

Equities

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India Consumer & Retail

Festive Fervour: Lights, Sound, ... Action?

■ Industry Overview

- **Betting big on festive sales; but is sentiment impacting demand?** — In an environment of high inflation & moderating growth, consumer goods manufacturers and retailers pin their hopes on the ongoing festive season demand – believed to be key to overall revenue and profit growth in the current year. With the onset of the festive season, we try and gauge a) the importance of the festive season; b) measures that companies / retailers are undertaking to spur demand; and c) what's happening on-ground as we visit malls / shopping centers and talk to dealers & shopkeepers in Mumbai and Delhi.
- **Festive season – how big is it?** — We analyzed revenue trends for 7-8 companies (mix of retailers, paint companies & durable makers) over the past 5-6 years. On an average, the festive season quarter accounts for ~24-30% of the annual sales. It is thus, only, a tad higher than the average quarterly run-rate. The festive season is now believed to have extended beyond the traditional Dusshera / Diwali period; retailers mention that India is increasingly following the West with Christmas / New Year becoming more important (more holidays, better weather?). Channel checks tell us that most retailers have their annual sales earlier in August (or later in January too - as is the case with Pantaloon) – which garner a large proportion of overall revenues.
- **Gearing up for the festivities** — The shopping centers / malls we visited, especially in Delhi, have been decorated and lit up for the festival of lights. Press reports indicate consumer companies have increased their advertising budgets by up to 50-60% Y/Y for the season – targeting print, TV, outdoor as well as online / mobile ads; well supported by discount offers, gift coupons and promotions to spur demand. Product launches and innovations continue, albeit at a slower pace.
- **What are channel checks telling us?....** — Speaking to most shopkeepers & distributors, it was a near consensus view that growth rates in 2011 are likely to be lower on last year's high base. That said, there was a sharp variance across categories / shops on the absolute growth expectations.
- **.... Mixed views** — Some electronics retailers noted that higher EMIs (~4ppt increase in interest rates in the last 24 months) could lead to modest / no growth. Apparel & jewellery players mentioned that the price hikes are impacting volumes. Following the recent discount sales period, many believe the offtake could be lower when consumer goods and apparels are being sold at full prices. On the other hand, based on the initial trends, a few FMCG, premium watch makers & some white good dealers, spoke of strong growth expectations (the range was wide, between +15-40% growth).
- **Signs of modest growth; but still early days** — Our dipstick checks indicate that sales this year will be steady, but are unlikely to be spectacular (see photos inside). These are still early days - it is yet to be seen if the macro sentiment has dampened consumer demand or if the festive spirit will positively surprise closer to Diwali.

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Festive Season Over the Years

While consumption has held up relatively better than other sectors in recent times, there have been signs of growth moderating over the last 2 quarters. Most consumer good firms and retailers are hoping for a good festive season – which will be key to growth in revenues (and profits) this fiscal.

We analyzed revenue trends across 7-8 companies – a mix of retailers, paint companies and consumer durable firms - all believed to be affected by the festive season sales. Growth in the last 2 years has been very healthy for most companies – and thus this year's sales will be on a high base.

After a modest 2008 season, growth in the last 2 years has been very healthy for most companies

Figure 1. Growth Trends in the Festive quarter fro Select Companies (%Y/Y)

% growth Y/Y in the festive quarter	2006	2007	2008	2009	2010	Average growth in the festive Quarter	Average growth in the full year
Asian Paints	21%	22%	12%	26%	26%	21%	21%
Pantaloon	44%	81%	24%	33%*	36%	44%	46%
Shoppers Stop	19%	42%	8%	12%	23%	21%	24%
Kansai Nerolac	10%	10%	-8%	37%	29%	16%	16%
Titan - Watches	30%	-4%	4%	39%	21%	18%	14%
Titan - Jewellery	48%	78%	33%	19%	68%	49%	45%
Whirlpool		62%	-14%	19%	23%	22%	19%
TTK Prestige		23%	23%	18%	65%	32%	29%
Average	29%	39%	10%	25%	36%	28%	27%

Source: Company Reports and CIRA; Adjusting for different Diwali dates across the years, we use 3Q (Oct-Dec) data for all companies in 2005, 2007, 2008 and 2010; whereas average of 2Q and 3Q is used for 2006 and 2009

*Comparing core retail (lifestyle, value, home retailing) to only lifestyle and value retail.

