13 September 2012

Update

Consumer

Divergent volume trends; Can peak valuations sustain?

Sector valuations and premium over benchmark almost unprecedented

Current major trends in the Indian Consumer sector

- **Companies are indicating divergent trends in volume growth - healthy outlook by HUVR and moderation by MRCO and Emami.**
- **Expect continued distribution expansion to drive medium-term performance.**
- **Monsoon performance is turning benign; favorable for sector gross margins.**
- **Valuation premium over Sensex is almost unprecedented. This could reverse when the broader market turns.**

Top Sector Ideas

Consumer	
Large caps	**ITC**
Mid-cap	**GSKCH, Marico**
Retail	
Large caps	**Titan Industries**

Divergent volume growth trends

A key takeaway from interactions with the 11 Consumer companies which presented at our 8th Annual Global Investor Conference is divergent trend on volume growth, a key operational metric. Large caps in staples indicated a healthy outlook while being cautious about future performance given the sub-par macroeconomic background. On the other hand, MRCO and Emami indicated a moderation in domestic volume growth from high double-digits (15-16%) to low (10-11%). Discretionaries maintain bleak near-term consumer demand/footfalls (TTAN, SHOP).

Distribution expansion to drive medium-term performance

One possible reason for HUVR's divergent positive outlook could be the lagged beneficial impact of its distribution expansion undertake in FY11, wherein it doubled its rural reach. We note that most Consumer companies (Dabur, Emami, Marico, GCPL, Nestle, P&G) are in the midst of enhancing their go-to-market footprint, which we believe can add delta volume growth in the next 2-3 years. Bulk of the expansion is targeted at rural markets, which we reckon can change the rural-urban mix going forward.

Monsoon turning benign; favorable for sector gross margins

Monsoon, which was severely deficient till July 2012 has recovered significantly in August; all-India deficiency now stands at 10% v/s 29% in June and 19% in July, respectively. Interestingly, none of the companies participating in our Conference hinted at any demand concern owing to deficient monsoon per se. A weak monsoon does tend to have a lag adverse impact; we believe the same may be offset by improved footprint and rising relevance of low-unit packs.

Sector valuations - can they be sustained?

We did a 12-year historical valuation analysis to understand the current valuation premium over benchmark (20-25% premium on PE-PB-EV/EBITDA vis-à-vis long term averages). Our conclusions: There is a clear precedent for sustained premium valuations for the sector. In fact, as is well known, during bearish markets, sector premium over Sensex has expanded. However, this time, the magnitude of premium expansion is unprecedented. At the same time, there is also sufficient evidence that when broader markets turn, valuation multiples contract as do premiums over benchmark, notwithstanding healthy earnings growth of the sector.

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Consumer companies seeing divergent growth trends

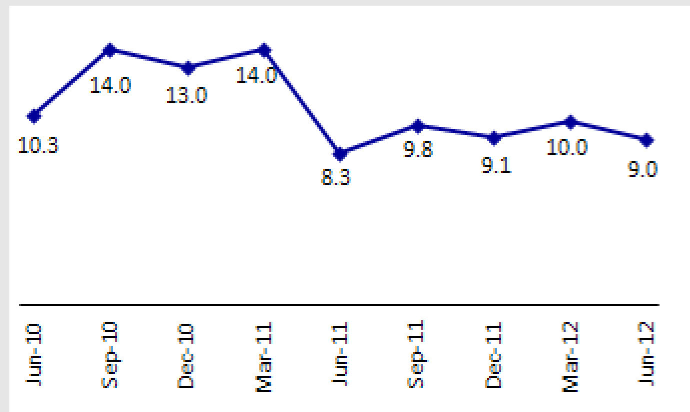
Healthy for large caps, moderation for the mid-caps

Healthy business momentum for some...

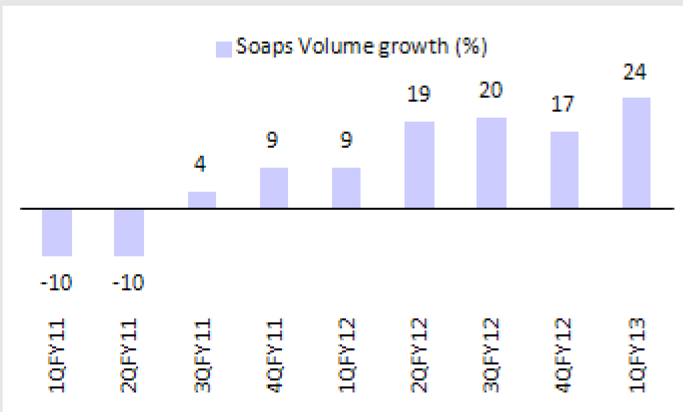
Large cap consumer players indicated healthy business momentum in their core business categories. They have not seen any material change in the growth momentum as well as consumer demand trends. However, as expected, they are maintaining cautious outlook given the weak macroeconomic environment and weak consumer sentiment.

- HUVR did not rule out the possibility of downtrading in an inflationary environment; however, it expects strength of its product portfolio, which straddles the pricing pyramid, to cushion adverse impact, if any.
- ITC can deliver high teens growth in its non-Cigarette FMCG business. We do not see any material impact of plain packaging norms (assuming it were to be implemented in India) on its Cigarette business.
- GCPL too exuded confidence on achieving double-digit Soaps volume growth in FY13, while Home Insecticide business continues to sustain high-teen revenue growth.

HUL continues to register consistent volume growth....

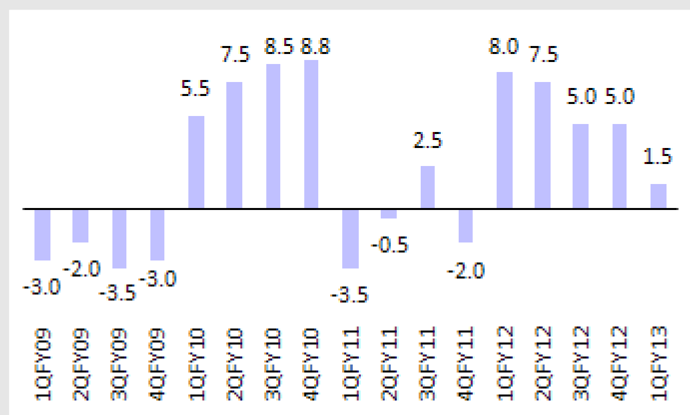


GCPL's soaps volume growth picked up....

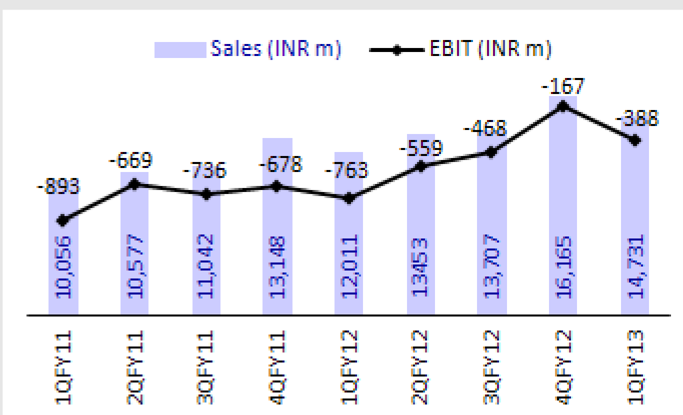


Source: Company, MOSL

ITC Cigarette Volumes can surprise in FY13E



ITC's non-FMCG sales to deliver ~20% sales growth....

