SPARK CAPITAL

INVESTMENT BANKING NEWSLETTER
CONSUMER

FEBRUARY 2018

FROM THE DIRECTOR'S DESK

Dear Reader,

It gives me great pleasure to welcome you to the first edition of the consumer newsletter by Spark Capital. With this newsletter, we bring you a flavour of the recent happenings in the consumer space. We will try and bring out events/aspects/trends that we believe to be worth noting without trying to be exhaustive.

At the outset, our outlook for the consumer space in CY18 is fairly buoyant. The union budget seeks to boost consumption targeting higher GDP growth.

Increase in agri MSP and overall increase in govt. spend on rural development means increase in discretionary spend in the rural economy. We believe this will drive FMCG and auto (entry level) sectors. On the regulatory front, moves such as 100% FDI in single brand retail and fine tuning of GST continue to remove roadblocks for consumer companies across the board.

In this edition of our newsletter, we catch up with Mr. Pratik Shah of Specsmakers which is playing a critical role in the unorganized to organized conversion of the eyewear space. The company stands testament to the fact that, in a marketplace full of buzz-word led strategies, sticking to sound business fundamentals and focusing on providing solutions for consumers' pain points is still the surest way to build profitable and sustainable businesses.

We also cover impending moves from two players whose names are already synonymous with disruption – Patanjali: launching its apparel brand and Jio: looking to bring mobile commerce to the masses. We also take a look at how omni-channel strategies are reshaping the urban consumption landscape.

We wrap up this edition with a few insights from our institutional equities desk.

We hope that you will find this newsletter insightful and we look forward to your feedback as we aim to roll-out a new edition once every two months.

We thank Mr. Pratik Shah of Specsmakers and our colleagues from the Institutional Equities desk for their valuable inputs.

See you in April next!

K Ganesh

Director & Head – Consumer Investment Banking

WHAT'S INSIDE?

Spark fact file

Investment Banking

USD 5.6 Bn
Total transaction value till date

USD 3.8 Bn
Capital raised till date

USD 1.8 Bn
M&A transaction value till date

300+
Number of fund relationships globally

USD 700 Mn
Average annual deal closure value for the last 3 years

11
No. of transactions > USD 100 Mn

~USD 1.0 Bn
Current value of transactions being executed

Consumer

USD 280 Mn
Total transaction value till date

~USD 300 Mn
Current value of transactions being executed

UNION BUDGET AIMED AT CONSUMPTION DRIVEN GROWTH

FMCG and Auto to get a boost from increased rural disposable income

A budget for rural India

Minimum support prices for farm produce has been pegged at 150% of the average production cost – an effective increase of 16%. This injects an additional ~INR 572 Bn into the agriculture driven rural economy.

INR 20 Bn agri-market development fund will be set up to help farmers realise better prices. Further, proliferation of crop insurance will reduce shocks to farmers' incomes.

Govt. rural spend across the ministries of rural development and agriculture has been budgeted at INR 1.7 Tn. Food subsidy will increase 21% to INR 1.7 Tn.

This boost for consumption has, however, come a the cost of capex spend – Capex down from 1.9% of GDP to 1.6% of GDP, while revenue expenditure went up from 11.1% to 11.4%.

Pay commission gains for lower level govt. employees

Minimum pay for govt. employees upto pay matrix level 5 is expected to be increased from April 2018. The increase is expected to be higher than the level recommended by the 7th pay commission - INR 18,000.

FMCG, entry level Auto to gain from rural spending

40% of FMCG spend comes from agri-dependent rural India. Product categories high on discretionary spend stand to benefit significantly from an increased rural spending power.

The fillip to the rural incomes will also translate to a surge in demand for entry level two wheelers and cars in addition to farm commercial vehicles.

Personal care products will suffer due to higher custom duties

Custom duty on beauty, skincare, oral & dental hygiene and cosmetic products has gone up from 10% to 20%. A combination of price increase affecting demand and margin erosion will impact the personal care space.

Inflation and consumption growth

While the finance minister has said that there would be no adverse effect on food inflation as a result of increase in agri MSP, our economist cautions that the overall increase in spending power is likely to increase CPI in the short-medium term. We are, therefore, looking at a period of growth in consumption coupled with inflation.