How important is the festive quarter?

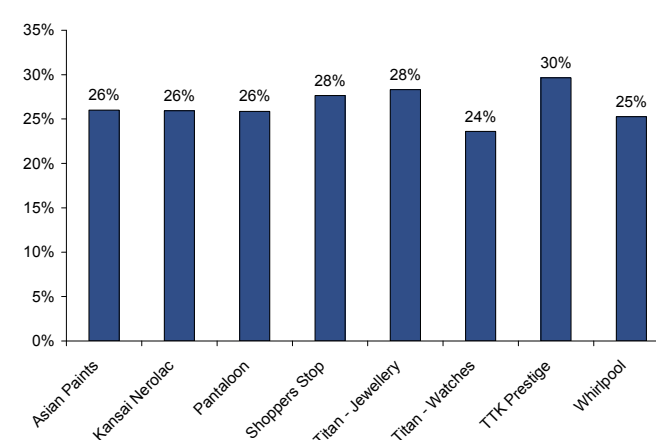
Analyzing trends across these companies, over the past 5-6 years, it appears that on average, the festive season quarter accounts for ~24-30% of the annual sales. It is thus, only, a tad higher than the quarterly run-rate.

Figure 2. Festive Quarter as a % of Annual Sales Over the Years

	2005	2006	2007	2008	2009	2010
Asian Paints	27%	26%	27%	24%	25%	27%
Pantaloon	29%	24%	26%	25%	25%	26%
Shoppers Stop	31%	27%	28%	27%	27%	27%
Kansai Nerolac	28%	27%	26%	23%	25%	26%
Titan - Watches	23%	25%	21%	21%	26%	26%
Titan - Jewellery	28%	26%	29%	29%	27%	31%
Whirlpool		23%	33%	24%	23%	23%
TTK Prestige		29%	30%	30%	28%	31%

Source: Company Reports; Adjusting for different Diwali dates across the years, we use 3Q (Oct-Dec) data for all companies in 2005, 2007, 2008 and 2010; whereas average of 2Q and 3Q is used for 2006 and 2009

Figure 3. Avg Contribution of the Festive Quarter as % of Annual Sales



Source: Company Reports and CIRA; Adjusting for different Diwali dates across the years, we use 3Q (Oct-Dec) data for all companies in 2005, 2007, 2008 and 2010; whereas average of 2Q and 3Q is used for 2006 and 2009

The festive season is not just restricted to a few weeks around Diwali, but is increasingly extending to the end of the year including the Christmas / New Year period.

Further, many large format retailers have their annual sales / discount schemes around August and / or January – which now contribute to a big share of the annual sales.

Diwali 2011 – What’s happening in the run-up?

Plenty of Advertising

Retailers and consumer durables companies have raised their advertising and marketing budgets by up to 50-60% for the upcoming festival season. Besides, regular advertising on print and TV, companies are increasingly using new media – web (including social networking sites), mobile and outdoor for more direct and cost effective brand building. According to press reports, the festival season generally accounts for 40-45% of the annual ad spends. Companies indicate that in-store inventory has been enhanced ahead of the festive season with many discount offers and freebies to spur consumption.

There are other electronics retailers that have reduced print / TV budgets given the modest sales – but are offering new products at attractive price points, enhancing promotional offers and customer retention strategies including more loyalty points, rewards, assured cash back schemes of different denominations, etc. Some of the smaller local TV / AC players have been aggressive in booking space across many malls in almost all 12-18 cities (all metros + tier 2 cities).

Figure 4. Advertisement in a leading English Daily – Enhanced collection and Discount offers



Source: The Times of India, Mumbai Edition

Figure 5. Festive Season Pamphlet from a Body Shop outlet in Mumbai



Source: The Body Shop

Figure 8. Banner outside a leading large format retailer in a Delhi mall - Gift Vouchers, Bonus Reward Points, aplenty



