

Rural Growth Story

?



Business Mind Social Heart

Organized By
MART Knowledge Center

Report Presentation
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The Rural Story...

Genesis of the Study

- The overall slowdown of the Indian economy in recent months prompted MART to undertake a National study to understand the impact on the rural economy..

Study Objectives

- To understand and assess the impact of the economic slowdown on rural and small town economy:
- To track changes in:
 - Incomes and Employment
 - Consumption and Savings
 - Major sectors – FMCG, Durables, Telecom, Automobiles, Agriculture and Agri inputs and other supporting sectors

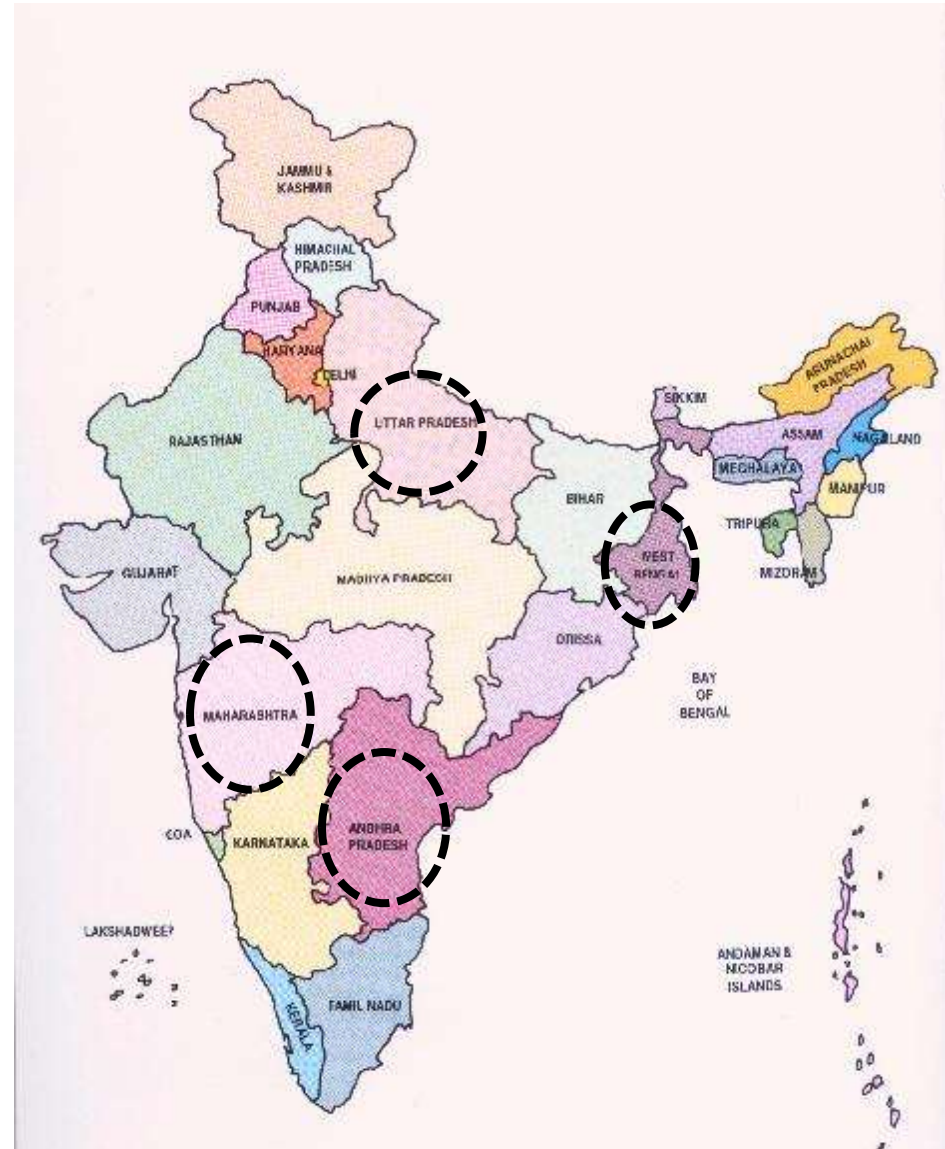


Research Methodology

Research Design

- **Exploratory research**
 - Qualitative & Quantitative
- **Reference period**
 - 2011 VS.2010
- **Geography:**
 - **States-UP, Maharashtra, AP, WB**
 - 24 villages , 12 small towns across 4 regions
- **Respondent Segments**

Respondent Segment	Respondents	Selection Criteria
Consumers	Chief wage earners (farm & non farm)	25-55 age group , All SECs
Traders	Retailers/ Dealers	Major players
Service Providers	Mason, labourers, teachers, transporter	Major players



All India Research Sample

Qualitative

- **Research tools-** IDIs, FGDs
- **Sample Size:**
 - 60 IDIs (trade/ service providers)
 - 12 Focus groups (consumers)

Quantitative

- **Research tools-** Structured questionnaires
- **Sample Size:**
 - 405 Consumer interviews



Rural Macro Economic Scenario

Indian Economy...*the story so far*

- Indian economy is witnessing slowdown in Q3 and Q4 CY11
- Manufacturing worst affected

GDP Growth – CY 11 over CY10				
Unit (%)	Q1	Q2	Q3	Q4
2010	9.4	9.3	8.9	8.3
2011	7.8	7.7	6.9	6.1

GDP Growth – YOY Sectoral growth rate FY 12 over FY11						
(Unit- %)	FY11			FY12		
	Q1	Q2	Q3	Q1	Q2	Q3
Agriculture	3.1	4.9	11.0	3.9	3.2	2.7
Manufacturing	9.1	6.1	7.8	7.2	2.7	0.4
Services	12.7	10.8	9.8	12.7	9.8	9.2



