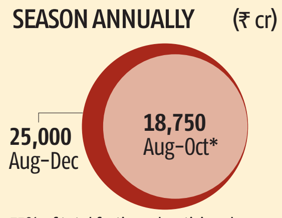
IN BRIEF

FESTIVE ADVERTISING VOLUMES DECLINE

India's festive season stretching from the first weekend of August till end of October is an important indicator of consumption in the economy. An analysis using data from the Broadcast Audience Research Council (BARC) and TAM AdEx, done by media agency veteran Shripad Kulkarni, shows that advertising volumes in key categories such as print, television, radio and outdoor has declined sharply during the period this year over last year. Kulkarni attributes the decline to smaller companies opting not to advertise in a slowdown. He also says that larger companies are rationalising their ad spends. Half-page ads, he says, have doubled in terms of rate of growth year-on-year, while full-page ads have declined by 18 per cent and small ads have fallen by 28 per cent from a year ago in print. COMPILED BY VIVEAT SUSAN PINTO

AMOUNT OF AD SPEND RIDING ON FESTIVE SEASON ANNUALLY (₹ cr)



75% of total festive advertising done between August and October

DECLINE IN AD SPEND BY VOLUME IN AUG-OCT 2019 (% YoY growth)

Print	-12
TV	-6
Radio	-20
Outdoor	-8
*Digital	15

Digital's rate of growth between August and October 2019 has halved

DECLINE IN PRINT FESTIVE AD VOLUMES (% YoY drop)

Col cm	-11.60
No. of ads	-12.20

Col cm stands for column centimetre

DECLINE IN TV FESTIVE AD VOLUMES (% YoY drop)

Duration	-20.0
Frequency	-17.0

Analysis: Shripad Kulkarni; Data: TAM AdEx; BARC

Homecoming costs Mittal ₹49,670 cr

ISHITA AYAN DUTT
Kolkata, 17 November

When ArcelorMittal in October last year revised its bid for debt-laden Essar Steel to ₹42,000 crore, steel prices in the domestic market were peaking, with the benchmark hot-rolled coil price hovering close to ₹46,000 a tonne.

Thirteen months later as the cloud over the deal is clearing, prices have tumbled by close to 25 per cent.

In February last year, when the world's largest steel maker threw its hat in the ring for Essar, steel prices were at ₹43,000 a tonne, much higher than its current level of ₹34,000-35,000 a tonne, and the bid amount lower at ₹35,000 crore.

But the bid submission set off a chain of court battles and finally ended in a revised bid of ₹42,000 crore. In the interim, the steel cycle turned. Add to it, the ₹7,469 crore that Arcelor had to pay to become eligible for the bid under India's insolvency law, and it adds up to nearly ₹49,670 crore.

ArcelorMittal didn't comment.

Under the law, Arcelor had to pay ₹7,469 crore to the financial creditors of Uttam Galva Steels and KSS Petron — both defaulting firms — to be considered eligible for Essar Steel. At the time of paying the Uttam Galva debts, ArcelorMittal had said it was considering taking ownership of the company.

Under the Insolvency and Bankruptcy Code (IBC), a promoter of an insolvent company is not eligible to bid for another insolvent company.

"It's an expensive buy but getting an asset like Essar is virtually impossible. The asset is top of the line," said Ankit Miglani, promoter of Uttam Galva Steels.

According to Miglani, the additional payment on account of Uttam Galva and KSS dues was a painful cover charge to enter India. "Though I am grateful, it's not fair to ArcelorMittal."

ICRA Assistant Vice-President (corporate sector ratings) Ritabrata Ghosh, however, pointed out that Essar had an effective steelmaking capacity of 9.6 million tonnes.

"Even if the payment for Uttam Galva and KSS at ₹7,469 crore is loaded, the cost increases to around ₹50,000 crore. The per tonne cost of acquisition would be $730 per tonne, which compares favourably with Bhushan Steel at $886 per tonne and Bhushan Power (yet to be completed) at $925 per tonne," he said.

