



The month that was...

**COUNTRY, FINANCE,
 MACROECONOMY,
 POLICY AND
 POLITICS**

India surpassed France to become the sixth largest economy in the world with a GDP amounting to \$2.597 trillion against \$2.582 trillion for France at the end of last year. In terms of GDP per capita, France is still 20 times higher with a population of 67 million against 1.34 billion for India. The US has the largest economy in the world followed by China, Japan, Germany, and UK.

The IMF recently advised India to rely more on stable sources of foreign inflow — foreign direct investment (FDI) — and cautioned it about not relying on global financial markets to finance its current account deficit when it goes above 3% of GDP. The advice came amid expectations that India's CAD will rise to 2.5% of GDP in the first quarter of 2018-19.

Wholesale price inflation rose to a four and a half year high of 5.72% in June, up from 4.43% in May, ahead of the Reserve Bank of India's monetary review next month. The rise was led by the jump in fuel prices, along with a continuing uptick in food inflation. This raises pressure on the RBI to raise its policy rate (repo) of interest which was raised by 25 basis points last month.

In its 28th meeting held this month, the GST council pruned rates of about 88 items from refrigerators and washing machines to toiletries and cosmetics. The Government is hopeful that the upcoming festive season will drive demand, backed by cheaper prices, and make up for the loss of revenue due to lower rates

The Government of India is formulating a draft national policy for e-commerce in India. A national regulator for e-commerce that will ensure consumer protection and compliance with foreign investment caps in e-commerce, mandatory data localization and tax sops for data centres are part of the upcoming legislation.

VPC Sectors

CONSUMER MARKETS

Electronics

- Samsung had recently announced its plan to set up the world's largest mobile production factory in Noida, India at a cost of INR 49.15 billion. Once operational, the plant will expand its current capacity of 68 million units a year to 120 million by 2020. The company plans to export 30% of its total production feeding fast growing markets in West Asia and Africa. The expansion plan comes amidst intense competition from Chinese rival Xiaomi which rose to the top spot in the Indian smartphone market in September 2017, pushing Samsung to the second spot.
- Consumer durables' prices are expected to fall by 7-8% as manufacturers plan to pass on the benefits of lowered GST to consumers. Categories such as refrigerators, washing machines, small screen TVs and mixer grinders were lowered to 18% from 28%. The refrigerator category is expected to grow by more than 15% and the washing machine category to grow by 18-20%.

Lifestyle & Fashion

- The price threshold for footwear under the 5% slab has been increased from INR 500 to INR 1,000 per pair, serving as a relief for companies selling between the INR 500 to 1000 price. Earlier, footwear categorised under INR 500 threshold were taxed at 5%, and others at 18%.
- Global apparel brands plan to raise prices as the Government of India more than doubled customs duty on imported garments from 10% to 25%. It is targeted to control the spurt in garment imports from countries such as China, Cambodia, Vietnam and Bangladesh which impacted the domestic garment market. The move has unsettled foreign apparel brands operating in India's highly competitive, price-sensitive market who have been trying to bring their prices down.
- In a major rejig last month, Rajiv Suri, who was appointed as the CEO of Shoppers Stop in January 2018 has also been appointed as the MD to lead the next phase of expansion. The new MD plans to focus on beauty products and non-apparel to boost revenue, and on private labels to drive its margins. Shoppers Stop has been facing a consistent fall in its share of private labels from 14.1% in FY15 to 10% in FY18 which it plans to double over the next three years. In comparison, its rivals have been selling higher percentage of private labels – Trent (96%), Pantaloons (60%), Lifestyle (35%) and Central (30%). Further, the beauty product segment contributes nearly 10% of its sales from over 100 stores for brands, including Estee Lauder, MAC, Clinique and Bobby Brown, for which it is an exclusive retailer in India. This segment can also give a strong push to Shoppers Stop's online channel. Currently, 1.5% of its annual sales come from the online channel with 80% of its catalogue on Amazon. It plans to double its online share every year. It also plans to open 5-6 department stores and 10-12 beauty stores this year.
- Italian premium denim brand Replay signed a major exclusive distribution partnership with Reliance Brands to enter India. The first two flagship stores are targeted to open in Delhi and Mumbai in 2019.
- Reliance Brands also acquired 12.5% equity stake in Future101 Design (for INR 9.5 crore) and an additional 8.14% equity stake in Genesis Colors Limited (for INR 34.17 crore). Future101 is engaged in manufacturing, distribution and sale of luxury apparels in India.
- Kenneth Cole replaced Reliance Brands with Brandzstorm India as its partner for designing, manufacturing, distributing and retailing its products in India, Bangladesh and Sri Lanka by signing a 10 year master licensing partnership. Kenneth Cole plans to reach the INR 100 crore mark in sales and open about 10 stores in India by 2020. Two of its flagship stores are expected to be launched in Mumbai and Delhi by the end of this year.
- Trent's growth for FY19 is planned to be driven by the healthy store addition for Westside, improving profitability at Zara, and restructuring of the Star Market format. Westside, which added 18 stores in FY 18, plans to add an average of 20 stores each year with an aim to hike the current 125 to 165 stores by the end of FY20. Private Label contribution to its sale has steadily increased from 83% in FY14 to 96% in FY18. Inditex Trent India, its joint venture with Spain's Inditex group, which operates stores under the Zara brand has shown significant growth in margins which has expanded to 14% in FY18.
- Khazanah Nasional Berhad is in talks to join The Carlyle Group, Advent International and General Atlantic to acquire a stake in Pepe Jeans India arm. Pepe Jeans currently has over 215 franchise stores and retails its branded apparel through 1,000 multi-brand stores in India.
- Swedish furniture maker Ikea Ltd plans to open its first India store in Hyderabad on August 9th, 5 years after it got approval from the government to invest INR 10,500 crore in the country. IKEA aims to become a multichannel retailer online presence and up to 30 big and small format stores by 2025. It plans to expand to 40+ store with presence in Mumbai (2019), Bengaluru, Delhi NCR, Ahmedabad, Surat, Pune, Chennai and Kolkata. It currently sources 20% of its products locally and aims to source 50% in the long term.