Source: Citi Investment Research and Analysis

Figure 9. Multiple Outdoor Advertisements at a busy crossing in a Mumbai suburb



Source: Citi Investment Research and Analysis

Figure 10. One of the many advertisements by durable companies



Source: The Times of India, Mumbai Edition

Figure 11. A newspaper advertisement by a leading electronics retailer



Source: The Hindustan Times, Mumbai Edition

Figure 12. Some of the offers at a large format retail store



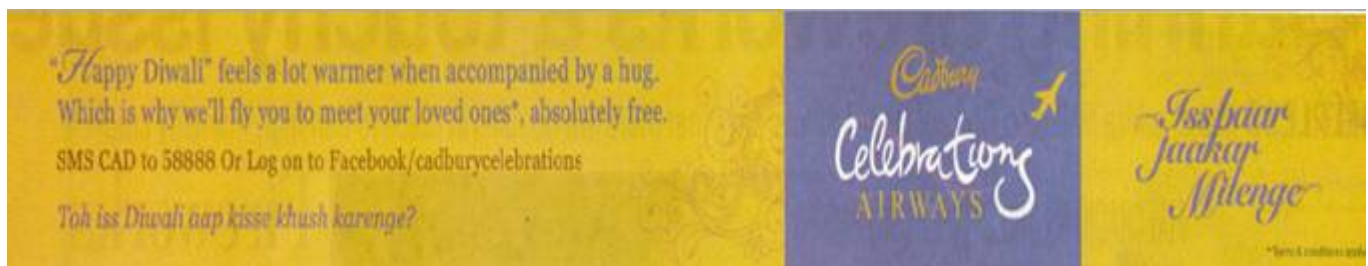
Source: The Times of India, Mumbai Edition

Festival Special Offers – Innovation Galore

Following a relatively slow 1QFY12, many companies plan to unveil new products during the upcoming festival season and back their marketing plans with aggressive advertising, discount offers and brand promotion. We look at some interesting new innovations being tried out.

FMCG companies are also betting on the festive season – prominently, press reports that the F&B major, Cadbury has stretched its Diwali Celebrations campaign by almost two weeks to promote gifting. It is also extensively using new media this season. Britannia too has worked on its products and communication for the season.

Figure 13. Cadbury's Diwali Special advertisement on the front page of the Saturday edition of an English daily



Source: The Hindustan Times, Mumbai Edition

A wide variety of schemes and innovative offers are on to woo customers – including free gold / silver coins, 1+1 offers, EMI schemes, lucky draws, etc.

Figure 14. An advertisement in the supplement of a leading vernacular newspaper in Lucknow (UP) – A Nano car or a gold coin free!



Source: Dainik Jagran, Lucknow Edition

Figure 15. Festive offers / Discounts outside a shop in a Delhi mall



Source: Citi Investment Research and Analysis

Besides buying jewellery, get Mehndi put and / or ask the tarot card reader questions about your future

Figure 16. Karvachauth¹ Special at a leading jewellery store – Women get the option to put Mehndi (Henna) and a special session with a tarot card reader



Source: Citi Investment Research and Analysis

¹ Karva Chauth is a one-day festival before Diwali celebrated in North India where married women fast from sunrise to moonrise for the safety and long life of their husbands.

Variety in fire crackers - options increase every year... Box covers change too – from the Indian Goddesses to Bollywood Divas

Figure 17. Fire Cracker Boxes – From Indian Goddesses' to Film Actresses



Source: Namaskar, Air India Magazine

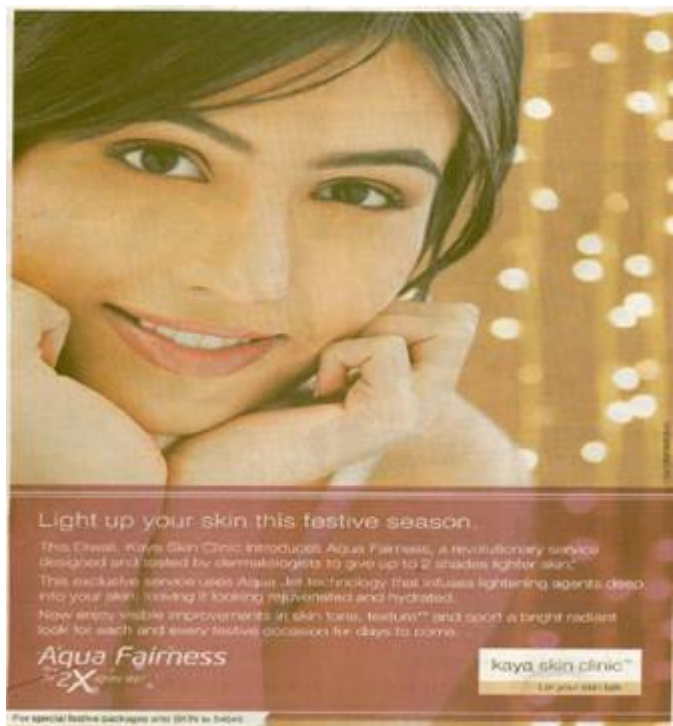
The festive season is not restricted to consumer good manufacturers and retailers – demand for flourishing skin?

