

SUCCESS STORIES OF INTERNATIONAL CORPORATE ENTITIES IN INDIA - A MACRO PERSPECTIVE

NOVEMBER 2013

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1. ADVANTAGE INDIA – UNLOCKING GROWTH FROM MACRO FACTORS

The liberalisation of India's economy in 1991 led many multinational enterprises to foray into Indian markets. India attracted cumulative FDI inflows of USD287.1 billion during FY01–13¹.

One of the key drivers for companies entering India is a large consumer market. Attractive demographics in addition to rising incomes and consumerism are driving growth in a host of industries. Therefore, multinational companies have expanded in India in search of growth. For successfully tapping the Indian market, these companies often have to introduce new products and develop strategies for marketing to a diverse population base.

The availability of a skilled labour pool has also attracted international companies. India has one of the youngest population bases among emerging economies. With education levels increasing, companies find it cost-effective to set up base in India for tapping this skilled labour force. Therefore, influx of both service-oriented industries such as financial services outsourcing and manufacturing companies such as auto-ancillary have increased in the past decade.

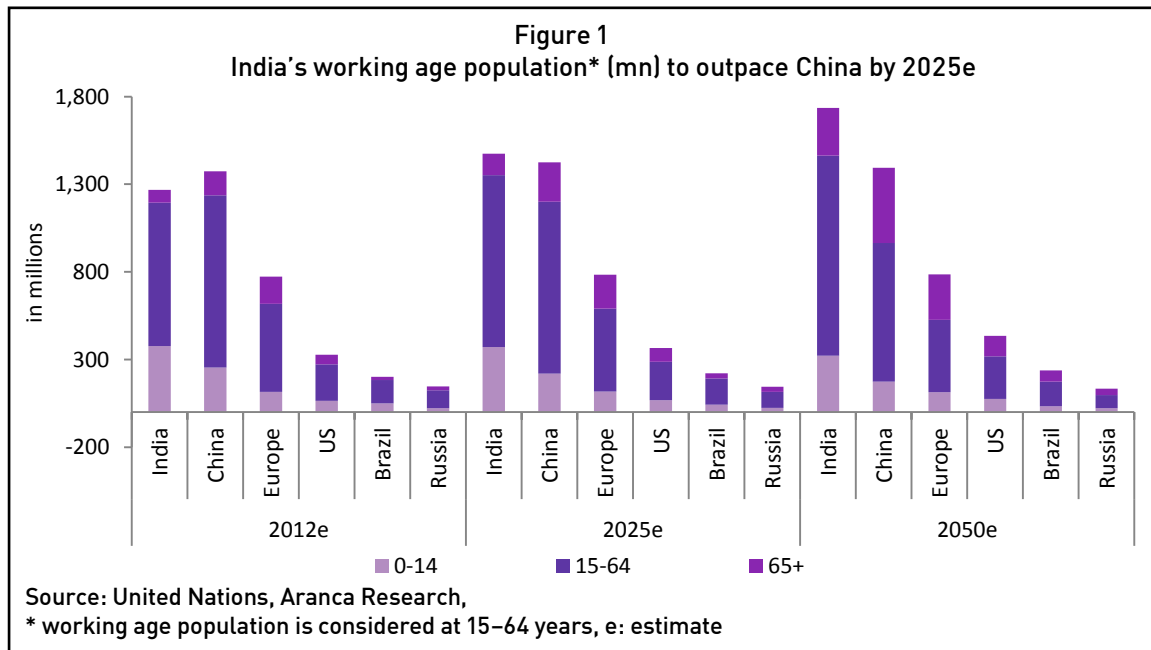
An additional attraction is India's strategic location. Companies find it cost effective to not only produce in India but also export from the country. For instance, India has emerged as an export hub for international players in the automobile sector. Companies have set up manufacturing units, primarily in the southern region, that cater to the large domestic automobiles market as well as their global factories.

1.1. Reaping benefits from its demographic profile

India's growing, young population base is a demographic dividend. India – currently, home to about 1.3 billion people – is anticipated to overtake China to become the most populous nation in the world by 2022.² More than half of India's total population is below the age of 25 years and about 65.0 per cent below the age of 35 years. Currently, India's median age is 26.5 years vis-à-vis China (35.9 years) and the US (37.1 years). It is estimated that by 2020, India's average age will hover around 29 years as compared to 37 years in China and the US, 45 in Europe, and 48 in Japan. This demographic advantage, if utilized effectively, would help differentiate India's growth story from that of other emerging and developed nations. Moreover, it offers a base for sustainable growth in the domestic economy.

