

FMCG, retail stand poles apart in Q3

Outlook for staples bleak, discretionary confident

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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.

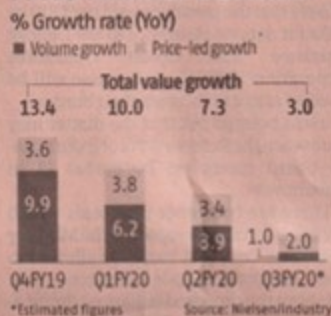
Sumit Malhotra, managing director, Bajaj Consumer Care, said, "The growth engine for the FMCG market used to be rural areas. However, for the first time, rural growth has been negative (in Q2). Urban has been outgrowing rural. And if this continues, we will see a long-term period of flat growth for the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



FMCG MARKET DOWN...

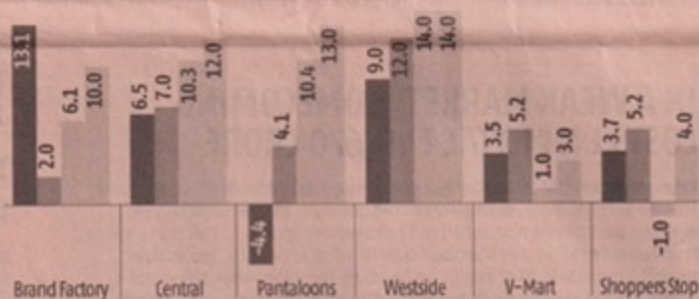


RETAIL MARKET UP.....

SSG of key fashion retailers (% growth rate YoY)

■ Q4FY19 ■ Q1FY20
■ Q2FY20 ■ Q3FY20*

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



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.