Additionally, our economist questions the ability of the govt. to meet fiscal deficit targets – on account of over-estimation of indirect tax collections and under-estimation of oil subsidy. This, combined with an expected increase in CPI will likely see an increase in interest rates.

CONSUMER OUTLOOK

Full Service, Mid-Market I-Bank

- Investment Banking (VC, PE, M&A, IPO, QIP, PIPE)
- Institutional Equities
- Fixed Income Solutions
- Investment Advisory

Knowledge Banking

- Dedicated sector teams with deep domain expertise
- Ability to bring new ideas to the market
  - Wildcraft
  - People Combine
  - Go Colors
  - ID Fresh Food

Relationship Banking

- Long standing relationships with leading consumer sector companies across various segments
- Track record of multiple engagements with existing clients

Deep Distribution

- Extensive reach to over 300 funds across
  - Private Equity
  - Hedge Funds
  - Family Offices
  - Sovereign Funds
  - Corporates

Other announcements from the union budget affecting consumption

Investment in food processing, fisheries and animal husbandry to increase

Investment in food processing to be increased to INR 14 Bn. Fisheries, animal husbandry investment to increase to INR 100 Bn. These should help in easing up constraints in the supply chains of animal produce.

Make in India driving increase in custom duty

A lot of product classes saw an increase in custom duty to protect domestic industries – Processed foods: 35%-50%, Cosmetics and personal care: 20%, Mobile phones: 20%, TVs: 15%, Electronic accessories and parts: 15%, Silk fabrics: 20%, Footwear: 20%, Precious stones: 5%, Watches: 20%

Standard deduction on income to increase middle class disposable income

A standard deduction of INR 40,000 has been allowed towards conveyance and medical expenses, slightly reducing tax burden on the middle class.

LTCG tax on equities

Long term capital gains tax on equities will now attract a tax of 10% (raised from 0%). This brings equity investments in line with other asset classes but brings down disposable incomes slightly.

Corporate tax rate reduced to 25%

Corporate tax rate has been cut to 25% for companies with turnover of less than INR 2.5 Bn. The turnover threshold has been increased from INR 0.5 Bn. This effectively covers 99% of all registered companies.

Regulatory impetus

100% FDI in single brand retail

Union cabinet has decided to allow 100% FDI in single brand retail (up from 49% earlier) through the automatic route, hoping to attract FDI in the space. It has also allowed MNCs sourcing domestically for exports to include such sourcing in the 30% domestic sourcing floor. The sourcing exemption for cutting edge technology continues. This should clear the path for a few international brands to set up shop in India.

GST fine tuning

- List of items in the 28% slab of GST has been pruned from 178 items to 50 items in November. Fine tuning of slabs continues.
- GST for restaurants reduced to 5% - will not be allowed input credits.
- E-way bill system for movement of goods worth more than INR 50,000 which was supposed to have gone live on Feb 1st has been delayed further.

Select Consumer Transactions

Exclusive Advisor

To

GO COLORS!

January 2018

Private Equity Fund Raise

From

ICICI Venture

~USD 16 Mn

Advisor

To

Yellow Diamond

October 2017

IPO

~USD 75 Mn

Advisor

To

Specsmakers

December 2017

Private Equity Fund Raise

From

EIGHT ROADS

~USD 10 Mn

Advisor

To

Amul The Taste of India

September 2017

Private Placement of Commercial Paper

Undisclosed

QUALITY EYEWEAR - EVERYWHERE AND FOR EVERYONE

Mr. Pratik Shah
Founder & CEO

We interviewed the founder and CEO of Specsmakers, who is making a splash in the affordable eyewear segment. Relying on transparency, affordability and high quality, Specsmakers is not only capturing the entry level market, but doing so with sound financial judgement

1. What drew you to the eyewear retail space? What is the opportunity as you see it?

Interestingly, my entry in the optical industry was a result of chance rather than choice. After completing my engineering in India and MBA in the US, I worked as a financial research analyst covering the US telecom sector.

My family has a background in the optical industry and my father was a leading wholesaler of lenses with plans to enter into the optical retail segment as well. However, as his retail store was getting launched, he fell ill, and I had to step in to manage the operations at the store.