Rural Market... *A snapshot*

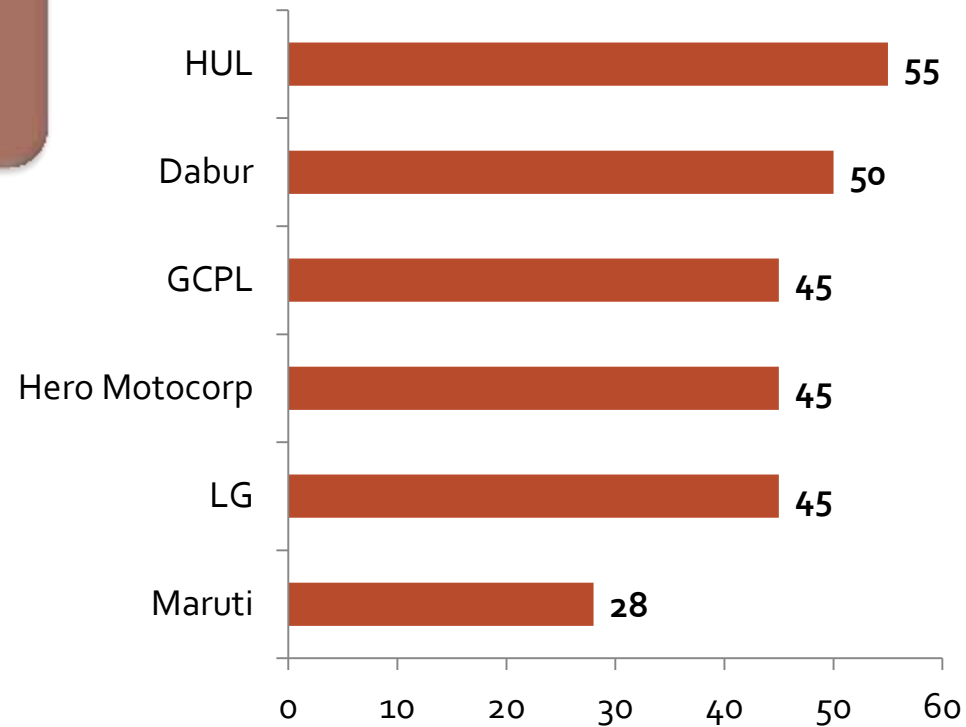
Rural (villages)+ small towns (< 1 million pop)

- 1 billion consumers
- USD 1 trillion market (at current prices)

- 56% of India's income
- 64% spending
- 33% savings

Largest consumption market
for FMCG and durables

Rural Share(%)



Government Spending in Rural

Huge spending in Rural
- NREGA and Bharat Nirman
accounts for **37% of total rural
spending**

Impressive growth in health and
education spending

Pro Rural Reforms Through Higher government Spending

Budget Allocation (Rs.bn)	FY11	FY12	YoY Gr (%)
Bharat Nirman	480	580	20
MGNREGS	401	400	0
Housing (IAY)	100	100	0
Education (SSA)	150	210	40
Health (NRHM)	154	178	16
Total Rural Outlay	2265	2661	17
Credit Support (farmer)	3750	4750	27

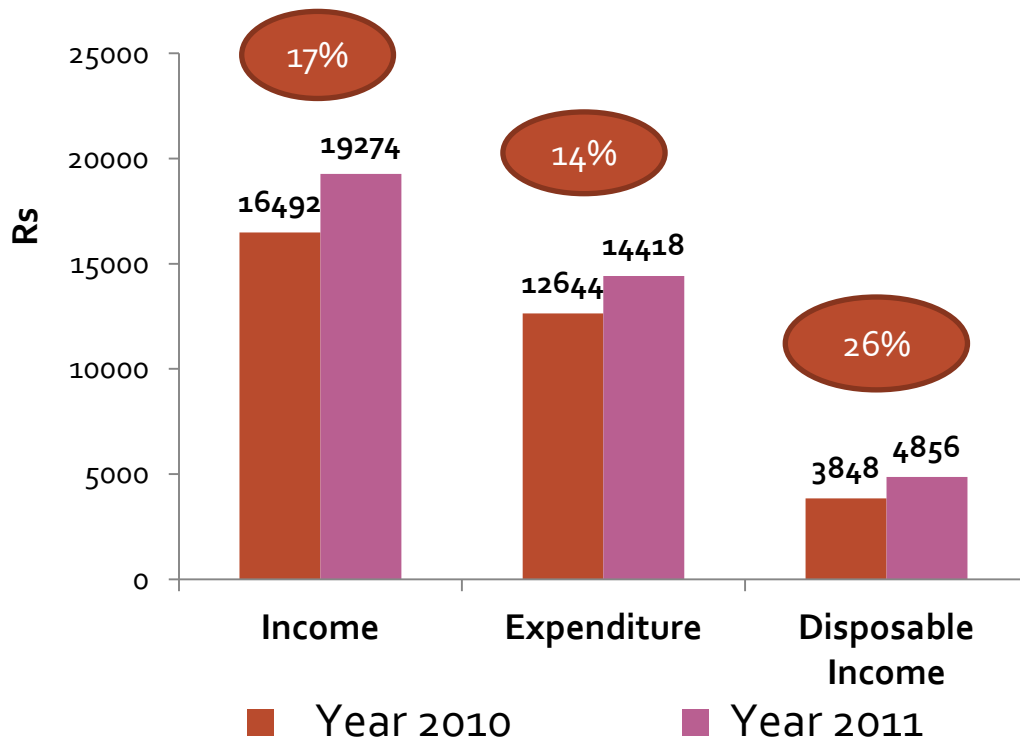




Rural- Income & Expenditure Profile

Income-Expenditure Profile...2011 vs.2010

Rural Income/ Expenditure (Per capita per annum)

