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Consumption at crossroads: Should you worry?

DUE DILIGENCE. Here's a snapshot of how companies are navigating the uncertainties, and the options for investors

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Parvatha Vardhini C
bl. research bureau

Though markets have cooled a bit from the all-time highs they hit a month ago, valuations are still not cheap. The Nifty today trades at 22 times its trailing earnings, compared to 20.5 times during the March 2023 market lows. Valuations of the Nifty Consumption (of which FMCG, Auto and Durables are top weights), Nifty FMCG and Nifty Auto Indices are much steeper, at 43-47 times, riding on themes such as the cyclical upturn in auto sales, demand revival post-Covid, as well as the penetration potential for various consumer goods and services. Most stocks part of the Nifty Consumption Index are comfortably past their pre-Covid peak (January 2020), with some even doubling or trebling since then.

However, on the ground, the optimism is not carrying through. For one, private consumption expenditure as a percentage of GDP in the March 2023 quarter (latest available data, at constant prices) came down to 55 per cent, a level last seen in the Covid-hit first quarter of FY21.

On a sequential basis, spends on this head had dropped by about 3 per cent in Q4FY23. Into Q1FY24, an analysis of the results of India Inc. show just low single-digit revenue growth year-on-year, indicating weak demand, though profits grew at about 50 per cent, aided by lower costs.

Thirdly, just as raw material prices have cooled off and rural demand seems to be gaining colour, consumer price inflation is rearing its head back again. The latest round of RBI's Consumer confidence survey released on August 10 reflects some pessimism too. After persistent recovery for almost two years, the 'current situation index' stood lower than the previous survey round. While respondents showed improved sentiments on income and spending, it wasn't matched by optimism on the general economic situation.

With the sector at a crossroads, what are companies doing and what should investors do?

HOW COMPANIES PLAY

For now, the headwinds are not yet showing up for FMCG players. Data from NIQ (formerly Nielsen) shows that in value terms, the Indian FMCG market grew 12.2 per cent year-on-year in April-June 2023, with a 7.5 per cent underlying volume growth. This is the highest value as well as volume growth in the last 5 quarters. The volume growth may sustain for the rest of the year for a few reasons: Going by management commentary, many FMCG players are still liquidating their inventory at higher prices and it may take one or two quarters for the benefit of price cuts (or higher grammage) to seep through to the end consumer. Thus lower prices may support volumes.

> **PLAYBOOK**
> - Look for pockets of relatively lower valued FMCG stocks
> - Small- and mid-cap plays in auto components available at reasonable valuation
> - Limit exposure to consumption-themed funds

Besides, given the benefit of lower costs due to a cool-off in input prices, companies are using the savings to up their advertising spends, which could sustain demand. Ad spends for companies such as Colgate, Godrej Consumer and Hindustan Unilever, for instance, have surpassed pre-Covid levels (ie Q1FY20 levels) in Q1FY24. Ad expenses as a percentage of sales are higher than pre-Covid levels for Godrej as well as Tata Consumer. Thirdly, smaller companies such as Jyothy Labs are also expanding their direct reach, targeting incremental volumes from higher touch points.

Consumer durables players such as Blue Star and Havells, who have already seen muted demand for consumer electricals/electronics, are riding on their B2B segments. Government capex and pick-up in infrastructure spending is already benefiting them.

And then, there is the ride on premium products, which is relatively immune to factors such as rural slowdown or inflation. Even if fewer products are sold, higher realisations and margins add to the bottom line. Commuter bike sales (75-110cc) – which is a big market for Hero MotoCorp – are yet to recover to pre-Covid levels. However, Hero is riding on the higher segment Glamour, Super Splendor XTec and Karizma for the next leg of growth.

While compact car sales are not quite exciting now, Maruti Suzuki, the erstwhile 'small car maker' is carving a niche in the SUV segment. As of FY23, UV sales constitute half the total passenger vehicle sales in the country and share of UVs in Maruti's volumes now stands at over 20 per cent.

Also, if high inflation such as the one witnessed for July turns out to be transitory (being based on supply side), and not sticky, companies may not have to worry for long. Rural non-farm incomes, seeing good traction due to government capex/MNREGA, are expected to aid volumes, even if the uncertain monsoon trajectory affects farm incomes.