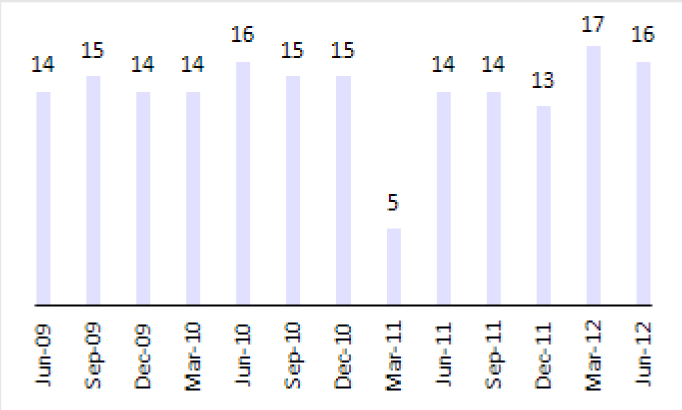


Source: Company, MOSL

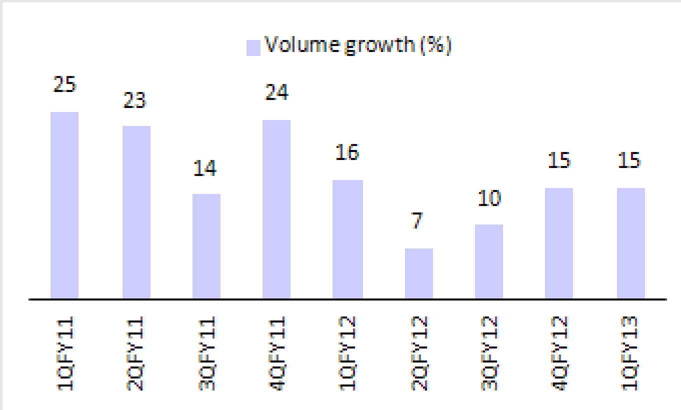
... moderation for some others

Some players indicated moderation in volume growth vis-à-vis 1QFY13 performance. Volume growth for Marico and Emami seems to have moderated from mid-teens (15-16%) to low double digits, still a healthy print. According to the management, no specific factor can be attributed to this moderation; inflation, overall weak sentiment and high base in the preceding quarter could have combined to lead to some near-term softening. However, medium and long term trends are not under threat and normalized annual performance should sustain.

MRCO's volumes have remained robust so far



Emami may see moderation in volume growth

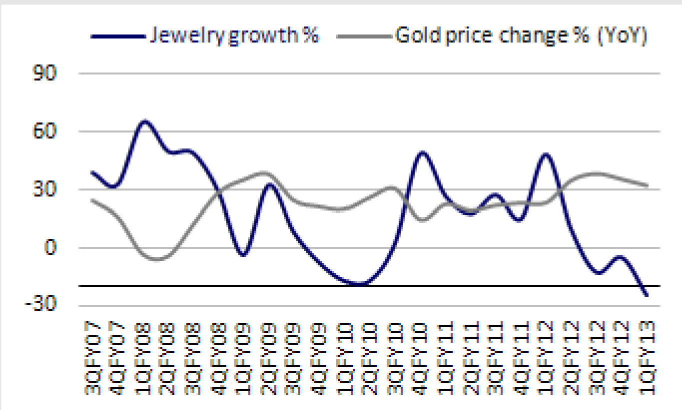


Source: Company, MOSL

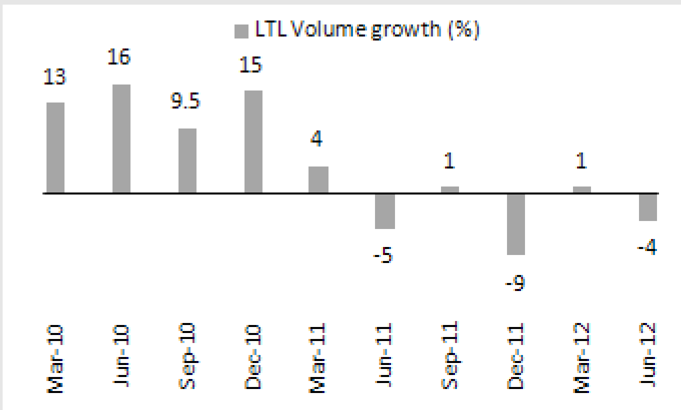
Recovery in discretionary categories unlikely soon

Companies in the discretionary space (TTAN, SHOP) highlighted a bleak near-term outlook as consumers stay in a *"wait and watch"* mode. While expansion plans are on track, throughput from the new stores is not as per expectations, in turn impacting near-term return ratios. Festive season spending will be the key factor to watch out for any recovery in consumer sentiment across discretionary categories, viz, Jewelry, Paints, Apparel, Watches, etc.

Titan's jewellery volumes continue to decline



SSS growth for Shoppers Stop on a decline



Source: Company, MOSL

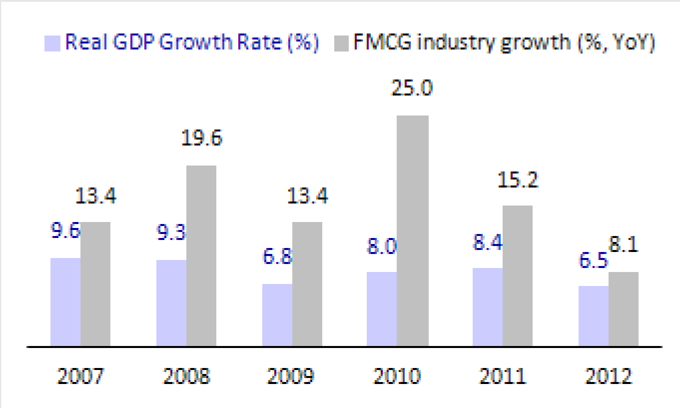
We have discussed the company specific takeaways from our Conference in the last section of this report.

Distribution expansion to drive medium term volume growth

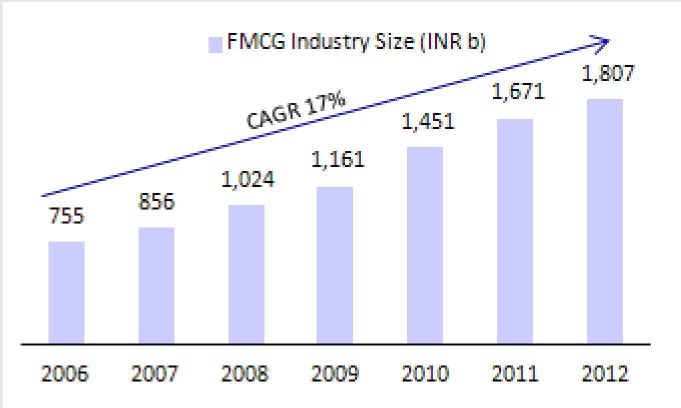
Rural thrust could lead to change in rural-urban sales mix

One possible reason for HUVR's divergent positive outlook could be the lagged beneficial impact of its distribution expansion undertake in FY11, wherein it doubled its rural reach. This, coupled with increased pace of innovations and entry into new sub-categories should continue to drive HUVR's volumes over the medium term, in our view. Likewise, ITC is also benefitting from the expanding reach of its Personal Care portfolio as well as new innovative launches in Staples and Bingo.

FMCG Industry growth vs GDP growth



17% CAGR for FMCG sector since FY 2006



Source: Industry, MOSL

Distribution expansion - can provide volume delta in the medium term

Despite weak macro, healthy sector volume growth in the past 18-24 months is a function of companies expanding their rural reach, in our view.

We note that most Consumer companies are currently in the midst of various distribution expansion initiatives e.g.

- **HUVR:** Doubled its direct reach in just 18 months via distribution expansion initiatives it undertook in CY10 (added 0.6m outlets) and CY11 (added 0.4m outlets). Now it reaches 2m outlets directly. Overall, it trebled its rural reach from 0.25m outlets to 0.75m.
- **Dabur:** Implementing Project DOUBLE (initiated in FY12) in 10 key states which form ~72% of Dabur's rural revenues. Pilot launch was done in UP and Maharashtra, and currently it is being rolled out in eight other states.
- **Emami:** Implemented Project SWADESH to reach all 10,000 population towns by 2013. Currently it reaches ~2.5m outlets.
- **Marico:** Implemented its expansion plans and has seen the contribution of rural revenues moving up from 25% to 30% in last 3 years. Total direct reach now stands at 0.8m outlets (indirect reach at 4m outlets). It continues to invest in strengthening rural distribution. Its rural reach has increased from 11,000 towns in June 2010 to 27,000 towns in June 2012.
- **Nestle:** Doubled its total distribution reach (direct as well as indirect) to 4m outlets since CY09 and is still expanding coverage.