The high value of stressed steel assets also reflects the uncertainty of putting up greenfield projects in India, apart from the cost, which is $1 billion for a million-tonne capacity.

The acquisition, however, is being taken to a logical end at a time when ArcelorMittal, which produces around 5 per cent of global steel, has forecast a contraction in demand.

Arcelor reported a net loss of $539 million for the third quarter, which happened to be the second straight quarter in the red. According to reports, it had idled a series of plants in Europe and recently said it would retrench nearly 1,000 workers and shut down its Saldanha plant in South Africa, which has lost its competitive advantage.

Industry sources, however, pointed out that the Indian market was different. It is a growing market with a low per capita consumption of steel at 70.9 kg against the global average of 224.5 kg.

Sanak Mishra, who was chief executive officer of ArcelorMittal's India projects when it was still pursuing its greenfield plants, said in the past 50 years up to 2018, the Indian steel market had grown 17-fold compared with the growth of four times for the world, including China.

Even in the worst of times, steel demand is growing by 5-6 per cent, said Ghosh.

Mishra also added Essar's Hazira plant was a world-class asset. He had advised Essar Steel for a year.

The last two years have been good for Essar Steel. In 2018-19, Ebidta (earnings before interest, tax, depreciation, and amortisation) stood at ₹4,400 crore; in the first quarter of this year, it was ₹1,100 crore and in the second quarter ₹750 crore.

Essar has an effective steelmaking capacity of 9.6 million tonnes with a rich product profile.

High-margin plates produced by its plant are used in submarines. Additionally, it has a pellet-making capacity of 20 million tonnes, split over 8 million tonnes in Vishakhapatnam and 12 million tonnes in Paradip. Currently 6 million tonnes is operational in Paradip but last-mile funding would take it to 12 million tonnes.

The acquisition would immediately make the combine of ArcelorMittal and Nippon, the joint venture partner, the fourth-largest player in India. "Arcelor and Posco have tried for more than a decade to set up a steel plant in India. Greenfield projects come with their own sets of challenges," said Ghosh.

ArcelorMittal, however, will have to make capital expenditure once it takes over. Its resolution plan has indicated a capital expenditure plan of ₹18,697 crore, to be implemented in two stages over six years.

Ghosh, however, said the immediate capex requirement in the near term could be around ₹3,000 crore, which would help Essar bring down operating costs, start operations at the previously won Odisha iron ore mine, and fully operationalise the 12-million-tonne Paradip pellet plant.

Also, it would have to settle issues around the Odisha slurry pipeline. Sources indicated that it could extend the lease or a buyout was also possible if debts were paid. The pipeline's debts could be in the region of ₹2,000-2,500 crore.

STORYBOARD

SO FAR
₹42,201.77 cr resolution amount
₹7,469 cr dues on account of Uttam Galva Steels and KSS Petron

FUTURE
₹18,649 cr capex over six years
₹1,700-2,500 cr cost of acquiring slurry pipeline in Odisha if it decides to

FMCG, retail stand poles apart in Q3

Outlook for staples bleak, discretionary confident

VIVEAT SUSAN PINTO
Mumbai, 17 November

Companies selling everyday household items and discretionary products have differing points of view on performance of their categories in the October-December (Q3) period.

While the outlook remains bleak for staples or fast-moving consumer goods (FMCG) owing to unseasonal rains and slowdown in rural areas, consumer discretionary companies like multiplex players, food service operators, and fashion retailers remain confident.

Mohit Malhotra, chief executive officer, Dabur India, said, "This seems to be a long and protracted slowdown. Consumer incomes have gone down. There is a severe liquidity crunch in the market, coupled with unseasonal rains that have impacted farm incomes."

Malhotra was speaking to analysts last week when he gave his outlook for the future. But most other CEOs from FMCG companies endorse this view, saying these are challenging times for the market.

