Buckle up to pay more for BS-VI cars

Higher import duty on catalytic converter, an essential component to control toxic emissions, is likely to increase the burden

ARINDAM MAJUMDER
New Delhi, 9 February

A hike in import duty for auto components is likely to increase the burden for the ailing auto industry, which is looking to reverse a one and half year-long slowdown in sales.

Automobile industry executives said they were baffled at the government decision to hike the import duty on catalytic converters and various parts and metals that go into making these.

Industry sales have sagged for about 18 months and prices are anyway rising with the compulsory nationwide switch to the stiffer BS-VI emission standards by April 1. The move on converters will make these costlier still.

The duties on converters have been raised by 5-7.5 per cent. The government has levied a similar hike on duty for ceramics, stainless steel, and other metals used to build the converters.

ROUGH RIDE

- The govt has raised duties on converters by 5-7.5 per cent
- Siam says vehicle price will see an average increase of 10%
- Price rise due to conversion from BS-IV to BS-VI will delay demand revival
- Industry sales have sagged for 18 months and prices are rising with switch to the stiffer BS-VI emission standards by April 1

"I don't even understand why. These materials are not much available in India. It will lead to a cost increase of the product for end-customer," Kenichi Ayukawa, managing director (MD) at India's largest carmaker, Maruti Suzuki, told *Business Standard*.

A catalytic converter converts the toxic emissions from vehicles into a less toxic form.

The price increase due to conversion from BS-IV to BS-VI was already worrying industry executives. They are feeling it would further delay a revival in demand. According to industry body Siam, the price of vehicles will see an average increase of 10 per cent due to the transition.

"We're going into BS-VI right now, and BS-VI has a much larger content of many of the parts on which duty was raised, which will increase the BS-VI cost further, when we're already concerned about the cost of BS-VI vehicles," Pawan Goenka, MD at Mahindra & Mahindra had said.

Tata Motors Chief Executive Guenter Butschek spoke likewise. "Any increase in the price of raw materials will have an impact on the overall price. The industry is going to face the need of a price adjustment," he said. "To improve fuel efficiency, we need those materials. Unfortunately, those are not produced in India and we are dependent on import," said Ayukawa.

Such tariff hikes go against the call in the recent Economic Survey by Chief Economic Advisor K Subramanian.

He'd cited the case of Maruti Suzuki and said automobile firms graduate up the production value chain by first starting with low-technology operations such as assembly and then graduate to manufacturing of own components.

"In the process, import of components increase in the short run. Following a policy of import substitution right from the outset does not enable the process of graduation up the production value chain," the Survey had said.

India Ratings revises auto sector outlook to negative for FY21

PRESS TRUST OF INDIA
Mumbai, 9 February

It is set to be a long haul for the auto sector that has already been riding through its worst slump in two decades, with demand, that has so far plunged 16 per cent, unlikely to pick up even next year, according to a report.

Ratings agency says it expects 'flat-to-low' pick-up in volume in the next financial year amid weak sentiment

The 3 million-plus-units domestic auto industry has seen volume plunging over 16 per cent as of December-end, with some of the segments performing even worse.

The past two Union Budgets have given little respite to the sector that is very critical to generate employment. Instead, lakhs of jobs have already been lost in the industry, including its allied segments, since the past 18 months or so. Expecting very low pick-up in volumes given the lingering growth pangs of the overall economy and other macroeconomic headwinds, India Ratings has revised downwards its outlook on the sector to negative for 2020-21 from stable, as it expects "flat-to-low pick-up in volume in FY21".

Amid the weak consumer sentiment and an uncertain regulatory environment, including for the e-mobility push, limited credit availability and increased cost of ownership after BS-VI implementation from April will add to the already negative consumer sentiment.

IN BRIEF

Foreign borrowings of Indian firms down 45% to $2 billion

Foreign borrowings of Indian companies fell over 45 per cent to $2.09 billion in December 2019, as compared to the year-ago period, according to the Reserve Bank of India data. Indian companies had raised $3.81 billion in December 2018, which included $37 million through issuance of masala bonds. Of the total money borrowed by domestic companies during December 2019, $1.2 billion was through the automatic route of external commercial borrowing (ECB) and $840 million via approval route of ECB. PTI

Audi plans to offer lifestyle services to customers in India

German luxury carmaker Audi is gearing up to become a service provider as well, offering a host of premium lifestyle services to its customers, according to a top executive of the firm. The company is working to develop further on the concierge services that it offers to its car buyers. PTI

