

## Maruti Suzuki Q2 net profit slides 39% on weak demand

Lower sales volume, higher sales promotion expenses too hit earnings

### OUR BUREAU

New Delhi, October 24

Maruti Suzuki India (MSIL) on Thursday reported a standalone net profit of ₹1,358 crore for the second quarter ended September 30, one of the lowest quarterly profit performance in the last four years, due to an exceptionally weak demand environment in the automobile industry.

The net profit was down 39 per cent from ₹2,240 crore recorded in the corresponding period last year.

Net sales for the quarter declined 25 per cent YoY to

₹16,120 crore (₹21,551 crore). The decline in numbers is on account of lower sales volume, higher sales promotion expenses and higher depreciation expenses, partially offset by cost reduction efforts, higher fair value gains on invested surplus and a reduction in the corporate tax rate, the company said.

Sales volume stood at 3,38,317 units, down 30 per cent.

"The results for the quarter (July-September) and half-year (April-September) have to be viewed in the context of

an exceptionally weak demand environment. This year, the automobile industry has seen a significant decline in sales, owing to several factors. One of the main factors is an increase in the cost of acquisition of cars due to various reasons coming together, including implementation of more stringent safety and emission (BS-VI) norms, increase in vehicle insurance expenses and a hike in road taxes in many States," MSIL said.

RC Bhargava, Chairman, MSIL, said the company was giving one of the biggest ever promotional offers (discount schemes) for the festival season.

## Stuck in reverse gear, but corporate tax-cut helps

### Q2 COMMENT

#### PARVATHA VARDHINI C

BI Research Bureau

Given that automobile sales have been stuck in reverse gear, Maruti Suzuki's 39.3 per cent fall in profits to ₹1,358 crore in the quarter ended September 2019 (over the September 2018 quarter) does not come as a surprise. In fact, fall in profits could have been worse, if not for the 78 per cent drop in tax expenses to ₹213 crore. The company has been a beneficiary of reduction in corporate tax rate announced by the government. In 2018-19, the company's effective tax rate stood at 29 per

cent, higher than the new rate of 25.7 per cent. Profits were also helped by 75 per cent rise in 'other income' to ₹920 crore and a drop in 'other expenses' by 15 per cent. Though sales promotion expenses were high thanks to the ongoing discounts, cost control efforts helped.

#### Realisations improve

Despite a 30 per cent fall in volumes, improvement in average realisation per vehicle from ₹4.44 lakh a year to ₹4.76 lakh helped arrest the decline in net sales to a lower 25.2 per cent. Net sales came in at ₹16,120 crore. Lack of operating leverage due to poor volumes impacted profitability

at the operating level sharply. Raw material cost as a percentage of sales too inched up to 74.7 per cent from 70.8 per cent a year ago. Thus, operating margins for the company contracted by 5.8 percentage points to just 9.4 per cent.

#### Outlook

Given the ongoing discounts to push up sales and lower interest costs, the festival month of October could see new vehicle sales picking up a bit. But uncertainties surrounding the BS-VI transition and higher transactions costs still remain a dampener for vehicle sales until the end of this fiscal.

## ITC profit jumps 36% in Q2, beats Street estimates

### OUR BUREAU

Kolkata, October 24

Beating Street estimates, diversified conglomerate ITC Ltd reported a 36 per cent rise in net profit at ₹4,023 crore for the quarter ended September 30, against ₹2,955 crore recorded in the year ago period.

Profits increased on account of reduction in current tax liabilities and re-measurement in deferred tax liabilities on account of the company's 'Make-in-India' investments.

Tax expense saw a 45 per cent dip at ₹785 crore for the period under review.

#### Sales revenue

During the quarter, gross revenue from sale of products rose 6 per cent to ₹11,750 crore (₹11,095 crore).

All segments — cigarettes, FMCG-Others, hotels, agribusiness and paperboards, paper and packaging — reported increased revenues and profit before tax.

Cigarette sales continued to drive the turnover and profit before tax accounting for 45 per cent of revenues and 80 per cent of profits.