Food & Beverages

- Tata Coffee Ltd, a subsidiary of Tata Global Beverages which supplies coffee beans to over 100-odd Starbucks outlets in India, is looking to become a global supplier of coffee for Starbucks. It has already started supplying homegrown coffee on a pilot basis to the Starbucks Reserve in Seattle. In 2012, Starbucks and Tata Global Beverages entered into a 50/50 joint venture for its operations in India with an exclusive sourcing and roasting agreement with Tata Coffee. Starbucks has over 300,000 suppliers of coffees across the world. Tata Coffee is also setting up its first foreign manufacturing unit in Vietnam at a cost of INR 3.5 billion which will become operational by January 2019.
- CRISIL's recent study stated that the organized dairy sector are expected to be funded INR 140-billion over the next three years to enhance processing capacity by 25-30 per cent and strengthen milk procurement on the backdrop of rising demand. Capital expenditure for next three years: Gujurat Cooperative Milk Marketing Federation (\$50 billion), Parag Milk Foods (\$1.5 billion), Hatsun Agro Products (\$3.9 – 8 billion) and Heritage Foods (\$3.6 billion).

Contd.



Upcoming Events	VPC Sectors
<p>Upcoming Trade Exhibitions</p>	<ul style="list-style-type: none"> • Modi Naturals Limited plans to enter the ready-to-cook and ready-to-eat food product segments as well as into the snacks category. Its current product portfolio includes olive oil under the Oleev brand, popcorn brand Pipo and body oil brand Olivana Wellness. With a sales turnover of INR 200 crore, it plans to focus on advertising to increase brand visibility, with its ad-budget increasing 70% in the current fiscal.
<p>India International Footwear Fair Venue: Pragati Maidan Date: 2 – 4 August 18</p>	<ul style="list-style-type: none"> • As a part of its expansion plan in the northeastern market, FMCG major Britannia Industries has launched its biggest greenfield plant in Assam at an investment of INR 1.7 billion. This is the third Britannia plant to be set up in Assam as it plans to make Assam a gateway to South-Asian and South East Asian markets. In May, it launched its first export-oriented manufacturing facility at Mundra and is also coming up with a INR 10-billion integrated food park in Ranjangaon near Pune. • Nestlé India crossed the INR 1 trillion in market capitalisation to become the third FMCG company to cross INR 1 trillion in market capitalisation following Hindustan Unilever (m-cap: INR 3.64 trillion) and ITC (m-cap: INR 3.29 trillion). It had reported net profit at INR 4.24 billion in the March quarter with a better than expected 38 per cent year-on-year growth rate. • Consumer goods major, Kwality is planning to set up its second manufacturing unit in central India dedicated wholly to breakfast cereals production. It is in line with its plan to go national and giving a tough fight to the multinational firm Kellogg's. The unit is expected to be completed by 2021 and focus on northern and western markets, particularly Gujarat, Maharashtra and Madhya Pradesh.
<p>Food Hospitality World Trade Show for the Food, Drink and Hospitality Market Venue: HITEX - Hyderabad International Trade Exposition Centre, Hyderabad Date: 4 – 6 September 2018</p>	<ul style="list-style-type: none"> • Parle Products is introducing Nutricrunch, a new biscuit brand in the health biscuit and cookies segment, across the country priced at INR 20 for a 100g pack. It will be launched under Parle's Platina division, created last year to handle its premium products. According to Parle, the health biscuit and cookies category has been growing at 12-13% per year and is now a sizeable portion of the market at over INR 1,000 crore. • Anheuser-Busch InBev (AB InBev) plans to make Beck's Ice, which has been pilot-launched in some parts of Maharashtra, available in Karnataka and Puducherry next month, and in Andhra Pradesh, Telangana and Goa around October. Priced at about 12-20% higher than entry-level brands, it is an effort to target an emerging segment between entry level and premium brands in India. AB InBev has a strong presence in the premium space with Budweiser. The Becks brand is currently being