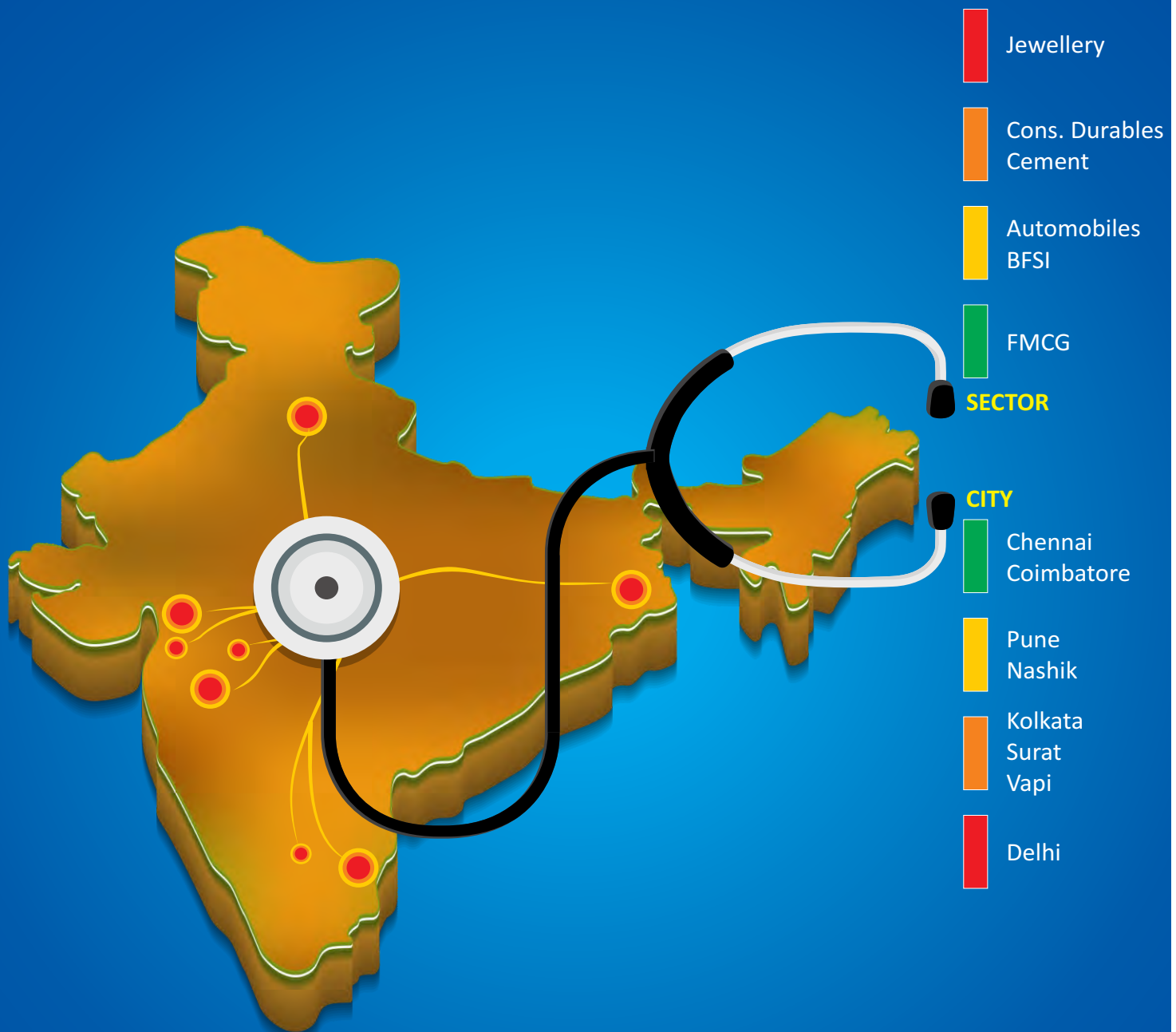


Demonetisation

Ground Zero: Better seen than heard

December 2016

 **Edelweiss**
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EdelPulse

Executive Summary

The government's demonetisation move on November 8 has evinced extreme reactions. We sent out 10 Edelweiss foot soldiers to 8 locations to accurately assess the impact of demonetisation across select sectors—auto, banking, consumer durables, FMCG, retailers, jewellery and SMEs. In the first round, we covered larger cities—Delhi, Chennai, Kolkata, among others. The rationale for choosing these urban locations was that they are anticipated to recover earlier given higher linkages with banking and the organised economy. Key findings of our channel checks were: (1) prevalence of regional disparity—North whining, South adapting; (2) centres/sectors exposed to the salaried segment believe the lull is transient and will improve with easing of liquidity crunch; (3) cash-driven SME segment has been severely impacted and it needs to push the reset button to get back on track; and (4) journey towards a cashless economy has begun. We believe, it is too early to draw conclusive trends at this juncture and, hence, we intend to continue to monitor the developments at regular intervals.

Regional disparity: Wide and clear

Delhi and West, where the proportion of cash economy is far higher, were more reticent on demand recovery. Comparatively, South was far more accepting and has quickly adapted to the changing landscape due to relatively well entrenched banking habits. Ergo, while queues at ATMs were far longer in North and West, they were minimal in Coimbatore, Nashik and Kolkata.

Business and trade: Jury's still out on impact of demonetisation + GST

We came across mixed reactions in our channel checks with SMEs, traders, etc. In businesses like textiles and chemicals, large players were better prepared to quickly adapt to changes in transacting business. However, smaller and unorganised players, where cash is the predominant source of transactions, were perturbed. Most were of the view that a lethal combination of demonetisation + GST could permanently dent their businesses. Apart from this, many businesses also hinted that they may be forced to relieve a few temporary workers if demand fails to recover in the next 2-3 months. From the long-term perspective, job losses in the unorganised segment is a key monitorable to assess if the anticipated consumption demand recovery will have to be tempered. Participants expect that upcoming budget to spring a positive surprise to boost morale post demonetisation.

Consumption demand recovery: Keeping fingers crossed

Post the initial shock and awe wherein sales plummeted 80%, normalcy is returning gradually in consumer-facing businesses, though sales are still down 20-30%. While jewellery business is down >50%, consumer-facing businesses expect sales to normalise in 1-3 months once liquidity improves, spearheaded by the salaried class. In Nashik and Vapi, where ~15% customers are farmers, businesses are of the view that once the cash crunch improves and kharif crop sales are realised, demand from these customers will return. **Our estimated recovery sequence is: FMCG, auto, BFSI, consumer durables, cement and jewellery.**

Embarking on journey to a cashless economy

Customers seem to be willing to alter their transaction habits. In segments like auto, BFSI, consumer durables and FMCG, people have started preferring cashless transactions. The willingness of gold finance customers to move to cashless transactions, especially in the South, came as a positive surprise.

Sweetening offers to ease pain

Though formal discounts have not been announced, support has emerged in the form of extension of credit period (FMCG), target relaxation (autos, consumer durables) and sweetening of financing options.

GST: High on agenda, low on preparedness

GST awareness seems to be high, especially post demonetisation. Having said that, most dealers, distributors and SMEs indicated that they have not even commenced the spade work on relevant systems etc. A few textile and chemical companies were of the view that GST could significantly impact their businesses unless they push the reset button. However, larger players are not much concerned.

Table 1: Region/sector-wise heat map

Sector	South		West				North	East
	Chennai	Coimbatore	Vapi	Surat	Nashik	Pune	Delhi	Kolkata
Auto	●	●	●	●	●	●	●	●
Consumer durables	●	●		●	●		●	●
BFSI	●			●	●	●	●	●
FMCG	●	●	●	●	●	●	●	●
Paint	●							
Jewellery	●	●	●	●		●	●	●
Cement	●	●	●	●		●	●	●
Demand decline upto 15% ● 16% - 30% ● 31% - 50% ● >50% ●								

Source: Edelweiss research

Table 2: Summary of touch points covered

Sector	Chennai	Coimbatore	Delhi	Surat	Wapi	Kolkata	Nashik	Pune	Total
Auto Dealer	1	2	2	1	1	5	1	2	15
Cement dealer	1	1	1	0	1	1	0	1	6
FMCG distributor	0	0	1	2	0	1	2	1	7
Consumer durable	1	2	1	0	0	1	1	0	6
SME	0	2	0	4	3	0	0	0	9
Mandi	0	0	0	0	0	3	0	1	4
Jeweller	0	0	2	1	0	1	0	1	5
BFSI	2	1	4	2	1	2	2	1	15
Total	5	8	11	10	6	14	6	7	67

Source: Edelweiss research

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AUTOMOBILES

Eicher, Maruti least affected

India Equity Research | Automobiles



Our interactions with 2W and 4W dealers across regions (Chennai, Coimbatore, Vapi, Surat, Nashik, Pune, Delhi and Kolkata) indicate that the sales decline has moderated to ~20-30% YoY now versus 60-70% YoY dip immediately post demonetisation. Regional disparities are worth noting—North has been affected the most and South the least due to higher card/cheque payments in the latter. Most dealers expect demand to normalise over 2-3 months, but cash supply in the system remains key monitorable. Urban 2W and 4W volumes are anticipated to recover faster than rural counterparts given the high share of salaried class and banking habits in the former, barring Delhi. We returned most positive on Eicher Motors (Royal Enfield) followed by Maruti Suzuki (MSIL). Royal Enfield's order books remain steady with hardly any reduction in waiting period. We expect MSIL to gain market share given strong demand for *Baleno* and *Brezza*.