WHAT INVESTORS CAN DO

Given the demographic dividend as well as the population, consumption in India is often said to be an evergreen story for long-term investors. This is also one reason why non-cyclical consumer goods stocks such as FMCG or durables trade at high valuations. One thing investors can do today is to look for pockets of relatively lower valued stocks in these segments. For instance, *bl.portfolio* has been recommending mid-cap FMCG Jyothy Labs over the last few years. The stock is now beginning to play catch-up with its larger peers.

Similarly, among auto components, small and mid-cap plays with good prospects and reasonable valuations are still available. Fiem Industries, SJS Enterprises, Sansera Engineering and Lumax Industries are some examples.

Some large-caps part of the Nifty consumption basket are trading at valuations below pre-Covid levels, Maruti Suzuki is a good example. Some FMCG behemoths such as Hindustan Unilever and Britannia too are trading below their pre-Covid valuations.

On corrections linked to broader markets, investors can bet on themes with long growth runway such as electric vehicles in auto.

Two new funds focused on consumption have come out recently and there are a handful of existing active and passive ones too. Most of them have given double-digit returns over 3,5 and 10-year periods (both point-to-point and lumpsum). Few active and passive funds on the auto sector are also available. But time your entry to thematic funds to a correction, limit exposure and restrict them to your satellite portfolio.

Interest rates on home loans (%)

Institution	Loan amount: Under ₹30 lakh	₹30 to 75 lakh	Over ₹75 lakh
BANKS (Floating rates)			
Axis Bank	9.0-9.4%	9.0-9.4%	9.0-9.4%
Bank of Baroda	8.60-10.60	8.60-10.60	8.60-10.60
Bank of India	8.50-10.75	8.50-10.75	8.50-10.75
Bank of Maharashtra	8.50-10.90	8.50-10.90	8.50-10.90
Canara Bank	8.85-11.25	8.75-11.25	8.55-11.15
Central Bank	8.40-9.35	8.40-9.35	8.40-9.35
DBS Bank	<=10.20	<=10.20	<=10.20
Federal Bank	>=8.80	>=8.80	>=8.80
HDFC Bank	8.50-9.40	8.50-9.40	8.50-9.40
ICICI Bank	9-9.80	9-9.95	9-10.05
Indian Bank	8.50-9.40	8.50-9.40	8.50-9.40
Indian Overseas Bank	>=8.85	>=8.85	>=8.85
IDBI Bank	8.55-12.25	8.55-12.25	8.55-12.25
J&K Bank	8.75-9.85	8.75-9.85	8.75-9.85
Karnataka Bank	8.75-10.43	8.75-10.43	8.75-10.43
Karur Vysya Bank	9.23-10.73	9.23-10.73	9.23-10.73
Kotak Mahindra Bank	8.75-9.60	8.75-9.60	8.75-9.60
Punjab National Bank	8.55-10.10	8.50-10.10	8.50-10.0
Punjab & Sind Bank	8.85-9.95	8.85-9.95	8.85-9.95
State Bank of India	8.50 - 9.75	8.50 - 9.75	8.50 - 9.65
South Indian Bank	9.57-10.67	9.57-10.77	9.57-11.42
Tamilnad Mercantile Bank	9.45-9.95	9.45-9.95	9.45-9.95
UCO Bank	8.45-10.30	8.45-10.30	8.45-10.30
Union Bank of India	8.5-10.50	8.5-10.70	8.5-10.80
BANKS (Fixed rates)			
Axis Bank	14	14	14
IDBI bank	9.85-10.10	9.85-10.10	9.85-10.10
Union Bank of India	11.4	11.4-12.4	12.4-12.65
HOUSING FINANCE COMPANIES (Floating rates)			
Tata Capital	>=8.70	>=8.70	>=8.70
Piramal Cap & Housing Fin	>=11	>=11	>=11
PNB Housing	8.75- 11.25	8.75- 11.45	8.75- 11.45
Central Bank Housing	9.95-11.15	9.95-11.15	9.95-11.15
Indiabulls Housing Fin	>=9.30	>=9.30	>=9.30
Aditya Birla Housing Fin	8.80-14.75	8.80-14.75	8.80-14.75
Bajaj Finserv	8.50-15.00	8.50-15.00	8.50-15.00
GIC Housing Finance	>=8.80	>=8.80	>=8.80
Reliance Home Finance	NA	NA	NA
Sundaram Home Finance*	>=10	>=10	>=10
HOUSING FINANCE COMPANIES (Fixed rates)			
LIC Housing Finance Ltd	10-10.25	10-10.25	10-10.25

*Data as on respective banks' website on Aug 18, 2023; For each year range, the maximum offered interest rate is considered; interest rate is for a normal fixed deposit amount below ₹1 crore. Compiled by BankBazaar.com *Annual percentage rate;

ALERTS.

