000 on Diwali this year. In sharp contrast, in Chandwad, 50 kms from Nashik, Maharashtra, the situation is sombre. Onion and tomato farmer Ganesh Mahale has decided to not grow anything on his four-acre farm this year. Rains spoiled a large part of his crop this year and he needs to save money to buy water for his family's sustenance. Onion farms need at least 13,200 litres per acre every eight days. A 20,000-litre tanker costs ₹8,000 and Mahale cannot afford to spend so much. "Since rains have been good in earlier years, we have savings, which we will use." Mahale made losses on onion this year despite demand exceeding supply as prices crashed after government banned exports



RURAL GROWTH HAS BEEN HIGHER. EVEN LAST YEAR, RURAL EXPANDED 20% AND URBAN 16.1%."

Shashank Srivastava, executive director, Maruti Suzuki



PHOTOGRAPH BY SANJAY RAWAT

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8.6%

FMCG INDUSTRY VOLUME GROWTH IN JULY-SEPTEMBER 2023

6.4%

GROWTH IN RURAL MARKETS

1.2%

GVA GROWTH IN FARM SECTOR IN Q2 OF FY24, FROM 3.5% IN Q1

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to ensure domestic supply. "Last year, onion prices were ₹150-200 per kg. This year, they are ₹50-70. I invested ₹1.5 lakh but got back just ₹60,000."

The 40-year-old farmer has delayed his plan to buy a new tractor. Local Swaraj tractor dealer Yogesh Londhe says demand has dipped 30% this year. Kirana store owner Kantilal Jain, from nearby Kundewade village, says consumers are buying only basics and that too in smaller quantities. "I have two months of inventory and no idea how I am going to clear it. I have stopped buying fresh inventory," he says.

Rural India is 50% of India's population. Its mainstay, agriculture, employs 60% (even though it contributes just 15-16% to GDP) of them. Therefore, if monsoon rains are bad, consumption is bound to be hit. In fact, rural consumption was already going through a rough patch due to high inflation in FY23. With inflation stabilising, there have been green shoots in FY24, but recovery has been uneven.

Consumption has shown decent growth in North and East as they have got good rainfall. The mood in West and South is less upbeat due to poor rainfall. Also, better performing markets have grown as share of high value products in consumption basket has expanded; volumes have been low across the board.

So, although tractor sales are expected to dip in FY24, car manufacturer Maruti Suzuki has witnessed higher growth (11.2%) in rural compared to urban areas in first six months, largely on the back of cars priced in ₹13-15 lakh range. "Rural growth has been higher. Even last year, when retail grew 18%, rural expanded 20% and urban 16.1%," says Shashank Srivastava, executive director, Maruti Suzuki. According to Nielsen IQ, FMCG volumes in rural India have grown 6.4% in third quarter of 2023, way less than 10.2% rise in urban areas.

Growth has dipped at most businesses compared to last year's bumper expansion driven by pent-

Uneven Trends

- With rainfall being average to good in North and East, sentiment is upbeat
- Consumers in North and East have loosened purse strings for tractors, cars, bikes and consumer durables
- South and West received below average rainfall, so mood there is one of caution. People are postponing spends
- Clear trend towards premiumisation. Sale of mass-market products down across categories

up demand due to Covid disruptions.



Mixed Views

Economists are being cautious despite good monsoons in many parts of the country. "Reserve Bank of India looks at rural demand from the point of tractor and two-wheeler sales. There hasn't been an uptick in overall growth in those categories. Kharif output is expected to shrink this year. This means lower incomes.

Therefore, one can expect less spending on farm side of rural economy," says Madan Sabnavis, chief economist, Bank of Baroda. Sabnavis is worried about low reservoir levels at dams. "Rabi sowing has been below par due to less water. There is a lot of uncertainty. A major revival of demand is unlikely."

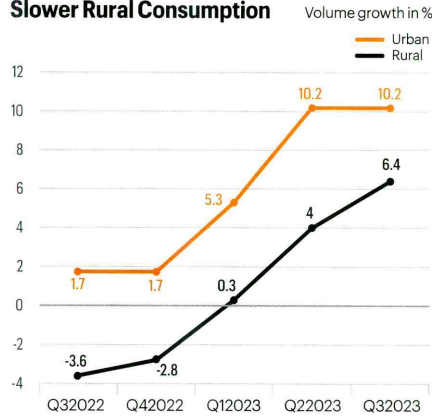
Sachchidanand Shukla, group chief economist, L&T, says uneven rainfall has created micro con-

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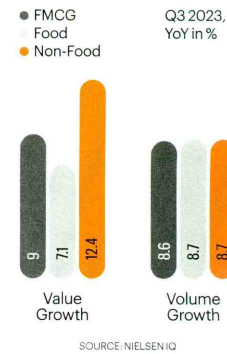
sumption pockets in rural India. "Within a state, some districts have got good rainfall and some haven't. So, consumption patterns are uneven even within states. We were expecting rural demand to come back at the beginning of this fiscal but it hasn't turned out to be so simple." Shukla believes a big reason for rise in consumption is state elections. "This year, we had nine state elections, which distorted expenditure patterns. Pre-electoral cycles mean higher government spending, which has manifested in differential consumption patterns."