Post initial shock and awe demand in recovery mode

Post the knee-jerk drop in demand (~60-70% YoY) in the initial week, demand across regions is improving gradually with the fall curtailed at 20-30% YoY in the past week. Dealers expect demand to normalise in ~2-3 months with faster recovery in regions where demand is driven by the salaried class and higher card/cheque payments. 2Ws demand recovery across smaller towns (50-60% cash purchases) will hinge on pace of money circulation. Most dealers believe the current slowdown is more due to liquidity crunch rather than paying ability. Our channel checks indicate scooters (*Activa*) and premium bikes (Royal Enfield) have been least negatively impacted across segments.

South and East optimistic on faster recovery

Our dealer interactions highlight disparities in customer profile and demand outlook across regions. Dealers across South (Chennai, Coimbatore) and East (Kolkata) are more optimistic of a faster recovery compared to West and North. Our channel checks indicate that customers across South have a high share of salaried class and higher banking habits.

No change in incentives; banks/NBFCs sweetening financing options

2W and 4W OEMs have not effected any change in incentive schemes to boost demand, though a few dealers did say that OEMs have promised extension of credit payment terms and relaxation of sales targets. Dealers across regions have stepped-up efforts to reach out to consumers. Financing options have also been eased with banks/NBFCs now offering even 100% LTV in some cases (for select customer profiles). Our checks also indicate that there was no sign of down-trading by customers. Many dealers also hinted at postponement of demand to December given generally heightened discounts offered by OEMs (year-end phenomenon).

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Impact on earnings

While H2FY17 volumes are likely to be impacted, the extent of earnings cut will also depend on the increase in customer acquisition cost as well ability to pass on the expected commodity cost pressures. Earnings of automobile companies are more sensitive to pricing than volumes.

Table 3: Royal Enfield least impacted; order books are steady and waiting periods are largely unchanged

Sector	South			West			North	East
	Chennai	Coimbatore	Vapi	Surat	Nashik	Pune	Delhi	Kolkata
HMCL	●	●				●		●
Eicher Motors			●				●	●
MSIL/Hyundai			●		●	●		
Ford/Honda		●					●	
M&M								●
Demand decline upto 15% ● 16% - 30% ● 31% - 50% ● >50% ●								

Source: Edelweiss research

BFSI

Going gets tough for NBFCs; banks better off

India Equity Research | Banking and Financial Services



The focal point of demonetisation impact is financial institutions. Our channel checks indicate that while the initial impact was higher, things are gradually looking up: a) disbursements have bounced back to 50-70% of normal levels after virtual pause in first few days post demonetisation announcement; and b) collection efficiency reverted to 60-80% versus 20% initially. Nonetheless, the overall mood remains sceptical with limited visibility. Our channel checks indicated a few near-term trends—higher LTV financing schemes with selective approach and a few structural changes viz., intent to move towards cashless payments, etc. We anticipate H2FY17 earnings to be affected widely with impact more acute on NBFCs (seasonally strong half) than banks. With things being so fluid, FY18 earnings impact is hard to ascertain with certainty. We returned positive on Vakrangee (business in branches we visited has jumped >3x since November 9).

Summary of channel checks

- **Gold loan financiers:** The higher prepayment trend along with weaker disbursements (currency crunch) is likely to pull down AUMs. The situation is more aggravated in Delhi, Maharashtra and Gujarat, whereas South was relatively better off. Collection efficiency has taken a toll and stands at 60-70%.
- **Auto financiers:** Weak customer sentiments have taken a toll on overall growth. Financiers are trying to push sales via attractive schemes (100% LTV). However, given the selective approach, outcome needs to be monitored. While Delhi and NCR were relatively more impacted, Kolkata and Chennai were better off.
- **Housing segment:** Outlook not so bright with widespread anticipation of price correction (valuers have already started applying discount to current valuations). However, financiers anticipate lower asset quality pressure given lower LTVs. Outlook seems challenging in the near to medium term. The situation is grim in Delhi and NCR. People across geographies were sceptical on the premium segment, but positive on affordable housing.
- **Micro finance:** Trend seems to be challenging for growth as well as asset quality. Though location specific, people are reluctant to prepay/repay due to uncertain outlook.
- **SME financing:** Higher cash dependence means that working capital of this segment is stretched and so are growth and asset quality. LAP segment, which forms major chunk of this, is under pressure given concerns on property prices.

Nonetheless, while the situation seems to be returning to normalcy, there is still plenty of uncertainty, which will keep consumer sentiments weak, in turn leading to subdued environment. On the other hand, based on the savings garnered, the government may expand budgetary support to pent-up consumer demand. In this backdrop, it is difficult to gauge the likely impact on FY18 earnings with reasonable certainty.

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Near-term and structural changes

Financiers have devised various schemes to cushion the demonetisation impact. One such initiative is 100% LTV, albeit selectively. Customers have been given moratorium to give them more time to align with reality. On the structural changes front, there is an apparent shift towards online payments. More importantly, there was a clear intent to make the shift and customers were not resisting it. Among geographies, customers in Chennai and Gujarat were more receptive to change. However, there were a few hurdles in Kolkata and Delhi.

Impact on earnings

For large part of the segment, H2FY17 seems to be challenging, more so for NBFCs as H2 is a seasonally strong quarter for them. Banks are likely to be better off given lower amount of cash dealing in the system.

Table 4: Impact on financiers

	Growth	Asset Quality	Earnings Impact	Key monitorables
Gold Financier	Loan growth will slow down due to weaker disbursements and higher prepayments	Lower LTVs will ensure no major rise in credit cost	This will put pressure on H2FY17 earnings, however given the fact that H1FY17 for these companies were very strong the overall earnings impact will be cushioned	Any government actions pertaining to gold holding
Auto Financier	Currency challenge will ensure that discretionary speed takes a back seat, which will impact the growth	Credit cost will rise. The impact of 100% LTV scheme needs to be evaluated	H2FY17 earning will take a sharp cut, aggravated by the fact that H2FY17 is seasonally strong quarter. The subdued sentiments will likely flow through in FY18	The government stimuli will likely improve sentiments and economic activity in latter part of FY18 which will support growth
CV Financier	Disbursements have taken a back seat given currency challenge and focus on recovery	asset quality facing significant headwinds as customer segment are facing huge challenges	Earnings impact for them in H2FY17 will in all likelihood be aggravated, with dual impact of lower growth & higher asset quality pressure. The situation might take some time to normalise and we at this point will await more data points to ascertain impact on FY18 earnings	GST roll out will also have impact on this segment, which might pose some structural challenges
Housing Finance	While near terms disbursements will be lower as people wait out for clarity, however this segment's outlook remains challenging for medium term given anticipation of sharp price correction	Lower LTVs will cushion the impact on asset quality	In this segment the players who focussed on premium housing segment will take a knock, while those who are focussed on affordable housing will likely scrape through	Valuers have already started assigning discount on prices. The government's boost on affordable housing needs to be seen
MFI	Growth impacted, given currency challenge and focus on recoveries	Aggressive lenders will likely face larger pressure	H2FY17 earnings will be hit sharply. We expect this segment to witness some sort of deleveraging and earnings for the players at the bottom of the pyramid will be hit more.	Stepping into FY18 any unwarranted cultural changes (repayments) if any will hold key for this segment
Banks	Revenue traction will be under pressure given RBI recent directive (100% CRR on incremental lending). Investment gains expectation will wind down	Asset quality will likely be under pressure. Recovery will effect as focus on current operations on deposits	Near term earnings to get impacted. Structurally it is very positive for banks as the unorganised segment will move towards organised segment	Any action by RBI further to manage liquidity

Source: Edelweiss research

Table 5: Relative positioning of various financiers in cities visited

								Earnings	
		Delhi	Chennai	Kolkata	Pune	Nashik	Surat	H2FY17	FY18
Auto Financier	Growth	●	●	●	NA	●	●	●	●
	Asset Quality	●	●	●	NA	●	●	●	●
CV Financier	Growth	●	●	●	NA	●	●	●	●
	Asset Quality	●	●	●	NA	●	●	●	●
Gold Financier	Growth	●	●	●	●	●	●	●	●
	Asset Quality	●	●	●	●	●	●	●	●
Housing Finance	Growth	●	●	NA	●	●	●	●	●
	Asset Quality	●	●	NA	●	●	●	●	●
MFI	Growth	●	NA	NA	●	●	NA	●	●
	Asset Quality	●	NA	NA	●	●	NA	●	●
Banks	Growth	●	●	●	NA	NA	NA	●	●
	Asset Quality	●	●	●	NA	NA	NA	●	●

Source: Edelweiss research

Note: *Red, yellow green reflect the severity of impact

CEMENT

South: Adapting to new reality

India Equity Research | Cement



Our channel checks across demand centres indicated the following: (1) dip in daily off-take anywhere between 40% and 60% YoY. Some of this has moderated, especially in South and East, while activity in other regions primarily Surat, Pune and Delhi is still dull due to lack of currency in circulation; (2) most dealers expect that after a washout in November and December, things will normalise by March as currency availability picks up; and (3) few dealers in the North felt recovery could be as late as Q1FY18 as ATM queues continue to be long, which will impact spending mindsets. However, there were a few surprises as well: (a) sand availability in West Bengal has risen sharply and to that extent construction activity, which had contracted, has picked up; (b) entire Tamil Nadu distribution chain is unanimously negotiating with banks for lower service charge as transactions move online; and (c) no perceptible impact on prices, suggesting no fight for market shares despite demand contraction.