DLF targets ₹5K-cr revenue from sale of Haryana units

Realty major DLF is eyeing around ₹5,000-crore revenue over the next two years from sale of independent floors in Gurugram and Panchkula in Haryana. DLF plans to construct 7 million sq ft area of independent floors on its existing plotted inventory, the company said in an investors presentation. PTI

Brace for long queues at metro airports for 3 more years: Report

Given the slow progress on the ongoing ₹38,000-crore capacity expansion at the four largest metro airports, and also the surging traffic, the snaky queues will continue at least till 2023, warns a report. The four largest airports handle more than half of the traffic and are operating at 130 per cent of their installed capacity. PTI

RINL conducts hot trial of forged wheel line at Raebareli unit

State-owned Rashtriya Ispat Nigam (RINL) on Sunday announced successful hot trial of forged wheel line at its plant in Uttar Pradesh's Raebareli district. RINL has set up a plant in Raebareli at a cost of ₹1,680 crore with a production capacity of 100,000 pieces of forged wheels per annum. "RINL today successfully conducted the hot trial of forging line at its forged wheel plant at Rae Bareily, Uttar Pradesh," the company said. PTI

Maruti banking on petrol variants to make up for loss

India's largest carmaker Maruti Suzuki India is banking on introduction of petrol variants of existing models such as the Vitara Brezza, besides exploring more CNG options to make up for lost numbers as it discontinues diesel options while moving to BS-VI emission norms. The company is also gearing up to bring petrol version of its S-Cross model. PTI

Pure EV launches electric scooter 'EPluto 7G'

Pure EV on Sunday launched its High Speed Electric Scooter 'EPluto 7G'. V K Saraswat, member, NITI Aayog, G Satheesh Reddy, chairman, DRDO, and Professor B S Murty, director, IIT Hyderabad, launched the vehicle, a company release said. PTI

Arcelor-Nippon bullish on India despite slump

ISHITA AYAN DUTT
Kolkata, 9 February

The India story may have slowed, but for global steel majors ArcelorMittal and Nippon Steel (AM/NS India), that have invested ₹50,000 crore in Essar Steel, it remains a bright spot.

"On a medium-to long-run basis, the growth story is intact," said Aditya Mittal, president, ArcelorMittal as well as group chief financial officer (CFO) and chief executive officer (CEO), ArcelorMittal Europe, during the group's earnings call.

Aditya, who is also chairman of AM/NS India, was responding to questions from analysts on the Essar Steel acquisition and when the joint venture would actually generate a cash return for shareholders.

Mid-December, ArcelorMittal and Nippon Steel jointly completed acquisition of Essar Steel under the insolvency law.

The joint venture — 60 per cent held by ArcelorMittal and the balance by Nippon Steel — was renamed AM/NS India.

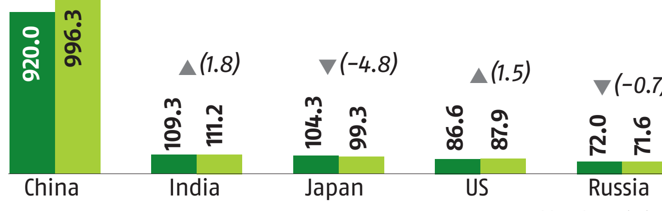
The growth story that Aditya was referring to, was that of India's. "I know the headlines around India was negative, such as automotive demand declining sharply. But apparent steel consumption in India actually grew by about 4 per cent in 2019, and we believe it will grow even stronger in 2020," he said.

He said, "In terms of how you should think about it, it's all a deleveraging story. It's a story in which we want to grow as the market grows in India and capture the value that is created. And so, I would think of it as value that is embedded in ArcelorMittal in owning a 60 per cent equity interest in a world-class facility in the world's fastest-growing steel market," Mittal said.

On whether it is a cash or growth story for ArcelorMittal shareholders, he said, "Every story has cash at the end."

"Do you take the cash and return to shareholders? Or do you take the cash and invest in growth? And, as long as the growth story remains intact, the focus would be to invest to grow the business," he added.

TOP STEEL PRODUCING COUNTRIES (mn tonnes)



Source: Worldsteel Association

What may have reinforced his belief is AM/NS's performance which has exceeded ArcelorMittal's expectations. "We visited it in December again and have been in constant touch with the team. And, everything we have seen has impressed us. The company is on the right track," he said.

