

## Industry

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# India Auto and Consumer Daily

 Equity 

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- **M&M looks at raising exports and entering new markets** — Mahindra and Mahindra Ltd (M&M), wants exports to contribute 20% of its overall revenue in the next five years. Management said that exports grew 24% to 10,567 vehicles in 2009-10, but they still formed only 5% of the revenue. The company has identified the US, South and Central America, Europe, South Africa, South-East Asia, and neighbouring countries like Sri Lanka as potential growth markets for it. *(Livemint)*
- **Ford plans to drive into Indian CV space with truck** — Ford Motor Company will soon enter India's fast-growing commercial vehicle (CV) market through its wholly owned subsidiary Ford India. The company is in the last phase of firming up its plans and an announcement is expected in the next few months. It is believed that the company would bring its light and medium-duty trucks in the sub 5-tonne category to India in the first phase. Ford first planned to enter the commercial vehicle segment months after its US-rival GM announced a tie-up with China's top automaker SAIC to produce cars and LCVs for India. The GM-SAIC LCVs are slated to hit the Indian roads next year. *(Business Line)*
- **M&M eyeing healthy growth in tractor sales this fiscal** — M&M is eyeing a significant increase in market share this fiscal on the back of an enhanced demand for its products, management said. M&M's current (tractor) market share of both Mahindra & Mahindra (tractor division) and Swaraj stands at 42% and the company plans to increase it by selling more products through new marketing strategies. The domestic tractor industry reported robust volume growth of around 28.3% in FY10 owing to strong rural liquidity, increasing farm mechanisation due to enhanced alternative employment opportunities, and a higher use of tractors for non-agricultural uses. *(Economic Times)*
- **UB, SABMiller move to patent bottles to restrict reuse, cut costs** — United Breweries Ltd (UB) and SABMiller Plc's India arm are patenting their bottles, which, they say, would help them cut bottling costs. Once patented, only UB and SABMiller – which together corner 80% of the Indian beer market – can buy back their respective bottles. The two firms have applied to the controller general of patents, designs and trade-marks to patent the specific shapes and designs of their bottles. Even while the patents are pending approval, the law prevents other beer makers from reusing UB's or SABMiller's bottles. *(Economic Times)*
- **ITC reduces stake in Agro Tech Foods** — ITC Ltd has pared its holding in Agro Tech Foods Ltd by ~3%, a business it transferred to ConAgra about a decade before. The shareholding pattern filed with the stock exchanges show ITC offloaded its stake in ATFL over the past nine months, raising speculation if it would fully exit. In September 2009, Russell Credit, ITC's investment arm, held 16.77%, lowered to 13.87% in June 2010. The stake is now held by ITC Ltd. *(Business Standard)*

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Company News

### **Bajaj, Renault-Nissan likely to make own low-cost cars**

Bajaj Auto and the Renault-Nissan are expected to confine their relationship to sharing a platform which will produce vehicles for their exclusive needs. This could result in Bajaj making its own low-cost car and retailing it in India or elsewhere, even after Renault-Nissan has put its product out in the market. It is believed that the eventual winner will be the customer who will now have a wider menu to choose from in the sub-Rs250,000 range. Indications are that Bajaj could prioritise a four-wheeled pickup on the lines of Tata Ace and Mahindra Maxximo, before foraying into cars, although no official word is out on the subject yet. *(Business Line)*

### **Tata Motors set to join million-unit club soon**

Tata Motors is set to join Maruti Suzuki in the million-unit club this year, marking another milestone for the company. A widely-expected ramp-up in the production of Nano will catapult Tata Motors past the million unit output mark and pitch it to a point to reap benefits of economies of scale. The company is looking to increase the Nano's production up to 25,000 units a month by the first quarter of calendar 2011. Sales of a million units will bring Tata Motors neck to neck with Maruti, which crossed the mark last year. MSIL is planning to sell up to 1.4 million units and is investing Rs17bn to expand capacity. It is believed the Nano may soon replace the Suzuki Alto as the largest-selling car in the country. Maruti sells around 25,000 Altos a month, more than the combined sales of second-placed Hyundai i10 and third-placed Tata Indica that average 13,000 and 11,000 in sales, respectively. However, increased production of Nano may help it overtake the Alto. *(Economic Times)*