Coverage reach of FMCG players

Company	Total reach in mn
HUL	6.3
Marico	4
Dabur	4
Colgate	4.5
EMAMI	2.5
GSK	2.5
NESTLE	4
Britannia	4.5

- **GSK Consumer:** Expanding coverage in North and West India. Adding ~20,000 outlets per quarter. Total direct coverage stands ~0.8m outlets.

Distribution expansion, in our view, will stand out as a key advantage amidst rising competitive intensity. This focused distribution strategy will:

- Help large established branded players (e.g. HUVR) widen the gap over their nearest competitors
- Help capture the rising shift from unbranded to branded products in rural markets, which will in turn enhance long-term volume growth (e.g. for GCPL, Dabur, MRCO, Emami)
- Capitalize on the increasing penetration of branded packaged food products (e.g. for Nestle, GSK Consumer).

Companies' focus on rural India may improve the rural-urban mix

Company	Urban	Rural
HUL	55	45
Marico	75	25
Dabur	53	47
GCPL	65	35
EMAMI	65	35
GSK	80	20
NESTLE	80	20
Colgate	65	35
Britannia	50	50

Change in composition of rural-urban mix

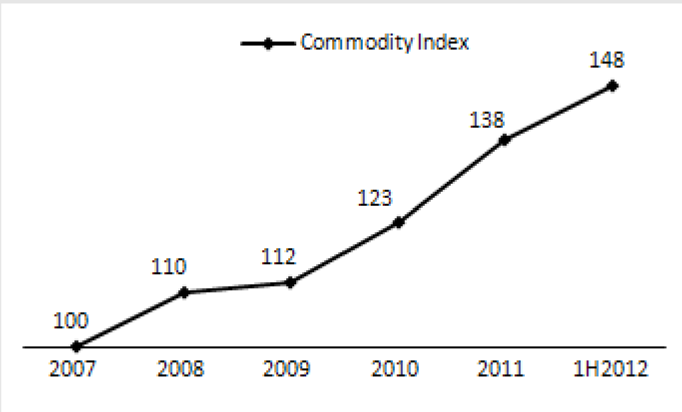
Another consequence of the distribution expansion initiative undertaken by consumer companies is the potential change in the long-term composition of urban-rural mix in the overall sales of the industry. As it stands today, apart from HUVR, Colgate and Dabur, the sales mix is skewed towards urban markets, in line with the overall Indian Consumer sector where nearly 2/3rd of the INR1.8t market is urban.

Improving monsoon augurs well from input cost viewpoint

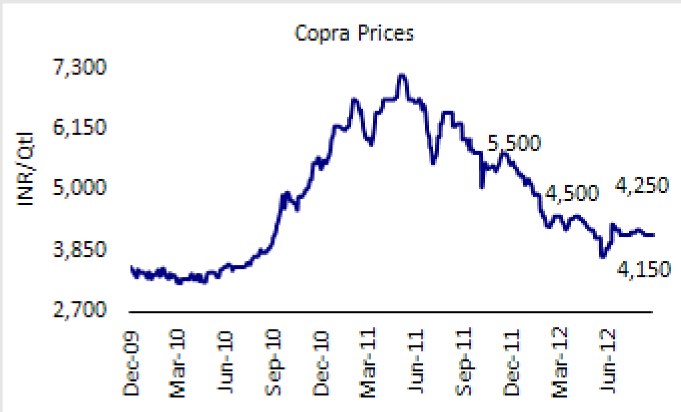
Rainfall deficit down to 10%; rainfall less relevant for staples demand

2012 monsoons, after disappointing in June (29% below LPA) and July (19% below LPA), has improved in August with overall deficiency just 10% below LPA as on September 5, 2012. This, we believe, augurs well for Consumer companies as it mitigates the risk of spike in agri input costs on the back of shortfall in agri commodities output.

RM cost rising for Nestle

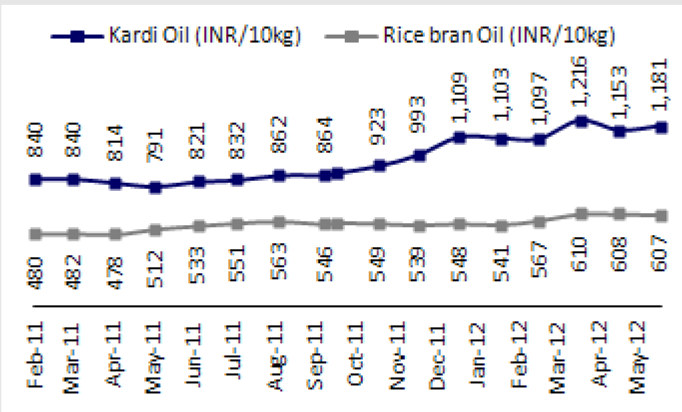


Decline in copra prices to boost MRCO margins in FY13E

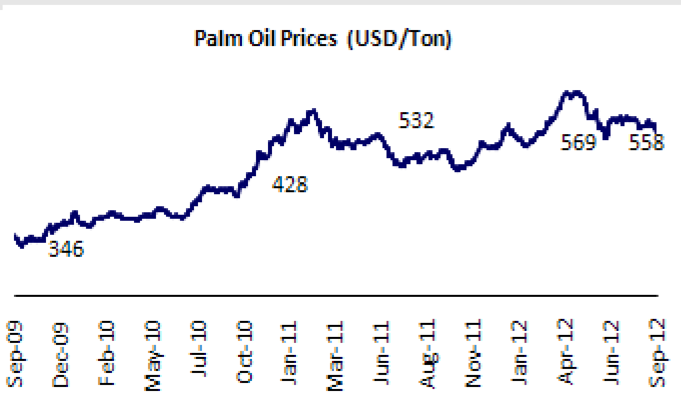


Source: Company, MOSL

Kardi oil and Rice bran oil remains firm….

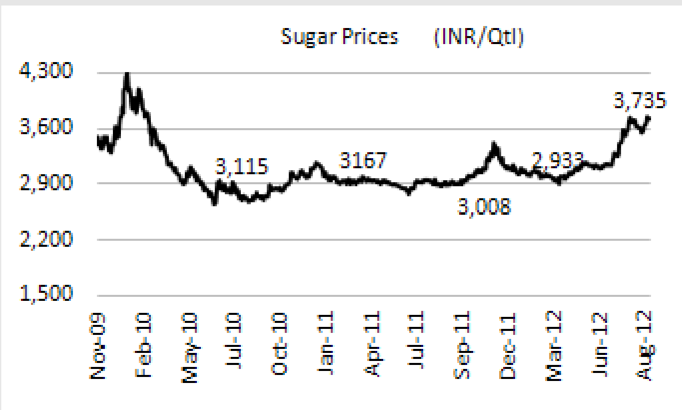


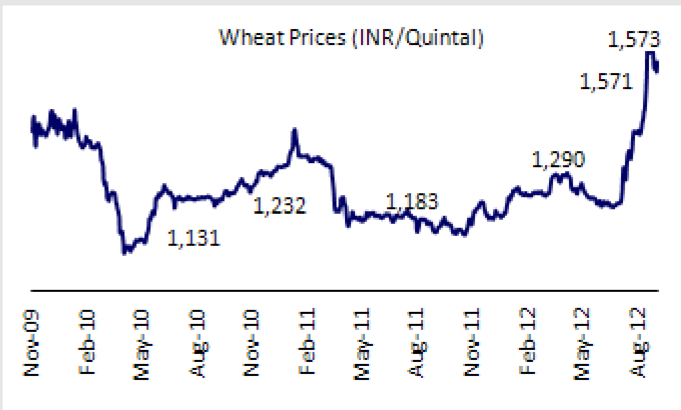
Palm Oil prices are down 13% in 6 months