ABSLI Nishchit Laabh Plan

Aditya Birla Sun Life Insurance has announced the launch of a new-age savings solution, ABSLI Nishchit Laabh Plan, a non-linked non-participating individual life insurance savings plan that provides guaranteed returns with maximum flexibility. According to a press release, the Plan provides an optimal blend of financial protection, guaranteed returns and utmost agility by enabling policyholders to choose between Endowment, Income with Lump-sum and Moneyback option. Policyholders will have the facility to assess and align their policy with their life goals by choosing the benefits option at the inception of the policy.

Mobile banking app from YES Bank

YES Bank has introduced its mobile banking app, iris. Designed to cater to both existing and new customers, the app enables customers to access over 100 features and services in just a few clicks, on a single platform, according to a press release. Equipped with a host of features, the app has an intuitive user interface that aims to offer a simplified banking experience for users of all age groups, and backgrounds.

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Saving for the long haul

DEBT WATCH. Why NPS Tier 2 could be your window to long-term bond investments

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bl. research bureau

When investors consider retirement saving options, the National Pension System (NPS) figures prominently among the choices available.

Usually, the tier 1 option is the preferred mode of investing for those seeking to accumulate a corpus for their silver years. But the tier 2 option under NPS, too, is attractive, for investors, given the added flexibility it offers over tier 1.

Also, there's always the opportunity to invest in mutual funds for liquidity and ease of operations. That, then, is a choice that an investor needs to make.

Specifically, the performance of corporate bonds (C) and government securities (G) in the NPS tier 2 schemes and the comparison with their debt mutual funds counterparts gives an insight on how you can structure the debt part of your portfolio investments.

ALL ABOUT NPS TIER 2

Before getting into the performance aspect, a quick review of NPS tier 2 may be in order.

Now, the tier 2 option is open only to those already have a tier 1 NPS account. It cannot be opened in isolation.

Unlike the tier 1 option that allows you to withdraw only after turning 60 (barring certain specific exceptional circumstances), you can pull out your money from tier 2 schemes anytime you want, and they are therefore more like mutual funds operationally. There is no requirement to annuitise your corpus in tier 2 as well.

Like tier 1, the tier 2 NPS scheme also has equity, corporate bond and G-Sec options and you can choose the mix or proportion of assets based on your risk appetite and goals.

Also, the equity portion can go up to 100 per cent in the case of tier 2, whereas the limit is 75 per cent in tier 1.

There are no separate AMC charges applicable in tier 2, once you have a tier 1 account. And you can also switch the proceeds from tier 2 to tier 1.

On taxation, there is still some ambiguity on tier 2. There is a perception that long-term capital gains made with a holding period of more than 36 months qualify for 20 per cent taxation with indexation benefit. But this is not stated explicitly in the rules.

The Finance Bill has made it clear that gains from all types of debt funds will be added to investors' income and taxed at the marginal slab applicable, without any indexation, irrespective of the holding period. But what if the equity portion is more than 35 per cent in tier 2 for an investor? Will there be taxation with indexation benefit then?

Given that all of this is just a matter of conjecture, it would be safe to assume that tier 2 NPS gains will be taxed at your slab. That puts NPS tier 2 somewhat at par with debt mutual funds on taxation.

DEBT SCHEMES OUTPACE

We have left out the equity portion in the NPS tier 2 comparison with mutual funds as the former has only large-cap and index-hugging investments. And for equities in general, mutual funds offer several options for various risk appetites and time horizons, and the added flexibility of withdrawing at any time, apart from the possibility of better returns.

On the debt portion we have taken the category average trailing returns of the C and G options of tier 2 NPS fund managers over one, three, five and 10-year periods and compared them with similar debt mutual fund categories – corporate bond, gilt, gilt with 10-year constant maturity, dynamic bond and banking & PSU debt.

NPS tier 2 corporate bond category has beaten mutual fund categories dynamic bond, corporate bond, banking & PSU debt. The outperformance has been to the tune of 1-1.5 percentage points, which is quite healthy.

GETTY IMAGES/ISTOCKPHOTO

> **DATE WITH DEBT**
> Consider tier 2 corporate bond and government securities options for the debt portion of your portfolio

Taking the tier 2 NPS G-Sec category, the schemes have outperformed gilt and constant maturity mutual fund categories convincingly across timelines.

