

## FIRST LIGHT

15 March 2023

### RESEARCH

#### INDIA STRATEGY | MACRO & MICRO

Clear mass premiumisation trends

#### BOB ECONOMICS RESEARCH | WPI

WPI cools down further

### SUMMARY

#### INDIA STRATEGY | MACRO & MICRO

- Our analysis indicates that India is witnessing mass premiumisation across several discretionary categories
- Higher-end items are growing faster than their basic alternates; companies exploiting this trend will grow ahead of the industry
- We believe select pockets in the FMCG, industrial and BFSI sectors stand to gain from this trend

[Click here for the full report.](#)

#### INDIA ECONOMICS: WPI

WPI inflation has moderated to more than 2-year low of 3.9% in Feb'23 compared with 4.7% in Jan'23. This is mainly owing to slip in fuel and power inflation and manufactured product inflation. Food inflation on the other hand remains broadly steady. Within food, prices of paddy, vegetables, fruits and protein based items are seeing a buildup in pressure. In case of fuel inflation, increase in coal and electricity indices was outweighed by drag in mineral oil index as international oil prices have fallen sharply. Further, supported by dip in international commodity prices, manufactured production inflation has also cooled off significantly. Going ahead, trajectory of food prices in the wake of ongoing heat wave conditions in the country will be critical to watch. Fuel and manufactured product inflation will continue to provide respite in the current uncertain global environment.

[Click here for the full report.](#)

#### Daily macro indicators

Ticker	10-Mar	13-Mar	Chg (%)
US 10Y yield (%)	3.70	3.57	(13bps)
India 10Y yield (%)	7.42	7.36	(6bps)
USD/INR	82.05	82.13	(0.1)
Brent Crude (US\$/bbl)	82.8	80.8	(2.4)
Dow	31,910	31,819	(0.3)
Hang Seng	19,320	19,696	1.9
Sensex	59,135	58,238	(1.5)
India FII (US\$ mn)	09-Mar	10-Mar	Chg (\$ mn)
FII-D	(142.9)	(89.6)	53.3
FII-E	(55.4)	(215.1)	(159.8)

Source: Bank of Baroda Economics Research

**BOBCAPS Research**  
 research@bobcaps.in



## MACRO & MICRO

14 March 2023

### Clear mass premiumisation trends

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- Higher-end items are growing faster than their basic alternates; companies exploiting this trend will grow ahead of the industry
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Kumar Manish | Vinod Chari  
 research@bobcaps.in

**Middle class growing at 6% CAGR vs. all-India CAGR of ~1.3%:** Income tax filings show that only 66mn, or less than 5% of India's population (7% of the working class), filed tax returns in FY21. However, we note that the tax net covers only a small percentage of the consumer base, and several surveys point to a far larger middle-class demographic. As per a survey cited by the Times of India, India's middle class has swelled from 14% of the population in 2005 to ~31% now. This growing class of aspirational buyers is fuelling mass premiumisation demand trends given the availability of quality products at affordable prices and the easy flow of consumer credit.

**What are mass premium items:** We define mass premium items as those that have cheaper alternates which meet basic needs but lack certain desirable (real or perceived) features. We also include certain categories (such as general insurance) that typically have higher penetration in mature markets owing to better standards of living.

**Secular premiumisation trends:** In India's auto sector, Maruti's cheapest offering – the 'Alto' – was the bestselling car in the country for the better part of 15 years before being recently unseated by the higher end 'Wagon R'. In FMCG, the industry saw faster growth in personal care items than basic hygiene products over 2000-15, while packaged foods and beverages are now outpacing personal care products (which will further support QSRs). Similarly, paints and adhesives companies have led industry growth as they successfully branded their chemical/industrial products.

Though gold consumption in India has fallen at a ~1% CAGR over the last decade, Titan's (Not Rated) operating profit in the branded jewellery business logged a robust 18% CAGR. In insurance, the ratio of general insurance premium over life insurance premium has been inching up in most mature markets – a trend we now see in India. Similarly, retail loans form a larger part of the credit profile in seasoned markets, and we now find India's retail growth outstripping corporate credit.

**Beneficiaries:** We would prefer food-based FMCG over hygiene/personal care players, branded over traditional jewellery, paints over chemicals, and retail lenders over corporate lenders, plus auto OEMs that successfully upgrade product lines.



## WPI

14 March 2023

## WPI cools down further

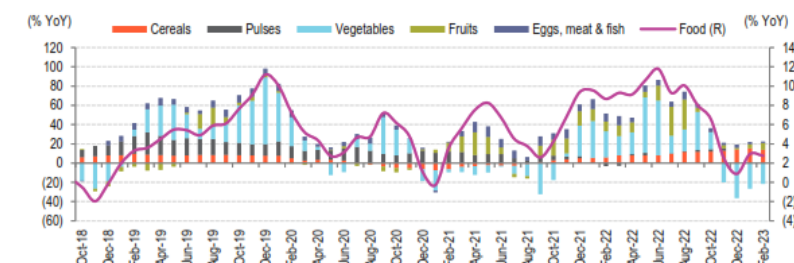
**Sonal Badhan**  
 Economist

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## Food inflation broadly steady:

Headline WPI moderated to 25-month low of 3.9% in Feb'23 (BoB est.: 4.1%) from 4.7% in Jan'23. Food inflation eased only a tad to 2.8% in Feb'23 from 2.9% in Jan'23. Amongst these, inflation eased in food grains (11.8% versus 13%), eggs, meat & fish (1.5% versus 2.2%) and spices (12.5% versus 16.1%). Within food grains, cereal inflation moderated (13.9% versus 15.5%) on account of wheat (18.5% versus 23.6%). However, paddy inflation continued to inch up (8.6% versus 7.2%). Inflation in pulses was also seen ticking up in Feb'23 (2.6% versus 2.4%). At the international level, World Bank's pink sheet data shows that global paddy prices have begun to moderate in Feb'23 (15% versus 18% in Jan'23) and wheat prices are seen contracting (-3% versus 0%). Domestically, in case of vegetables, contraction in prices was slower (-21.5% versus -26.5%), while in case of fruits, pressure is seeing building up with inflation at 7% in Feb'23 versus 4.1% in Jan'23. Within vegetables, while inflation in potato and onion fell even more sharply in Feb'23, inflation in tomato is seeing an uptick (-13.5% versus -40.4%). Even milk inflation rose to 10.3% from 9%.

Figure 1: Food inflation sticky in Feb'23



Source: CEIC, Bank of Baroda Research

## Fuel and power cools down further:

Fuel and power inflation in Feb'23 eased to 23-month low of 14.8% from 15.2% in Jan'23, owing to slowdown in the mineral oil index (15.8% versus 17.9%). On the other hand, inflation in coal and electricity index inched up.



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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