¹ DIPP; Up to February 2013

² World Population Prospects: The 2010 Revision by United Nations

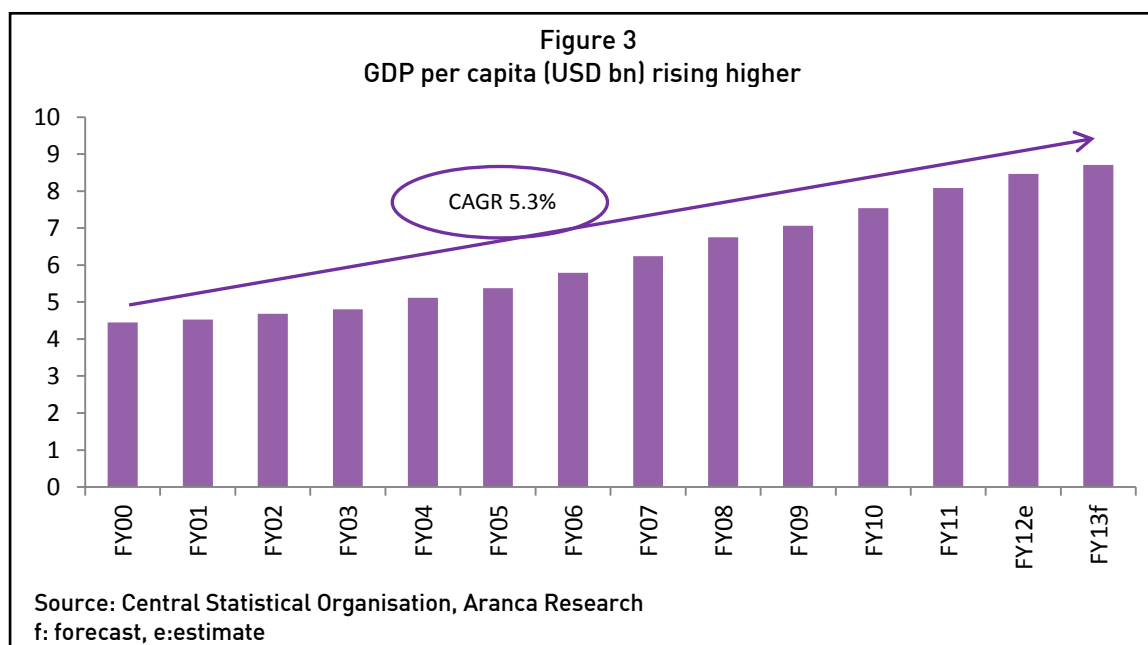
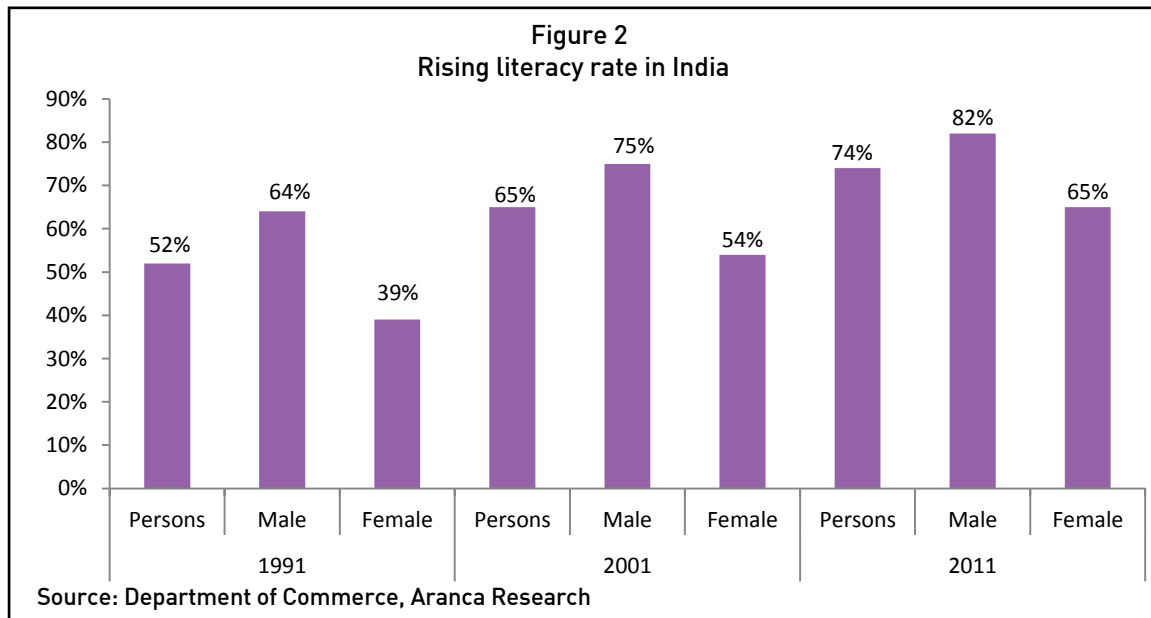


