

We are hearing rural buzzing...

Our fortnightly report gives an on-ground check of the industry through the eyes of key stakeholders. 'Walk in the woods' distils takeaways of our meetings with channel partners, dealers, distributors and industry experts to help gauge the pulse of both industry and market. In the third edition, we highlight takeaways from across industries in Patna and channel partners across BFSI, furniture, ply and telecom. A few interesting takeaways: (1) Rural demand for bikes, cars and consumer durables is growing much faster than urban demand; (2) Two-wheeler financing share has doubled and, with improving availability of financing for consumer durables, demand growth could remain high; (3) In AP, more cash in the hands of farmers is improving collections and disbursals and supporting increase in loan pricing; (4) A furniture cluster near Mumbai is witnessing sharp growth in sales of imported MDF furniture; and (5) Incumbent towercos need to retool their business models for investments in fibre from the current rental and power management business.

Key takeaways from our interaction with industry stakeholders

Sector	Channel partner	Key Takeaways
Automobiles	Honda Dealer, Patna Region	<ul style="list-style-type: none"> Rural sales are driving growth in the region with sales growth of 40% YTD; overall district growth is 8% and city growth is 6%. The dealer feels the same growth momentum will continue for rural given good monsoons and better MSP realisations. Post-demonetisation behaviour of financing has also changed drastically which is aiding growth; currently 49% of two-wheelers are sold on finance vs 24-25% 3 years ago. Most of the financing is through NBFCs. Rural penetration can be further enhanced by sub-dealer network where Hero Motors dealership is more viable than Honda. A Hero sub-dealer sells on average 80-90 vehicles in a month whereas it will be 25-30 for Honda. A sub-dealer outlet needs investment of around Rs4mn; given current volumes of Honda it's not viable to start a sub dealership with current margins.
	Maruti Dealer, Patna	<ul style="list-style-type: none"> Overall share of scooters is 21% for the district and city share is 34%. LE segment <110 CC bike is driving rural growth whereas in city it is 125cc vehicles. In the four-wheeler segment again rural sales are driving growth; overall sales have grown by 14% in the region with city sales growth of 5%. Share of vehicle financing has gone up from 72% to 79% in the past 3 years. Dominant financiers in the four-wheeler space in the region are SBI, HDFC Bank and Axis Bank. On brand Maruti, the dealer feels the company is driving sales due to its positive attitude towards costumers. The company has no tolerance towards customer complaints and treats costumers as they belong to brand not dealers. Nexa as a brand has not done well but still dealers are investing in upgrading the facility. Dealer says out of 4 models, Baleno has clicked and has done exceptionally well and no other model sold at Nexa has been a hit.