Sumit Malhotra, managing director, Bajaj Consumer Care, said, "The growth engine for the FMCG market used to be rural areas. However, for the first time, rural growth has been negative (in Q2). Urban has been outgrowing rural. And if this continues, we will see a long-term period of flat growth for the overall market in the coming quarters."

Research agency Nielsen has already lowered its growth forecast for the FMCG market in the October-December period to low single-digit from mid-single-digit in July-September.

Food service operators have a different story to tell though. Executives at Westlife Development and Jubilant FoodWorks, which run McDonald's and Domino's stores, respectively, said the month of October that coincided with the festive period was strong for them. The momentum has continued into November, they added, led by a focus on value meals and online deliveries.

Both players reported same-store sales growth (SSG) in the 5-7 per cent brackets in Q2 in an otherwise weak market. The trend was no different for multiplex operators such as PVR and Inox who reported strong double-digit growth in footfalls in Q2, increasing box office as well as food and beverage revenues in the period.

Fashion retailers such as Brand Factory, Pantaloons, Central, and Westside, too, saw SSG in Q2 in the region of 6-14 per cent, the highest in three quarters. However, Shoppers Stop and V-Mart saw a weak SSG in Q2. According to experts, this happened because of Shoppers Stop's strategy shift and V-Mart's small town focus affecting growth.

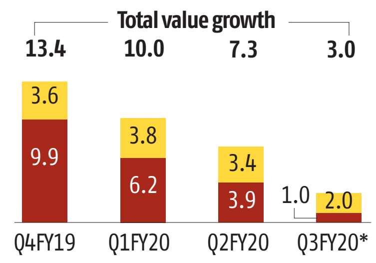
"During a slowdown, people escape from hardship, watching movies or shopping for low-ticket discretionary items. This explains why the multiplex operators have done well in Q2, so do the food service operators and fashion retailers, who focus on affordable wear," said Abneesh Roy, executive vice-president, research (institutional equities), Edelweiss. "I see these companies continuing to do well in Q3," he said.

Amit Jatia, vice-chairman, Westlife Development, said, "There was a concerted strategy by us to understand what we could do to ride out of the slowdown. So, the emphasis was on value meals through our McSavers programme. We also focused on different day parts such as mornings and evenings with breakfast and evening meals, improving sales growth."

Ashish Dikshit, managing director, Aditya Birla Fashion and Retail, which runs the Pantaloons chain, said, "The fundamental shift from unbranded to branded wear remains. Fashion retailers have also improved their go-to-market strategies, using both online and offline channels to drive sales. All this is contributing to growth in the market."

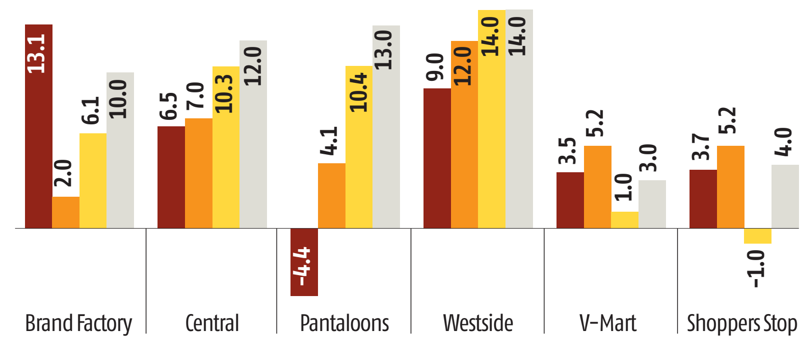
Most fashion retailers have also launched labels in the October-December period, targeting mass as well as premium consumers. Some have refurbished their stores to lure consumers. Multiplex operators have a strong line-up of films in Q3 to keep the pace of growth going.