Summary of channel checks

Delhi: Sales volume in trade segment down 30-40% YoY and ~20% YoY in institutional segment. Demand to return by March 2018 driven by government's infra spending.

Chennai: Volume dip in the 20-30% YoY range and majority distributors expect things to normalise in Q4FY17. Traders in Tamil Nadu are negotiating with banks for lower service charges as transactions move online. They have also contacted TCS executives to ensure that all 300 retailers get linked by digital interface with banks/transporters and manufacturers.

Surat: Retail segment, ~60% of business, was impacted more compared to wholesale. No discounts or incentives were offered by producers to push volumes.

Kolkata: Expect November sales to drop 20-30% YoY with recovery anticipated in December. Cement companies making efforts to create awareness about banking and other non-cash modes. Also, there has been a 30-40% increase in the number bank accounts at the sub-dealer level.

Pune: Approximately, 40% of sales are via cash mode, which have been largely impacted by demonetisation. Expect demand recovery near Q4FY17 end.

No pricing pressure despite sharp fall in off take

Sales volumes have contracted 20-40% YoY after knee-jerk drop of ~60-70% in initial days. The drop in demand is low in South, while contraction in North is closer to 40-50% YoY. However, despite this weak demand, all India cement prices remained flat at ~INR312/bag in November compared to October. Prices in central and West regions surged 1.7% and 4.2%, while North, East and South clocked dip of 1.2%, 0.5% and 2.4%, respectively, compared to the previous month.

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Earning sensitivity and earnings cut

Cement is one of the key sectors to be impacted by demonetisation. A significant portion of volume in retail segment was being sold via cash, which has seen major impact in the past couple of weeks. However, in the institutional segment, majority transactions are non-cash and, hence, the impact will be relatively lower. Overall, feedback from our survey indicates that volumes have been weak since demonetisation and will significantly impact FY17E volumes and earnings targets. Regionally, cement players in South may be impacted relatively less than others. Although it may be too early to gauge effect on FY18 earnings, we foresee some spillover impact.

CONSUMER DURABLES

Fingers crossed

India Equity Research | Engineering & Capital Goods Sector



Last week, we travelled across Kolkata, Delhi, Vapi, Surat, Nashik, Pune, Chennai and Coimbatore to gauge the impact of demonetisation on the electric consumer durables sector. Our interactions with dealers indicate modest improvement in sales post 70-80% decline in light electrical and consumer durables sales immediately post demonetisation. However, demand for seasonal products like heaters remains fairly strong. Regional disparities are worth noting—while North and East have been hit more severely, South is better placed given the improved cash supply and higher share of organised market. Though most dealers expect demand to normalise over the next 2-3 months, they are in no hurry to restock. So far, no companies have introduced or extended credit facilities or discount schemes.

Can demonetisation set the house in order? Jury is still out

After the demonetisation announcement, demand in the consumer durables sector plummeted ~70-80% in the initial week in a knee-jerk reaction. However, it is gradually improving across regions with decline of 40-50% YoY in the past week. We note that North and East were impacted more compared to West and South markets as cash sales were higher at ~60% in the former versus 40% in South. Dealers are of the view that demonetisation drive will usher in long-term positives as the market will now be more skewed towards the organised segment, near-term growth challenges notwithstanding.

No financing/discounting schemes as yet by companies

Broadly, so far, companies have not officially introduced or extended credit facilities or discount schemes. However, financing options have been eased with private banks now offering even 100% LTV in some cases. Havells, in particular, has retained targets for dealers, except that the weightage for rewards calculation for sales in November has been increased to 1.5x. Dealers are closely monitoring their inventory levels and are in no hurry to restock. This can lead to production cuts by companies as inventory piles up, impacting their working capital.

Impact on earnings

Our channel checks indicate a weaker H2FY17 for most electrical (fans, geysers, cables etc) and consumer durables (ACs, kitchen appliances etc) companies, implying YoY dip across our coverage universe. However, a sustained slow down would imply companies resorting to discounts/aggressive promotional schemes to push dealers for higher volumes given higher sensitivity of volumes to earnings, apart from select production cuts.

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FMCG & RETAIL

Times are a changing

India Equity Research | Consumer Goods



Demonetisation has impacted consumption and demand, and it is likely to persist for a few months until supply of new currency notes normalises. While it may be a tad early to conclusively deduce changes in consumer patterns, volume forecasts for Q3FY17 and Q4FY17 are likely to be pruned (bigger impact in north, central and east India; south least impacted). We perceive this as a hiccup and not a structural negative. Within discretionary consumption, there could be longer deferral in spending. While the move is negative in the short term, demonetisation coupled with GST will lead to shift from unorganised to organised segment, which will yield long-term benefits for FMCG and retail companies.

Demand limping back to normalcy; FMCG companies lend support

Our field visits and channel checks indicate that in the initial days sales of consumer staples dipped 60-70%. However, with increasing currency in circulation, overall sales are likely to dip ~30-40%, indicating gradual improvement. The impact is higher in North, central and East India compared to other parts as cash circulation in these geographies is higher. Our interactions suggest that staples such as grocery, edible oil, etc., are likely to see minimum impact; products such as soaps, toothpaste, etc., are likely to see medium impact; and deo-sprays, chocolates, skin creams, etc., are likely to see the maximum impact. With a dearth of consumer demand, distributors have started destocking inventories to align with demand. Lack of demand has also resulted in wholesalers and retailers seeking extension of credit from distributors. In order to help distributors tide over this situation, **FMCG companies are offering credit period of anywhere between 7 and 10 days to distributors.**

Jewellery loses sheen; paint volumes to bounce back

Jewellery sales were good in initial days. However, subsequently, demand plummeted ~70-80%. Further, in light of rising fears of income tax scrutiny, etc., consumers are deferring purchases of jewellery and many shops downed shutters initially. For paint companies, high involvement of cash may lead to temporary volume cuts; however, we expect them to bounce back gradually.

Visible shift in business practices

Many retailers are realising that this is the opportune time to adopt digital payment modes such as Paytm, PoS, etc. **Retailers as well as wholesalers are selectively offering customers options of digital payment.** In order to embark on this proposed changing purchasing pattern while also trying to retain their sales a Pepsi distributor *stated that*, "Pepsi India is considering on enabling retailers with digital payment acceptance modes such as Paytm, etc., which will ensure shift in payment methodology throughout the value chain."

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Change in customer habits may be short term

Our channel checks indicate that distributors are seeing some down-trading. Most of it in urban areas is primarily limited to overcoming temporary cash crunch and should fade once there is sufficient currency in circulation.

When can we see light at the end of the tunnel?

Albeit subjective, the broad consensus among distributors/ retailers, for consumer staples or discretionary, was that recovery should start as early as mid-December to early January with some expecting it by March (in Gujarat belt).

Implementation of GST

Most distributors have not been given GST training and have not even started registering themselves for a GST number. However, they were aware that with its implementation many businesses which were otherwise being carried out in cash will move to the formal banking channel. So now, GST and demonetisation will work in tandem, which will engineer a shift from unorganised to organised segment.

In case of jewellery, GST implementation may not be much of a challenge for company-owned stores.

Earnings sensitivity and earnings cut

Undeniably, staples as well as discretionary companies are bound to see earnings cut due to volume decline (we estimate ~25-30% volume dip since implementation of demonetisation). However, owing to limited demand, FMCG companies are parallelly cutting on A&P spends, which will protect margins to some extent. These A&P spends are likely to resume only once they see some consumer demand perking up. Promotions, however, may continue through December or early January.

Regional Takeaways

Chennai/Coimbatore: Ready to adapt

Our channel checks in Chennai/Coimbatore indicate much resilience with visible recovery in past 5-7 days. Most dealers indicated that these markets in general have higher proportion of card users versus other regions. However, most dealers (cars, 2W, consumer durables) hinted at lower restocking levels over the next 2-4 months owing to near-term impact of demonetisation and GST uncertainty. Most companies/dealers are resorting to schemes mostly to advance December demand with one-time schemes without resorting to credit extension or discounts.