India's future to be driven by young and well educated workforce

Growth would be supported with a large pool of young and working population base. India's working age population (15–64 years) is expected to rise by around 163 million by 2025 as per United Nations' estimates. India is projected to account for more than three-fourths of the aggregate increase in the global working age population during 2012–25e³. Nearly a million people are expected to add up to the current labour force every month, touching 982 million by 2025e. As per IMF estimates, this factor alone can add 2.0 per cent growth to the GDP per capita each year for the coming 20 years.

Literacy level in India has risen significantly in the past decade. During 2001–11, India's literacy rate improved by 9.2 per cent to reach 74.0 per cent, as per Census 2011. Literacy rate among urban population is 84.1 per cent (79.9 per cent in 2001), while that in rural population is 67.8 per cent (58.7 per cent in 2011). This improvement can be attributed to the jump witnessed in high school enrolment rate backed by a favourable policy environment at the state and central levels.

³ e: estimate



1.2. Rising income levels

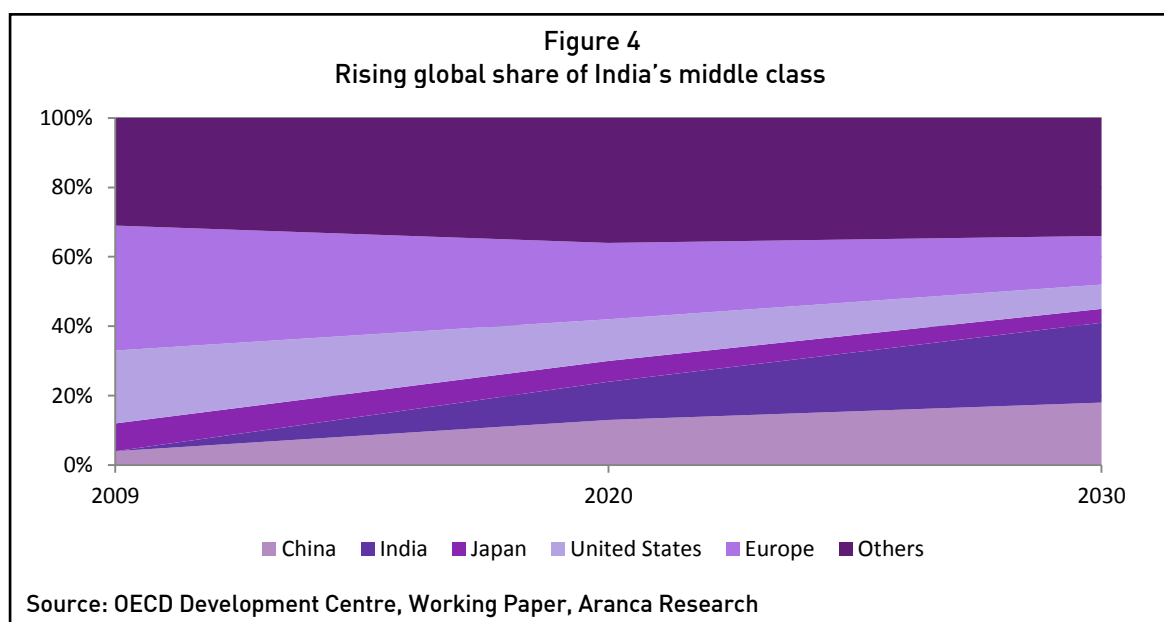
The pace of economic growth has scaled up considerably over the past decade. As per the IMF, in 2013, India's economy is expected to grow by around 5.7 per cent, and thereafter, by 6.2 per cent in 2014 supported by a strong domestic consumption and encouraging policies. India's citizens have benefitted from this growth with a sharp rise in their standard of living. The per capita income measured in real

terms (at 2004–05 constant prices) rose at a CAGR of 5.5 per cent during FY00–12, from USD4.4 billion in FY00 to an estimated USD8.5 billion in FY12, as per the Central Statistical Organisation (CSO). It is forecasted to further rise to USD8.7 billion in FY13. The rate of growth of per capita income rose from 4.5 per cent during FY01–06 to 6.0 per cent during FY07–13.