## Industry News

### **Carmakers plan to go beyond metros for big growth**

Small is the big mantra for the Indian auto sector with carmakers targeting Tier 2 and 3 centres to expand their business. The large metros, especially the National Capital Region, are still key growth drivers, but the future will see the action shift to smaller cities and towns. General Motors India plans to earmark at least 60% of its new dealerships in these regions. For Ford India, after the recently launched Figo, the business from Tier 1 and Tier 2/3 centres is more evenly balanced. Toyota Kirloskar Motor believes that there is a big market beyond the 13 traditional cities which offer immense growth potential, especially with its new small car launch just around the corner. Maruti has also traditionally had a high presence in these smaller markets. *(Economic Times)*

### **Dairies report rebound in milk procurement**

After last year's drought and consequent supply pressures, dairies across the country are reporting strong rebound in milk procurement volumes this time round. The Gujarat Cooperative Milk Marketing Federation's member unions are currently buying 1mn litres per day more compared to last year (15% YoY growth in July). But it is not only Gujarat that is seeing a jump. Dairies in Maharashtra, which has had an excellent monsoon, have been flooded with a lot more milk this time. Dynamix Dairy Industries, Parag Milk Foods, Warana Dairy, Swaraj India Industries, and Siddharth Milk Foods alone have registered a combined procurement increase of 1.4mn litres per day. *(Business Line)*

### **Modern retailers more responsive in cutting prices than kiranas**

When escalating prices were crunching household budgets, modern retailers were more responsive in cutting or holding prices of day-to-day products than traditional retailers, due to their ability to check operational costs, bargain hard with suppliers, and launch private labels. According to a study by The Nielsen Company, modern retail dropped prices by more, or increased them by less, for more product categories than traditional retailers, or kiranas, between the last quarter of 2009 (Oct-Dec) and the first quarter of 2010 (Jan-Mar). The study compared prices of 47 commonly used items including toothpastes, washing powder and confectionery. Modern retail dropped prices by more, or increased them by less, than traditional retailers for 29 product categories, while traditional retailers did better in 18 categories. It collected data from 16,000 stores (11,000 urban and 5,000 rural, in both modern and traditional retail) in 462 towns and 1,427 villages. *(Economic Times)*

### **FMCG players bet big on branded oats**

The Rs 6bn breakfast cereal market is set for an intense competition between home-grown and global brands. FMCG major Kellogg's India is planning to foray into the branded oats sector this fiscal, Marico has entered this segment with Saffola Oats which was launched in Tamil Nadu and select modern retail networks in the country. With this move, Marico will compete with PepsiCo India's flagship brand Quaker Oats in the domestic markets. Meanwhile, Nestle India is also gearing up to enter breakfast cereals segment, including oats, in India. *(Financial Express)*

## **Views/Insights**

### **Interview: Vivek Nayer, Senior Vice-President, Marketing (Automotive) — Mahindra and Mahindra (M&M)**

Mr Vivek Nayer said that before the launch of Maxximo, Tata Ace had the major market share but now M&M has 23%-24% market share. He believes that M&M's differentiating factor is an advanced technology. On the distinguishing of the market for 3-wheelers and sub 1-tonne 4-wheelers, Mr Nayer said that Maxximo is a more expensive product and has better technology. Maxximo can be used for both intra and inter city movements. But the Gio and three-wheelers will not be used inter city. They will be used within pockets of the city, hence are very localised. Their scope is limited and its a different segment. *(Business Line)*

### **Interview: Roland Abella, MD — Diageo India**

Mr Abella says that Giageo India is open to exploring new joint ventures and even acquiring new brands to build a robust product portfolio. The company has all the necessary approvals of India's Foreign Investment Promotion Board to acquire Radico Khaitan's 50%. He accepts that Diageo's India revenues are not huge at the moment but wants India to contribute up to 20% to the company's global revenues in the next five years. He forecasts the overall Indian spirits market to grow at a 12% volume CAGR by 2025, where premium categories expected to grow at 25%-30%. *(Business Standard)*

**Interview: Derek Jones, Director-Marketing — SABMiller, India**

Mr Jones says that the young, legally-drinking consumer is the segment that the company would like to draw the most. He said that ~80% of the Indian beer consumers drink strong beer but there is more emphasis on alcohol levels as opposed to building brands. Strong beer is an excise or industry-driven thought process and not one of the consumer. On launching homegrown beer Indus Pride elsewhere, Mr Jones informed that Indus Pride, a fully-malted barley beer, was introduced in Rajasthan and Karnataka recently. There has been interest in launching it overseas, particularly in the UK, but the company doesn't see it as a growth driver yet as brands are built over decades. Peroni too is priced at a premium in the market and the import duties on beer could always make SAB Miller consider local brewing. **(Economic Times)**

## Appendix A-1

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