Anecdotes

A Hero dealer in Coimbatore: 50% business in cash and balance is financed



"Sales have fallen by 50%, but are now recovering gradually. Not worried about near-term pain as believes 2W is a necessity"

A multi-product (paints, electrical goods, tiles) retailer in Chennai's residential Crompton area: Caters to niche class



"Footfalls in the showroom are down from 150-180/day to 80-90. Pick up expected ahead of Pongal season with sales expected to be flat during November-March (YoY)"

An electrical goods retailer in Coimbatore: 50% customers are salaried class



Though he sees it as a knee-jerk reaction with initial week sales dipping 50%, he does not expect the southern market to get impacted much as it is more organised in nature than other parts of India

A prominent white goods/kitchen appliances dealer in Coimbatore: ~28% sales in cash



"Demonetisation is a temporary worry. However, summer of 2017 could be challenging for Tamil Nadu due to very high base (200% growth in 2016). Would like to avoid restocking"

Chennai

Auto finance companies

Demand outlook

Dip of 50-70% over the past 3 weeks. They deal a lot in used car market. Customer profile includes people who have taken loans earlier. Requirement for funding commercial vehicles has seen a huge drop. However, for retail, the slowdown is much lower.

Recovery prospects

Unsure how long the pain will last and uncertain about recovery over the next 6-8 months.

Customer profile

While salaried customers account for 50% of business, balance are traders/businessmen.

Any change in doing business

Earlier, they looked at Cibil score only when the loan value exceeded INR500K and at property papers & Aadhar card for loans lower than that. Their lending rate averaged 20-22% as they used to deal with people who do not get loans from the banking channel. Demonetisation has forced them to re-evaluate their business strategy.

Home finance companies

Impact on volumes in near to medium term

A 30% drop in business, partly driven by the company becoming more risk averse as it has cut LTV of property from 80% of value to 60%. And partly this was driven by demonetisation given limit of withdrawal of INR24K per week. Hence, a customer is drawing only 20% of this approved value in order to avoid paying interest on the entire amount. Expect things to normalise in the next 3-6 months.

Impact on FY18 and beyond

Though demand for housing loans from self-employed may drop, that from salaried group could pick up. There may be a base readjustment, i.e., pushback of demand by a year.

2W dealer: Hero MotoCorp

Impact on volumes in near to medium term

Sells about 175-200 vehicles per month; this has dropped by 20-30% in the past 15 days. Of sales, only 10% in cash, 60-70% financed and balance paid by cheque/ RTGS. While footfalls have dropped, conversion ratio has shot up. Currently, banks are giving 98% funding versus 90% earlier.

Any change in doing business

Expect companies to pass on GST benefits (if any) to end consumers and believes GST will not impact the organised sector majorly versus small industries.

Impact on FY18 and beyond

Still unclear about demand in Q4FY17 and FY18. Will monitor customer feedback before building inventory.

Paints/ lighting/cables/electricals/tiles dealer

Demand outlook

Daily sales are down 65% compared to normal. Around 95% sales are via cards. Footfalls have fallen from 150-180/day to around 80-90. Currently, keeps 1.5 months' inventory and is not keen on re-stocking.

Recovery expectations

Recovery seen in past 5-7 days and expects demand to recover to 80% by mid-December to January. Expects flat sales over November-March (YoY) for electrical goods, paints and tiles.

Discounts/schemes

No discounts/credit extension provided to customers by the dealer. However, companies have informally allowed credit period of 8-10 days for the short term. Also, select electrical companies have rolled out short-term schemes to ensure advancement of restocking by dealers. Currently getting credit period of 21-30 days for paints/lighting & electrical products.

Change in business model

60% of his customers are salaried class and 40% traders/businessmen. Around 60% of total sales in cash. Post demonetisation, card sales will structurally rise and be 50-60% of sales.

Cement

Impact on volumes in near to medium term

Sales hit in Chennai anywhere between 20% and 30%. For Chennai, distributors believe that things could normalise in Q4. Sales in cash are currently at 30-40%, which have been impacted; but, a good amount getting converted into credit cards.

Changes in way of doing business

Dealers have represented to all major banks to cut service tax from 1.4% to less than 0.5%; a few large state-owned banks and Axis Bank favourably inclined to do so. They have called all TCS executives to ensure that all 300 retailers get linked by digital interface with banks/transporters and manufacturers. Post gazette notification for collection of 1% tax at source (TCS), cement dealers have started preparing their books of account accordingly. A few of them are paying some penalties for Q1.

Structural impact on FY18 and beyond

We were surprised that cement distributors believe that demand contraction, if at all, in Q4FY17 will be more to do with impact of drought as monsoon was poor. Contraction in realty sector is low as speculators in the market are down to a minimal level.

Coimbatore

2W dealer: Hero MotoCorp

Demand outlook

Sales down to 600 units/day versus 1,200 earlier. Expects gradual recovery ahead of Pongal season. However, drought may have some impact this year. 50% of his business was in cash, which has dipped to 10% now.

Recovery expectations

Footfalls have improved over the past few days. Expects demand to pick up over December-January. However, will miss FY17 estimates. In FY18E, 2W demand to grow and will be sustainable.

Discounts/schemes

Not offering discounts to customers. However, verbal commitment from OEMs of credit period extension.

Change in business model

No material change in business model.

Gold finance company

Demand outlook

Business levels for new/renewable down 50%/30%. Daily walk-ins dropped from 20/day to 1-2 on November 9, 10 and 11; have improved to 12-14 in the past 5-7 days. Collection efficiency has dipped from 90% (pre-November 8) to 75% currently. 60% customers are shopkeepers and traders, who have been worst hit.

Recovery expectations

While footfalls have improved over the past 5-7 days, next 2-3 months are likely to see gradual recovery as the cash crunch issue is resolved.

Discounts/schemes

Offering 10 days' moratorium to customers after due date. Interest rate band of 12-24% across customers remains unchanged. To manage cash flows, doing 20% cash and 80% online disbursements.

Change in business model

Customers seem to accepting online disbursements. The share of online disbursals has jumped from 5% to 30% currently.

Electrical items, cables & wires retailer

Demand outlook

Sales down 50-60% immediately post demonetisation, but recovering now. Caters to niche customers and has 40% card customers.

Recovery expectations

Expects gradual recovery over the next 3-4 months and estimates FY17 sales to miss target by 20%. However, is hopeful of recovery in FY18 as demand returns. Was not too keen on restocking for a couple of months and currently maintains 1.5 months' inventory.

Discounts/schemes

None of his large dealers for Havells India, Crompton, Finolex etc., have extended payment terms as yet.

Change in business model

Card sales for him higher at 40%; expected to remain at >50% over the medium term. South market for electrical goods, cables and wires is dominated by the organised sector versus rest of India.

White goods and kitchen appliances dealer

Demand outlook

Saw sharp drop for first 2-3 days, but is down only 25-30% over the past 3 weeks. Deals in national as well as South brands for white goods and kitchen appliances. Has higher 50% proportion of salaried class as customers and non-salaried customers' volumes have been impacted. Sales mix was 28% cash, which is less than 5% now.

Recovery expectations

Has seen reasonable recovery in the past 2 weeks and expects FY17 sales to dip 10% YoY only versus earlier expectation of >15% growth. Maintained 30% higher inventory in past 3 months and will go for lower restocking for the March-May season as he wants to keep a conservative approach pre-GST.

Discounts/schemes

No additional discount or financing schemes rolled out by companies for sales push and above normal schemes.

Change in business model

Sees demonetisation as a structural derating for cash transactions and expects cashless transactions to gain prominence.

4W dealer: Ford

Demand outlook

Sales plummeted ~50%. Expects gradual pick up in demand. Has lowered FY17 target by 25%. Witnessed pick up in inquiries of 7-10/day versus 1-2/day during November 9, 10 and 11.

Recovery expectations

Outlook remains subdued due to negative wealth effect. However, other dealers like Maruti and Hyundai may have a better outlook.

Discounts/schemes

As his OEM had weaker roll out of new models versus competition, the dealer is driving his own schemes to push sales as he has INR5,000-6,000/cars dealer cushion. To boost November sales, he launched a dealer-level scheme “Why to wait for December” where he gifted gold coins/washing machines, etc., and bagged 8-9 additional bookings (3-day offer).

SME feedback: Cotton spinning mill

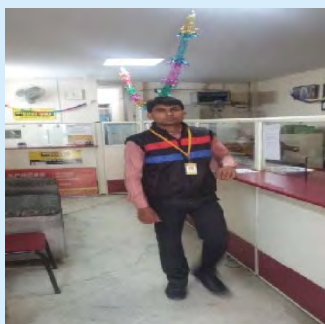
- Cotton spinning mill at Tirupur with INR5bn sales; 95% sales to local knitting companies.
- No major impact on volumes post demonetisation. Has 4,000 employees + contract labourers. 70% have bank accounts; targeting 100% bank accounts now.
- Deals in cheque/RTGS mostly for raw material and sales. Hence, no business impact.
- **GST:** Has only 5% VAT. Expects lower GST rate for textiles. Most small players in Tirupur are unorganised and will be covered under GST. Earlier, when excise was levied on garments, there was a lot of hue and cry, but players adjusted to it; it will be the same with GST.
- Tirupur caters to 60-70% of India's total knitting requirement. There are 2,000-2,500 plants in Tirupur (small + big); most players have not seen any major impact post demonetisation.
- Lorry movement is well managed and normal.
- A local party had called for a *Bandh* on November 23. But, people were not interested and, hence, it was a failure.