Economists say non-agriculture sector is still down, and unless that recovers, demand will remain patchy. "There is still a lot of demand for MGNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme) jobs, so one can assume that people are not getting that kind of income to consume," says Sabnavis. Government announced a reduction in MGNREGS allocation from ₹1,20,000 crore to ₹60,000 crore in FY24 Budget but demand has been far higher. "Rural jobs come from construction and services. The latter have started normalising only lately. Only when non-farm GDP growth normalises will it create enough jobs for people to come back to towns. Demand for MGNREGS funds has been higher with Budget outlay getting exhausted. Infrastructure has

Slower Rural Consumption



Higher value growth shows move towards premiumisation



Desire to Upgrade

- Bulk of growth for consumer brands from premium products
- Consumers are opting for higher HP tractors, farm mechanisation tools such as rotavator, transplanters and harvesters
- Demand for higher capacity bikes such as Karizma or Xtreme. Equally high is demand for higher-end cars priced ₹10-15 lakh.
- Sales of double-door refrigerators, LED TVs and fully-automatic washing machines are higher. Entry-level consumer durables are flat

created jobs but services have not come back to normalcy. Once that stabilises, volume growth will slowly come back," says L&T's Shukla.

In spite of such uneven rural growth, Corporate India is brimming with positivity. Shukla is not surprised. He says RBI surveys have been reflecting optimistic sentiment for a while now. Ramesh Iyer, MD, Mahindra Finance, says the non-banking finance company (NBFC), which predominantly caters to rural consumers, has seen over 40% growth this year. "First half of the year is usually slower for us than the second half, but this time, we have grown in first half. Our NPAs (non-performing assets) are at their lowest level. Last year, we were at 7%. Now, we are at 4%. Our monthly

collections are 92-93%. Consumers are not applying for 100% loan, they are asking for 70-75%, which means they have money."

Though Iyer says his business is growing across the country, for most companies, bulk of rural growth has come from North and East, where rainfall has been satisfactory. Though tractor sales across the country aren't as high as last year, sales of passenger vehicle are at an all-time high. "There is more demand for pre-owned vehicles," says Iyer. This is again a contradiction as the industry claims that bulk of the growth has been coming from higher value cars and bikes. For instance, at Hero Motors showroom at Gaya in Bihar, manager Payal Gupta says while higher capacity bikes such as Karizma and

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BULK OF RURAL GROWTH HAS COME FROM NORTH AND EAST, WHERE RAINFALL WAS SATISFACTORY.”

Ramesh Iyer, MD, Mahindra Finance



Xtreme have done well, there are few takers for entry-level models.

Harsha Agarwal, vice chairman and MD, Emami, says his company has gained market share in most categories. “Specialised products are getting traction in rural areas too. There was a little down-trading some time back but in terms of pack sizes. No one stopped consuming. Rural consumption is certainly back.”

Maruti Suzuki’s rural penetration is 44% today, substantially higher than four years ago, says Srivastava. The car-maker has also been increasing its physical presence in rural India. “When it comes to a valuable purchase like a car, rural consumer prefers physical presence and interacting with a salesperson. Maruti Suzuki has 3,700 outlets of which 2,000 are in smaller towns. We have 18,000 rural development sales executives who are locals. They are able to win consumer trust.”

Kamal Nandi, business head and executive vice-president, Godrej Appliances, says over 80% growth in past one year has come from semi-urban and rural markets. This is a direct result of the company bolstering its presence in smaller markets. “You may not find our exclusive outlets in Tier-I cities. But there was a need (for exclusive outlets) in semi-urban markets. Consumers in these markets want to buy but accessibility is

a challenge. Most of the products are sold in small multi-brand outlets fed by distributors who largely deal in mass segments. We have 124 outlets where we mostly sell premium products; just 20% products at these stores are mass,” says Nandi. He says average rural consumer is as aspirational as his/her urban peers. Be it double-door refrigerators, fully automatic washing machines or smart air-conditioners, a large part of the growth is coming from premium portfolio. “Mass is shrinking in rural as well as urban markets,” says Nandi.



Premiumisation Wave

Intermittent rainfall, impending water scarcity and rock-bottom prices for onion have forced farmer Shantaram Dattuwanj from Pimpalgarh near Nashik to postpone his long-held desire of buying an SUV. But he couldn’t delay buying a new tractor as his old one stopped working. He did not opt for a used tractor but went for premium Mahindra Oza for which he paid ₹6.25 lakh. “It has features such as auto-lifting and video display, which makes it convenient at a time when getting labour for farms is a challenge. It is also more fuel-efficient.”

Be it tractors, farm implements, bikes, cars,

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THERE WAS A LITTLE DOWNTRADING SOME TIME BACK. RURAL CONSUMPTION IS CERTAINLY BACK.”

