

SECTOR WATCH

CONSUMPTION DEMAND

New sales strategy to ride out downturn: Premium products in stripped-down versions

From cars & two-wheelers to durable and fast-moving consumer goods

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FACED WITH the trend of consumers tightening their purse strings amid the downturn, manufacturers and sellers of goods from cars and two-wheelers to durable and fast-moving consumer goods are banking on a novel strategy to keep sales ticking: offer stripped-down, affordable versions of aspirational goods such as SUVs, high-powered motorcycles and air-conditioners, among others.

In the consumers goods section, Godrej Appliances, the consumer durables division of the Godrej group, has identified an opportunity in the cooling solutions segment that has opened up on account of an increase of Rs 5,000-Rs 6,000 in the prices of entry-level air conditioners.

The company has entered the desert cooler segment with a premium product particularly aimed at a consumer looking to spend less than what an entry-level air-conditioner costs, with added cost savings on electricity bills too.

Pune-based two-wheeler manufacturer Bajaj Auto launched a 125-cc variant under its sports motorcycle brand Pulsar in August. Bajaj Auto executives have said that the rationale behind launching a stripped-down version of its premium brand Pulsar—that typically has engine capacities of 150 cc and above—was to offer a product to people who were discouraged to spend on heavy bikes that cost over the Rs 80,000-mark.

India's largest carmaker Maruti Suzuki (MSI) in September entered a new mid-market category — mini SUV — with compact car S-Presso that aims to cash on consumers that aspire to purchase a compact sport utility vehicle (SUV) but are only willing to spend enough for a small car.

According to MSI's senior executive director (Engineering) CV Raman, the S-Presso's design language was inspired from the company's line-up of SUVs. The car also boasts of high-end features such as ventilated front seats, sunroof, 360-degree parking camera, dual-tone interiors, despite it being offered at an aggressive price starting Rs 3.69 lakh ex-showroom Delhi.

Additionally, looking to tap the second-hand car market at a time when new car sales showed sluggishness, MSI increased its used-car dealership network by a fifth over the last six months, primarily to tap into the surge in demand for second hand cars.

Its True Value network rose from 200 to 250 independent showrooms across 151 cities in India between March and August 2019. True Value has sold over 8 lakh units since its launch in 2017, with Alto,

FMCG COMPANIES CUT TICKET SIZE

■ Unlike their durable goods counterparts, fast-moving consumer goods (FMCG) companies have depended on the tried and trusted strategy to reduce ticket size of their products to make them more affordable

WagonR and Swift being the most popular models. True Value's average buyers are in the 25-45 years age group.

Godrej's launch of the air-cooler — priced at around Rs 19,900, claiming it is loaded with an AC's inverter technology to provide better cooling with lesser energy consumption—is aimed at the AC buyer who might have deferred the buying decision.

"After the transition from the fixed-speed energy regime to the variable-speed energy regime in air conditioners, we have seen prices of entry-level air conditioners move up by Rs 5,000-Rs 6,000. Therefore, consumers who were looking for air conditioners in that price bracket found them to be unaffordable. Because of the price of entry-level ACs moving up, a large chunk of customers are actually looking at cooling solutions of lesser cost and lesser budget and therefore, cooler as a category is growing very fast," said Kamal Nandi, business head & executive vice president, Godrej Appliances.

"We know that the energy regime for ACs is going to get tighter year after year and as it gets tightened, price of ACs will keep on moving up and entry-level consumer of ACs will fall back on a solution that is less expensive but can provide comfort level that is, if not equal, somewhat better than a fan," he said.

Nandi, while optimistic about the home appliances market in India in the long term, told *The Indian Express* that the company was planning more such products targeted at a consumer deferring purchases due to reduced purchasing power.

Unlike their durable goods counterparts, fast-moving consumer goods (FMCG) companies have depended on the tried and trusted strategy to reduce ticket size of their products to make them more affordable.

For example, over the last year, Dabur India introduced a smaller packaging of its beverage under the Real Koelerz brand, a 30 mL packaging of Dabur Amla hair oil, and a smaller pack of its Babool-brand toothpaste, all priced at Rs 10.

AIMED AT IMPROVING TRANSPARENCY AND GOVERNANCE

Sebi panel proposes overhaul of related party transaction norms

ENSECONOMIC BUREAU
MUMBAI, JANUARY 27

THE COMMITTEE set up by the Securities and Exchange Board of India (Sebi) on related party transactions (RPTs) has proposed sweeping changes to strengthen the monitoring and enforcement of norms and bring in more transparency and improve governance.

The panel was constituted amid allegations that many companies in the corporate sector are indulging in rampant RPTs. The panel has said that a related party should be any person or entity belonging to the promoter or promoter group of the listed entity. Besides, any person or any entity, directly or indirectly (including with their relatives), holding 20 per cent or more of the holding in the listed entity should also be considered as related party.

The Sebi committee has also proposed changes to the process followed by a company's audit committee for approval of RPTs that are material. Further, a format for reporting of RPTs to the stock exchanges has been mooted.