Delhi: Cash is king, but dethroned

Cash trapped: The capital city was amongst the worst hit in our sample set. This could be attributed to preponderance of cash transactions in the region. **Salaried versus business:** The salaried class is in conservation mode (job security is the prime objective). Hence, discretionary spending cuts are likely to extend till March. The business class, scarred by fear psychosis, is treading caution. Aspirational products like Royal Enfield could see faster recovery. However, given the cut in discretionary spending, 4W sales are likely to be subdued till FY17 end. **Cashless economy needs to cover distance:** Cash is the predominant medium of transactions across segments. But, the trend has shifted to cashless transactions post November 9. However, given preponderance of cash transactions, significant transformation is still some time away. **Financiers changing tack:** Banks and NBFCs, hit by the deluge of liquidity and flagging demand, are hard-pressed to change tack—offering 100% financing (selectively) against 75-80% earlier.

Anecdotes

A gold loan branch in the heart of Karol Bagh: A blend of business and unorganised working class



“Disbursement s have come to a halt. People are not willing to take online payments given the withdrawal limits”

Digital blessings: A hit in ongoing marriage season



A prime Honda dealership in Dwarka: Home to many MNC employees



“If the situation continues to drag, job security will take precedence; people will go in conservation mode and postpone discretionary spends. December sales will recover as discounts will increase”

Valkrangee Kendra, outskirts of Delhi: Dominated by farmers and small businesses



Undisputed beneficiary: Business up 3x on deposit mobilisation

Auto financier: MMFS branch – 60% of customers are commercial (Ola/Uber owners)



Financing hit as replacement segment dented since dealers not accepting old vehicles as margin money. Has started offering higher financing (95% ex-showroom) selectively against 70-75% earlier

2W dealer: Royal Enfield

Demand outlook

Not much worried on demand as it has been outstripping supply. For instance, in October, sales stood at 270 units and could have delivered 300 units (if supply from the company was higher). However, may miss November target even as demand is expected to normalise from January 2017, given that 2W is an aspirational product.

Customer profile

Around 60% of the dealer's customers are self employed with balance being salaried class. Around 35% of bikes are financed and balance outright purchases. Around 60% of outright purchases are via cash.

Discounts and incentives

No increase in discounts in November. However, expects big discounts in December as dealers/companies would like to clear inventory. December is generally high on discounts every year.

Change in business model

Expects level of financing to improve as HDFC Bank is offering 100% LTV versus 75% earlier. This is being offered to government employees. However, OEMs are asking financiers to extend the scheme to other customer segments as well.

Others

In Delhi RTO, car registrations are done via banking channels. These have slowed down. In Gurugram, RTO registrations have virtually stopped as they were solely done via cash.

Automobile dealer: Honda Cars

Demand outlook

In November, steady sales are expected to drop 20% QoQ post strong Diwali sales. However, due to demonetisation, sales are expected to plummet 45-50%. Footfalls were virtually non-existent from November 9-15.

Recovery expectations

Recovery expected only towards March 2017. Going by prevailing sentiments and news flow, people are preferring to conserve cash; in the salaried class, job security has taken precedence over car purchase. *New City*, which was to be launched in January 2017, may see subdued response.

Discounts

Discounts did not increase in November. However, expects big discounts in December as dealers/companies will look to clear inventory. December is generally high on discounts every year.

Change in business model

Many customers used to make down payment through cash. This is now slowly changing to payments via debit/credit cards.

Consumer durable dealer

Demand outlook

Sales had jumped 20-25% in October, buoyed by Diwali. Hence, inventory was stocked up in anticipation of improving demand outlook. Currently, sales are down 40-50% YoY. OEMs, in order to prop up off take, have retained targets for dealers, except that the weightage for rewards calculation for sales executed in November has been increased to 1.5x. Demand for seasonal products like heaters is intact, but that for other appliances is tepid.

Change in business model

Most purchases are done in cash, with very low use of credit/debit cards. Demonetisation has impacted spending psychology—wholesalers/retailers have started enquiring about PoS machines.

Recovery expectations

Recovery in demand hinges on improvement in availability of cash as well as faster adaption to new modes of payment.

Discounts

As of now, the dealer has not increased discounts. However, in a bid to clear inventory, incentives are being offered on certain products.

Cement dealer

Demand outlook

While retail trade volume is down 35% YoY, institutional business has dropped 20% YoY. Within institutional, real estate has seen maximum decline, excluding which the fall is ~10-15%. Demand is expected revive by March 2017 driven by infra spending by the government. Revenue mix is 70% retail and balance institutional.

Change in business model

Currently, 90% of trade is in cash, which is expected to change to 60:40, which will have some impact on demand. However, it will become the new normal and people will get used to it.

Micro finance

Demand outlook

Collections are down to 55%; initially, they had dropped to 20%, which have now improved to 55%. Disbursements have completely stopped. There is no distress among borrowers, but difficulty seen in servicing due to cash crunch.

Change in business model

The company proposes to issue prepaid cards. Currently, almost 40-50% customers have bank accounts, but they are not keen on accepting disbursements via cheques/online payments as they will still have to go to banks to withdraw. The company aims to move them to prepaid cards in the long run.

Others

There is confusion at the ground level following news on loan waiver as well as RBI's recent announcement of extending NPA recognition period by 60 days.

Gold finance company: Manappuram Finance**Demand outlook**

Collection is down to 30% (had dropped to 70%). Disbursements are now almost at a standstill; customers are not keen to take payments via cheques as they will have to deposit and then withdraw the same, which will be cumbersome in light of limits on withdrawals.

Customer profile

The business class accounts for 30% (average ticket size: INR200K), with balance comprising unorganised (average ticket size: INR30-50k).

Change in business model

The company has shifted targets to tonnage from absolute amount. Earlier, 2 of 20 customers used to accept money via online, which has now improved to 8 of 20. Disbursements above INR100K are now happening through NEFT/RTGS. Mannapuram has introduced online products; however, they have not taken off in a meaningful way.

NBFC: Mahindra Finance**Demand outlook**

Sales have dipped by more than 50-55%. Earlier, old vehicles constituted margin money and ~30% sales were executed in this manner. This has now stopped as it is a completely cash business as: 1) commercial vehicle customers have postponed their buying decisions; 2) replacement market has come to a standstill; and 3) some improvement expected only from April 2016.

Customer profile

Around 60% of customers are drivers, 10-12% salaried. Current customer profile is due to CIBIL related issue as well as faster approval. Migrants comprise a high share of customers and they have limited address proof. The company uses its wide reach across states to carry checks on customers' home towns before disbursement. All customers will have bank accounts. However, 80% of collection is via banks and 20% through cash.

Others

- No discounts offered in November. Targets set by OEMs no longer valid for the month. However, there have been no cancellations.
- RTO registrations were stuck in the initial 7-10 days as old notes were not accepted for cash payments.
- 100% ex-showroom financing to select customers with better profile.

FMCG distributor**Demand outlook**

Initial 5-7 days were a drag. Things have, however, picked up in the last week. Monthly sales: INR15/17.5mn against target of INR25mn. Sales are expected to recover shortly. Retail business was down 20%. Targets have been pruned for calculation of incentives.

GST impact

Earlier, tax avoidance was due to complicated tax requirements. With GST, things are expected to improve and result in better compliance.

Change in business model

Wholesalers have started urging retailers to install PoS and allow Paytm payments rather than relying on cash.

Jewellery**Demand outlook**

Sales have declined 40-50%. Peak season (marriage) sales affected.

Customer profile

Around 60-70% payments are via cash, with 30-40% made via cheque/old jewellery/debit cards.

Change in business model

Believes proportion of cash transactions will fall sharply.

Kolkata: Surprisingly Kool

Contrary to our belief that there will be widespread chaos due to unavailability of cash, we were pleasantly surprised to see that people were more accommodating and complaints were few. However, we observed that impact on the textile sector and jewellery business was much higher (down 40-60%), while other businesses were down 20-30%. Also, there is emerging acceptance that gradually the shift has to be made to non-cash modes of transaction and even smaller vendors will have to start accepting payments through Paytm and other modes if they have to continue to do business.

