



CONSUMER DURABLES

September 2009

The Indian consumer durables industry can be segmented into three key groups

Consumer durables

White goods	Kitchen appliances/ brown goods	Consumer electronics
<ul style="list-style-type: none"> • Refrigerators • Washing machines • Air conditioners • Speakers and audio equipment 	<ul style="list-style-type: none"> • Mixers • Grinders • Microwave ovens • Irons • Electric fans • Cooking range • Chimneys 	<ul style="list-style-type: none"> • Mobile phones • Televisions • MP3 players • DVD players • VCD players

Several key trends are driving growth in the sector

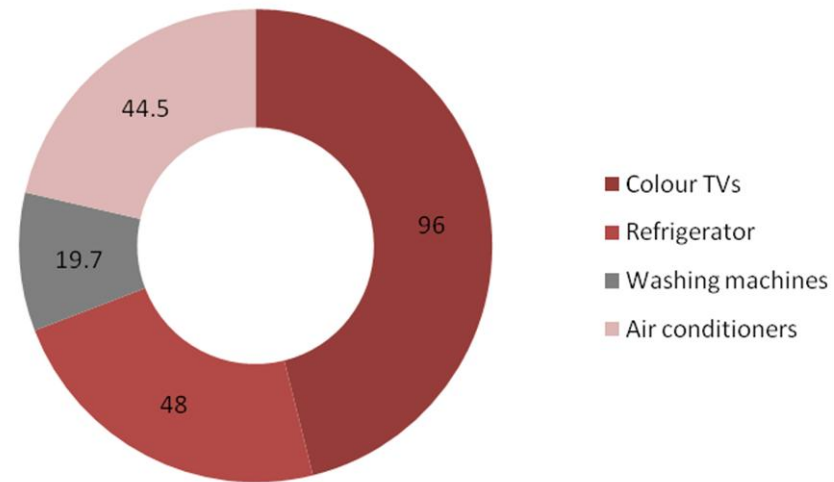
- **Income growth and availability of financing**
 - Disposable income levels are going up and consumer financing has become easier
- **Increased affordability of products**
 - Advanced technology and increasing competition is narrowing the price gap and the once-expensive appliances are becoming cheaper
- **Increasing share of organised retail**
 - Urban markets are growing at between 7 percent and 10 percent annually, and rural markets at 25 percent, with organised retail expected to garner about 15 percent share by 2015 from the current 5 percent
- **Entry of heavyweight retail players increasing competition**
 - Competitive evolution of organised retail with entry of heavyweights such as Croma, e-zone and Reliance Digital, which is stimulating demand through exposure

Consumer durables is one of the fastest growing sectors in India

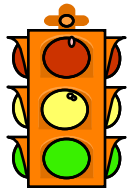
- Industry sales were estimated to be about US\$ 5 billion in value in 2007–08, a growth of more than 25 percent over 2006–07, and are expected to grow at 20 percent in 2008–09.
- Sluggish growth is expected in the short term across all key segments.

Projected growth rates for 2008–09	
Colour TVs	7-9%
Refrigerators	6-8%
Washing machines	9-11%
Air conditioners	12-14%

Key consumer durables- share by value(2007-08)



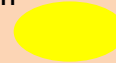
Overall, the sector is a dynamic one, with significant growth opportunities



High
Medium
Low

Threat of new entrants

- Most current players are global players
- New entrants will need to invest in brand, technology, distribution



Supplier power

- Indigenous supply base limited — most raw materials are imported



Competitive rivalry

- Number of well-established players; several new players entering
- Good technological capability
- Many untapped potential markets



Customer power

- Multitude of brands across price points — wide variety of choice for customers



Threat of substitutes

- Unbranded products and cheaper imports could enter the market



Attractive areas for investment

- **High-end colour TVs**

- High-end, flat screen TVs, plasma display panels and liquid crystal display TVs registered an average of more than 100 percent growth in 2007–08 and the trend is expected to continue

- **Split air conditioners**

- Split air conditioners have been growing much faster than window air conditioners, growing at 97 percent in 2006–07 compared to 32 percent growth for window air conditioners

- **Mobile phones**

- The mobile phone market grew at 29 percent in 2007–08 over the previous year. The market is expected to grow at a compound annual growth rate (CAGR) of about 28.3 percent from 2006 to 2011

- **Distribution and retail**

- With the rural and semi-urban markets opening up avenues for expansion, the need to have a strong distribution network is crucial for companies to remain price competitive

Attractive states for investment

Key parameters used for determining attractiveness of states:

- Incentives for manufacturing sector
- Consolidation of factors, including skilled workforce
- Proximity to demand centres
- Proximity to ports for raw material imports

Maharashtra, Uttar Pradesh and Tamil Nadu are attractive locations for investment consumer durables manufacturing.