The capital markets regulator, in November 2019, constituted a Working Group to review the policy space pertaining to RPTs under the chairmanship of Ramesh Srinivasan, managing director and CEO, Kotak Mahindra Capital Company. Many firms which defaulted on bank loans were found to have indulged in related party deals to siphon off funds.

AUDIT COMMITTEE APPROVAL PROCESS CHANGED

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The panel recommended that prior approval of the audit committee of the listed entity should be mandatory for transactions carried out between the listed entity or any of its subsidiaries with a related party. "The materiality threshold should be amended to 5 per cent of the annual total revenues, total assets or net worth of the listed entity on a consolidated basis or Rs 1,000 crore, whichever is lower," it said. It also said the net worth criterion should not apply to companies with negative net worth. Further, companies can specify a lower materiality threshold as per their RPT policies.

Generally, RPT means a transaction involving a transfer of resources, services between the listed entity or its subsidiaries on the one hand and a related party of the listed entity or its subsidiaries on the other hand.

Transaction between listed entity or its subsidiaries and any other entity which is aimed to benefit a related party should be considered as a RPT.

The Working Group noted that the current RPT regulatory framework may be insufficient to cover transactions where the listed entity could transfer its assets/value to a subsidiary, whether in India or overseas, and such entity could then transact with the related parties of the listed entity to move the assets out of the consolidated entity. "It is of significance that the need to regulate the consolidated entity as a whole was also recognised specifically in the report of the Kotak committee on corporate governance."

Several listed entities in India operate through a network of entities — where some companies have over 200 subsidiaries, step-down subsidiaries, associates, and joint ventures.

While investors hold direct equity only in the listed holding company, they have valued the entire business structure at the time of investment. Therefore, it is important for boards to ensure that good governance trickles down to the entire structure.

Sensex loses 458 pts as China virus outbreak hits global markets

ENSECONOMIC BUREAU
MUMBAI, JANUARY 27

BENCHMARK SENSEX on Monday plunged 458 points as investor fears grew across the world over the fast-spreading coronavirus outbreak that has killed over 80 people in China.

Meanwhile, the rupee weakened by 10 paise to close at 71.43 against the US currency on Monday, extending losses for a third straight session, as the coronavirus outbreak stoked fears about more trouble for global economy. The domestic currency has lost 24 paise in the last three

EXPLAINED

Lower tax mop-up, growth concerns affect sentiment

INDIAN MARKETS opened gap down due to unsupportive global cues and increasing concerns about coronavirus. The selling intensified primarily in the large cap segment as sentiment remained muted on the back of news that India's corporate and income tax collection for the current fiscal is likely to fall for the first time amid a sharp fall in economic growth and cut in corporate tax rates.

trading sessions. With the Union Budget just

five days away, the BSE Sensex plunged 458.07 points, or 1.10 per

‘Budget may see stimulants to boost consumer demand’

Finance Minister Nirmala Sitharaman's first full-year Budget could give short-term stimulants to boost consumer demand, and such steps will get a positive response from markets, Bank of America Securities said

GROWTH AT DECADAL LOW OF 5%: The FM will place the Budget proposals on Saturday and all eyes are set on any measures to revive economic growth that may slide to a decadal low of 5 per cent for FY20

NO ROOM TO FOREGO REVENUE: The tax cuts will be small as percentage of GDP because the government cannot afford to forego revenue

RISKS OF CYCLICAL SLOWDOWN TURNING STRUCTURAL: If the government fails to take the necessary measures, the current cyclical growth slowdown can turn into a structural one

SHORT-TERM STIMULUS NEED OF THE HOUR: Social spends are essential for the long term, but a short-term demand stimulus may be needed to prevent a cyclical slowdown from turning into something structural

POSSIBLE CHANGE IN INCOME TAX STRUCTURES: There is also a possibility of changes in personal income tax structures, where relief to the low income earners can result in a push to growth

MARKET TO KEEP EYE ON TAXATION ANNOUNCEMENT: The market will be keenly watching for action on two specific measures on the taxation front, including companies and individuals, which may include:

- Changes to long-term capital gains tax framework to reduce tax liabilities
- Reduction in securities transaction tax and dividend distribution tax

Source: Bank of America Securities/PTI

NEXT LEG OF REFORMS IN BUDGET

Power Min: UDAY not a failure ... new scheme will bring down losses

ENSECONOMIC BUREAU
NEW DELHI, JANUARY 27

UDAY, THE NDA government's reform scheme to revive electricity distribution companies (discoms) in the country, has not failed, Power Minister RK Singh said on Monday. The next leg of reforms aimed at improving the financial health of discoms is likely to be announced in the upcoming budget, the minister added.

"We have solved the problem of access. We have also, over the years, improved the availability of power. Today, the average duration for which power is available is about 23-24 hours in most big cities, maybe 20-22 hours in the smaller cities and, in the villages, it would be about 18-20 hours," said Singh, during the listing ceremony of the Power Finance Corporation's \$750-million international bond at the NSE.