Anecdotes

Unorganised



Matiya Bridge (Asia's largest readymade market) had sporadic clients versus long queues pre-demonetisation

Organised



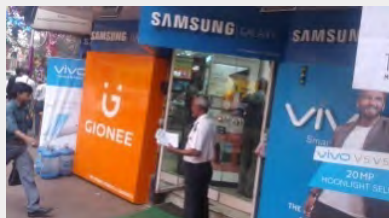
It was business as usual at Burra Bazar in spite of demonetisation ... people were giving change for INR2,000 notes as well



Park Street: A roadside eatery was suffering as the owner did not have enough change



Mannapuram Finance: Footfalls have recovered from sharp 80-90% dip to 30-40% now



Most people ask for bills as they want guarantee cards. Hence, not much impact on electronics in urban centres



One shopkeeper mentioned that usually by 9 a.m. he sells more than INR50K goods. But, he has not been able to open his account till 10 a.m. as 98% clients who come buy through cash only

Cement

Demand outlook

Expect November sales to decline 25% YoY. However, demand in December is estimated to be strong. There is no formal communication on production cuts, but going by cement prices it appears that production may have been cut. Builders have repaid debt, thereby cleaning up their balance sheets and have also cut prices after a long time (already down 20%). Construction activity was already low due to unavailability of sand and, hence, incremental impact of demonetisation looks limited as of now.

Change in business model

Cement companies are spending money and time on creating awareness about banking and other non-cash modes, along with imparting training for roll out of GST. People have started opening bank accounts—30-40% increase in new bank accounts at the sub-dealer level.

Consumer durables

Demand outlook

Sales and footfalls have declined 40% YoY. November sales will be lower YoY and there was no increase in discounts during the month. No change in product mix due to demonetisation. Expect discount schemes in December, which will become a crucial month to gauge growth potential.

Change in business model

Cash-based sales used to account for 60% of sales, which have dropped to 40%. Expect shift to credit cards/loans as a structural shift. Has enough PoS/swipe machines to facilitate higher cashless transactions.

Readymade garment manufacturer

Demand outlook

Sales have plunged 90% YoY as almost entire business is via cash due to labour intensive nature of the segment. However, retailers are able to sell their produce hence stocks at retailer level are falling. High involvement of cash in day-to-day running of business, payments to labour and shortage of money supply are affecting the ability to manufacture.

Change in business model

The segment is unlikely to see any major change in its business model as wages to labourers and porters need to be paid in cash.

GST

Impact of GST will be negative and result in job losses as only 2-3% of large customers will be able to comply with the requirements, as of now.

Spice manufacturer and departmental store

Demand outlook

For spice manufacturer, sales declined 20-30% due to drop in collections by 40-50% or customers were offering old currency notes. Also, stock build up by stockists is at an all-time low due to demonetisation.

For departmental stores, seeing strong demand and expect growth even in November. Does not see actual impact on consumption.

GST

Margins will fall sharply. Players are already working on <2% margins and if compliance goes up, it will become difficult to make money.

Change in business model

Shift towards cashless transaction has started. Around 10% cheque payments now versus 1% earlier. People are opening bank accounts at a faster pace.

Grain supplier

Demand outlook

Sales fell 10% as they are reducing sales on credit to retailers. Earlier retailers used to build inventory; however, currently, they are procuring only to the extent of requirement. Collections are getting delayed by 7-8 days or being offered in old currency. They expect this year's stocking to fall and hence commodity prices will remain low.

GST

A low-margin business, but has no qualms to shift to 100% cashless dealings in a bid to reduce interference from government agencies.

Changes in business model

Bank accounts are being opened at a faster clip. Some clients have even started making cheque payments. Farmers are happy that they will directly sell their produce to large formats with GST in place and middlemen getting eliminated.

Gold finance company

Demand outlook

Footfalls declined 90%, but have since recovered to 50%. Collections too fell to 80% from 95%. There are no indications from customers of defaults as no intentional delinquencies have been witnessed as yet.

Change in business model

With most customers having bank accounts, disbursements and receipts will shift to online mode now onwards. A lot of repayments are being made in new currency and people are taking away their gold. The company is helping customers to transition to banking/online transactions.

An NBFC mentioned it has not seen any fall in demand for Maruti car financing and it does not perceive significant sales impact; but sales of other brands have nosedived

A 2W dealer mentioned he is not that worried about demand, but apprehensive about of petty cash as he needs it to pay cash for loading and unloading of bikes and other miscellaneous expenses

NBFC: Vehicle financier

Demand outlook

Collections had dipped to 20%; now back to 80%. Still to gauge impact on tractors as it has a quarterly collection cycle. Hopes pinned on December collections due to harvesting. Working capital cycle will rise by 20-30%. Not much impact seen on Maruti vehicles, but other brands have witnessed massive impact.

Changes in business model

There is rising acceptance of cheque payments. Earlier, only 10% payments were made via cheques; now 30%.

Automobile dealer: Cars

Demand outlook

Sales fell 80% of normal, but are currently down only 20%. Expects normalcy to return soon. While November target of 20% growth will be missed, normalcy will return in December or January.

Incentives and working capital

November did not see any change in incentive schemes, though incentives are expected to rise in December (an annual feature). Working capital cycle is getting impacted due to sharp slowdown in used car business (received as part of exchange scheme).

GST

No major communication from OEM regarding its preparedness for GST.

2W dealers

Demand outlook

Footfalls dropped to 10% of normal sales, but now at 80%. Expect normalcy to return by January 2017. December is expected to remain weak due to seasonality issue. For Royal Enfield, no major impact seen on demand and waiting period. Similarly, no impact seen on demand for scooters (Honda *Activa*) as demand is driven by women and salaried class customers.

Incentives

No major incentives offered. But, banks are offering 100% financing against 80% earlier.

Change in business model

No major change in business model as down-payment was via cards/cheques.



Marriage season has been the only solace for jewelers, else sales would have plummeted 70-80%

Jewellers

Demand outlook

Footfalls are down 40% versus normal demand. Some buying is happening due to marriage season. Media reports are also keeping customers away from big-ticket items. Ratio of gold and jewellery remains unchanged. No changes in incentives given in making charges as yet. Expects demand normalcy post March 2018.

Change in business model

Earlier 60% of sales were in cash; the ratio has now reversed and the trend is expected to continue.

FMCG distributor

Demand outlook

November sales were 30% down from normal levels. While there was no impact on edible products, winter product sales fell significantly.

Change in business model

Clients are opening bank accounts at a faster pace. Earlier, 95% of business was done via cash, but now down to 80%. The ratio is expected to decline further.

Nashik: Optimism still afloat

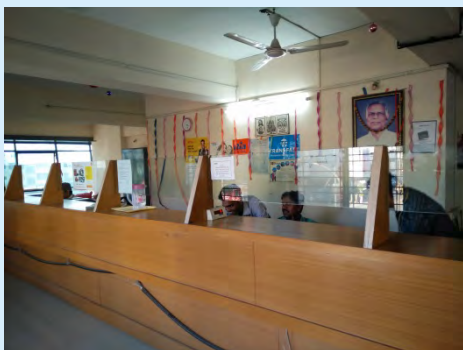
In the course of our Nashik channel checks, we visited FMCG distributors (GCPL, Pepsi), a gold finance company branch, a consumer durables dealer and an automobile dealer. Nashik has been negatively impacted by demonetisation due to higher involvement of cash owing to larger presence of agriculture and business community. Hence, the aforementioned segments did see deep drop in volumes in the initial week. However, the subsequent week not only witnessed some recovery in cash transactions, but also the proportion of cheque usage/digital payments jumped. We mostly visited organised players who are hopeful that GST and demonetisation will bring about a shift from unorganised to organised segment, thereby benefiting them. While all the players that we met were hopeful of a recovery by mid-December to early January, there was an underlying fear of economic recovery being prolonged resulting in job loss, etc.

Anecdotes

Maruti showroom: Business down; 120-122 cars sold till November 25 against run rate of 200 cars per month. If current situation persists post December, chances of layoffs will increase



Manappuram branch: Walk-ins down, disbursements severely hit, but repayments high due to innovative ways of repayment—allowing payment by third party in lieu of authorisation letter



Pepsi distributor for Nashik and Aurangabad:

The distributor has pruned ordering from 1.5 load/day to 1 load in every 3 days. Own fleet utilisation of LCVs down from 55-60% to 20-25%



FMCG distributor: Low inventory pick up; incremental credit to wholesalers and retailers



Consumer durables

Demand outlook

From an average of ~500-600 (with peak of 1,500 during the festive season), sales were down to 25% during the first week after demonetisation. Most of the impact was on cash sales (>90% of sales were in cash, pre-demonetisation). In the second week, demand recovered slightly and was down 40-50% with some customers open to card payments. The dealer expects demand to recover from mid-December once currency circulation improves.

Change in business model

Customers have started shifting towards debit/credit cards. The company is optimistic of a shift from unorganised to organised segment.

Discounts and inventory level

No major increase in discounts by OEMs. Orders from OEMs have been lower by 25% in order to manage inventory. Overall stocking has been reduced from 3 weeks' inventory to 1 week.

GST

No clarity so far on how GST will be implemented. Will do as suggested by consultant.

