

# Investor's guide

## Smaller Cities, Bigger Markets

Corporate India is homing on a new breed of customer. Faced with saturation in metros, it is flocking to tier II and tier III cities, where the grass it seems is greener. This is reflected in the growing contribution of these cities to their businesses.

For instance, one of the largest corporations in India, HDFC Bank derived 50% of its retail loan portfolio, out of disbursement of new loans worth ₹15,000 crore in the first quarter, from non-metro cities. This shows the potential that these non-urban markets hold for such giants of the metros. A few months ago, Mercedes Benz chief executive officer and managing director Peter Honegg highlighted the potential of these smaller hubs. "We are set to expand our presence in tier II and tier III cities and aim to sell at least 50 units per annum in these cities," he said in unequivocal terms. Such intense focus on the semi-urban and rural areas has its inherent advantages.

Connecting with the consumer in the 'hinterland' is paying off in more ways than one. It not only makes business sense, but also provides companies a cushion in terms of brand loyalty in contrast to an urban consumer who is spoilt for choice.

They gain a consistent flow of revenues, unlike companies that are exposed to overseas markets with the various associated uncertainties. This is the one big lesson large companies have learnt from peers that have moved in first and have penetrated to the heart of semi-urban and rural areas in general. These first movers, who may seem to be slumbering in their zones, are growing at a healthy if not phenomenal rate. Therefore, at a time when there is a lot of uncertainty in the markets, investing in and holding these stocks makes ample sense as these companies manufacture essentials, and have a consistent flow of revenues and hence low debt.

We have culled out such companies which are cashing in on the domestic consumption theme of India's growth story. Though some of these companies appear to be small, their focus on the increasing purchasing power of the average rural consumer provides them a distinct advantage over their larger counterparts. The latter are susceptible to the wavering spending pattern of domestic and foreign consumers and other macro headwinds. These companies with a focus on the smaller cities will continue to reap the benefits for few more years — till their peers are able to penetrate deeper into the minds and pockets of the consumers.

Where the big city ends, there's a part of India that's doing its own thing. Unfazed by the glitz of their urban cousins, tier I and tier II cities are creating quite a buzz. And India Inc's making a beeline to a vibrant, aspirational market.

**ET Intelligence Group** goes down the country road to check out the companies who moved in first and are riding high on this 'rural' resurgence.



### REAL ESTATE

The sales of real estate companies have come down in the last year due to rising interest rates. Large real estate players present in metros have had to bear the brunt of not only peak interest rates, but also high property prices. In contrast, real estate companies that cater to tier II and tier III cities due to their small loan ticket-size continue to make decent business. Ashiana Housing & Finance is a case in point.

	SALES CAGR*	EBIDYA CAGR*	BETA	PE	DIV YIELD
Ashiana Housing	2.8	9.3	0.9	5.9	1.2

\*3 Years, CAGR=Compounded Annual Growth Rate

#### ASHIANA HOUSING & FINANCE

Delhi-based Ashiana Housing & Finance focuses on real estate development in the tier II towns. It has ongoing projects in Bhiwadi, Jaipur, Jamshedpur and Jodhpur. The company's average realisation is less susceptible to a fall in prices like its peers in the metros due to its presence in the mid-segment.

In the June quarter, the company's average realisation increased by 15% y-o-y to ₹2,187 per unit. This is one of the reasons for the company's negligible debt. It has a huge saleable land bank of 72 lakh square feet.

Ashiana has targeted booking of 16 lakh square feet of land in FY12 with an average realisation of ₹2,100 per square feet.