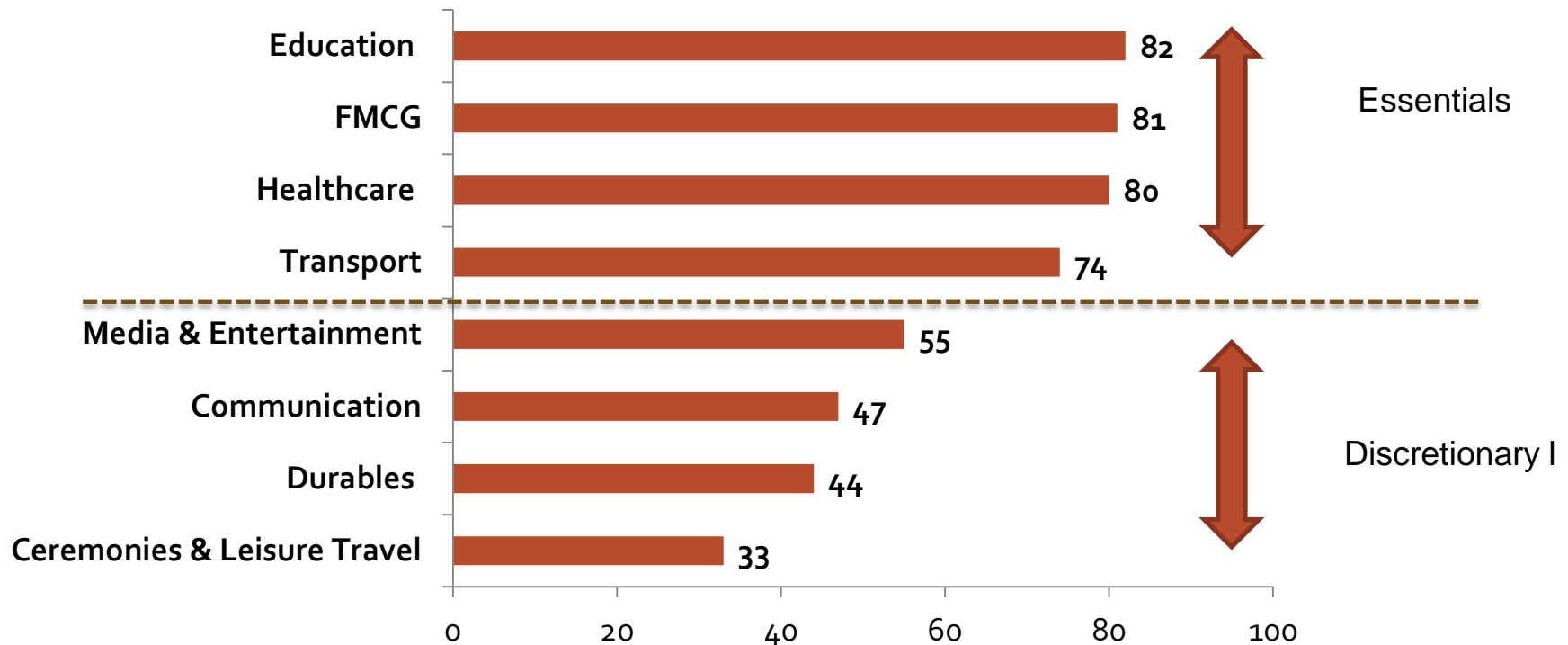


Annual HH Income grew from 75k to 88k

Growth in income exceeds rise in spending

High growth in disposable income

Increase in Spending - 2011 over 2010 (% HHs)



Base 405

Services like education and healthcare have seen huge increase in spending... increased awareness and affordability
Low increase in discretionary spending than essentials(FMCG ,Transport)





Agri & allied Sector

Farm Sector- Increasing Production

Production (unit)	FY 10	FY11	FY12E
Total Food grain	218	236	245
Milk Production (mt)	117	121.5	126.4
Wheat	81	86	88
Rice	89	95	102
Sugarcane	19	24	26

- Highest ever food production
- Milk production rising

Strong MSP boosts Farm Income			
Rs./ quintal	FY11	FY12	YoY Gr (%)
Paddy	1000	1110	11
Sugarcane	139	145	4
Wheat	1120	1285	15

Significant increase in MSP ... improving farm income



Increasing Mechanization – Tractor Sales

Factors driving mechanization:

- Labor scarcity
- Increasing labor rates
- Strong replacement demand

Steady growth in tractor population
inspite of decline in farm profitability

**Growth in Tractor Sales
(FY10-FY12)**

'000	Sales	YoY Gr(%)
FY10	441	-
FY11	545	24
FY12e	605	11

37%

Growth in Tractor Sales

Period	Q1	Q2	Q3
FY11	128	113	145
FY12	147	150	165
Growth(%)	15	33	14

Agri & allied -Trade Speak

"labor ki kami hone se tractor ki demand badhi hai"

- Tractor dealer, Maharashtra

"DAP ka daam achanak badhne se maang mein kami aayi hai, bahut kisaan aaj kal DAP ki jagah urea daal rahe hai"

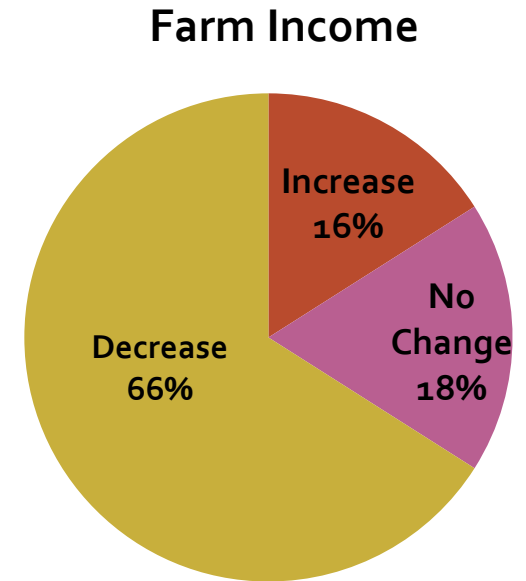
-Input Dealer, U.P

"daam badhne ke bavjoot logon ne DAP kharidna kam nahi kiya hai"

- Input Dealer, Maharashtra

Farmer's Insight

- Increase in cost of production leading to decrease in farm profitability
 - Fertilizers(subsidy reduction)
 - Increase in Labor rates(more opportunity in non farm)



Base- Farmer household(151)



Farmers Speak

"lagat badhne se, munaafe mein bahut kami aayi hai"
- Paddy Farmer, WB

*"tractor ke bina aaj kal to kheti karne ki to soch bhi nahi sakte,
labor ke bahut nakhre hai"*
-Paddy Farmer, AP

"apni zameen hote huye bhi majboori mein mazdoori karni padti hai"
-Sugarcane Farmer, UP



Major Sectors in Rural



FMCG

FMCG- Rural Scenario

FMCG	CY	
	2010 over '09	2011 over '10
%		
Volume Growth		
Rural	-2	10
Urban	2	4
Value Growth		
Rural	1	12
Urban	4	7

Rural FMCG growth outpacing urban both in volume and value

Huge volume growth in low penetration products

Emerging new categories	
Rural (Jan to Oct, 11)	Volume (% growth)
Milk food drinks	44
Any Shaving preparations	40
Bottled Soft drinks	31
Toilet/Bathroom Cleaners	24



FMCG- Industry Speak

“In the overall environment, we don't look at numbers on a quarter-by-quarter basis. Our strategy does not change by quarters. The numbers may keep shifting ...But if we look at the full year, the rural growth story is intact”

Harish Manwani , Chairman, HUL

“ I am hearing the prediction(of rural growth slowing), but I do not buy that. When it comes to daily utilities like toilet soaps and other household items, consumption remains unaffected....”