The FMCG-Others segment saw an over 4 per cent rise in

revenues on a YoY basis to ₹3,288 crore. The segment EBITDA grew 39 per cent to ₹221 crore "notwithstanding stepped up marketing investments, gestation and start-up costs of new categories/new facilities".

During the quarter, new properties led to a "robust growth" in hotels segment revenue (which rose by 18 per cent YoY to ₹427 crore). The EBITDA grew 37 per cent. "Persistently sluggish demand conditions weighed on Rev-Par growth in most major markets," the company said.

Paperboards, paper & packaging segment saw an over 10 per cent jump in revenues to ₹1,565 crore driven by strong growth in value-added paperboards segment and product mix enrichment.

### BusinessLine

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## Maruti treads cautiously on EV launch plan; Electric WagonR to undergo more trials

### OUR BUREAU

Bengaluru, October 24

Maruti Suzuki India (MSIL) is treading cautiously on plans to launch its electric vehicle by 2020 due to not enough support from the government and lack of infrastructure. The company, however, may launch the vehicle only for transporting people (cab aggregators) next year.

The company had earlier announced plans to launch electric car based on WagonR by 2020, which is being tested on the Indian roads since last year. However, MSIL now says

by next year the vehicle, will be "at a stage which can go to the next stage of trials and testing".

Speaking to reporters on the sidelines of the announcement of the company's quarterly results, RC Bhargava, Chairman, MSIL, said, "They are not on to a stage where I can sell it commercially to individuals because there is no government support for it. If you want to do an EV programme (launch) in India, somebody has to manufacture battery in



RC Bhargava (left), Chairman, MSIL, and K Kenichi Ayukawa, CEO and MD, at a press conference in New Delhi on Thursday. KAMAL NARANG

India," he said. "Both Suzuki and we have a programme going on what to do in this area. As we go along we will keep

implementing that programme but don't expect any sudden announcement that now we are putting 1,00,000

EVs on roads," he said.

Bhargava said even the government's priority on EVs has changed. "They are giving higher priority to electrifying two-wheelers, cars for personal use don't have any priority for them. The faster adoption and manufacturing of hybrid and electric vehicles (FAME) scheme doesn't contain subsidy for personal cars," he said and added that "If somebody is going to buy this car without any infrastructure in the country and at a pretty high price because there is no support of any

kind, I can launch but what is the purpose?"

When asked about the battery manufacturing plant that Suzuki Motor (Japan) is working on along with two other Japanese partners, Bhargava said the battery manufacturing facility was meant only for hybrid vehicles.

## United Spirits profit declines 13% to ₹225 cr on consumption slowdown

### OUR BUREAU

Bengaluru, October 24

The country's largest liquor company, United Spirits said there has been an overall consumption slowdown which affected its earnings. For the second quarter, United Spirits' net profit decreased 13 per cent to ₹225 crore while total income was marginally up 2 per cent to ₹7,295.6 crore.

The growth of the Prestige & Above segment, which constitutes 65 per cent of net sales, was 4 per cent during the first half of the year, led by a weak second quarter (flat), which was impacted by overall consumption slowdown and liquidity challenges in certain key markets for Scotch as well as a tem-

porary supply chain disruption in Bottled In Origin (BIO) Scotch portfolio, a statement from the company said.

"This impacted the ongoing premiumisation trend within the segment that we had been seeing until last quarter. Since some of these factors were temporary and have since been addressed, and as we enter the festival season, we are hopeful that growth will return in the category, especially as the macroeconomic environment starts to improve."

The reported net sales increased 3 per cent benefiting from the second tranche of the sale of bulk Scotch inventory while the net sales growth, excluding this one-off benefit, was almost flat.

The company said its gross margin was 45 per cent down 526 bps versus last year, largely due to the adverse impact of COGS (Cost of goods sold) inflation. Reported EBITDA was ₹416 crore, down 6 per cent.