Several global players are well established in the consumer durables sector in India, with competition from strong Indian players

Some of the key players in the sector in India include the following:



An example of a successful MNC in India



Situation

The mobile phone landscape in 1995 was an open business opportunity for all players.

Nokia's key strategy

- It was focussed and ahead of the curve.
- The company invested in each vertical of the handset ecosystem — manufacturing, distribution and design R&D.
- The parent company is always ready to invest more in India.

Key success factors

- Strong distribution network
 - India has some 95,000 outlets that sell mobile phones with a conservative estimate of 50,000 of them selling only Nokia.
- Manufacturing edge
 - Nokia has several R&D centres and labs in India, including a US\$ 150 million handset manufacturing facility at Chennai, which was set up in 2005.
- The mother brand
 - Whether it is N series or the E series, the key focus is the “Mother Brand”—Nokia.
- Local products
 - Custom-made mobiles for Indian conditions: Nokia 1100 has a torch built into a mobile phone; this helps in a country with frequent power cuts, lending the phone a distinct and tangible benefit.

Success in the industry would depend on addressing key factors

Market positioning and branding

Addressing key customer requirements that act as demand drivers by proactive marketing and establishing strong brand association

Product technology

Providing technologies that benefit the customer through low power consumption, low service requirement, low cost of operation, etc.

Distribution and service network

From saturated urban regions to low-penetration rural areas and tier-II/III towns, distribution networks and brand recognition will continue to play significant roles

Attractive locations

With raw materials forming a significant chunk of costs, production facilities located near ports to import cheaper raw materials could provide an advantage

Profiles of key Indian consumer durables players ... (1/2)

<p>Bluestar</p>	<ul style="list-style-type: none"> • Bluestar is the largest central air conditioning company with a network of 23 offices, four modern manufacturing facilities and around 2,000 employees. • It has established its leadership in the field of commercial refrigeration equipment ranging from water coolers to cold storages. • The company plans to increase production capacity by setting up a new manufacturing plant at Thane and is also looking to enhance its product range, which comprises developing special purpose products and comfort applications.
<p>Mirc Electronics</p>	<ul style="list-style-type: none"> • The company commands a strong brand equity among consumers largely owing to the success of its Onida brand. • High-quality designs have made the company a leading player in the electronics and entertainment business. • It is planning to set up a manufacturing plant in Uttaranchal for manufacturing various consumer electronic products.
<p>Voltas</p>	<ul style="list-style-type: none"> • The company offers engineering solutions in areas such as heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, textile machinery, machine tools, mining and construction equipment, materials handling, water management, building management systems, indoor air quality and chemicals. • Its operations have been organised into four independent, business-specific clusters: air conditioning and refrigeration, unitary products, engineering products and international operations. • It has tied up with RBS Home Appliances Ltd for the use of 640 service centres that Voltas has across the country for after-sales services.

Profiles of key Indian consumer durables players ... (2/2)

<p>Videocon</p>	<ul style="list-style-type: none"> • It is the market leader in the consumer electronics and home appliances segments in India; the company manufactures home appliances such as refrigerators, microwave ovens, compressors, air conditioners and washing machines. • It has plans to acquire Daewoo's consumer electronics businesses worldwide to bring LCD TVs, plasma TVs and components into its fold; the move would also help it acquire a consuming partner for the recently-acquired Thomson's picture tube business.
<p>Bajaj Electricals</p>	<ul style="list-style-type: none"> • The company is engaged in the marketing of various consumer household and industrial goods. • It manufactures the erection and commissioning of transmission line towers, telecom towers, mobile telecom towers and wind energy towers. • The company is planning to outsource manufacturing of gas appliances and water dispensers, which will be marketed under its own brand. • It is also planning to introduce inverters and two new lines of business.

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