In January, AM/NS India set production records run rate at 7.4 million tonnes. That's an increase of 40 per cent since the time it was doing due diligence for acquisition towards the end of 2017. The increase was achieved with minimal capital expenditure.

The run rate earnings before interest, taxes, depreciation, and amortisation (Ebitda) is $600 million, which is higher than the December figure.

Nippon Steel, too, in its investor presentation on Friday, said, it expected AM/NS India to be in the black from the first year. The total cash injection in the joint venture, Nippon said, was ₹50,000 crore, that is, ₹42,000 crore for repayment of Essar's existing debt as well as ₹8,000 crore for initial working capital, including capital expenditure. The investment is in the ratio of the holding in the joint venture.

Nippon has said it would make strategic investments in growing business fields and regions and that includes Essar Steel India. This comes at a time when Nippon intends to accelerate the reorganisation of or withdraw from unprofitable overseas businesses with no prospects of a future profit recovery.

Nippon said on Friday that it would shut nearly 10 per cent of its production capacity and was expected to book a record loss of 440 billion yen ($4 billion) this financial year.

The steel major said it had been facing unprecedented harsh conditions in which steel demand from the manufacturing industry had decreased and steel prices stagnated, prompted by the US-China trade disputes. Additionally, Japan has been facing a declining and aging population.

In 2019, Japan recorded a decline of 4.8 per cent in production. Among the top 10 producing countries, in fact, most recorded a decline except the US which grew at 1.5 per cent, India at 1.8 per cent, China at 8.3 per cent and Iran at 30 per cent.

'Never copy-only create made Cartier stand out'

FRANCESCA CARTIER BRICKELL, the sixth-generation descendant of Louis-Francois Cartier, recently authored the book *The Cartiers: The Untold Story of the Family Behind the Jewelry Empire*. The Oxford graduate spoke to **Pavan Lall** about the insights on the business of brands and luxury during independent research she undertook while working on her publication. Edited excerpts:

The name Cartier is eponymous with luxury and pedigree – were the family's early beginnings any different?

Actually, the first generation was very much the working class and its leaders didn't even have the money to go school. Part of any brand building is always about funds and the Cartier founder didn't have the funds to grow significantly. The next generation came along and managed to keep the firm afloat in difficult times. France by then was going through the Franco-Prussian war that of course impacted Paris. It was not the best time to run a jewellery business. By the time the third generation came along, they were well known in Paris, and had a good base.

When did the business pivot happen?

In the Carties' case, a few strategic marriages to the next generation of founders brought in funds to the family. The first and second generation had only one member each but the third generation had three members and that was fundamental to success. This is because they all shared the same ideology of the brand and because they all carved out the business in neat divisions. What worked for Cartier was that it was truly expanding across borders and had stores in New York City, London and Paris run by three brothers who had the same values. Therefore, Cartier was the same in all those three places. This was by 1910.

Your single most important advice for anyone building a luxury brand in reference to your own knowledge through research conducted on Cartier.

I don't think there can be one rule for any luxury company today but for Cartier, they knew what their values were all about. It was primarily the best is good enough, constantly innovate, and employ kindness at every level of business. I think it's the stories behind the pieces and the history that add extra meaning. Can a luxury brand only be built over time today? I can't speak for modern day brands but for the Cartiers, it certainly took several generations to build trust and its global reputation.

What in your view makes a jewellery brand truly exclusive?

My research highlighted three main elements – the creativity, craftsmanship and the business side. At Cartier, there was an absolute focus on the motto "never copy, only create."

Q&A

So, the company had to always innovate and the other part was focusing on the highest quality of craftsmanship. Craftsmen were kept at apprentice-levels for six or seven years. Others were made to sketch for as long as three years, before they worked on jewellery. There was a huge amount of training in the background that was happening which customers may not have known about.

Was there any hesitation to going downmarket in tough situations?

By Cartier's third generation of management, they actually entered the five-dollar department inventory business and didn't hesitate to sell silver spoons or champagne servers instead of sticking to the classic opulent diamond crusted pieces. Of course, those spoons would still be created by the best in the company with the best materials. The point was that they would do anything to keep clients coming into the door until needed. This was during the great depression of the 1930s.

What makes DMart tick? Ability to extract more from less, say experts

Firm's unit economics remain strong amid competitive intensity

VIVEAT SUSAN PINTO
Mumbai, 9 February

Avenue Supermarts, which runs DMart chain of stores in the country, will undertake its second round of fundraising this week after its qualified institutional placement (QIP) last week. The buzz that the over ₹4,000-crore QIP generated and its impact on stock price that touched a 52-week high on Thursday has put the company in the spotlight.