A Mahendran, MD, Godrej Consumer Products

“...I am hopeful that rural demand is growing ahead of urban India going forward. All the indicators are there in terms of good agri output, higher MSP's etc. ”

-Sunil Duggal, CEO, Dabur, India

“The FMCG segment in particular has registered good growth in rural areas, and in some segments it has been even better than in the urban areas”

Adi Godrej, chairman, Godrej Group



FMCG- Trade Insight

- Increased investment in stocks... **more branded products and new categories**(bournvita, yippee noodles, zigzag toothbrush etc.)
- Increase in number of shops and shop categories... **growing consumption, no drop in footfalls**
- **Basket of shopping remains intact** in spite of rise in prices... 20-30% increase in spending
- **Mass media exposure** driving demand for **branded consumption**

“khaane ki cheezon ke daam badhne par bhi logon ne istemaal mein katauti nahi ki hai”

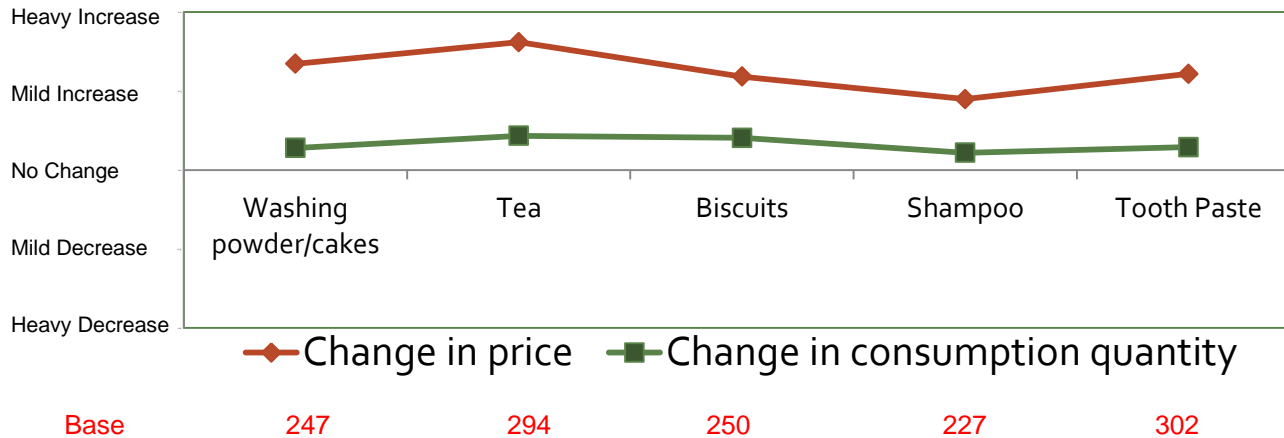
- *Village Retailer, UP*

“gaun mein aaj kal bournivita jaisi cheeze bik rahi hai”

- *Retailer, Maharashtra*



FMCG- Consumer Insight



Despite increase in prices, the consumption has not decreased both for food and personal care products

- **No downgrading of brands** despite increase in prices of items except packaged tea and health food drinks.
- Purchase of new categories and **up gradation from loose to packaged** even in small villages(<2k pop)
- Increase in **consumption of economy packs** in food categories(Tea and edible oil)

Triggers for packaged consumption :
- Health & hygiene
- Social status



FMCG- Consumer Speak



"daam badhne par bhi zaroori cheeze to istemaal karni hi hai"
- Farmer, UP

"ab to chai tak ke daam mein badotri ho gayi hai, par chai peena to nahi band kar sakte"
- labor, Maharashtra

"jab se humne apne bete ko shehar mein padne bheja hai, tab se hamare bhi rehan sehan mein bahut badlav aaya hai"
- Teacher, WB

"tv pe ad dekh ke bache nayi nayi cheezen kharidne ki zidd karte hai aur hume kharidni padhti hai"
- Trader, AP



Automobiles

Automobiles – Rural Scenario

Particulars	Growth (%) (Urban +Rural)				
	FY'10	FY' 11	FY'12 vs. FY'11		
			Q1	Q2	Q3
Motor Cycles	25.9	22.9	17.5	15.4	9.2
Scooters	27.4	41.8	13.3	29.0	21.6
Mopeds	30.9	23.5	21.0	7.0	2.6
TOTAL Domestic	26.0	25.9	17.0	17.3	11

Steady growth in 2 wheelers (15% in first 3 quarters, FY'12). Almost half of the motor cycle sales coming from rural /small towns

Demand for 4 wheelers on rise in Rural ... Maruti `s sales grew at 8% (Apr- Dec,11) and 16% in Jan,12

Better road networks leading to increasing ownership of personal transport and frequent access to towns

Automobiles- Industry Speak

“Hero MotoCorp’s profit jumps 43% on strong rural demand... rural share at 45%”

- *Livemint*

“At Maruti, the contribution of rural sales has gone up from 22% in 2010 to 26% this year.”

- *Mayank Pareek, managing executive , Maruti Suzuki*



Automobiles- Market Insights

- Rural Demand intact
- **Majorly occasion driven sales(marriage, festivals)**
- No decline in investment and stock in shops

"basic model ki sale mein koi kami nahi aayi hai"

- Sub Dealer, Hero Motor Corp, UP

"bhale hi petrol ke daam badh gaye hai, par bike pe jaane se time ki bahut bachat hoti hai"