During my stint at the retail store (and thanks to my training as a research analyst) I was able to perceive the pain points which customers faced in a typical multi brand mom and pop store. I realized that there was a huge untapped opportunity for an organized play in this space. With > 50% of the population suffering from some form of refractive error, the eye care market is estimated to be around at ~USD 10 Bn.

I took over the store from my father in 2007, rebranded it as Specsmakers and expanded to 2 more locations. In 2013, I raised my first round of funding and since then have scaled to 117 locations across Chennai, Bangalore and Madurai.

2. What are the key things you have done differently from the competition?

I have consistently endeavored to differentiate Specsmakers from the other organized and unorganized players in this segment.

100% of the products are sold under our own brands –

Select Consumer Transactions

Exclusive Advisor

To

CavinKare — Making Lives Happier

February 2017

Structured Finance

By

AXIS CAPITAL

~USD 83 Mn

Exclusive Advisor

To

SUMERU Frozen Foods

February 2016

Buyout

By

PEEPUL

Undisclosed

Exclusive Advisor

To

Sportz Village

November 2015

Private Equity Fund Raise

From

Gaja Capital

~USD 10 Mn

Exclusive Advisor

To

INDIAN TERRAIN

January 2015

QIP

Book Running Lead Manager

~USD 13 Mn

EXPERT SPEAK

"Specsmakers" for frames and "EVA" for lenses. 100% of our stores are Company owned and Company operated – we may choose to have franchise models in the future but we would like to ensure that those operations would still be controlled by us.

We were the first in the industry to offer transparent pricing – prices displayed are inclusive of lenses. Our pricing structure is simple and non-confusing which builds trust with the customers. We are also the only player to stand by the quality of our products by offering an unconditional warranty on our frames for 1 full year.

• • •

3. What are the different price points that the sector operates at and how are customer's expectations different at different price points?

There is a wide variation in the unit level cost (frame + lenses) across the industry. On one end, you may have the mom and pop retailer who sells unbranded products of non-standard quality at price points of INR 500 onwards. On the other end, you have multi-brand retailers (both chains and standalone stores) who sell frames carrying luxury brands and branded lenses for INR 50,000 and upwards.

Our experience says that when it comes to third party brands, customers are loyal to brand and not to the retailer, which is the main reason we chose to go down the path of developing our brand. Additionally, while affluent customers who are focused on style prefer brands, mass market customers focus more on functionality & value for money, hence, are not brand loyal. Our aim is to provide a high quality alternative for these customers at an affordable price.

• • •

4. What are the key things that the brand 'Specsmakers' stands for ?

We believe that brand Specsmakers means the following things for our customers:

- High quality products – We source our products from the same manufacturers who supply global brands and stand by our quality through an unconditional warranty
- Simple pricing – We keep pricing simple to ensure that the customer does not lose trust in us
- Neighborhood presence – Given our deep presence in our target markets, customers are never far from our stores
- Consistent customer experience – Our store staff is well trained to ensure customer satisfaction. We also provide free eye checkups through trained optometrists at every store and undertake free cleaning and servicing of spectacles

• • •

5. How do you see competition - both online and offline affecting your business going forward? What is your view on the multi-channel strategy of players?

With respect to competition, unorganized mom and pop players are steadily losing market share to us as they cannot compete with our pricing, brand presence, product quality and service quality levels. Competition from organized multi-brand players (such as Titan Eye Plus) is also limited in our customer segment as their price points are much higher.

We strongly believe that online retailing is not suited for this particular product segment and hence we do not have focus on that channel. Unlike apparel, there is absolutely no standardization in the eyewear industry and customers have to try on and see if a frame fits their face and is comfortable to wear. Additionally, high returns will also kill the economics in this category as the lenses are made to order and need to be discarded in case the customer sends them back.

• • •

EXPERT SPEAK

Select Consumer Transactions

Exclusive Advisor
To
October 2014
Private Equity Fund Raise
From
Undisclosed

Exclusive Advisor
To
October 2013
Private Equity Fund Raise
From
USD 11 Mn

Exclusive Advisor
To
January 2012
Private Equity Fund Raise
From
~USD 18 Mn

Exclusive Advisor
To
February 2008
M&A
Maa Fruits
Undisclosed

6. We see that unorganized players exploit the lack of transparency in the segment – in terms of pricing, product features (un-breakability, UV protection etc.). How big a problem is this?