WHAT INVESTORS CAN DO?

NPS tier 2 funds have easily given more than 8 per cent returns over timeframes of 5-10 years.

In the government securities category NPS tier 2 schemes usually invest in G-Secs that mature anywhere from 2026 all the way up to 2053.

Some fund managers also invest in state development loans of large and prosperous States.

When the corporate bonds category is seen, NPS tier 2 schemes invest in the bonds and NCDs of government and highly rated private banks and finance companies. So, HDFC, Bajaj Finance, NABARD, NHAI, NHPC, Reliance Industries, IOC and ICICI Bank are some of the entities whose securities these tier 2 funds invest in.

Therefore, in both these options, there is limited credit risk.

Investors can consider tier 2 corporate bond and government securities options for the debt portion of their portfolio as a part of their larger asset allocation.

They could still retain their debt mutual fund holdings. But incrementally, a significant part of their debt investments – say, 25-30 per cent – could be considered via the NPS tier 2 option.

NPS II scores over debt mutual funds *in %*

	NPS II: Corporate bond	Debt mutual funds: Corporate bond	Dynamic bond	Banking & PSU debt
1 year	7.06	5.91	5.76	5.85
3 years	5.56	4.50	4.50	4.52
5 years	8.20	6.65	6.49	6.78
10 years	8.80	7.54	7.56	7.52

Category average returns for NPS and debt funds

	NPS II: G-secs	Debt mutual funds: Gilt	Gilt 10-year constant maturity
1 year	8.28	5.73	6.05
3 years	4.57	3.77	3.29
5 years	8.77	7.11	7.42
10 years	8.88	8.00	8.82

Category average returns for NPS and debt funds

Source: NPS Trust; Valueresearch

సూర్య
హైదరాబాద్
ఆదివారం
20 ఆగస్టు 2023

బిజెపితోనే 26 బిసి కులాల వారికి న్యాయం

తెలంగాణ బ్యూరో, ప్రతినిధి: బిజెపితోనే ఉత్తరాంధ్ర ఆంధ్ర ప్రాంతానికి చెందిన 26 కులాల బీసీ వారికి న్యాయం జరుగుతుందని మేడ్చల్ అర్బన్ జిల్లా బిజెపి అధ్యక్షుడు పన్నాల హరీష్ రెడ్డి హామీ ఇచ్చారు. ప్రముఖ సంఘ సేవకులు బిల్డర్స్ అసోసియేషన్ చైర్మన్ ముమ్మారెడ్డి ప్రేమ్ కుమార్ బిజెపిలో చేరిక సందర్భంగా ఏర్పాటు చేసిన విలేకరుల సమావేశంలో ఆయన మాట్లాడుతూ తెలంగాణ రాష్ట్రం తెచ్చుకుని తెలంగాణవాదులు సంతోషపడుతుంటే తెలంగాణ ప్రాం...

...ఇబ్బందులు పడుతున్నారని ఆవేదన వ్యక్తం చేశారు. కడు పేదరికంలో ఉండి దినసరి కూలీలు చేసుకునే 26 కులాలకు సంబంధించిన సీమాంధ్ర సోదరులను రాష్ట్ర ప్రభుత్వం అన్యాయంగా అగ్రకులంలో వారికి తీరని అన్యాయం చేశారని విమర్శించారు. భారతీయ జనతా పార్టీ అధికారంలోకి వస్తే వారిని తిరిగి బీసీ కులాల్లో చేర్చడం ఖాయమని హామీ ఇచ్చారు. ఈ విషయాన్ని కేంద్ర మంత్రులు,...

...మాట్లాడుతూ భారతదేశంలో ప్రధాని నరేంద్ర మోడీ నాయకత్వంలో ఎంతో అభివృద్ధి చెందుతుందని అన్నారు. భారత దేశ కీర్తి ప్రతిష్టలను ప్రధాని ప్రపంచవ్యాప్తంగా విస్తరించాలని అన్నారు. భారత ప్రధాని నరేంద్ర మోడీ పాలనకు ఆకర్షితుడై తాను భారతీయ జనతా పార్టీలో చేరుతున్నట్లు ప్రకటించారు. భవిష్యత్తులో భారతీయ జనతా పార్టీ గెలుపు కోసం తన వంతు బాధ్యతగా పనిచేస్తూ నాయకులందరిని కలుపుకొని పోతానని తెలిపారు. బిజెపి రాష్ట్ర కార్యవర్గ సభ్యులు వడ్డేపల్లి రాజేశ్వరరావు, అద్వానీ సూర్యారావు, మాజీ కార్పొరేటర్ కృష్ణ గౌడ్, బిజెపి నాయకులు వై. పద్మయ్య, సాయినాథ్ రెడ్డి,...