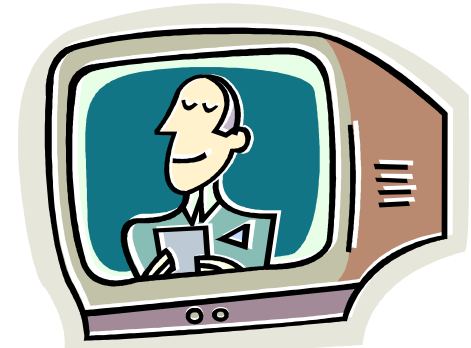
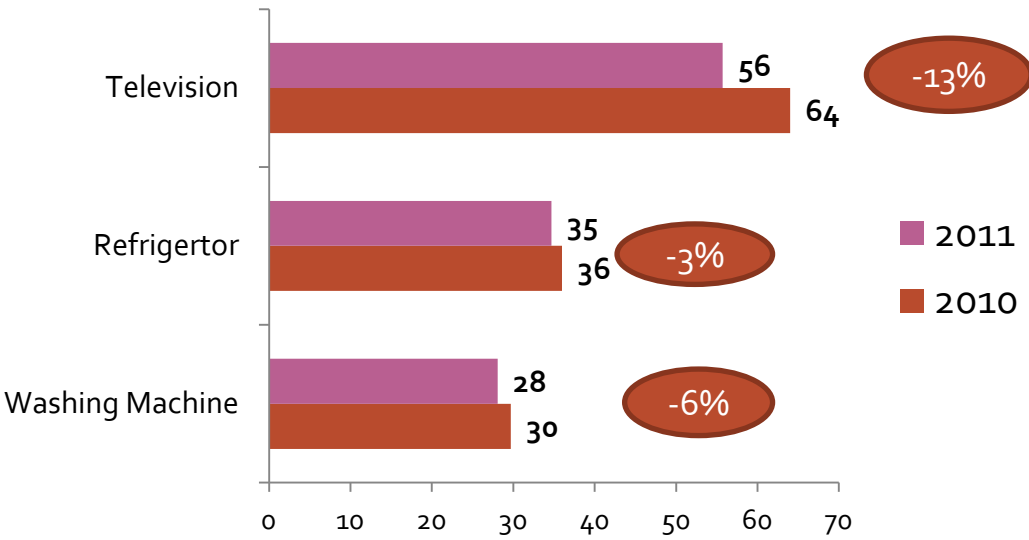
- Consumer, West Bengal



Durables

Durables – Rural Scenario

Durable sales in lakhs(Rural +Small towns) (Jan-Nov)



Decline in sales:
- Rise in prices
- CRT models withdrawn (few players)

PTV alone has shown 48% growth in rural vs. 47% in urban... product up gradation

Overall TV sales has declined:
- Postponement of purchases due to low farm profitability



Durables- Industry Speak

“Last quarter of 2011 has not been very fruitful for the consumer durables industry... prices of durables were hiked almost 4-5 times last year because of increase in raw material prices ...”

- ***Anirudh Dhoot, Director Videocon & President CEAMA***

Durables- Trade Insight

- Decrease in sale of refrigerators... price increase and lack of attractive offers this season
- No decline in stocking in most cases
- **Brand Up gradation**... preference for Global over local

“90% log shaadi vyaah mein kharidte hai, 10% apne ghar ke liye lete hai”

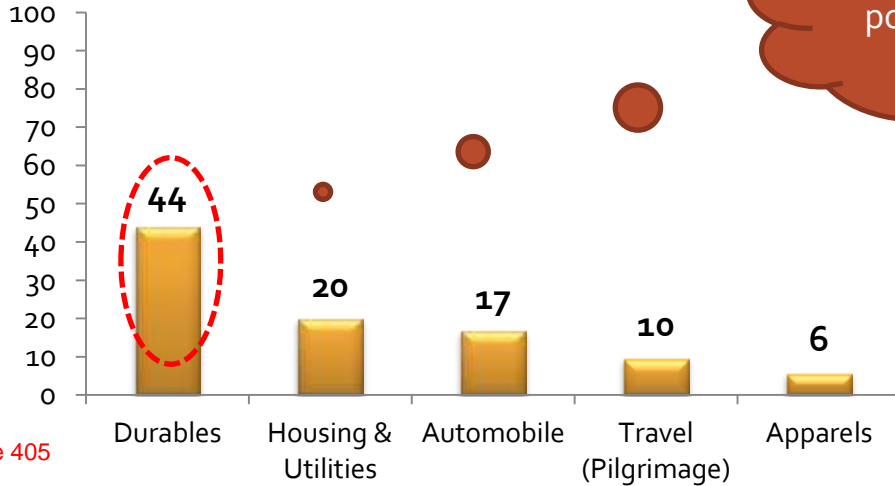
-Town Retailer- UP

“Customer sochta hai ki yeh roz lene ki cheez to hai nahi, is liye lena hai to badiya waala hi lo”

-Town Retailer- WB

Durables- Consumer Insights

Items Postponed(% HHs)



More than 44% households postponed purchase of durables

Basket/shopping list for dowry gifts has gone up... addition of new items like microwave oven, water purifier, laptop etc.

Postponement of home purchase but no compromise in dowry items.

Base 405

"Tv, fridge to hum shaadi vyaah mein hi len-den ke waqt kharidte hai"
- Consumer, Maharashtra

"Sound badiya ho aur badi company ka ho, aisa TV hamari pasand hai"
- Consumer, UP





Service Sector



Telecom

Telecom- Rural Scenario

	Q3-CY'10	Q3-CY'11	% change
Number of Mobile Subscribers(millions)			
Rural	236	306	29
Urban	487	601	23
Teledensity (%)			
Rural	28.4	36.4	28
Urban	137	166	21

Rural outpaced Urban both in terms of teledensity and growth in number of mobile subscribers

Year	Overall Mobile phone Shipment
2010	166.5 mn
2011	183.4 mn

Mobile phone shipments in India grew by 10 percent... rural handset growth contributing significantly

Telecom- Trader Speak

- Rapid growth in number of mobile shops(villages as well as town). 3-4 new shops in a town
- **Growing competition** ... squeeze in margins
- Decline in frequency of recharge due to drop in call rates

"mobile ke daam mein bhari kami aayi hai, aaj kal to multimedia mobile bhi 1500 -2000 mein mil rahe hai"

- Town Retailer, Maharashtra

" 1100-1300 ka mobile hi maangta hai gaun ka grahak"

- Village Retailer- UP

Telecom- Consumer Insights

- Mobiles seen more as **utility, NOT luxury**... tool for business growth
- Increasing mobile ownership among lower SEC (D- 72%, E- 31%)
- Drop in call rates... increase in talk time(60% HH reporting increase in mobile expenses)
- **Last mile availability** of handsets as well as recharge coupons



Drop in
Prices

More
frequent
replacement
(1-2yrs)

Demand for
low priced,
multimedia
sets



Telecom- Consumer Speak

*“mobile ka kharcha zaroori kharcha hai, kyunki us se business aata hai”
- Consumer-AP*

*“ab to parchun ki dukaan mein mobile aur recharge coupon bhi bikte hai”-
Consumer, WB*

*“baaton se zyaada to hum phone pe gaana sunte hai”
- Farmer, Maharashtra*

*“phone ke bina ab kaam nahi chalta, kyunki ab yehi to hamara kaam chalata
hai”- consumer, UP*

Housing & Construction

Type of House (%)	Year 2010 Q3	Year 2011 Q3
Pucca	62	63.3

Growth in Housing (Indira Awas Yojana)		
Unit (mn)	FY11	FY12E
No of houses	2.71	2.72