You are right. Opaqueness in pricing is a key pain point for customers. Typically, customers are confused by having separate pricing for frames and lenses. Even within lenses, there is a wide variety of offerings and salespeople do not provide correct guidance on what is best suited for customers. Additionally, mom and pop retailers do not display pricing and charge customers arbitrarily based on their assessment of the customer's ability to pay.

We have sought to avoid this and allay suspicions in the minds of the customer through the following:

- Clear labelling of price on all frames
- Single pricing with base lens free with all frames
- Limited and relevant lens offerings with pricing and functionality clearly displayed so the customer can understand what he is purchasing even without the salesperson explaining it to him
- Sales promotions are applicable on the entire stock with no exceptions

●●●

7. What are your growth plans for the near term from a geography, product profile, online push etc. perspective?

We believe in going deep and not wide and hence we have chosen to focus on expanding and dominating select geographies before we enter other markets. In line with this thinking, we plan to expand into 4 – 5 cities over the next 3 years with the aim of establishing 75 to 100 stores in each city on an average.

Additionally, we are also exploring options for franchising on a FICO model (franchisee invested – company operated).

Our unparalleled sourcing strength and established brand will ensure that franchisees make good returns while helping us to expand our footprint.

With respect to the product portfolio, we will focus on creating sub ranges targeted at specific customer segments (like active wear, women etc). We also have some thoughts on expanding into hearing aids where we believe we can mirror our philosophy of high quality and affordable pricing.

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CURRENTS OF CHANGE

Select USD 100 Mn + Transactions

Exclusive Advisor
To
hffc
March 2017
Private Equity Fund Raise
By
truenorth
USD 100 Mn

Advisor
To
BSE
January 2017
IPO
USD ~183 Mn

Advisor
To
POLARIS
November 2015
Majority Stake Acquisition
By
virtusa
USD 270 Mn

Exclusive Advisor
To
Select Institutional Buyers
September 2015 Onwards
Secondary Stake Acquisition
NSE
USD 403 Mn

CY18 – a tale of two disruptors – again?

Patanjali and Jio to take centre stage again in CY18 as they try and disrupt the apparel and retail spaces respectively

#1

Patanjali apparel: The Patanjali group is readying an assault on the Indian apparel space. Will it replicate its success in the FMCG space?

Enter 'Paridhan'

During its regular channel checks, our Institutional Equities team has picked up a lot of chatter on Patanjali Group's plans to launch a complete range of branded apparel offering. The brand is likely to be named '*Paridhan*'

Paridhan plans an all-out attack on the value for money and semi-premium segments across ten sub-categories in apparel, footwear, home textiles and accessories. With a pricing range of INR 300 – 2,000 it is expected to position its products competitively against existing players.

With plans to cast its distribution net wide across the core channels of Exclusive Branded Outlets, Wholesale and Large Format Stores, Paridhan targets a mammoth INR 50 Bn in its first year of operations. One is likely to encounter 70-90 Paridhan stores, predominantly in the Tier II and Tier III cities across the country. High interest from franchisees is expected to quickly drive this number up to 500.

Past performance does not guarantee future success for the Patanjali Group

While Paridhan will reap huge benefits from the Patanjali association and leverage the brand equity of Baba Ramdev, it will still need to stand on its own two feet in a space where fashion and aspiration drives consumer behavior.

Patanjali's success in FMCG hinged, in large part, on its 'Indian'ness in a space dominated by MNCs. Paridhan, however, will have to contend with competition that is mostly Indian. With no foreign Goliaths to rally the regular Indian against, Paridhan faces a different path from its FMCG sibling. It does have huge tailwinds in a segment which, in the next 5 years, will be won by those who successfully equip an unorganized to organized conversion.

#2

Jio-commerce: Mukesh Ambani is planning to disrupt the USD 700 Bn Indian retail space. E-commerce in the firing line?

Leveraging Jio's success in putting mobile internet in the hands of the masses

Jio took the telecom world by storm, capturing a ~12.5% market share in a short span of 15 months. It triggered a price-war which ultimately saw data prices plunge, putting mobile internet in the hands of the aam aadmi. Mr. Ambani now plans to leverage this reach to finally start using the mobile platform to get Indians to transact online.