Source: Company, MOSL

Agri commodities like sugar and wheat prices are up ~20–30% in 3 months



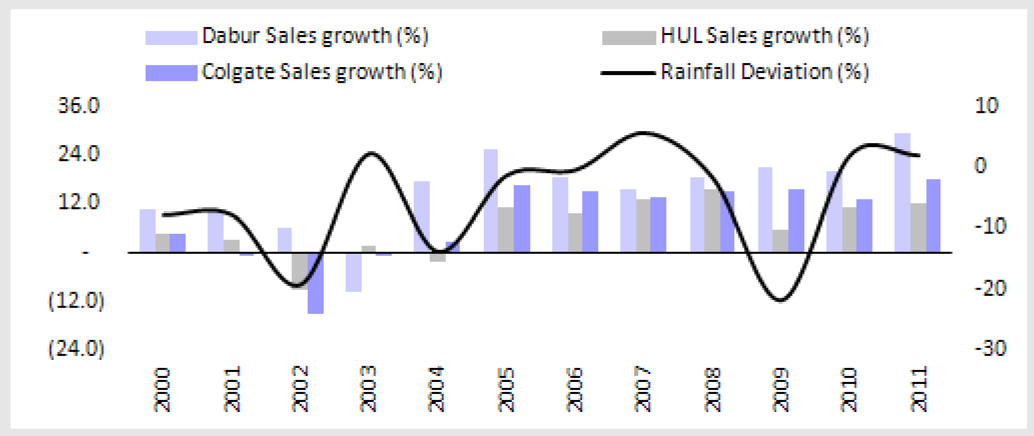


Source: Company, MOSL

Relevance of monsoon for consumer staples demand has come down

In any case, we believe monsoon performance does not have significant influence on rural staples demand. As shown in the chart below, this is a clear departure from early 2000's when poor monsoon/drought had resulted in subdued revenue growth for Consumer companies. Despite the drought in CY09, volume and revenue growth for Consumer companies in FY10 and FY11 were not impacted. We believe the key factors behind the resilience of rural demand even in the face of weak monsoon are (1) growing proportion of LUP SKUs, (2) rising acceptance of branded staples/HPC categories, supported by government spending and (3) higher incomes and aspiration levels plus media exposure.

Monsoon LPA v/s revenue growth of HUL, Dabur & Colgate



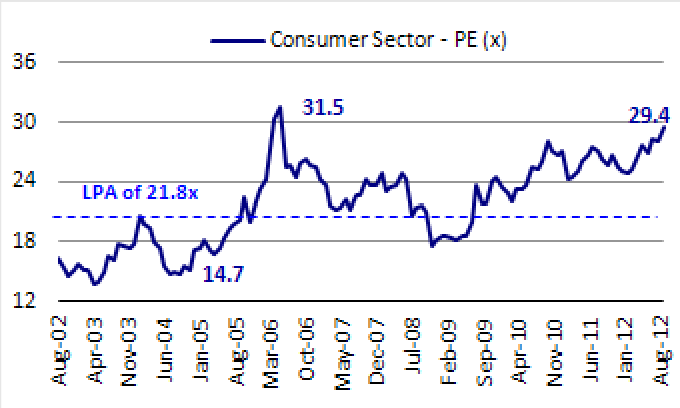
Source: Company, MOSL

Historical 12-year analysis: Can prevailing high valuations sustain?

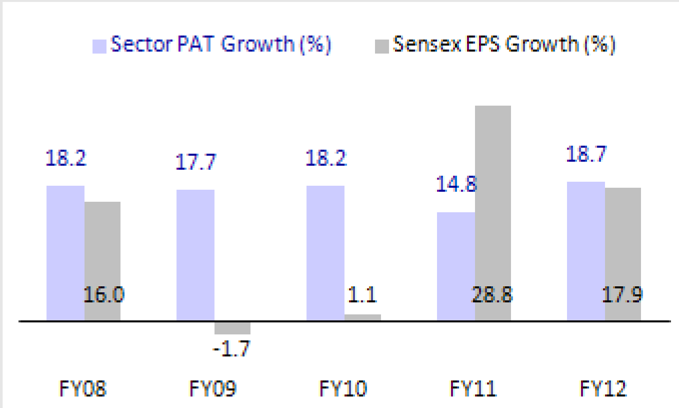
The Indian Consumer sector has seen a significant valuation re-rating over the last three years driven by a) steady earnings growth, b) preference for high quality balance sheets in a rising interest rate environment, and c) flight to defensives triggered by poor macro environment.

Currently, the Consumer index trades at a premium of 23%, 19% and 26% over its five-year average P/E, P/B and EV/EBITDA multiples. Relative to benchmark (Sensex), the sector P/E is at a premium of 116% and P/B of 331% v/s five-year average of 51% and 190%, respectively.

Sector valuation and deviation from LPA at all-time high

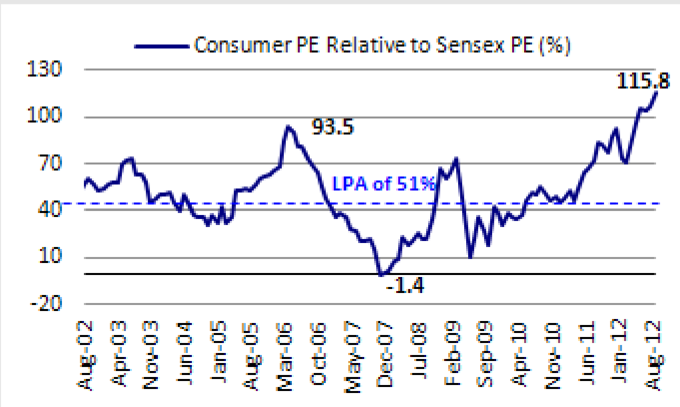


Steady earnings growth drove the relative premium

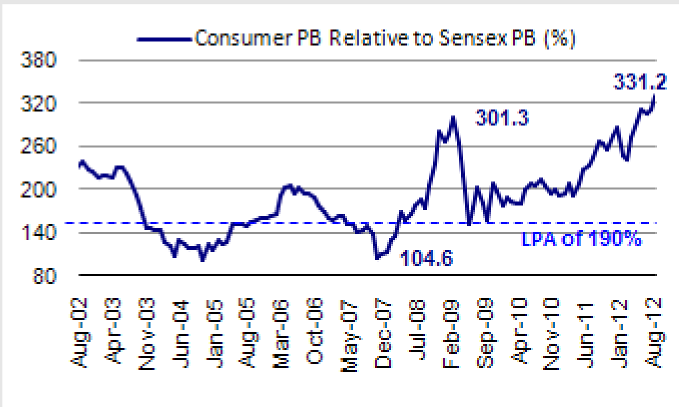


Source: Company, MOSL

10 year high relative P/E....



...... and relative P/B



Source: Company, MOSL

We look at historical valuations to address two key questions

We looked at Consumer sector valuations post CY2000 to factor in various macroeconomic as well as stock market cycles to answer two key questions:

1. Is there a precedent for sustained premium valuations for the sector/companies?
2. Do these valuations sustain when there is a change in macroeconomic backdrop even as the sector earnings growth remains robust?

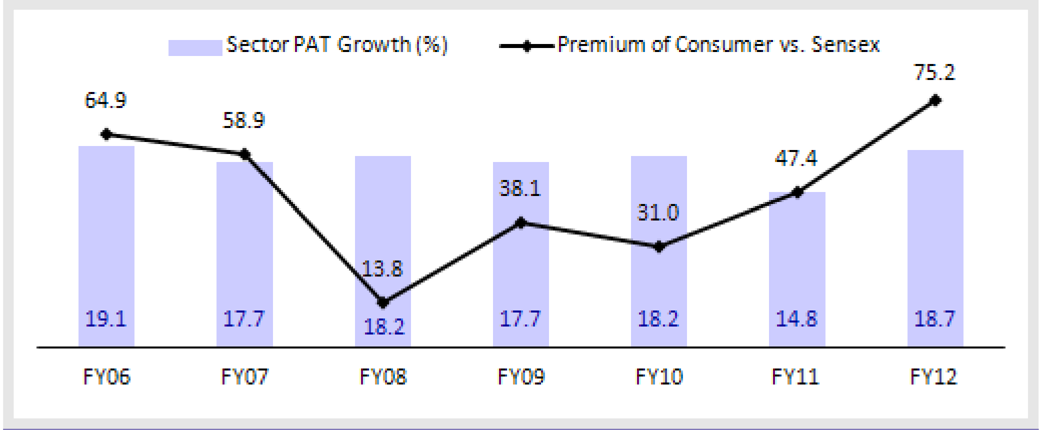
We note the following:

1) Consumer sector P/E contracted from 29x in Mar-00 to lows of 13.8x in Mar-03 - this could be owing to slowing volume and earnings growth for the sector due to weak macro environment with sub-5% GDP growth. **However, relative P/E premium of Consumer sector over Sensex expanded from 25% to 60% during the same period.**
2) Sector P/E hovered around 14-18x for a year before rising to reach a decadal peak of 31.5x in April 2006. Meanwhile, premium over Sensex came down from 60% in Mar-03 to 30% in Oct-04 (commencement of broader bull market) before moving to 94% in Mar-06. This reflects the improving earnings growth trajectory of Indian Consumer sector and recognition of India Consumption story - government spending towards rural consumption also increased during this period (NREGA, infra spending in rural areas, etc).
3) Between May-06 and Dec-07, Consumer sector P/E contracted from 30x to 25x, **but more importantly, premium over Sensex completely vanished, given the peaking of the bull markets.**
4) Subsequently, in the bear markets that followed, the absolute sector P/E fell to 18x but premium over Sensex expanded from 0% to 73% in Mar-09 when broader markets bottomed. **In Sep-09, Relative premium declined again to 20% as markets bounced back.**
5) Post Sep-09, Consumer sector P/E expanded from 22x to 29.4x in Aug-12, a 3-year peak, while the premium over Sensex has reached 116%, a 12-year peak. This highlights the preference for defensives when the broader markets are range-bound.

Conclusion for the sector

- There is a clear precedent for sustained premium valuations for the Consumer sector. Specifically, as is well known during bearish markets, premium of the sector over Sensex has expanded. However, what is different this time is the magnitude of expansion in premium to unprecedented levels.
- There is also sufficient evidence to show that when broader markets turn up, Consumer sector valuations contract (both absolute and premium to benchmark) despite sustaining healthy earnings growth.

Valuations underwent contraction despite healthy earnings growth of the sector



Source: Company, MOSL

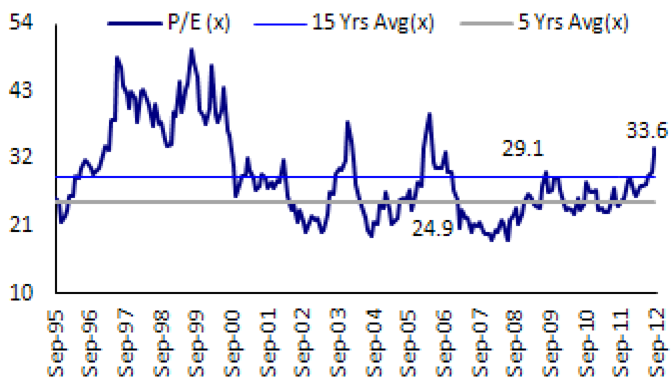
We also looked at valuation history for our coverage universe. We highlight company specific historical valuations for HUL, ITC, GCPL, and MRCO which are trading at peak 5-year valuations. GSK Consumer, Nestle, Asian Paints, Marico, Dabur and Colgate are trading within 15% of their respective peak valuations in the current cycle. Only Britannia is trading 25% below its peak valuations.

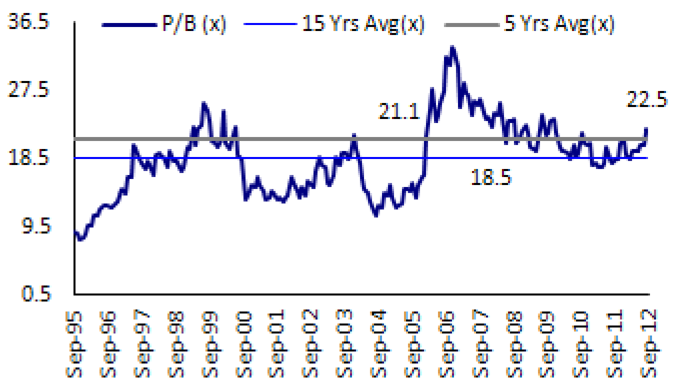
Brief conclusions

HUVR

HUVR traded as high as 48x during late 1990's when its earnings CAGR for CY95-00 was 29%. However, subsequently its P/E multiples contracted due to flattish earnings growth for CY00-05 (continuous erosion in market shares and margins as a function of multiple price wars). Recent P/E expansion is driven by sustained pick-up in volumes and earnings growth, stemming of market share losses, and aggressive innovation pipeline.

HUVR: Trading at multi year high valuations

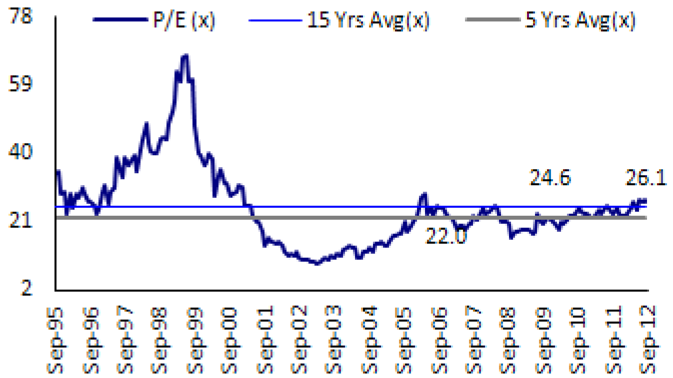


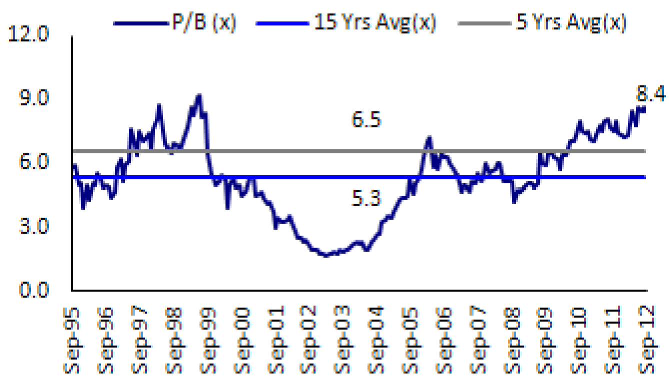


ITC

ITC is trading at 6 year high P/E of 27x. In late 90's it did trade in high 40's–50's' band fro 18 months. It's re-rating in the past 3 years is driven by rising dividend payout ratio, stable Cigarette EBIT growth and improving profitability in other FMCG business as indeed the preference for earnings visibility in the current uncertain market environment.

ITC: Preference for defensives and rising payout drove the re-rating; trading at peak valuations in the current millenium

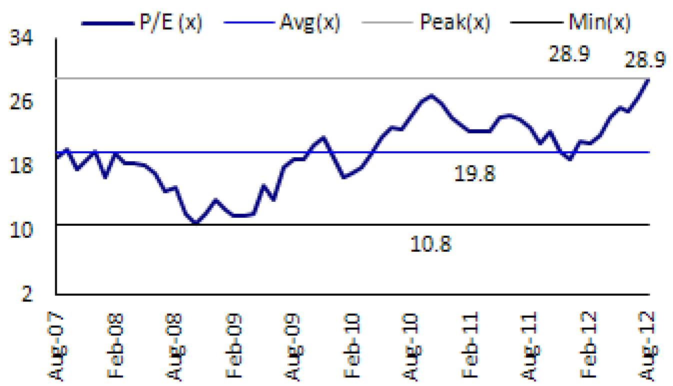


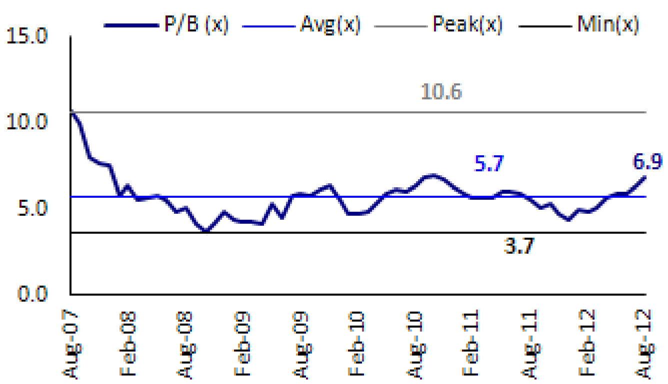


GCPL

GCPL's current valuations have no precedent and the stock is trading at its lifetime high valuations. However, the comparison is erroneous as the business model of the company has undergone sea change in the past three years. Valuation re-rating is driven by significant jump in earnings CAGR driven by accretive acquisitions. GCPL has done 9 acquisitions in the past three years and now derives ~40% of its business from overseas entities. Even within domestic business, contribution of Soaps has declined post the acquisition of balance 49% stake of Sara Lee in Godrej Sara Lee JV.