Items(%)	Jan'11	Jan'12
Cement prod.	1.8	10.6

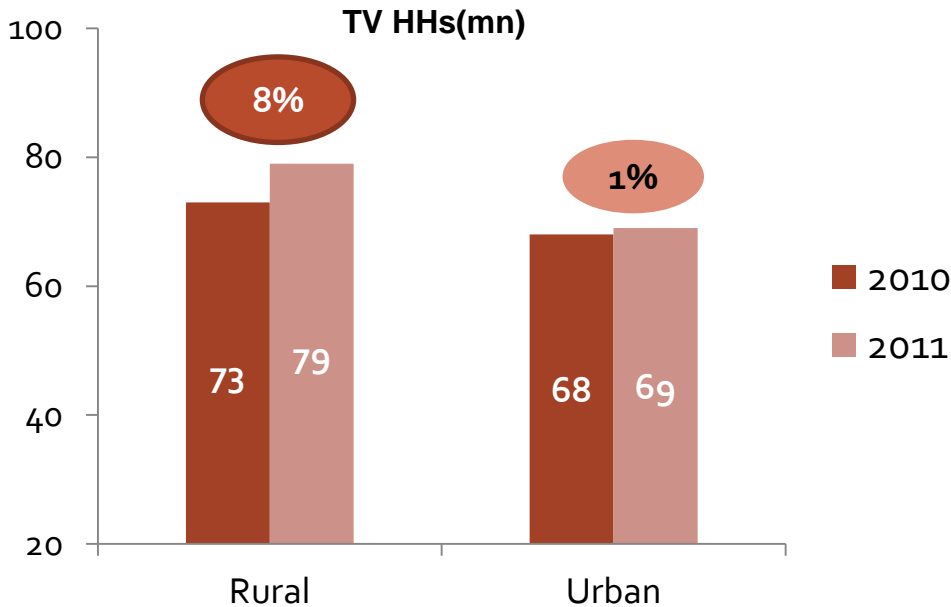
- Demand driven by upgrading from semi-pucca to pucca houses
- **Aspiration for better living standard...quality of life**

- 64% HHs reporting increased spending on construction despite increase in prices...max increase reported for bricks (20-25%), cement (10-15%)
- Only 2 out of 10 HHs postponed construction
- Emergence of construction material shops in large villages, growth in number of shops in town

“log ghar banane ke saaman mein compromise nahi karte, badhiya cheezon ka hi istemaal karte hai, chahe kitni bhi mehngi ho”
- Cement Dealer, UP



Media and Entertainment



DTH HHs(mn)	Rural	Urban
2010	17	9
2011	26	16

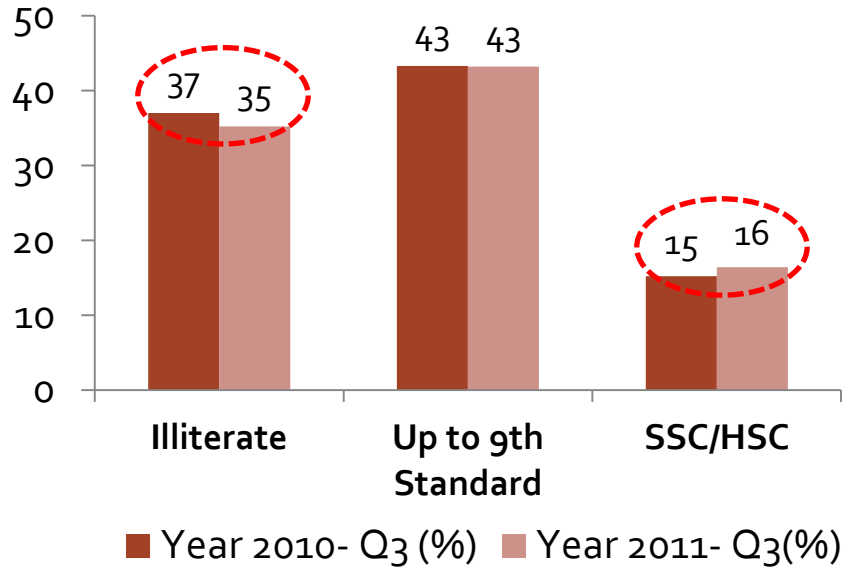
- Growth of TV HHs in rural outpacing urban
- 53% growth in DTH households in rural. Out of 42 mn DTH connections, 26 mn are from rural

- 55% HHs reporting increase in spend on Media and entertainment which includes Haat /Mela, Cinema etc.

Increased mass media consumption... brand awareness, rising aspirations and new category growth



Education



40% increase in government spending in FY'12 over FY'11

- Education on top of the spending list... 82% HHs reported increased spending, max on tuition fees

Increase in number of private tutors in the village... Engaging tutors has become a trend

- Aspiration for English medium school, IT training
- No compromise... sending children outside village/town, despite increase in cost of education

"school ki fees bahut badh gayi hai, mushkil ho rahi hai bacho ko padhane mein, par bacho ko padhana bhi zaroori hai"

- Consumer, WB



Healthcare

- 16% increase in government spending via. NRHM
 - 80% HHs report increase in healthcare spending... doctor fees and medical expenses... Fees of private doctors has gone up
 - Growth driven by the private players
-
- Private sector growth fueled by increase in number of hospitals in small towns
 - Market size grew from USD 30 billion in 2010 to 35 billion in 2011

"jo doctor pichle saal 100 ruppee leta tha, ab who 150 ruppee le raha hai, par kya kare sehat hai to sab kuch hai"
- labor, UP



Ceremonies & Leisure Travel

Wedding major occasion for purchase of durables, automobile... dowry basket remains untouched rather up gradation seen (addition of new items in the list)

No postponement of travel plans (90% HHs)... Travel, pilgrimage, visiting relatives

Spending more on public conveyance than personal mode... hike in petrol



Majority likely to cut their spending on leisure travel in case of decrease in income

Majority (67%) HHs reporting no change in spending on leisure travel

Overall increase in spending on ceremonies... Gold prices, catering prices

“shaadi vyaah ke kharche aasmaan chu rahe hai, daawat, kapde se le ke dahez ka samaan sab mehnga ho gaya hai”

