Consumption stocks look up, with automobiles leading the pack

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India's consumption story is showing a pickup, and that is reflecting on the performance of the stocks driven by the theme.

While auto stocks are leading the race, consumer durables and fast moving consumer goods (FMCG) are catching up, thanks to the good monsoon, implementation of the 7th Pay Commission's recommendations and expectations of a rise in festive demand in the coming months.

The BSE Auto index rose 15.6% year-to-date, showing a stronger revival story than others, while BSE Consumer Durables, BSE Consumer Discretionary Goods & Services and BSE FMCG indices rose 1.63%, 11.20% and 11.04%, respectively, in the same period. BSE Sensex rose 7.8% in the same period.

"While the June quarter results for fast moving consumer goods showed sluggish volume growth, things seem to look better in the light of the fact that monsoon rainfall has been decent after long," said Dhananjay Sinha, head of research at Emkay Global Financial Services Ltd.

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Also, late last month, the government decided to pay millions of Central government employees seven months of arrears at one go with their August salary, a move that is likely to spur demand for passenger vehicles and consumer durables.

The arrears are on account of the government deciding to implement the 7th Pay Commission recommendations with effect from January 2016.

Passenger vehicle sales are set for a double-digit growth in the current fiscal year after a five-year gap.

"The implementation of the 7th Pay Commission has already pushed up auto demand, and we now expect government spending to come in as well. Demand for other consumption-led stocks should reflect as well," added Sinha.

On 10 August, industry lobby group Society of Indian Automobile Manufacturers (Siam) said that it is likely to revise upwards its earlier forecast of 6%-8% growth for the year.

The outperformance of auto stocks so far this year can also be explained in the backdrop of a tepid performance in 2015.

The BSE Auto index was down 0.6% in 2015, while BSE Consumer Durables, BSE Consumer Discretionary Goods & Services and BSE FMCG indices had rallied 24.02%, 8.08% and 2.18%, respectively, in 2015.

As far as the valuations go, BSE Auto index is valued at 17.65 times one-year forward price-to-earnings (P-E), while BSE Consumer Discretionary Goods & Services and BSE FMCG indices trade at 25.47%, 21.65% and 32%, respectively.

In relative valuation terms, BSE Auto index trades at nearly 47% premium of its five-year average of 12 times.

Eicher Motors Ltd was the top performer among auto stocks year-to-date, with a 32.81% rise, as its June quarter's consolidated net profit jumped 58.7%, beating forecasts, on the back of stellar performance from its premium motorcycle business Royal Enfield.

Hero MotoCorp Ltd, Maruti Suzuki India Ltd and Tata Motors Ltd rose 24.69%, 6.09% and 31.75%, respectively, year-to-date.

Among the constituents of the consumer durables index, Whirlpool of India Ltd and Bluer Star Ltd rose 36.92% and 24.27%, respectively, year-to-date.

In the FMCG index, Dhampur Sugar Mills Ltd and BalrampurChini Mills Ltd were the top performers in the same period with 70.40% and 62.81%, respectively, backed by strong international sugar prices.

Companies such as Colgate-Palmolive India Ltd and Tata Global Beverages Ltd showed a slip in their stock prices year-to-date.

Sinha pointed out that while rural distress has weighed on the consumer durables and FMCG pack, things have already looked up for the auto segment.

Loans for vehicles are rising, though the base comparison from the year ago was weak here too, and most consumer-centric stocks are doing better on expectation of better times ahead, added Sinha.
Not everyone was so optimistic though, and felt the revival in demand was still elusive.

"There is no economic recovery, and this is evident when you look at parameters such as credit offtake, power generation and jobs creation," said Saurabh Mukherjea, chief executive of Ambit Capital Pvt. Ltd.

"There's no capex revival or a pickup in investment demand. Hence, sectors such as real estate, capital goods, infrastructure, metals and mining, are all seeing over capacity and broken balance sheets," added Mukherjea.

According to Mukherjea, Prime Minister Narendra Modi's squeeze on black money has also impacted HNIs' (high net worth individuals) plans to channelize their savings into buying jewellery and real estate, hitting these industries hard.

"Such buying was around $300 billion and $500 billion, and was around 15% of India's GDP, but the thrust on curbing black money has hit it hard. In turn, this money is now being spent on high-end consumer products such as high-end cars, home decor, sanitaryware and the likes along with the non-listed space of arts and collectibles," Mukherjea said.

According to Mukherjea, this in turn is making auto companies look well. The companies in FMCG and discretionary goods and services space, which rely on rural and urban middle class demand, are not yet seeing any meaningful pickup, and demand from these segments remains sluggish.