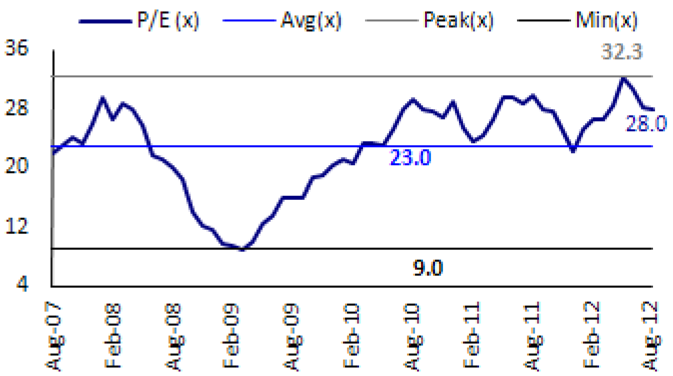
GCPL: Valuations in unchartered territory

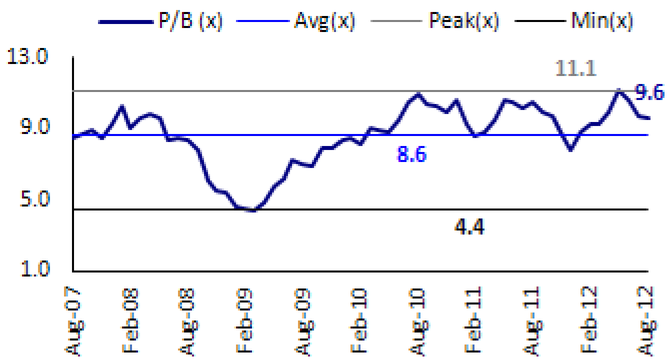




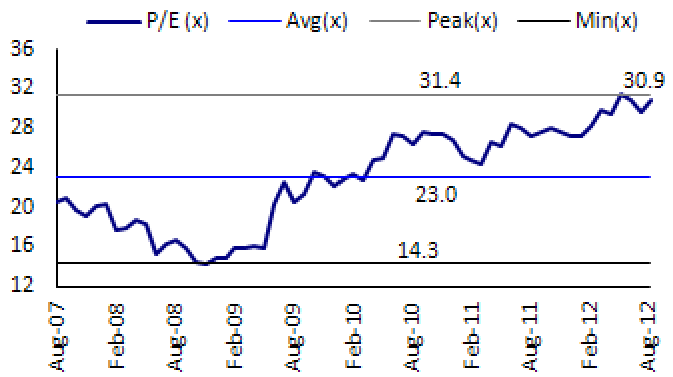
Valuations at stratospheric levels even for midcaps

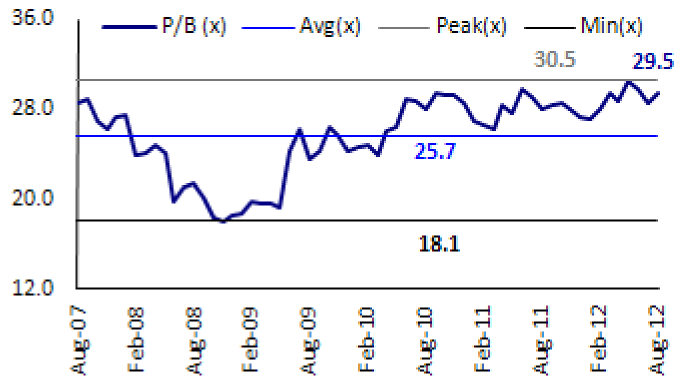
Asian Paints : Valuations within 15% of it's recent peak



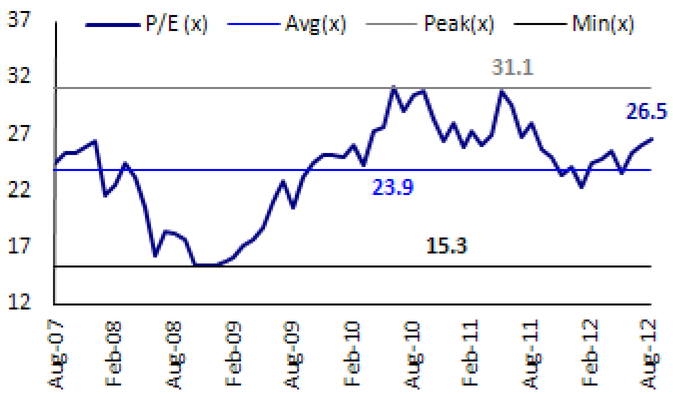


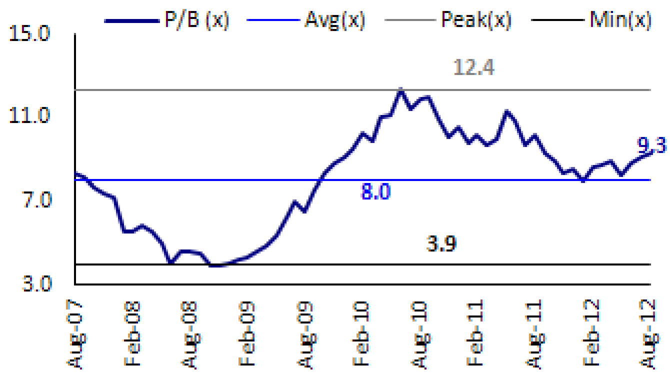
Colgate: Multi year high valuations



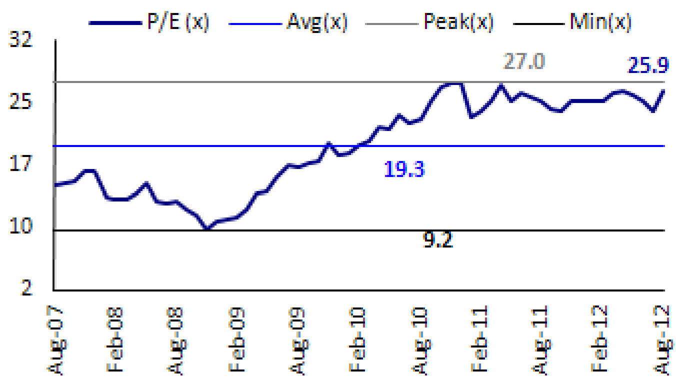


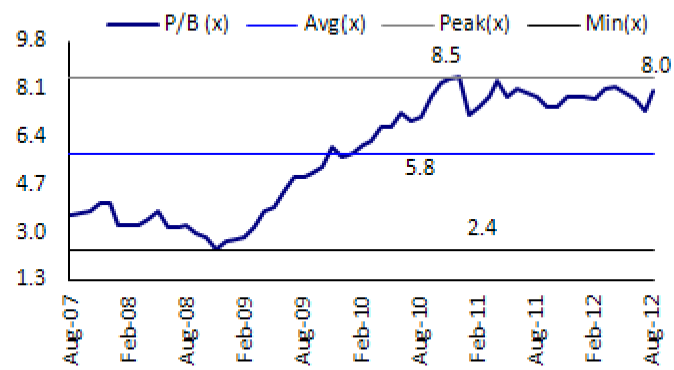
Dabur: Valuations within 15% of peak despite relative weak earnings performance