- Consumer, AP



Financial Services

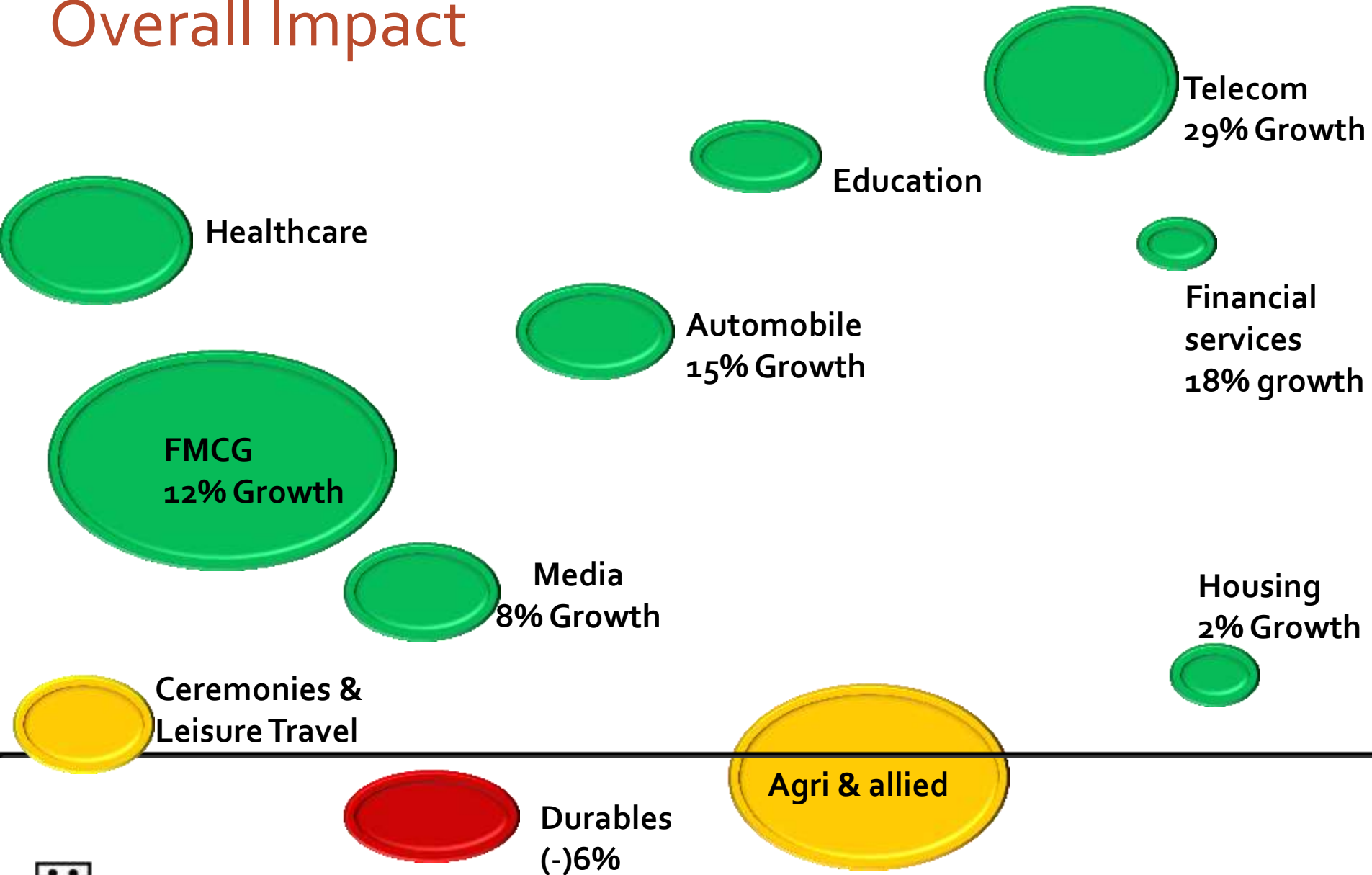
Rural/semi urban (Rs trillion)	Jun,10	Jun,11	Gr(%)
Deposit	10.4	12.2	18
Credit	5.6	6.8	20

Healthy growth in bank deposits and advances led by 26% growth in rural disposable income

Transition of HHs from informal(cash at home) to formal saving instruments (Banks, NBFC's)



Overall Impact

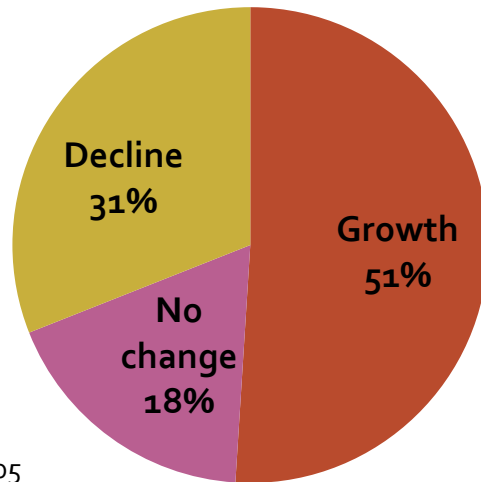




Future

Consumer Sentiment

Consumer Sentiments 2012



Base: 405

India ranked No.1 in Nielsen's Global consumer confidence Index among 56 countries in 2011

Majority are optimistic about future growth in 2012... pessimism primarily among farmers

"meri to kamayi mein acchi badotri huyi hai, aane waale saal mein bhi ache asaar nazar aa rahe hai"

-Non farm laborer, Mah

"mera to dhoodh ka kaam acha chal raha hai, aage se main kheta ki bajaye isme hi zyaada poonji daalunga"

-Private dairy owner, UP



Industry Sentiment

“ Earlier our direct reach to rural business was 16% which has now increased to 22%.. This kind of initiatives will further help to boost our sales ahead.