Source: Ambit Capital research

Sector	Channel Partner	Key Takeaways
BFSI	Business head of a large auto-financing NBFC, AP/Telangana	<ul style="list-style-type: none"> More cash in the hands of farmers (due to good monsoons last year, more government-led construction activities specifically irrigation projects, subsidies from the government on tractors) is leading to improving disbursements and collections. Disbursement grew 20%+ across all the product segments with construction equipment being the highest growth product. Collection efficiency has improved to 95% from 93% a year ago. These trends should continue at least till 2019 general elections as cash flows in rural India increase before elections. Discounts are not major factor for farmers/customers in rural segment to buy a product. Discounts only determine which products they will buy. Loan pricing has increased by 25-70bps; most financiers have increased lending rates by 25-70bps over the past 3-4 months due to increase in borrowing costs. A large retail bank and its fast-growing NBFC subsidiary are aggressively targeting the auto-financing segment and are lending to customers rejected by us or have defaulted earlier.
Building Material	Multiple readymade furniture stores, Bhiwandi	<ul style="list-style-type: none"> Bhiwandi houses ~100 wholesale stores ranging 5,000-15,000 square feet, selling readymade furniture to direct customers or furniture retailers across India. All the materials sold at these stores are largely MDF or Particleboard-based furniture. Majority (95%) of the furniture is imported from China and Thailand; the rest is either in-house or local manufacturers. Even local manufacturers use imported pre-laminated MDF that costs ~Rs13,000-19,500 (~20-22% lower than Greenply). The demand for readymade MDF/Particleboard furniture is picking up with higher demand coming from metros by office goers. Customers who purchase MDF/Particleboard-based furniture expect to use furniture for about 5-6 years. The average cost of a double-door wardrobe using MDF would cost Rs25,000 vis-a-vis Rs50,000 for ply. There is limited liquidity in ply channel and the distributors are funding inventory at retail level to push volumes. To drive demand, Century Ply has recently initiated an incentive programme for carpenters where they can scan the barcode of each ply purchased and accumulate points. <ul style="list-style-type: none"> As per dealers, this scheme will account for at least 3% discount if fully availed by carpenters. However, since carpenters are generally not aggressive in availing this discount, the final outgo could be ~1%.
	Multiple Ply and Laminates stores, Mumbai Suburbs	<ul style="list-style-type: none"> Sale of both branded and unbranded laminates is strong. Many Gandhi Nagar units of 0.8mm have shifted to manufacturing 1mm. As per dealers, laminates sales are high despite sluggish ply growth possibly because of shift towards using 1mm laminate even for inside surfaces and use of adhesive + laminate over old furniture (Refabricating). Merino, Greenlam and Century Ply are available at the same price points ranging Rs1,200-5,000 per sheet. Unorganised material in 1mm is available from Rs800/900-Rs2,000.

Source: Ambit Capital research

Sector	Channel partner	Key Takeaways
Consumer Durables	Chain of Multi-brand electronic goods stores, Across Bihar	<ul style="list-style-type: none"> ▪ The chain has presence across most sizable markets in Bihar. They are growing their business at 48% and feel the state is yet under penetrated. ▪ Most of the growth has been derived by rural penetration. Last quarter, rural growth was ~50% and urban growth was ~11%. ▪ Easy financing is also aiding growth; 22% of the products sold are financed vs pan-India average of 30-32%. Bajaj Finserv is the dominant player for financing in the region due to its quick approval system and robust technology back-end. ▪ Institutional demand in the state has taken a big hit as hospitality industry has collapsed due to ban on alcohol. ▪ Presence of MBOs and ecommerce penetration is very limited in the state; there are only two Reliance Digital outlets in Patna city. ▪ Share of electronic payments have doubled in the past 3 years. Currently, 60% of the purchases are in electronic form and 40% in cash.
	Telecom infra provider, Pan-India	<ul style="list-style-type: none"> ▪ The most vital decision that a towerco makes is taking the credit call on its customers. ▪ Strategic investors in towercos need to do the same with Vodafone-Idea. Indus was able to avoid the pain of weak telcos keeling over as it prioritised rollouts of its anchor customers over site rollouts for weak telcos. ▪ Incumbent towercos need to retool their business model for investments in fibre. Currently, towercos are primarily running a rental and power management business; a vital service for support telcos' voice networks. ▪ Towercos need to sensitise themselves to the evolving needs of the telcos, which are now totally focused on data network rollout.
Telecom	Ex-India Head, Ericsson	<ul style="list-style-type: none"> ▪ Jio has a definitive 4G network coverage advantage vis-à-vis incumbents. ▪ However, Jio's fibre and network investments don't seem to be translating into a superior customer experience as reflected in reports by the regulator. Poor handset quality could be a reason for the weak customer experience. ▪ If the government decides to open up E and V bands for microwave communication then incumbent telcos can quickly bridge the backhaul gap with Jio, which has extensively fiberised its network. Hefty licence fees could be a key dampener for incumbents; the government is yet to decide on the same. Presently, microwave backhaul spectrum is freely given to telcos. ▪ 5G will take longer to implement as the equipment is very large. Even massive MIMO deployments occupy a lot of space.

Source: Ambit Capital research

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