FMCG MARKET DOWN...
% Growth rate (YoY)



*Estimated figures Source: Nielsen/industry

RETAIL MARKET UP...
SSG of key fashion retailers (% growth rate YoY)



Estimated figures; Source: Analysts; SSG is same-store sales growth

MMT raises focus on homestay segment

NEHA ALAWADHI
New Delhi, 17 November

To compete in a growing market, online travel agency MakeMyTrip is raising focus on its homestay segment, as more and more group travellers prefer booking such accommodations on a holiday.

Classified as 'Villas and Apts' (villas and apartments) on the MakeMyTrip (MMT) platform, the firm has around 170,000 properties listed globally, of which 20-25,000 are in India. This number is likely to increase.

"We're seeing one or two mega trends in the (travel) market. One or two big vacations are being replaced by four smaller vacations. And, the profile of travellers is becoming wider. It is no longer young people but also senior professionals, women solo travellers and so on. Therefore, the choice that customers are demanding is becoming wider," says Vipul Prakash, chief operating officer.

A growing number, millennials in particular, is looking for alternatives to hotel bookings when planning a holiday

Sometimes, he adds, the reason to choose a homestay over a hotel could be economics. Instead of booking, for example, two rooms for a family of six, people prefer booking a more luxurious villa or apartment that they can have to themselves and also pay much less.

MMT has to ensure that basic security and cleanliness are provided by a homestay. Other amenities can be discussed by the traveller with the person booking the accommodation directly. "We try to provide as honest an assessment of what the property facilities are...but, as you are looking at a property or homestay, you can directly reach out to the host through the app and have your questions answered," explains Prakash.

Last month, a survey by the Gurugram-based entity had 48 per cent of the 3,000 respondents saying they were most likely to book alternative accommodation — villas, apartments, homestays, hostels, cottages, farm stays — for their next trip. The trend is led by millennials (roughly, those born between 1981 and 1996), who show higher propensity for doing this. While US-based Airbnb clearly leads the homestay segment, the other big player in online travel, Booking.com, has also been adding alternative accomodations to its listings.

'Golden age' for India's civil aviation sector: IndiGo chief

With strong fundamentals, India's civil aviation sector is in its 'golden age' and there is also healthy competition among domestic carriers, IndiGo CEO Ronojoy Dutta (*pictured*) has said. Interestingly, the country's civil aviation sector has been experiencing lower growth in traffic compared to previous years and there has also been softness in fares in October, according to industry experts. The traffic grew just 1.18 per cent in September, as per the latest available official data. IndiGo, owned by InterGlobe Aviation, is the country's largest airline with a market share of 48.2 per cent in September. While acknowledging that there are problems, including high taxes on jet fuel, Dutta said there are huge opportunities going forward. PTI

Essar Steel, Adani, GAIL, HPCL buy bulk of Reliance gas

Essar Steel, Adani Group and state-owned GAIL have bought majority of natural gas from Reliance Industries' newer fields in the KG-D6 block at an indicative price of $5.04 - 5.16 per unit, sources said. Essar Steel picked up 2.25 million standard cubic meters per day or about half of the available volumes in the day long auction conducted on November 15. PTI

NCLAT rejects PepsiCo plea for release of its machinery

The National Company Law Appellate Tribunal (NCLAT) has rejected the plea of Pepsico India seeking release its machinery from Oceanic Tropical Fruits, which is under the insolvency process. Pepsico had moved the NCLAT against the order passed on May 28 by the Chennai Bench of the NCLT denying permission to PepsiCo to take back its machinery that was lying at Oceanic Tropical Fruits. PTI

Signature Global to invest ₹400 cr in 2 housing projects

Realty firm Signature Global on Sunday said the firm would invest ₹400 crore to develop two affordable housing projects in Gurugram under a Haryana government scheme. The Centre has reduced GST on affordable housing to 1 per cent only and is providing an additional deduction of 150,000 on interest paid on home loans under income tax law for flats priced up to ₹45 lakh, as part of its efforts to boost property demand. PTI