- N.H Bhansali, CEO Emami Group

“highest ever MSP, growing disposal income, innovative efforts by consumer companies to make products available through haats, mobile vans are paying off, temporary ups and downs apart, I am a firm believer in rural”

-Amitabh Mall, Partner and Director, BCG

“Emami is planning to achieve 55% rural share in next 3 years”

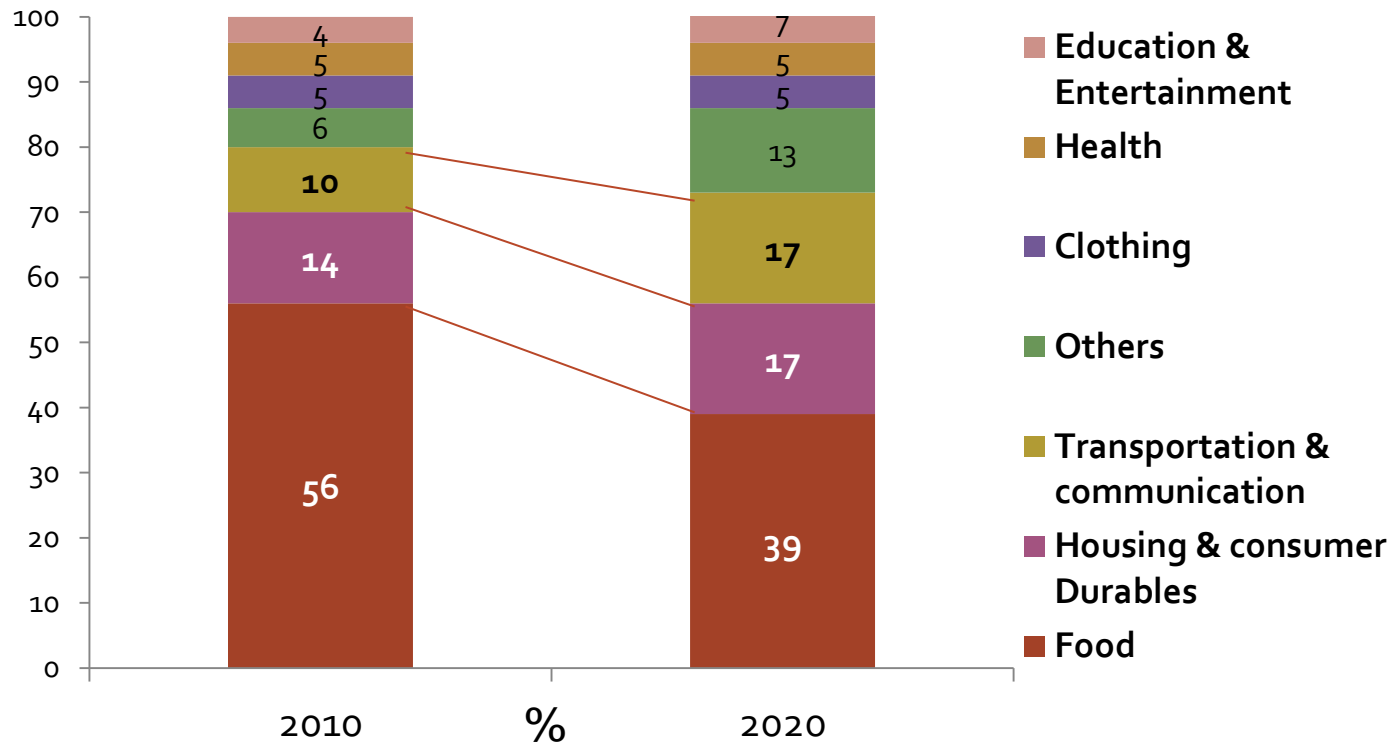
- CNBC Awaaz



Future Prospects

- By 2017 Rural per capita consumption of FMCG's to equal current urban levels
- From Agriculture rural will become service driven economy...
Non farm sector to contribute 70% of rural incomes by 2020
- 40% Tele density in Rural India by 2014
- Construction of 12 million pucca houses between 2010-15 under Indira Awas Yojana
- Health spend to rise 2 fold from Rs 1.1 trillion in 2010 to Rs 2.5 trillion by 2025
- 100% road connectivity by 2020
- 100% literacy by 2020

Share of Wallet- Rural



Rise in discretionary



Future growth ... key players

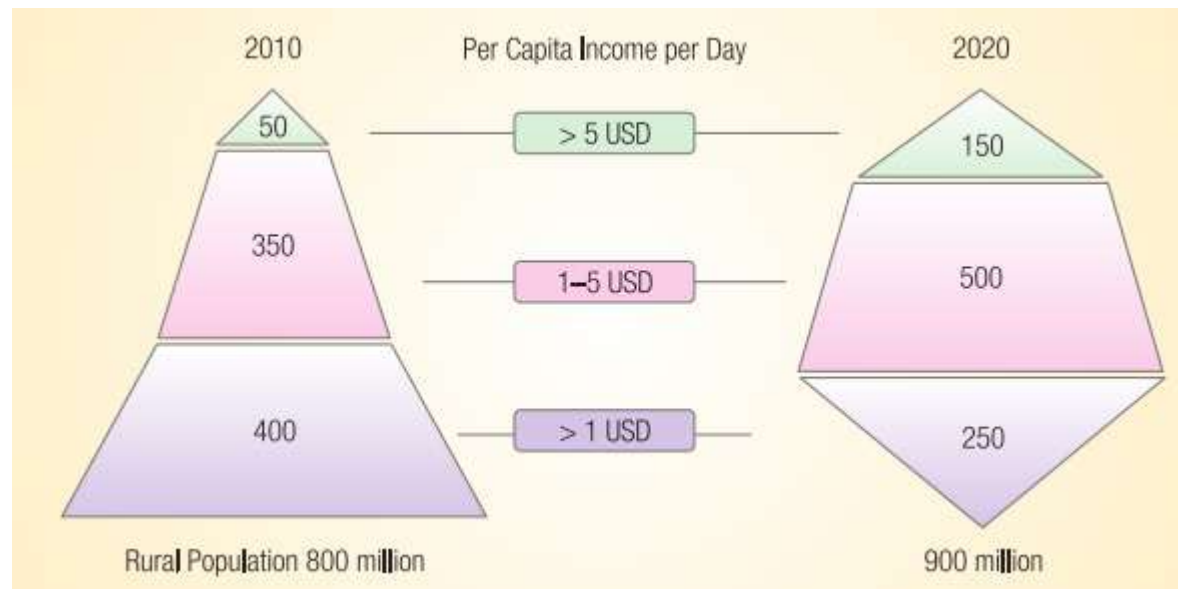
(Rs Billion)	Sales		
Companies	FY 12E	FY13E	Fy14E
ITC	267	309	355
HUL	229	261	298
Nestle#	76	94	117
Dabur	51	59	69
Marico	39	45	53
GCPL*	45	55	64
Britannia Ind.*	53	63	74

FMCG Players foresee healthy growth banking on robust rural growth



Growth story continues...

- Strong domestic consumption (58% of GDP (FY12E at 2004-05 prices))
- Demographic dividend in rural
- Growing and aspiring middle class
- Rising disposable incomes and increasing rural wealth
- Income pyramid morphing into diamond...Pop earning >USD 1 will grow from 400 mn to 650 mn.



'India lives in its villages'

- Mahatma Gandhi

Thank You