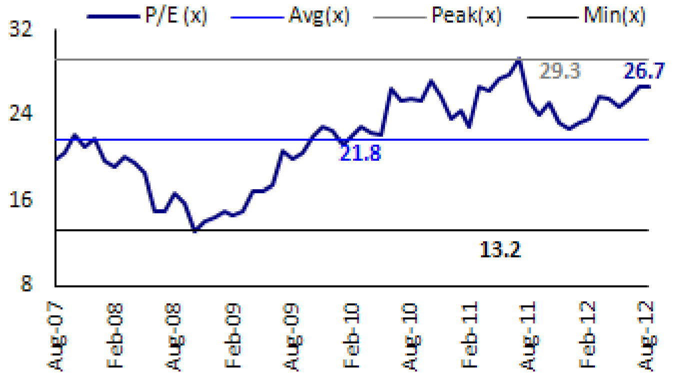


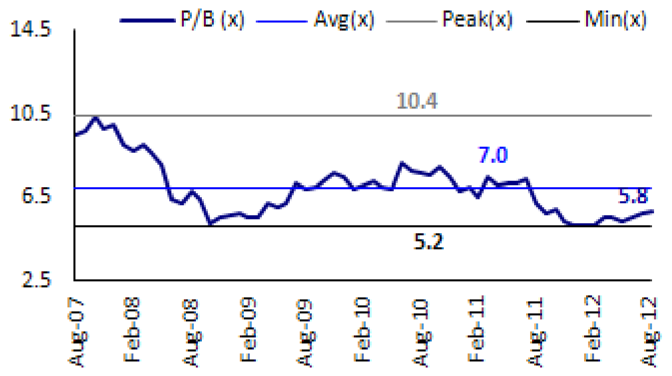
GSK Consumer: Re-rating driven by steady volume growth in MFD category



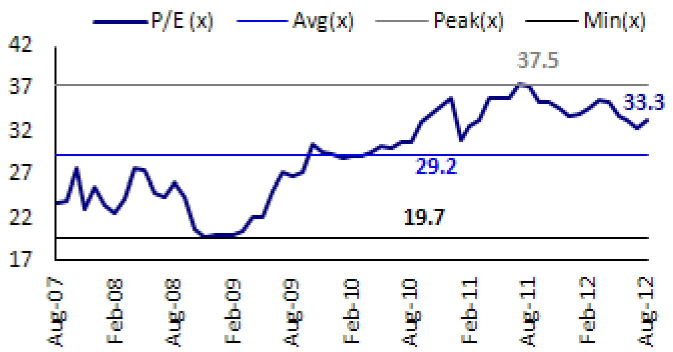


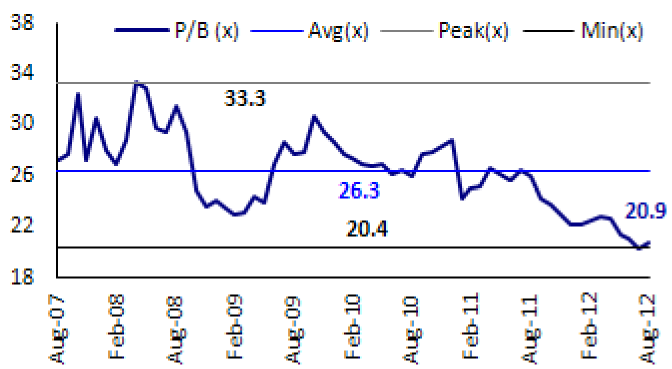
Marico: Life time peak valuations



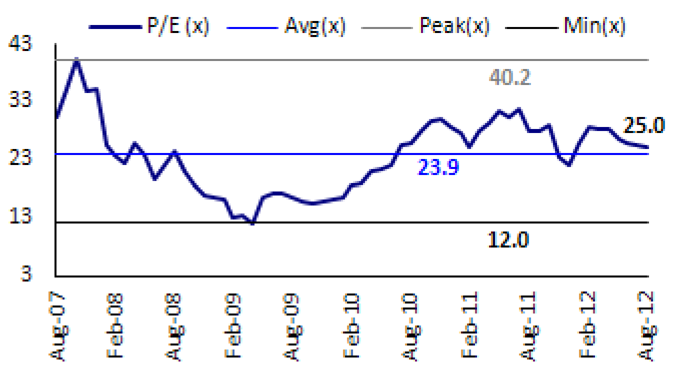


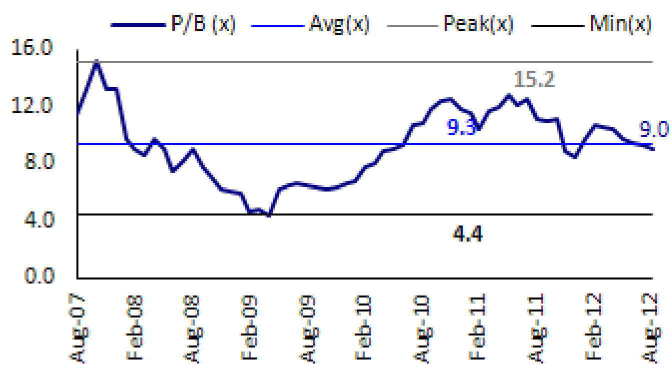
Nestle: Valuations came off a bit post weak volume growth





Titan Industries: Withdrawl syndrome?





AGIC Conference: Insights into ITC

Cigarette excise growth may be higher than inflation in the medium term

- Excise duty hikes, if higher than WPI inflation can restrict Cigarette volume growth to low single digits (21% excise duty increase in FY13 budget) .
- We dont see material adverse impact even if plain packaging norms were to be implemented in India as ~70% of cigarettes are sold in loose form. Efficacy of packaging initiatives in controlling tobacco consumption is not established.
- ITC has rolled out 5-6 brands in the 64mm segment (Gold Flake Super Flake at INR2.5, Capstan, Flake, Berkley and Scissors at INR2).
- ITC may be targetting to take market share from informal segment (8% of market) and contraband (4% of market) through this 64mm initiative, in our view.
- ITC's Cigarette EBIT margins at 55%+ are best in the industry and incremental expansion will be a function of mix improvement and pricing component.
- There is no clarity on GST timelines. (If and when it comes into force, all the indirect taxes excluding excise will get subsumed under GST).

4QFY13 break-even for FMCG-Others; Personal Care to see investments

- We expect 4QFY13 break-even for FMCG-Others .
- We note that growth in Biscuits and Confectionery categories is moderating by 200-300bp. However, staples continue to grow in mid-teens.
- Premiumisation strategy in Biscuits helping to reduce contribution of Glucose segment.
- **Instant Noodles:** Yippe continues to outperform expectations.There is need to ramp up capacity as it currently covers just 70% of Maggi's distribution footprint.
- Personal Products may remain in investment mode and get strong promotion support, in our view.
- Skin Care is doing well and Vivel has received good response.
- **Capex :** INR20b per year for next three years.

AGIC Conference: Hindustan Unilever management interaction takeaways

Consumer demand patterns in Hindustan Unilever's (HUVR) categories have not seen any material change despite concerns on macro as well as monsoon front.

No impact of monsoon as yet; remains cautious

- HUVR has not seen any change in consumer demand trends. Growth differential between urban and rural remains immaterial.
- Deficient monsoon tends to have a lag impact, if any, on rural consumer demand. HUVR remains cautious and does not rule out the possibility of some downtrading in categories like Soaps, Detergents and Tea.
- The management maintains that innate strength of HUVR's portfolio that straddles the price pyramid, will cushion volume impact, if any.
- In the long term, HUVR's volume growth in Personal Products should outperform category growth.
- Domestic acquisition, if any, will be a function of category gap opportunity.

Premiumization strategy working

- HUVR's premiumization strategy is delivering results across categories, in turn, aiding realization growth and higher margins.
- New formats and benefits are driving the premiumization trend e.g. bars to liquid soaps, detergents to fabric softeners, etc.
- Soaps: Despite being a heavily penetrated category, volume growth is driven by disappearance of regional/unorganized players due to inflationary raw materials environment.
- Hair Care: Launched TRESemme shampoo in August to provide salon experience to consumers.
- Beverages: Taaza has not done well; corrective actions are being taken.
- Foods: Offers attractive long-term opportunity; will take time to play out.
- Water Purifier segment is impacted to an extent because of its discretionary nature. HUVR is not contemplating entering the bottled water segment.
- Digital media spends have doubled in recent times.