"But this does not satisfy us. We have kept a target with the states that we will endeavour to give 24/7 supply, not only in the cities ... but also in the villages," he said, adding that the Power Ministry's next target is to make discoms more viable.

"In that also we have made progress, contrary to what people say, UDAY was not a failure," said Singh, adding, "We've brought down the losses from 22 per cent to 18.79 per cent ... and we'll bring it down to below 15 per cent. That is our target for which we are coming out with a new scheme."

The Power Ministry has had

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RK SINGH
UNION POWER MINISTER

discussions with the Finance Ministry, said Singh on the sidelines of the event, adding that he was "optimistic" that the new scheme would find a place in the Budget. The new scheme is expected to include elements of all of the earlier schemes. "So, now there will be only one scheme from the Ministry of Power and that scheme has a conditionality," the minister said.

He further said that discoms will be mandated to work out the trajectory for loss reduction. "The funds under the scheme will only be released if that trajectory is adhered to."

"We are providing, in that scheme, for assistance for reduction of losses. Now, that assistance will be in terms of technology, in terms of modern equipment so as to help them to reduce the losses," Singh added.

Under UDAY, launched in 2015, state governments took over 75 per cent of the debt of discoms, issuing lower-interest bonds to service the rest of the debt, with the aim of reviving ailing state power distribution companies and making them operationally as well financially efficient.

als bore the brunt of the selling. Except for select pharmaceutical stocks which held fort and gained, the broader markets traded weak with the Nifty losing 129 points." The deadly virus, which causes pneumonia-like illness, has already killed 80 people and infected over 2,700 others in China.

According to Vinod Nair, head of research, Geojit Financial Services, growing catastrophic effect of coronavirus is impacting the world financial market, raising fears of a slowdown in the global economy.

"The Nifty index traded in the negative zone throughout the session and ended lower by 1.1 per

cent," said Ajit Mishra, vice president—research, Religare Broking.

Tata Steel lost 4.31 per cent, followed by IndusInd Bank, HDFC Bank, SBI, Power Grid and HDFC. In the Sensex pack, 21 ended in the red and nine in the green. In contrast, M&M, UltraTech Cement, Tech Mahindra, ICICI Bank and Axis Bank rose up to 1.63 per cent. Sectorally, BSE metal index crashed 3.25 per cent, followed by telecom, power, finance, bankex and FMCG indices.

On the other hand, healthcare index emerged as the sole gainer. The broader BSE midcap slipped, while smallcap index closed marginally higher.

Crude prices slide 3%, touch three-month low

REUTERS
NEW YORK, JANUARY 27

CRUDE PRICES dropped 3 per cent to three-month lows on Monday as the death toll from China's coronavirus grew and more businesses were forced to shut down, fuelling expectations of slowing oil demand.

Brent crude was down \$1.77 a barrel, or 2.9 per cent, at \$58.92 at 11 a.m. EST (1600 GMT). US crude was down \$1.51, or 2.8 per cent, at \$52.68 a barrel. Both benchmarks had earlier fallen by more than 3 per cent and were at their lowest since October.

Global stock exchanges, which oil tends follows, also sank as investors grew increasingly anxious about the widening crisis. Demand spiked for safe-haven assets, such as the Japanese yen and Treasury notes.

The death toll from the coronavirus rose to more than 80 and the Chinese government extended the Lunar New Year holiday to February 2, trying to keep as many people as possible at home to prevent the virus from spreading further.

Saudi Arabia and the United Arab Emirates, allies in the Organization of the Petroleum Exporting Countries (OPEC), tried to play down the impact of the virus on Monday, with Riyadh, the de-facto OPEC leader, saying the group could respond to any changes in demand.

An OPEC source said there were "preliminary discussions" among OPEC+ for an extension of the current oil supply cuts beyond March, and a possible deeper cut was also an option, if there was a need, and if the China virus spread impacted oil demand.

Dollar, yen strengthen as Chinese virus toll rises

REUTERS
NEW YORK, JANUARY 27

THE US dollar index, the Japanese yen and the Swiss franc rose on Monday morning, while the offshore yuan tumbled to a 2020 low as growing fears about the spread of a coronavirus from China pushed investors into safer assets.

While safe-haven assets have strengthened, currency moves were limited. The yen was the main beneficiary, up 0.3 per cent to 108.94, although it remained well below the peak hit on January 8. The dollar index was up 0.07 per cent, last at 97.925. The Swiss franc was up 0.19 per cent to 0.969

per dollar.

The offshore yuan shed as much as 0.9 per cent to 6.99 per dollar, its weakest since December 30. The yuan has gone into a tail-spin since it rallied to a five-and-a-half month high earlier in January. The dollar has gained over 2 per cent versus the Chinese currency since last Monday.

The Australian dollar, which is exposed to the Chinese economy, dropped 0.88 per cent to \$0.677, its lowest since December 2.

Traders said low liquidity could exacerbate market moves.

The euro fell to a two-month low against the yen of 119.90 yen and was last 0.3 per cent lower on the day to 120.08.