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Harsha Agarwal, vice chairman and MD, Emami



consumer durables or FMCG, rural consumers are embracing premiumisation. Hemant Sikka, president, Mahindra Farm Equipment, says demand for 21-30 HP tractors is going down while market for 40-50 HP tractors is expanding. “Farmers want bigger tractors for using more implements. Demand for four-wheel drive tractors was less than 5% of total before Covid. There has been a three-fold increase in three years. A four-wheel tractor costs almost 15% more, and features such as slip tow, auxiliary walls cost additional ₹10,000-15,000, but consumers still want them. No one wants farm drudgery.” Mahindra’s farm mechanisation business has grown 40% in past three years, says Sikka. “Our market share of rotavators used to be 9% two years ago. Now, it is 22%. Harvesters

and rice transplanters are other categories which are growing. Our ambition is to grow our farm mechanisation business by 10 times in five years.”

In the historical town of Gaya, consumer durables retailer, Aditya Vision, says 80% revenue comes from premium products. This festival season, footfalls dipped 15-20%, but that was compensated by sale of more higher-value products, says store manager Rohit Kumar. “Double-door refrigerators, 43-inch LED screens and fully automatic refrigerators did extremely well. Two-three consumers from rural areas bought refrigerators costing ₹1.3 lakh a piece.” The store caters to rural consumers within a 60-km radius.

The manager says one of the major reasons rural consumers are opting for

higher-end products is affordable finance schemes offered by NBFCs and banks. Mahindra Finance’s Iyer says rural consumers are availing loans for mobile phones too. “They are taking a loan for (as much as) ₹25,000 for a phone and repaying in 12-18 months. People are upgrading homes and want one-ton air-conditioners instead of air-coolers. Improvement in electricity supply in most states is also encouraging people to buy more consumer durables.”

Intakhab Manzar, who runs a Maruti Aspire showroom on outskirts of Bodh Gaya, says 40% sales have come from premium cars. He says there is a long waiting period for models such as Brezza and Ertiga which are priced upwards of ₹13 lakh. “In smaller towns and rural markets, consumers prefer higher-

end cars, as they use them for commercial purposes too,” says Manzar. “About 25% rural sales are coming from higher-end cars,” says Maruti’s Srivastava.

However, Sunil Agarwal, founder and chairman of personal care company RSH Global, says companies cannot depend on premium categories for the long term. “Only a negligible number of rural consumers is buying premium brands. Continuity in business can happen only with mass brands. Premiumisation is helping companies grow, but for the business to do well, we have to find ways of reaching out to more consumers instead of just spiking numbers through premiumisation.”

L&T’s Shukla says premiumisation is a result of K-shaped economic recovery post Covid. “The K-shaped recovery assumption is

PHOTOGRAPHS BY NARENDRA BISHT

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based on the premise that incomes of people in top tier have remained intact. They couldn't buy during pandemic years and so are buying more premium goods now. Incomes of those at the bottom have not come back to desired levels. Therefore, categories catering to people at these income levels have been impacted."

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Experimentative Mindset
Sonpur Mela, held over a month on outskirts of Patna, is Asia's largest animal fair. It attracts lakhs of people not just for trading animals but also enjoying

festivities. Alongside the giant wheel, sweet stalls, bangle sellers and saree shops, the fair has attractions such as a tattoo booth and TikTok corner, mobbed by youngsters making social media reels.

All this suggests one thing—that rural consumers are as aspirational as urban. Brands are capitalising on the trend. This year, leading FMCG brands at the fair were selling their premium offerings too. While Emami was giving 'buy one get one free' offers for BoroPlus body lotions, Reckitt Benckiser was promoting Vicks Baby Rub alongside the regular Vicks balm. Rural markets prefer Adani Wilmar's Kings edible oil but this time the company had better offers for flagship premium

50%

OF INDIA'S POPULATION STAYS IN RURAL AREAS. ITS MAINSTAY, AGRICULTURE, EMPLOYS 60% OF THIS POPULATION.

edible oil brand Fortune. Similarly, Everest Masala had offers on chilly flakes and oregano. The salesman at the counter says a number of rural consumers have started enjoying home-made pizzas which means there is a growing set of people buying these products.

Alongside these were a host of regional brands with premium products. Kanpur-headquartered Goldiee Masala, now spreading into Bihar, had premium sauces, jams and pickles, while detergent brand Sargam was wooing consumers with discounts on its washing machine variant.

In Maharashtra also, where consumption sentiment is lacklustre, consumers are on the look-out for branded FMCG products. Kirana store owner Kantilal Jain of Kundawade village in Nashik district says consumers are buying smaller pack sizes. "They are merely postponing spending. They haven't stopped buying altogether. Smaller packs of branded biscuits and personal care products are doing well."

That the value-seeking rural consumer is looking to upgrade is good news for consumer brands. However, for consumption to be uniform, mass consumption needs to pick up. The uncertainty in farm sector and rural India's dependence on schemes such as MGNREGS signal complete recovery is a while away. ■