FMCG distributor: GCPL, Hamdard, Vicco and Cavinkare

Demand outlook

Sales down 90% in the initial week; however, subsequently business recovered and between November 17 and 25, sales dip improved to 30-40%. If FMCG companies do not come out with some incentives/promotions by December, there could be an overall impact on sales. With respect to customer behaviour patterns, down-trading is visible with slowdown seen in products such as deos sprays, high-end creams, etc. Distributors did not comment on expected recovery timeline.

Customer profile

Mix of wholesalers (50% cheque and 50% cash) and retailers (40% cheque and 60% cash). Expects wholesalers and retailers transacting in cash to move to cheque mode, but it may take some time. Wholesalers and retailers have been asking for more credit. FMCG companies have accommodated distributors' request and have extended credit by 7-10 days with a condition to continue to lift stock.

GST

No communication from companies on GST. Does not have software that is critical for GST transition.

Gold finance companies

Demand outlook

Business for fresh disbursements/new loans has been severely impacted. Customers want to take loans in cash whereas branches are short of it. However, lately, some customers are understanding the new change (adding 5-7 new customers everyday against a run rate of 20-25 before demonetisation) and hence taking disbursements through NEFT/RTGS, etc. An interesting trend was that repayment spiked in the initial 10 days.

Customer profile

Majority of the customers (>75%) are from the business class and balance are either farmers or customers with agriculture linked incomes.

Change in business model

Manappuram has relaxed targets for most branches. Earlier, ~10% of customers were taking disbursements in cheque, now that proportion has increased.

Automobile dealer: Maruti Suzuki**Demand outlook**

Overall footfalls were down 40% immediately post November 8 and have remained at those levels ever since. Against a run rate of selling 200 cars p.m., the dealer has been able to sell only 120-122 till November 25. Salaried class may come back and will most likely only defer its needs, provided there is no fear of job loss. Farmers are skeptical of buying using their tax exempt money. If there are no job layoffs and there is adequate currency in circulation, demand should return by mid-December.

Discounts

No increase in discounts in November. The dealer is hoping that OEMs will introduce some schemes to lure customers in December. December is usually a high discount month (year-end phenomenon).

Customer profile

Customer mix—40% salaried either private or government, 30% farmers and 30% self employed. Demand deferral / demand loss may happen within farmers and the self employed category.

Change in business model

70% of sales are through finance, of which ~30% used to make down payments through credit cards and ~70% through cash. This proportion may see some shift. Any increase in transactions in resale market may lead to permanent loss of demand for new cars.

Others

In the Nashik regional transport office (RTO), car registrations are done only via the banking channel. If the dealer's sales do not revive, there is a risk of job losses.

FMCG distributor: Pepsi and GCPL**Demand outlook**

Typical business mix was cheque 35% and cash 65%. Immediate impact was cheque business dropping by 5% and cash business dropping to 5-10%. However, after a week, the cash business recovered and is now down to ~40-45%. To illustrate the demand decline, a distributor who used to order 1.5 loads (1 load equals to 7.5 tonnes) per day has reduced it to 1 load in 3 days. Further, distributors' vehicle utilisation has also dropped from 50-60% (pre November 8) to 20-25%. Expects things to normalise from January.

Customer profile

Credit period given by distributor to wholesalers has increased from ~15 days to ~30 days now. The FMCG company has not reduced distributor's target, but is ready to extend credit so that he can tide over any immediate cash crunch.

Change in business model

The distributor is hopeful that unlicensed wholesalers who deal only in cash will move out of the value chain. Further, PoS and digital payment methods will evolve even at the retailer level. For e.g., Pepsi has started discussion with Paytm to install the machine at its retailers.

GST

Not prepared and will do as directed by his Chartered Accountant.

Pune: Win some, lose some

The impact of demonetisation has been felt in varying degrees depending on the consumer profile—meaningful impact on gold finance, which is highly cash dependent and little on mid-segment cars, which typically route transactions via banking channels. Unavailability of cash is a major pain point amongst consumers as well, which was apparent with most ATMs being closed and long queues outside those dispensing cash. Banks are also running short of cash and are doling out less amounts than what customers are entitled to. High-value transactions in mandis have slowed down considerably due to cash shortage. For high-value transactions, consumers are increasingly moving towards banking channels.

Anecdotes

Footfalls in mandis still down and high value transactions have declined meaningfully

No impact on short-distance logistics; logistics companies are taking orders as usual



2W dealer: Hero MotoCorp

Demand outlook

Sales per day have reduced to 220 units from 320 earlier. Footfalls have recovered from decline 50% YoY to 20-25% decline YoY. Expects sales lost in November to be postponed to December. Expects sales to normalise by March 2017.

Customer profile

Customer base is largely salaried class and hardly any farmers.

Change in business model/customer habits

100% financing has been extended, but adoption by consumers is not meaningful as the scheme is available to customers of select profile. Purchases are need based and hence the dealer does not expect the impact to be long lasting; has not seen any down-trading.

GST

No clarity on GST implementation so far.

4W dealer: Hyundai Motor

Demand outlook

Footfalls were down 20-30%, but have recovered; November is a slow month as potential consumers buy in Diwali (which was in October) or wait for more discounts in December. Expects demand to normalise by December. Used car market has been impacted meaningfully as substantial portion of the deals happen in cash.

Customer profile

The dealer does not expect meaningful impact on sales as the typical customer base is salaried class (IT) professionals. ~55% sales are financed; only 2-3% sales are 100% financed; 100% financing is not preferred by consumers as well.

Change in business model/customer habits

Cash proportion is low, some consumers pay booking amount (INR20-50k) in cash, but now they have shifted to cheque payments.

GST

GST implementation will be done with support from automotive companies. No communication as of now.

Cement dealer

Demand outlook

Overall volumes declined 20-25% YoY. Demand recovery is dependent on recovery in real estate, which is uncertain; real estate prices were under pressure even prior to demonetisation. Impact due to demonetisation is likely to fade when cash is available, which is expected in the next couple of months. There has been no impact on short-distance logistics and hence there are no supply-side issues; issues are on demand side; logistics companies are taking orders as usual.

Discounts

Cement prices have not changed due to demonetisation; there has been no incentive/credit from companies.

GST

GST implementation will be challenging in terms of manpower requirements for monthly reconciliation; expects support from companies. As of now, no major communication for GST implementation from companies.

FMCG distributor: Marico**Demand outlook**

Business was down 20-30% in last week, recovering from low of 50-60%. ~50% of the business is transacted in cash, which has been impacted. Order size has dipped, but not meaningfully; some of the distributors (across brands) are still accepting cash and are bagging good orders/market share. Retailers' sales are hit as the consumers are postponing purchases. Consumers are fearful and are hence hoarding cash; expects situation to normalise by December.

Change in business model

The company had extended credit period for 5 days, which has been extended to retailers. Paytm adoption not material. Incrementally, more payments are happening through cheque.

GST

Does not perceive material challenges to GST adoption.

Gold finance**Demand outlook**

Walk-ins have dipped to ~50% as cash disbursement has stopped; banks do not have cash for disbursement—getting ~INR4k versus entitled INR50k from current account. Overall collections have increased as consumers are buying gold from gold financiers by depositing cash (old notes) in their accounts and then transferring it. Normalcy will return once banks start dispensing sufficient cash, timeline of which is difficult to forecast.

Change in business model

As all disbursements/collections are routed through banks it is impacting disbursements; consumers require cash for general business purpose, which is getting impacted. There is no relaxation in LTV since demonetisation.

Discounts

Has introduced product OGL (online gold loan; smartphone app based) which it is promoting. Although response is slow, expects to pick up in the medium term.

Jewellery: Tanishq

Demand outlook

Gold demand has dipped as footfalls have declined. Not sure of recovery timeline. Will wait till month end to take a call on business outlook.

Change in business model

Most of the purchases are happening via card/cheques. Golden harvest payment has shifted to cards; no impact on card payments for the same.

GST

Does not expect GST roll out to be challenging for company outlets.

Surat/Vapi: Higher unorganised share spoils the pie

The Gujarat region has been negatively impacted by demonetisation due to significant involvement of the unorganised segment. In industrial belts of Surat and Vapi, we covered many small scale industries (unorganised and organised) across different value chains. While organised players envisage demonetisation along with GST to bring economic benefits and a long-term positive, unorganised players (we visited textile, chemical, engineering products players, among others) foresee 20-30% permanent wealth destruction. Consequently, this community is also sceptical of the job scenario in the near term for the unorganised labour market.

Feedback from channel checks with various participants across the value chain covering auto, jewellery, real estate, cement and financiers was mixed. The impact was significantly higher on real estate (flowing to business activity in cement segment) and jewellery segments. After initial hiccups, FMCG and auto segments have recovered gradually with improving outlook. Within the financier segment, trends were broadly improving (with the exception of gold financiers, where outlook is still uncertain). Among players, Vakrangee seems to be major beneficiary (business up >3x post demonetisation).