AGIC Conference: GCPL management interaction takeaways

Godrej Consumer Products (GCPL) management indicated continued strong momentum in domestic categories. It expects that focusing on its "3x3 strategy" will continue to drive medium term growth.

Domestic business sustaining momentum

- Management believes current momentum in domestic categories is sustaining and is optimistic of delivering double digit volume growth in its Soaps category for FY13.
- It does not expect any material adverse impact of deficient monsoons.
- It expects high-teen growth in Home Insecticides to sustain.
- It is focusing on driving innovations and new product launches in domestic business (AER air fresheners, Cinthol re-launch, new variants in Godrej No 1, Cinthol Deos, Shower Gels, etc).
- Distribution expansion should continue to aid rural growth.
- It sees stable margins in Home Insecticides and Hair Color segments.
- GCPL plans to support Cinthol through ASP spends.
- Correction in raw material costs will be passed on through price promotions.

International business: Darling acquisition progressing as per plan

- On Darling, many synergies have been executed, and most supply chain initiatives are in place. It is currently working on branding and marketing.
- Darling acquisition timeline - Phase 1: 51% of 45% of Darling business (done); Phase 2: 51% of another 20-25% of Darling business by end-FY13; Phase 3: 51% of remaining 30% of Darling business by end-FY14; Phase 4: 49% of Darling business, thus acquiring 100% ownership of Darling.
- Payments for various phases of acquisition in Darling will happen at the time of deal. As of now, EBITDA multiple is frozen.

Debt: Staggered debt payment reduces currency risks

- GCPL has staggered the repayment schedule for its USD305m debt which has average cost of 3%.
- Repayments: USD60m in FY13, USD82m in FY14 and so on with last tranche of repayment in FY18 (USD22m).

AGIC Conference: Marico management interaction takeaways

Marico management indicated moderation in domestic volumes from the mid-teens level reported in 1QFY13.

Domestic volumes moderating; may still remain in double digits

- Marico indicated a moderation in domestic volumes from the 16% number it reported in 1QFY13.
- **Parachute:** Its 18% volume growth of 1QFY13 is unlikely to be replicated. Still, 10% volume growth is possible. Marico took price cuts in Parachute of INR2 on 100ml (MRP INR27) and 50ml (MRP INR12).
- **Saffola:** Continues to gain consumer traction; 14-15% volume growth is achievable.
- **Hair Oil:** Gaining market share.
- **Skin Care:** Marico is looking at "head to body" but not face care.
- **Foods:** Ex edible oil, Foods form 1.5% of sales. It expects non-edible oil basket to contribute 25% of Foods revenue over the medium term.
- Marico has recently entered the muesli category. However, it is not keen on corn flakes as it believes it is a relatively commoditized category.

Paras: On track; meeting internal benchmarks

- Paras achieved INR100m revenues in 1QFY13. Marico plans to grow Paras at 25-30% compounded.
- Set Wet and Zatak together command 5% share of the Deodorant market which is extremely fragmented with leader (HUL) having 17% share.

Raw material costs not too worrying

- Marico is not overly worried about increase in MSP of Copra.
- Poor monsoon impacts Copra crop next year. Linkage to Palm oil table leads to volatility in Copra prices.

International business: May revert to 18% growth in FY14

- Expect macro situation to improve in Bangladesh due to rising remittances.
- International revenue growth may revert to 18% by FY14 after delivering 13-14%growth in FY13.

AGIC Conference: Emami management interaction takeaways

Emami has seen a moderation in its domestic volume growth from mid-teens to low double digits. However, it expects growth to revive on the back of various trade and distribution initiatives.

Volumes still growing in double digits

- Slowdown or relatively poor monsoon is not affecting Emami's business as yet.
- Emami is focusing on "Pain Management" side of business (Zandu Balm, Menthoplus Balm, Fast Relief, etc) which aggregates INR4.5b of sales (largest in India).
- Emami Fast Relief (sales of INR300-350m) is growing well. Current market share is ~5%. Objective is to gain market share from Volini and Moov.
- Navratna Oil saw improvement in market share to 57.5% in 1QFY13. Competition is not able to make any dent here.
- In Fair & Handsome, (a) Competition from HUL is hurting and it is gaining market share, and b) Contract with Shahrukh Khan did not get renewed on time.
- OTC brands contribute INR700m to sales. Management expects growth rate of at least 25% in this segment.
- Emami is looking for acquisitions that are more strategic fit. Management clearly indicated it would be happy to buy any company in the Indian Ayurveda space.

International business: Still fighting counterfeits in Russia

- **Russia:** Emami continues to be dogged by counterfeit Boroplus products being sold in Russian market, 12-15% lower than the original product price. It has already discussed this issue with Russian Custom Authorities and they are taking steps to resolve it.
- **Africa:** The company has discontinued low margin brands Bonita and Emita, which contribute around 50% of sales from Africa.
- **Bangladesh:** The manufacturing plant is ready and should be operational once it receives license from the government.

Distribution initiatives on track

- Direct retail coverage stands at 500,000 outlets.
- Emami is planning to increase number of outlets to 600,000 by end-FY13.
- Project Swadesh is on track. It has appointed 250 sales personnel in last 3 months; it will appoint another 300-400 in next 6-9 months.

AGIC Conference: Titan Industries management interaction takeaways

Titan management presented a near-term cautious outlook and also enunciated its key priorities to capture expected long-term attractive growth opportunity in the Jewelry, Watches and other related lifestyle categories.

Consumer sentiment remains weak; "wait & watch" mode continues

- Though industry footfalls have improved from the lows of May-June, consumer remains in "wait & watch" mode. Impact of inflation and poor consumer sentiment continue to reel broader Retail sector and discretionary categories in particular.
- Spending recovery in discretionary categories will be a function of "discounting", at least in the short term. Today's "smart" consumers wait for offers/discounts to plan their purchases. Titan, on its part, is rolling out slew of attractive offers in high-value items to induce more spending and also attract new consumers.

Network expansion plan continues; margin support in FY13

- A key change from the previous downturn is the continuation of network expansion plans. 80% of the expansion will be through franchisee route and hence balance sheet will remain light.
- FY13 should see margin support from (1) Withdrawal of excise duty on branded jewelry (20bp) and (2) Direct gold import (40bp).

Long term vision and strategy

- India's large and under-penetrated middle class remains the cornerstone of Titan's long-term strategy as it offers significant upside for Titan's core categories of Jewelry and Watches.
- Youth, women and kids are Titan's focus consumer segments as they are expected to drive consumer spending in the lifestyle categories.
- Differentiated marketing in small towns will help drive penetration in unexplored geographies.
- It intends to unearth new unorganized product categories and focus on under-served consumer segments.

AGIC Conference: Shoppers Stop management interaction takeaways

Shoppers Stop management gave a bleak near-term outlook while underscoring the attractive long-term opportunity in the Indian organized retail market.

Near term outlook bleak; festive season is the key

- Mall footfalls have improved vis-à-vis the May performance, partly driven by the discounting season.
- Consumer continues to remain cautious due to uncertain/pessimistic macro environment prevailing in the economy.
- Festive season, commencing with *Ganesh Utsav* in September, holds the key for FY13 performance.
- Shoppers Stop remains concerned about organized retail's increasing propensity towards discounting.

Shoppers Stop: Expansion will continue

- No change from the earlier guidance on expansion plans - 8 Shoppers Stop stores each for FY13 and FY14. Total standalone operational space is targeted to reach 4.5m sq ft in FY15 v/s 3.1m sq ft in FY12.
- Stores have already been contracted, and there is no material concern on delivery commitments of builders as yet.

Hyper City: Focusing on profitability

- Hyper City intends to add 8 stores over next 3 years (1 in FY13, 4 in FY14 and 3 in FY15).
- It will focus on cluster-based growth strategy - core and mid-sized stores. Core size - 60k sq ft in Tier I to drive assortment. Mid-size - 35k sq ft, first in Tier-I cities; if the concept works, it will be extended to Tier-2 cities.
- No immediate improvement in profitability as traction from new stores remains sub-par.
- FY15 PAT breakeven guidance for Hyper City.

NOTES

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