Jio enabled 'Nukkad ki dukan'- the game changer?

The Flipkart vs Amazon war is still being waged for a mere 5% of the massive USD 700 Bn Indian retail space. Penetration beyond metros and tier I cities has proved a challenge. Mr. Ambani plans to tilt the game on its head by tapping the massive network of neighbourhood stores with Jio powered mobiles to connect brands and consumers. The challenge as always remains in execution.

CURRENTS OF CHANGE

Select USD 100 Mn + Transactions

Advisor
To
SUTHERLAND GLOBAL SERVICES
November 2014
Private Equity Fund Raise
From
TPG
USD 346 Mn

Exclusive Advisor
To
CSS CORP
June 2013
Leveraged Buyout
By
Partners Group
USD 270 Mn

Exclusive Advisor
To
SUTHERLAND GLOBAL SERVICES
March 2013
Majority Stake Acquisition
Apollo Health Street
USD 182 Mn

Exclusive Advisor
To
vasan healthcare from a tradition of care
March 2012
Private Equity Fund Raise
From
GIC
USD 100 Mn

The age of omni-channel retail is upon us

'Brick and mortar' vs 'e-commerce' war turned on its head

Retailers are evolving their consumer reach strategy to be everywhere the consumer is, blurring the physical and online divide in the process

Need to change the way brands reach consumers

Consumers are changing the way they engage with brands and make purchases.

- 65% of consumers research online, 55% read customer reviews and 47% visit brand website before making purchase decisions*
- Equally, consumers continue to feel the need to interact physically with products they wish to purchase

Brands realize the need to be present across all the channels their consumers traverse

E-comm players realizing the need for offline presence

A lot of online only models have realized the importance of offline presence

- Online fashion major Myntra launched physical stores starting with stores for its brand Roadster. The stores will function as 'experience centers' for the brand
- Zivame and Lenskart – the flagbearers of online retail in their respective categories – both have offline presence through 23 and 80 stores respectively
- Pepperfry and Urban Ladder have opened physical stores to enable consumers to interact with the products before purchase
- Google has tied up with partners to offer its Pixel phones at physical stores in addition to its e-comm push through Flipkart and its own Playstore. Xiaomi has launched 'Mi' stores – a significant shift from its online only strategy

Traditionalists waking up to the winds of change

Long time defender-in-chief of the 'brick and mortar' model of retail, Mr. Kishore Biyani, has announced Retail 3.0 – his long term blueprint for taking Future Group to the ambitious USD 1 Tn target (from USD 4.5 Bn currently). Retail 3.0 will make technology its cornerstone for change. It will enable consumers to place orders on WhatsApp and make payments, very much in the vein of the Chinese usage of WeChat.

Physical retail brands have, over time, realized the importance of online presence and have added it to their arsenal

- Max Fashion (200 physical stores) went online with *Landmarkshop.in* in 2016
- Shoppers Stop has supplemented its 80 physical stores with a website and a mobile app
- Decathlon now offers 'click-and-collect' to its customers

To 'Omni - Channel' or to 'multi-channel'

While online and offline brands are encroaching on each other's territory, success will depend on the ability to avoid the trap of viewing each channel in isolation and take a more integrated approach. The consumer needs to have a seamless experience across multiple channels and a resistance free movement across online and offline. This means aligning communication, logistics, supply chains and data collection & analytics towards a consumer as opposed to a portfolio of channels. This presents a new generation of challenges spanning branding, marketing, warehousing and logistics.

** Source: Hansa Cequity*

RECENT CONSUMER TRANSACTIONS

Recent Non-Consumer Transactions

Exclusive Advisor
To
Next wave Multimedia
December 2017
Majority Stake Acquisition
By
Nazara
Undisclosed

Advisor
To
SK FINANCE
December 2017
Private Equity Fund Raise
From
NORWEST VENTURE PARTNERS, Baring Private Equity Asia, evolvence India
~USD 32 Mn

Exclusive Advisor
To
Quess
November 2017
51% Acquisition
of
TATA BUSINESS SUPPORT SERVICES LIMITED
~USD 24 Mn