Figure 18. Festival Special Ad - Even outside a small beauty parlour in Delhi



Source: Citi Investment Research and Analysis

Figure 19. Kaya Skin Clinic's Diwali Special Ad



Source: The Times of India, Mumbai Edition

What do channel checks indicate?

We walked across malls and local shopping centers in 2 big cities of India – Delhi and Mumbai over a couple of weekends - and spoke to many dealers & shopkeepers. Some of the photos from our visits below -

Figure 20. Outside a large mall in Delhi on a Saturday evening



Source: Citi Investment Research and Analysis

Figure 21. At the mall entry in Delhi



Source: Citi Investment Research and Analysis

Surprisingly, there weren't too many people as one would expect ahead of the festive season.

Figure 22. Tuesday evening in a large shopping complex in Mumbai



Source: Citi Investment Research and Analysis

Figure 23. Saturday morning in a large shopping complex in Mumbai



Source: Citi Investment Research and Analysis

Apparel & jewellery players mentioned that the price hikes are impacting volumes. Following the recent discount sales period, many believe the offtake is lower sequentially when durables and apparels are being sold at full prices.

Some malls were quite deserted, considering it was a Saturday night...

Figure 24. Saturday night scene in another mall in Delhi



Source: Citi Investment Research and Analysis

...Others were a little better

It appeared that the number of people in the food court outnumbered ones in shops

Figure 25. Inside a large mall in Delhi on Saturday evening



Source: Citi Investment Research and Analysis

Figure 26. Sale at a shop run by Khadi & Village Industries Commission in Delhi on a Sunday Afternoon



Source: Citi Investment Research and Analysis

A couple of electronics retailers we spoke to noted that footfalls have been very good recently; however the conversion rates are lower. Some believed that higher EMIs (~4ppt increase in interest rates in the last 24 months) lead to modest / no growth.

Figure 27. At a leading electronics store in Delhi



Source: Citi Investment Research and Analysis

Figure 28. Scenes at a premium watch showroom in Mumbai



Source: Citi Investment Research and Analysis

Interestingly, premium segment players for lifestyle categories (like watches, high end durables) are recording relatively better growth – some attribute it to a low base, some call it a cheaper form of luxury. Some other dealers and distributors of FMCG / paint companies noted that the festive season demand was healthy.

Figure 29. Gift packs galore in a large format food retail store in Mumbai



Source: Citi Investment Research and Analysis

Figure 30. Inside an apparel store in Mumbai – Variety & offers



Source: Citi Investment Research and Analysis

Overall, while these are still early days, the initial signs indicate modest growth this season. That said, there seem to be mixed views on the extent of growth that is likely to occur – even within the same categories.

Festive spirit alive.... Will it drive sales closer to Diwali?

The shopping centers and malls we visited, especially in Delhi have been decorated and lit up for the festive season. One can't say the mood isn't festive – large crowds at Dussehra celebrations, crowds in sweet shops, people buying lamps and lights, et al. Even though, the initial trends and most expectations indicate slower festive growth rates in organized retail / consumer goods sales this year, we think it is a bit premature to completely rule out positively surprises closer to the Diwali day.

Figure 31. Women getting Mehndi put ahead of the festivals at a busy shopping complex in Delhi



Source: Citi Investment Research and Analysis

Figure 32. Sale of lamps, lights, bangles, etc for the festivals at a local market in Delhi



Source: Citi Investment Research and Analysis

Figure 33. Dussehra Celebrations in a South Delhi colony – Massive crowds (including foreign nationals) to watch the burning of the Ravana effigy



Source: Citi Investment Research and Analysis

Figure 34. Sale of fire crackers ahead of Diwali



Source: Citi Investment Research and Analysis

Season's Greetings!

Appendix A-1

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