brewed at its Maharashtra facility. <p>HORECA</p> <ul style="list-style-type: none"> • Piramal Capital & Housing Finance, a unit of Piramal Enterprises, had announced its plans to invest INR 6.5 billion (~ Euro 80 Million) as structured debt in Gurugram-based hotel operator Samhi Group. It will allow Samhi Group to support its growth plans and refinance existing lenders across three assets, The Courtyard and Fairfield by Marriott in Bangalore, the Sheraton in Hyderabad and the Hyatt Regency in Pune. It is the third major investment in hospitality by Piramal over the past six months adding to its investment of INR 6 billion each with the Gurugram-based Vatika Group and Advantage Raheja Group. It has also concluded five other transactions, worth INR 4.5 billion with five top tier hotels. The investments are in line with Piramal's plan to reach a target book size of INR 100 billion in the next three years in the hospitality sector. • Jubilant FoodWorks, the operator of Dominos Pizza and Dunkin' Donuts, reported a three-fold jump in net profit from INR 23.84 crore in Q1 of FY18 to INR 74.67 crore in Q1 of FY19 ending June 30. The strong performance in Q1 FY19 was on account of a good response to the Every Day Value offer on Regular Pizzas launched in March 2018 which was supported aggressively during the IPL T20 cricket season. During the same quarter, one new Dunkin' Donuts outlet and 13 new Domino's Pizza outlets were opened and three Domino's outlets were closed.
<p>Food & Hotel India International Hotel, Catering Equipment, Food and Drink Exhibition Venue: Hotel Sahara Star, Mumbai Date: 5 – 7 September 2018</p>	<p>Retail - Offline</p> <ul style="list-style-type: none"> • Walmart, which opened its second fulfilment centre in Lucknow, plans to double its wholesale store presence over the next three years. Currently, Walmart operates 21 cash and carry stores across 19 cities in India. It plans to add 20 new stores: two 'best price cash and carry' stores this year, eight in 2019 and 10 stores in 2020 across towns such as Ghaziabad, Muradabad, Kanpur, Varanasi, Saharanpur, Aligarh and Gorakhpur. • The Phoenix Mills entered into a 50:50 joint venture with Ahmedabad-based BSafal group to develop a premium retail destination spread over approximately 0.6 million sq. ft. on the Sarkhej-Gandhinagar Highway which will be operated and managed by Phoenix Mills. The proposed premium retail development will cater to upmarket residential areas of Western Ahmedabad. The proposed plan adds to the company's 4.6 million sq. ft. retail portfolio which is under development in addition to its existing operational portfolio of about 6 million sq. ft.
<p>COSMOPROF INDIA International Beauty Trade Event Venue: Hotel Sahara Star, Mumbai Date: 10 – 11 September 2018</p>	<p>Retail - Online</p> <ul style="list-style-type: none"> • Reliance Industries has unveiled its plan to take on Amazon and Flipkart in India's booming e-commerce market by integrating and synergising the strength of Reliance Retail and Gio's digital infrastructure. The proposed online-to-offline e-commerce platform is expected to bring together 35 crore customer footfall at Reliance Retail stores, 21.5 crore Jio customers, targeted five crore Jio Giga homes and three crore small merchants and shop-keepers across India. • Players such as Amazon, Flipkart and soon-to-be-launched Reliance e-commerce are all pumping in their resources to target the online e-grocery segment which is estimated to be a \$28-billion segment within the \$65-billion online marketplace space. While Flipkart is planning to allocate close to US\$400 million just for the e-grocery segment, on the other hand, Reliance e-commerce is planning to build the biggest grocery store omni-channel network in the country. Amazon India is planning to launch some of the Whole Foods range by the end of this year or early next year. • Kishore Biyani-led Future Lifestyle reached a conditional agreement to acquire 29.9% stake in online fashion retailer Koovs for INR 140 crore (~Euro 165 Million). The deal will allow Koovs to retail its merchandise at FLFL's retail chains like Central and Brand Factory and FLFL's brands will be sold online on Koovs.