Kia to expand sales network to over 300 touchpoints

Auto major Kia Motors plans to expand its sales network to over 300 touchpoints in India by the end of the current financial year, as it looks to bolster presence in areas where it is not that well represented currently, a senior firm official said. The firm aims to add sales outlets in smaller cities in order to be nearer to its prospective customers. This would also help the firm rake in additional numbers as it readies to drive in its second product in the country in February. PTI

'Home prices will remain flattish for another year'

Godrej Properties has lined up over a dozen new housing launches and wishes to buy distressed projects from other developers. **PIROJSHA GODREJ**, chairman, tells **Raghavendra Kamath** the company is following a counter-cyclical strategy when the realty sector is going through a prolonged slowdown. Edited excerpts:

You recently talked about scaling up the business and increasing the market share. How do you plan to do that?

More than half the real estate market in the country is in four cities we are in — Mumbai, Pune, NCR (National Capital Region) and Bengaluru. The market is so fragmented, with 10,000 developers in the country; individual developers' share is very small. Our main goal is that in the four cities we are in, we want to add more projects in micro markets and, by doing that, take up our market share. We don't want to do it by entering new cities.

Any tweaking in your borrowings or finances in the one and a half years since the IL&FS issue came to the fore?

We are seeing it for the opposite side because for most players in the industry, the cost of funds have gone up and the ability to raise it has been challenging. But, our cost of funds has been the same, at eight per cent. We believe it is an opportunity to grow the company, to take over projects from other players. We have strengthened the balance sheet to do that. We did a QIP (Qualified Institutional Placement) in the first quarter of the year and raised ₹2,100 crore. It was to gain the firepower and acquire new projects.

You talked about investing ₹5,000 crore in the next two years. Could you tell us more?

It is a logical thing we believe. Real estate is a cyclical industry and adjusting the supply of projects is not very easy, unlike in manufacturing. In real estate, you have to buy land, design the project, get all government approvals and launch these, and so on. When things are good, many developers launch projects and you get into a position of oversupply. When things are bad, like now, you can't get into oversupply — the number of developers launching new projects is almost zero, as they are sorting out their own financial problems, liquidating assets and so on.

In our view, that counter-cyclical investment strategy when others are not investing makes a lot of sense. When a sector is going through a bad period, it is not so bad for companies which have a good track record. The absolute growth and market share of the top ten players is quite decent.

What are you doing to get buyers who are sitting on the fence?

We have been realistic on pricing. The markets are not in a state to absorb price rises. We are trying to enter the right projects, avoid markets with oversupply and maintain appropriate pricing.

Are you looking, in the current market condition, to change the perception that you are a premium developer?

Project by project, we always look at what is the right pricing but, at the same time, we would like to be at a premium to the market. With the kind of brand we are, the investments we are doing, the quality and so on, we do believe there should be some premium for our projects.

How many new launches in the remainder of the year?

Thirteen, fourteen. It includes new projects and new phases in existing projects.

That would be the highest in the history of the company?

Yes.

Your take on the fund announced by the central government for stalled projects?

I don't think the fund is so large that it will change the situation overnight. Of course, ₹25,000 crore is a good amount of money. But, at the same time, Godrej Properties' sales in the past four-five years would be that much. If you look at the market as a whole, it is not that much. Even so, the government has taken a good step. A lot of customers are suffering out there and it is important that the sector is brought back to life.

Do you think the real estate market will go from bad now to worse?

It is going to be worse before it gets better. It will be six to 12 months before it bottoms out.

Has the liquidity scenario for developers in general improved, after the NBFC liquidity crunch?

No, it is still pretty bad. The economy is going through a tough patch and until that starts showing some signs of recovery, the sector will not come out of problems . You cannot de-link the sector from the economy.

Where are housing prices headed?

Prices have been quite flattish for 12 months. My sense is that it will continue to be flattish for another 12 months. After that, if my expectation of the market going up is correct, volumes and prices would move up.