"Our revenue growth in this quarter was impacted by broad-based consumption slowdown as well as liquidity challenges in the trade channel in certain markets. We also faced some one-off operational issues. Consequently, net sales for the second quarter grew 3 per cent, including the sale of bulk Scotch inventory; net of that, underlying net sales growth for the quarter was flat," Anand Kripalu, CEO of United Spirits, said.

## IndiGo net loss widens to ₹1,062 cr as expenses surge

### FORUM GANDHI

Mumbai, October 24

IndiGo reported a net loss of ₹1,062 crore in the second quarter ended September. The airline had reported a loss of ₹651 crore in the second quarter last year and a profit of Rs 1,203 in the first quarter of the current fiscal.

The revenue from operations was 31 per cent higher in the second quarter than the corresponding quarter last year.

Ronojoy Dutta, CEO of IndiGo, said the loss was driven by cost headwinds. The costs fall into three major categories: Mark-to-market loss due to capitalisation of operating lease liabilities, re-assessment of accrual estimates for future maintenance cost, and one-

time adjustment owing to adoption of lower tax rates. "Each of these cost items is non-cash in nature and does not reflect on the cash flows we generate," he said.

Looking forward to the next quarter, Dutta said the revenues during the festival season have been somewhat subdued. "At this time we are expecting a flatish year-over-year unit revenue performance. Please note that it is still early in the quarter and things will, of course, change," he said.

IndiGo has a fleet size of 245 aircraft, during the quarter the airline added 10 aircraft. It operated a "peak" of 1,476 daily flights, including international operations, during the quarter, yet had made a net loss.

## Millennials and GenZ are living in a subscription economy

This edition of Mind your Marketing features **Sunder Madackshira, Head - Marketing, Adobe India**. He has behind him 22 years in leadership roles in Sales and Marketing positions across B2C, B2B products and services. He has worked with brands such as SAP, Infosys, WIPRO, Hindustan Unilever and VISA before joining Adobe. He has received the recognition of being one among 'India's Greatest CMOs' at the Independence Year of India Awards & Business Summit by Asia One. He was also recognised as the 'Most Influential Marketer' at the World Marketing Congress in Mumbai.

**What are some of the critical differences that millennials and GenZ have brought about in the way brands approach marketing?**

The first change in their behaviour is that they want ease of access. They want to be able to access the product easily and be able to use it like a pro.

The second thing they want is the brands to be authentic. They want the brand promise and what they're getting out of that to be matching one-on-one.

The third thing they expect is the brand to be more interactive. The days of a brand trying to do a monologue are over. They want a dialogue. They want more information to be available to them

before they make the decision.

The fourth point is that buying power in the market has gone up significantly. What they buy and how they buy has increased because of their ability to pay for it. The last thing is that today's millennials and GenZ are living in a subscription economy. Everything runs on subscription. They will consume the product till they find value. And they will very easily exit a brand when they don't see the value. So that has forced marketers to build a long-term relationship with this segment.

**How can you effectively connect with and sell to these cohorts?**

Number one is digital because they are on mobile phones. They are in the digital medium significantly more than the previous generation. Actually, there is no comparison. So, one is being where the customer is, which is on the digital channels.

Second thing is trying to fine-tune your messages, which are simple and straight, and which help people make decisions much faster.



The third thing is to be able to engage with millennials and GenZ over a longer period of time before you actually get them to buy the product. That engagement is very critical. At Adobe, this is what we have been trying to do over the last five, six years, and further amplified in India in the last three or four years.

**Have these changes been brought in by specific technologies?**

Clearly, I think the advent of the mobile. Social media, access to the web, internet in general, being able to interact on a real time basis and so on sort of converged in the mobile phone.

The second, technology, which accentuated this whole piece is the fact that companies are using the digital medium to reach this generation. Every tool that companies like Adobe offer, which help marketers to be able to run a campaign in a targeted way, measure the outcome and

repurpose the whole marketing campaign, are technologies which have really helped in this area.

**What will enable you to win the customer minds today - better technology or better ideas?**

That is a trick question, I must say. It can never be one or the other. But, clearly, if I have to put it as a marketer, I would always say a better idea. That's a starting point in understanding who your consumers really are and then coming up with an insight, which helps you to go to market. And taking it effectively to the end consumer using the right technology.