Advisor
To
KINARA (VISAGE HOLDINGS AND FINANCE PRIVATE LIMITED)
November 2017
Private Equity Fund Raise
From
Gaja Capital, unitus capital, GAWA CAPITAL, Michael & Susan Dell Foundation
~USD 15 Mn

A Private Equity Transactions

Target	Investor	Amount (~USD Mn)
Large > USD 100 Mn		
airtel	Warburg Pincus	350
big basket	Alibaba Group, The Abraaj Group, Bessemer Venture Partners	300
Mid-size (USD 20 Mn – USD 100 Mn)		
Impresario handmade restaurants	L Capital Asia	51
Genesis* Luxury	Reliance Brands Limited	40
Massive Restaurants Private Limited	Gaja Capital	25
Manna	Morgan Stanley	24
Small < USD 20 Mn		
Go Colors! happy legs	ICICI Venture	16
olive	Rabo Private Equity (Rabobank)	16
Specsmakers	8 Eight Roads	10
Global Gourmet	Rabo Private Equity (Rabobank)	10

For the period Oct-Jan 2018

B M&A Transactions

Target	Investor	Amount (~USD Mn)
Large > USD 100 Mn		
foodpanda	OLA	Undisclosed
Havmor Ice Cream	Lotte Confectionery	157
Shoppers Stop – Start Something New	Future Retail	100

Source: Public sources
** Reliance Brands bought L Catterton Asia 40% stake in Genesis Luxury*

RECENT CONSUMER TRANSACTIONS

Recent Non-Consumer Transactions

Advisor
To
intellect Design for Digital
September 2017
Rights Issue
USD 31 Mn

Exclusive Advisor
To
FIVE STAR
July 2017
Private Equity Fund Raise
By
SEQUOIA, matrix, NORWEST VENTURE PARTNERS, Morgan Stanley
USD 52 Mn

Exclusive Advisor
To
CreditAccess Asia
March 2017
Private Equity Fund Raise
By
ADB Asian Development Bank
USD 32 Mn

Advisor
Apollo TOUCHING LIVES
November 2016
Private Equity Fund Raise
By
IFC
USD 68 Mn

B M&A Transactions cont...

Target	Investor	Amount (~USD Mn)
Mid-size (USD 20 Mn – USD 100 Mn)		
John Distilleries Ltd	Sazerac	62
9X Media	Zee	25

For the period Oct-Jan 2018

C Capital Market Transactions

Date	Company	Amount (~USD Mn)
IPOs		
2-Nov-2017	Khadim's	85
Rights Issue		
13-Oct-2017	Taj	231
OFS		
13-Dec-2017	IndiGo	197
QIPs		
18-Dec-2017	LT Foods	62

For the period Oct-Jan 2018

LATEST NEWS AND ANNOUNCEMENTS

Recent Non-Consumer Transactions

Exclusive Advisor
To
ISFC India Shelter Finance Corporation
May 2015
Private Equity Fund Raise
From
SEQUOIA NEXUS VENTURE PARTNERS WESTBRIDGE CAPITAL
USD 43 Mn

Exclusive Advisor
To
MANAPPURAM FINANCE LIMITED
February 2015
Majority Stake Acquisition
In
ASIRVAD
~USD 18 Mn

Exclusive Advisor
To
NEWQUEST CAPITAL PARTNERS
January 2015
Minority Stake Acquisition
In
Ujjivan Build a Better Life
USD 20 Mn

Exclusive Advisor
To
OMNI Hospitals
September 2014
Minority Stake Acquisition
By
ASK PRAVI CAPITAL ADVISORS Your partner in growth
Undisclosed

Retail

Future Group to acquire Foodworld Super Markets

Future Group strengthens its leadership position

Foodworld Super Markets which runs 36 grocery super markets under the brand 'Food World' and 120 health and beauty stores under the brand 'Health and Glow' is likely to be acquired by the Future Group.

Following its acquisition of Hypercity from Shoppers Stop, this acquisition will push Future Group's retail footprint past 1,000 outlets

E-comm

Patanjali launches own e-comm portal

Relentless growth with a target to overcome HUL by next year

Patanjali continues its online push with the launch of its own portal (www.patanjaliayurved.net). This will supplement its current online reach through e-comm majors. The portal is backed by an ecosystem capable of 1 Mn orders per day

Patanjali targets online channel contribution of ~15% in the short term. Its own portal generated a revenue of INR 10 Cr in the month of December

Hyperlocal delivery

Hyperlocal delivery space heats up

Battle of deep pockets ensues?