DMart is considered as one of the country's most efficient retailers, with gross and operating profit margins in the 15 per cent and 8 per cent regions, respectively. While peers such as Spencer's and Future Retail have better gross margins (between 21 and 27 per cent), operating profit margins are lower at 4-5 per cent, data from their financial results show.

Experts said Dmart's ability to extract more from less had been at the heart of its winning strategy.

On an annual basis, Dmart's FY19 sales per square feet stood at ₹37,045 versus Spencer's ₹17,139 and Future's ₹13,166, analysts Avi Mehta, Percy Panthaki and Kunal Shah from brokerage IIFL said.

This came even as DMart had a base of just 176 stores in the period under review versus Future's 1,511 stores and Spencer's 156 outlets, implying it was extracting significantly more from its retail business area than rivals, led by sharp discounts, more footfalls and greater inventory turns.

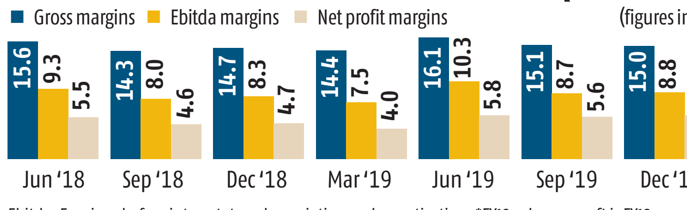
Reliance Retail, the country's largest retailer, was the only exception here, the analysts said, with FY19 sales per square feet at ₹66,000 against a store base of 10,415.

This came as the retailer pushed into tier-II, -III and -IV markets, improving reach and taking organised retail into smaller towns, a strategy that has allowed it to maintain its lead over rivals.

Same-store sales growth (SSG) for DMart has also been higher than its peers, experts said.

PHOTO: BLOOMBERG

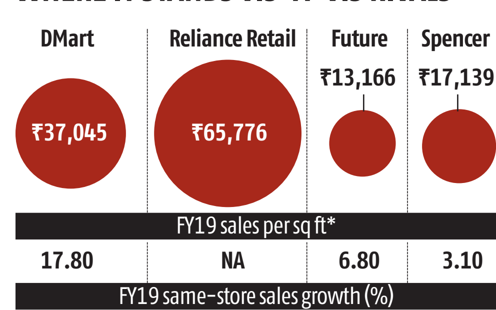
DMART'S MARGINS OVER THE LAST SEVEN QUARTERS (figures in %)

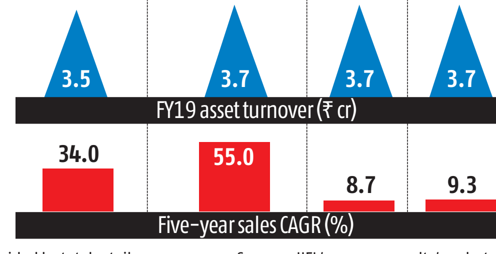


Ebitda: Earnings before interest, tax, depreciation and amortisation; *FY19 sales per sq.ft is FY19 revenue divided by total retail area

In FY19, Dmart's SSG stood at 17.8 per cent versus Spencer's 3.1 per cent and Future's 6.8 per cent, data from their financial results show. Reliance Retail's SSG for its overall retail operations was not available. It discloses SSG based on formats.

WHERE IT STANDS VIS-À-VIS RIVALS





Sources: IIFL/company results/analysts

Abneesh Roy, executive vice-president, research, institutional equities, Edelweiss, said DMart had also been tweaking its product mix and renegotiating pricing with its vendors to extract maximum efficiencies of scale.

"While food still gives DMart over 50 per cent of its revenue in recent years, the retailer has increased its general merchandise and apparels. This has improved the top line share from this segment," he said.

In FY19, for instance, food contributed 51.2 per cent to top line, general merchandise contributed 28.3 per cent while non-food contributed the rest at 20.5 per cent. Two years earlier (FY17), contribution of food was 53.7 per cent, general merchandise was 26.3 per cent and non-food was 20 per cent.

DMart has also maintained its aggressive discount policy amid stiff competition from offline as well as online retailers. The company said last week that it would utilise proceeds from the QIP to set up more stores and fight the competitive intensity.

The QIP and the offer-for-sale, which is expected this week, will also bring down promoter holding to 75 per cent from about 80 per cent.