Anecdotes

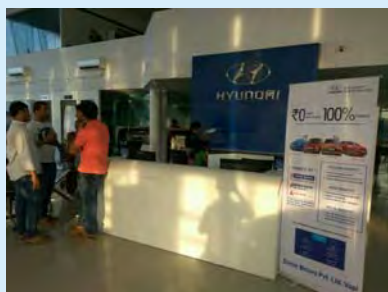


Unorganised

Work at large organised players continued with marginal impact; unorganised segments' operations were impacted



Organised



Various incentives introduced by dealers to push sales



Footfalls at Royal Enfield showroom robust as ever



Complete lull in business at local textile retail market



An unorganised chemical company's operations impacted



Business as usual at an organised textile processing company

SME: Unorganised

Demand outlook

Business was severely impacted in the first week (>70% decline in business activity); but gradually improving. However, some pain is still left. Some businesses have started to explore exports option.

Barter system seems to be making a comeback. People are uncertain about the government's actions (INR2,000 validity, fake INR500 notes, next step, people holding old currency hoping demonetisation decision will be rolled back).

GST + real impact of demonetisation will follow one after another and thus has the potential to impact businesses over the long term.

Business practice

Cash salary to workers: Though employees have bank accounts, salaries continue to be paid by cash. Online trend has started, but internet connectivity has its own set of problems.

Change in business model

Permanent impact on 20-30% of business; sceptical about job situation for non-skilled workers in the near term.

GST

Unorganised segment still not ready for GST.

SME: Organised

Demand outlook

Bulk (>75%) of business transactions are by cheque; therefore, minimal impact of cash crunch post announcement of demonetisation.

Impact limited to only ~20% of business, which will also get normalised in a few months. Large textile companies sell products to wholesalers, who then sell them to retailers. Retail sales hit due to demonetisation (cash transactions), which will have a 2-3 months' impact on the entire value chain. Therefore, companies expect some weakness in near-term sales (25-30% impact in November).

Business practice

Demonetisation will help create a level playing field. Cash leakages will be plugged and the system will be much more efficient.

Cash salary to workers is the only near-term concern. Companies will open bank accounts for all employees and salaries will be credited directly to these accounts.

Companies have extended the credit period to wholesalers by further 30 days from 40-60 days earlier. This will be applicable only for the next 2-3 months.

Change in business model

Generally, organised players rate the move to be very good and expect that over next year or so things will materially improve as the entire value chain will be much more efficient (lower cash leakages with a move towards cashless society).

GST

Ready for GST roll out; everything is in place for timely roll out.

Auto financiers**Demand outlook**

Disbursements had initially declined, but are now gradually recovering. November target will be missed, though no material impact; confident of achieving December target (sales push in the form of various schemes will drive growth).

Some rise in delinquency rate (up 5-7%), on the other hand, there is no material impact due to RBI's change in NPL recognition norm (people are unaware of any RBI move).

Customer profile

Salaried customers account for 30-35% of loan book, farmers 10-15% and balance accounted for by the business class. Around 70% of AUMs are for cars and light commercial vehicles.

Change in business model

All customers will have bank accounts. While 100% disbursements are by cheques, 60-65% collections are through cheques and balance in cash. Expect the ratio to improve in favour of cheques.

Discounts and incentives

No major incentives offered, except for 100% financing scheme for select customers. However, there were not many enquiries for such products given the higher filter criteria.

Gold finance companies**Demand outlook**

Initially, business was closed for a few days. However, since then business activity has been gradually picking up. The impact as of now is 30% of sales. There is no change in LTV. Every disbursement for >INR50K has to mandatorily show pan card.

There were some heavy repayments earlier, but things are stabilising now.

Change in business model

Customers are still insisting on cash disbursements, though there is clear intent seen on shifting to online channels.

Cash-based transactions formed 60% which have now dipped to 20%. It is encouraging to see that people are more receptive to the idea of moving to the online mode.



Accounts opening at Vakrangee:
Business at a Vakrangee Kendra in Surat up 3x and this is just the beginning...

Discounts and incentives

Customers are not aware of RBI's dispensation. A small section of customers is asking for some sort of moratorium, but no dispensation is being provided. If interest payment is due and customers are not paying, then there will be penalty. If principal repayment is due, the company suggests renewing of the loan so that customers get additional 3 months' time.

Vakrangee

Demand outlook

30 account openings now versus run rate of 10 earlier (initially, they were not allowed to open accounts for 4 days fearing fake account openings). The run rate expected to touch 50 accounts / day, but the net connection and server problems needs to be taken care of.

Change in business model

The business through Amazon has seen good traction (of overall sales in Gujarat of INR55mn, the Surat branch we visited did INR16mn).

Huge traction in the money transfer scheme as well; started with INR50,000–100,000/ day to INR250,000–350,000 per day.

FMCG distributor

Demand outlook

As retailers' sales fell >50%, dealers' sales also dipped in November (50% miss on target). However, the situation is now improving and complete normalcy is expected by March 2017.

Cash:cheque ratio at 60:40.

Incentives and inventory

Companies have extended the credit period for all distributors (wholesalers) by 10-14 days.

In some pockets, incentives for pharma companies on achieving targets have been increased to push sales (pharma companies can accept old currency).

Change in business model

Cash transactions accounted for ~50% of sales earlier; post demonetization, the share has reduced to 20%. Going ahead, does expect lower contribution of cash transactions versus earlier, once business normalises.

GST

GST will be extremely difficult to implement at retailer level.



Auto financiers extending schemes to lure customers



After initial shock and awe, business activity returned to normal at Royal Enfield

Auto dealer: Hyundai Motor

Demand outlook

Sales profile: Cash (30%), financing (70%).

After the initial collapse, sales/enquiries are recovering and normalcy is expected in 2 months.

Enquiries have fallen 33% and conversions have also been impacted. November enquiries fell to 500 from the usual 800-900. Largest impact has been on sales to walk-in customers where conversions dipped from 25% to 15% in November. Activity has improved since mid November.

Waiting period has reduced. For example, waiting period of 4 months for *Creta* has reduced to 1.5 months now. Dealer has reduced inventory to balance lower demand.

Incentives and inventory

The dealer has not offered any discounts for pushing sales, but has increased sales/marketing efforts in a more centralised manner.

Hyundai has not relaxed any targets for November/December. However, to help dealers, it is offering easy financing schemes having tied up with auto financiers (MMFS, HDFC, ICICI) including 100% financing scheme and increasing tenure from 5-7 years to 8 years.

2W dealer: Royal Enfield

Demand outlook

After the initial collapse, sales have recovered and normalcy is expected by December.

In November, bookings missed target by 15%, which is also anticipated to be back on track in December.

Change in business model

Sales profile: Before November 8, cash was 60%, financing was 20% and cheque/DD 20%. Now, it is financing 60% and cheque 40%.

All business is mandated through PAN card.

Payments to workers will now be via bank deposits (mandated) versus cash payment earlier.

Incentives and inventory

Strong demand and waiting period has been maintained. Every month, bookings are higher than sales.

The dealer has not offered any discounts for pushing sales, but has increased sales/marketing efforts—cold calling, more follow ups and targeting referrals.

Eicher Motors has not relaxed any targets for November/December. However, to help dealers, it is extending easy financing schemes by tying up with auto financiers (HDFC) like 100% financing scheme, no charges on swipe (1.5% fee levied earlier).

GST

Currently, levied 15% tax (12.5% excise + 2.5% VAT). Post GST, if covered under luxury segment (*Harley Davidson*), tax will increase to 27%, else 15-20%.

Positives: Lesser number of documentation, forms, check nakas, inter-state transport.

Real estate

Demand outlook

Walk-ins have fallen by 70-80%. Around 80% dealings are in cash. In terms of consumption, 50% was investment demand and 50% was for consumption. The 50% investment demand will see huge pull back.

Change in business model

There will be structural change in consumer preference. People will now prefer smaller 1/2 BHK flats. Price impact will be on the premium housing segment (expect prices to correct by >30%). Similarly, the impact will be high on land deals (>40-50% correction anticipated).

Many builders have reduced debt taken from the market. So, currently there is not much pressure, but if prices fall then they will come under pressure.

Cement dealer

Demand outlook

60% of business is contributed by retail and balance wholesale. Retail segment demand affected as transactions are largely done in cash. In the builder segment, 90% business is done via cheques. However, demand off take from the builder segment has reduced significantly, especially from the premium segment. No major improvement in demand in the past 1 week.

Inventory and incentives

Cement prices have not corrected and no discounts are being offered. Credit cycles have increased by 7-8 days. H2 is a seasonally strong half (>60% of business is done in this period) and hence pricing trend will be more relevant to observe going ahead, especially if demand remains subdued.

Retail segment

Demand outlook

Sales are down ~50% as entire business is done in cash. Significant near-term challenges seen in terms of demand recovery. For jewellers, sales have dropped substantially and they do not expect revival anytime soon as customers are afraid of sharing PAN card number (compulsory for transactions of >INR200K).

GST

Registration papers sent out for GST and timely roll out anticipated. Does not expect jewellery demand to shift to organised players due to GST as sales are driven by: a) relationships; b) Large players range is not that good and new designs come with a lag; and c) bargaining power is low for these players.

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