But it is difficult to make a choice between the two. Sometimes you might have a great idea. But if it is not taken

through the right channels to reach your targeted consumers, it could be a lot of wasted effort. And sometimes it can even boomerang on the brand.

**What makes customer experiences the differentiator of the future?**

Very importantly, people are buying experiences and not products.

In a market where products are getting increasingly complex and where buying decisions are becoming more complex, what people remember are not your specifications, but the experience that you have given them when they were with your product, and with your brand. I think that is what is going to leave a lasting memory. That also leads to brand advocacy. If people have a good experience, they become your advocates. But if they have not, then they can also become your brand adversaries.

**What is the biggest step in managing expectations and experiences?**

The answer is simple, being authentic. It is being honest about what your product can deliver and what you cannot and admitting it upfront. Today, the core that every brand wishes to have is trust, the trust of the customer, because once the customer trusts you, even when you fail, the customer is willing to forgive, forget and move on.

**What does it take for brands to stay competitive in today's dynamic economy and market?**

One is about being innovative. And second, being focused on the consumer. In today's world where knowledge is rapidly multiplying and virtually every

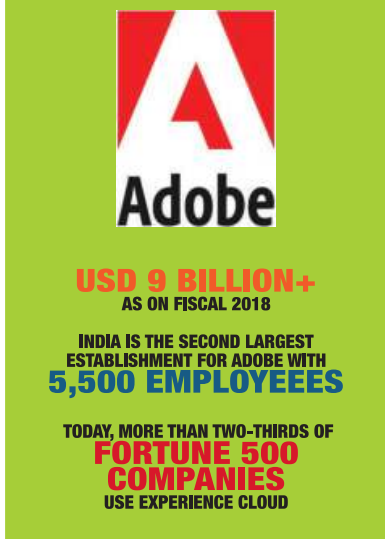
most emotionally charged campaigns, which are all centered on childhood memories

#### Three concepts that define a hot brand

I would say authentic. The second is memorable, because of the story that it tells. And the third, that it is very differentiated from its consideration set.

#### One strategic change we plan to execute by 2020

To completely own the customer management paradigm. We want to be known as an experience company that provides the best experiences to its customers and helps them serve their consumers.



#### Sunder says...

##### My top three marketing mantras

First is personalisation. Second is providing experiences. The third is measurement, about being able to understand your marketing campaigns and being able to prove to yourself and to the rest of the world about the return on investment that you're getting.

##### A powerful ad campaign I liked

I'm a big fan of Paper Boat's campaigns. As a brand of fruit juices, it would have been classified as an extremely commoditised product. But in a short duration, the brand has built itself beautifully, with the

aspect of the offering is getting impacted by some new thing which is happening in some part of the world, it is very important to be focused on what is the next big thing that the company wants to do.

The second piece is about truly having your eyes and ears on the ground with respect to the consumers. Consumers are changing very fast.

Today is not a world of segmentation. It is a world of hyper segmentation. Every segment is behaving dramatically different year on year. Keeping your hand on the pulse of the customer is very critical.

**What are the three secrets to successful branding?**

It is a very strong positioning. The stronger your positioning is on a particular axis and you keep evolving that is the most important thing for a brand. Second thing is about being authentic; it is very important to stay true to whatever you're promising. The third thing is about the power to tell stories. Stories make a brand and brands make stories. It is a well-known fact today that virtually every great brand in the world has been built around stories that has the ability to engage with its customers.

**Can a one-size-fits-all approach work in a differentiated market such as India?**

No, it will not work even within hundred metres of two customer segments. India is extremely heterogeneous, there are enough and more statistics about how different every state, language and demographic is.

In fact, it is a debate as to how many sizes and how many variants of products you need to be going into the market with.

To watch the video or follow the series and read what marketers have to say scan the QR Code or visit [thehindubusinessline.com/mym](http://thehindubusinessline.com/mym)



This article is part of a brand initiative by The Hindu Businessline to profile marketing professionals from across India.

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