- Ola acquires Foodpanda and commits USD 200 Mn
- Uber launches Uber Eats
- Amazon commits USD 500 Mn to fresh products delivery
- Flipkart launches grocery delivery
- Swiggy lines up USD 200 Mn from Naspers and Tencent
- BigBasket gets USD 300 Mn from Alibaba

Advertising

Celebs face 3 year ban for misleading ads

Advent of responsible endorsements?

Celebrities endorsing misleading ads will now have to pay penalty of up to INR 50 lakhs and serve a ban of up to three years once the new Consumer Protection Bill is cleared by Parliament.

However, no endorser shall be liable to a penalty if he has exercised due diligence to verify the veracity of the claims made in the advertisement.

Dairy

Danone exits India dairy business

Dairy now a battle of big boys?

Danone, the French foods company, has decided to exit its India dairy business and will instead focus on building out its nutrition portfolio.

Scaling in a market against incumbents with large established sourcing has proved difficult.

Source: Public sources

FROM OUR EQUITIES DESK

Institutional Equities Highlights

199
Stocks under coverage

USD 1.4 Tn
Total market cap of stocks under coverage

INR 260 Bn
Total cash market volume in H1FY18

350+
Number of fund relationships globally

"Go-to" broker for stocks in the mid-market space

THOMSON REUTERS
2017 INDIA ANALYST AWARDS
THOMSON REUTERS ANALYST AWARDS 2017 WINNER

Institutional Investor
5th position in 2017
All India research team

Consumer

25
Stocks under coverage

~USD 200 Bn
Total market cap of Stocks under coverage

Key snippets from some interesting notes by Spark's Equities Team

1 Best 'All-weather' managements in listed consumer space

We have put ~200 stocks under our coverage to some of the most stringent qualitative and quantitative criteria to identify the 25 best 'All-Weather' Managements

We used the following criteria:

- 15 point qualitative framework spanning Management Quality, Business Model Strength and Governance Structure
- 10 point quantitative framework spanning – growth, margin volatility, cash flow generation and consistency, quality of capex & retained earnings, future growth etc.

Managements of 6 large cap, 10 large-mid cap and 9 midcap companies came out with flying colours. Within the consumer sector the following companies made the cut.

Large Cap	*Large Mid Cap*	*Mid Cap*
Hindustan Unilever Limited	emami, Berger	RELAXO
asianpaints	JOCKEY	LA OPALA

2 Spark Initiates Coverage of GlaxoSmithKline Consumer Healthcare

We take a contrarian view on the prevalent pessimistic narrative on the India Health Food Drinks (HFD) category

We believe that the HFD category is more relevant than ever given the nutritional deficiencies prevalent in India and the current slow down is merely cyclical and there is a large under-penetration led runway for growth.

GSKCH continues to protect its market leadership position, and is addressing changing consumer expectations from the category through a renewed focus on hi-science based and doctors endorsed products.

From an investment perspective, hygiene factors like dominant market share in HFD (56%), sustained investments in brands (Avg* ~15% of sales), enviable ability to protect margins (Avg* Gross Margin: 65%, Avg* EBDITA: 18%), healthy dividend pay-out (Avg* ~50%), robust capital efficiency (Avg* ROE: ~29%) and relatively inexpensive valuations (FY20E 30x, ~25% discount to sector average) lend immense MARGIN of SAFETY in case the business turnaround cycle gets delayed.

Accordingly, we initiate coverage with a BUY rating, valuing GSKCH at INR 7,264 – a ~34x December'19 EPS.

** 5 year average*

SPARK CAPITAL

Source: SPARK Research

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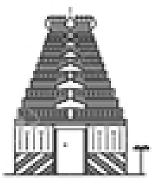

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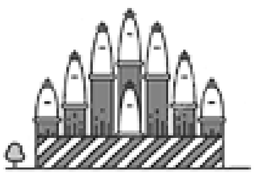

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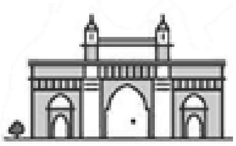

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