ఇది ట్రైలర్ మాత్రమే

...బ్రిడ్జిని మంత్రి కేటీఆర్ ప్రారంభించారు. అనంతరం మాట్లాడుతూ.. ప్రజల దశాబ్దాల కల నెరవేరిందన్నారు. తెలంగాణ వచ్చిన తర్వాత ... లో ఇది 36వ ఫ్లై ఓవరని చెప్పారు. నూతన సచివాలయానికి రాజ్యాంగ నిర్మాత బీఆర్ అంబేద్కర్ పేరు పెట్టుకున్నామన్నారు. ఎదగాలనే కలకు పునాది పడిందని చెప్పారు. కేసీఆర్ను హ్యాట్రిక్ సీఎంగా మళ్లీ కూర్చోబెట్టాలన్నారు. రానున్న రోజుల్లో ప్రతిపక్షాలకు సినిమా చూపిస్తామని వెల్లడించారు. కాగా..హైదరాబాద్ ప్రజలకు మరో బ్రిడ్జి అందుబాటులోకి వచ్చింది. నగరంలో ట్రాఫిక్ కష్టాలను ... ...స్ట జంక్షన్కు సులభంగా చేరుకోవచ్చు. ఆర్టీసీ క్రాస్ రోడ్డు వద్ద ట్రాఫిక్ రద్దీ తగ్గిపోనుంది. ఉస్మానియా విశ్వవిద్యాలయం, హిందీ మహా విద్యాలయం వరకు వెళ్లేందుకు ప్రయాణ సమయం తగ్గిపోతుంది. ఇప్పటికే ఈ బ్రిడ్జికి మాజీ హోం మంత్రి నాయిని నర్సింహా రెడ్డి పేరు పెట్టిన విషయం తెలిసిందే.

కాంగ్రెస్‌కు లీడర్లు లేరు... బీజేపీకి క్యాడర్ లేదు

● మైనారిటీల సంక్షేమానికి కృషి ● సీఎం కేసీఆర్‌తోనే మెదక్ జిల్లా కల సాకారం ● మళ్లీ వచ్చేది బీఆర్ఎస్సే, కేసీఆర్ హ్యాట్రిక్ సీఎం ● ప్రతి రైతుకు రుణమాఫీ ● మంత్రి హరీష్‌రావు

కనడమే కాదు ప్రజల ఆకాంక్షలు నెరవేర్చేది సీఎం కేసీఆరేనన్నారు. మన సంక్షేమ పథకాలు చెప్పినప్పుడు ఇతరులు ఆశ్చర్యపోయారని... చేయాలని సీఎం కేసీఆర్ ఆదేశించారని, ఆయన ఆదేశిస్తే ఆచరిస్తామన్నారు. రుణమాఫీ చివరి రూపాయి వరకు చెల్లిస్తామని...

తెలంగాణ బ్యూరో ప్రతినిధి: తొమ్మిది సంవత్సరాల కాలంలో ఎలాంటి అల్లర్లు, అలజడి లేకుండా హైదరాబాద్ నగరంతో పాటు రాష్ట్రవ్యాప్తంగా జనరంజకంగా పాలనను సీఎం కేసీఆర్ అందిస్తున్నారని సంక్షేమ శాఖ మంత్రి కొప్పుల ఈశ్వర్ అన్నారు. శనివారం ముస్లిం, క్రిస్టియన్, మైనార్టీలకు లక్ష రూపాయల ఆర్థిక సాయం చెక్కుల పంపిణీ కార్యక్రమాన్ని ఎల్బీ స్టేడియంలో ప్రారంభించారు. ఈ సందర్భంగా ఆయన మాట్లాడుతూ.. అన్ని వర్గాలను సమభావంతో చూస్తూ సంక్షేమ కార్యక్రమాలు అందిస్తున్నామని తెలిపారు. జనాభా ప్రాతిపదికన న్యాయం జరగాలని సీఎం కేసీఆర్ ఆలోచన చేశారు. మైనార్టీల పిల్లలు చదువుకు దూరంగా ఉండే పరిస్థితి ఉండేది. కానీ...

కాంగ్రెస్‌ను గెలిపించాలి

కారులో జగ్గారెడ్డికి సీటు?