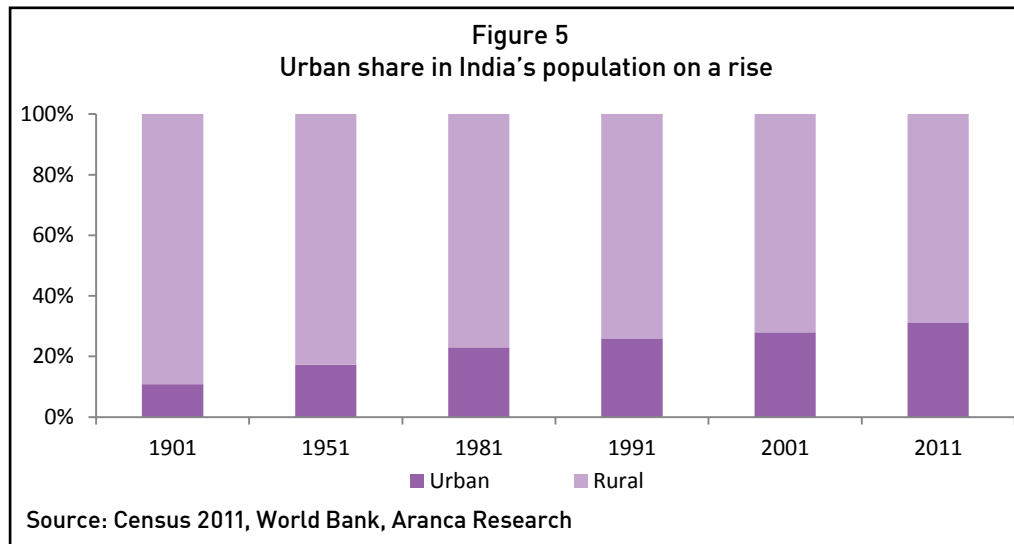
1.3. Spending triggered by an expanding middle class

Over the period, the strong economic growth of India has not only raised millions above the poverty line but has also given rise to an emerging middle class. This middle class population is considered the backbone of India’s consumption-driven economy. It is projected to overtake the US and Europe in terms of consumption in the years to come, touching 583 million by 2025, which equals the current Australian population. This would translate to a 41 per cent share in the total Indian population in 2025 up from around 5 per cent in 2005⁴. Also, India’s share in the global middle class population is expected to rise to 11 per cent by 2020 and 23 per cent by 2030.

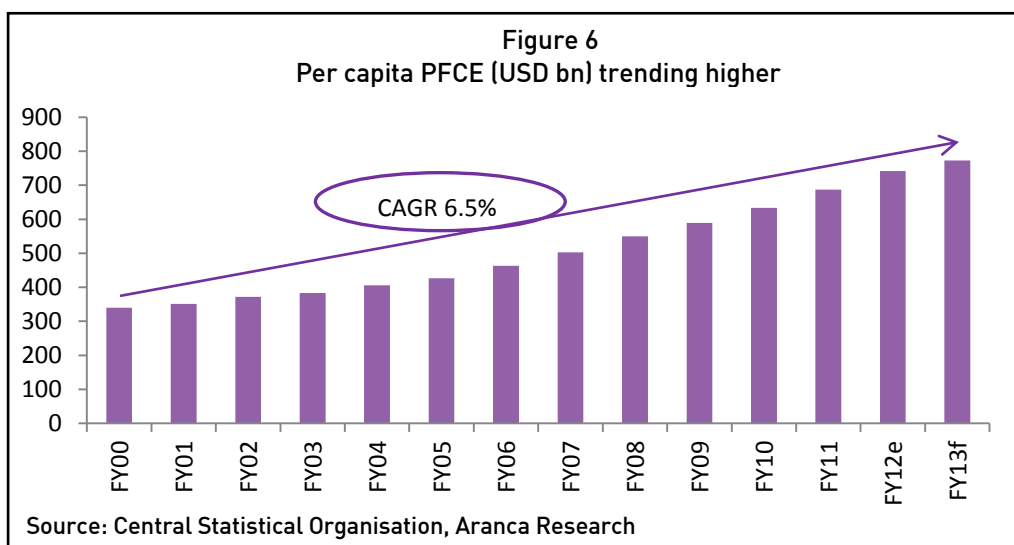
Furthermore, rising urban populace is one of the most important demographic shifts, which has been instrumental in shaping India’s consumption patterns. As per the 2011 Census, the level of urbanisation has increased from 27.8 per cent in 2001 to 31.2 per cent in 2011. Also, share of urban population in the total population is increasing, from 10.8 per cent in 1901 to 17.3 per cent in 1951 and 31.2 per cent in 2011. By 2030, India is projected to account for 15.6 per cent of the overall increase of 1.4 billion people in urban areas worldwide. The key growth driver behind the unprecedented growth is the urban growth followed by overall population rise.

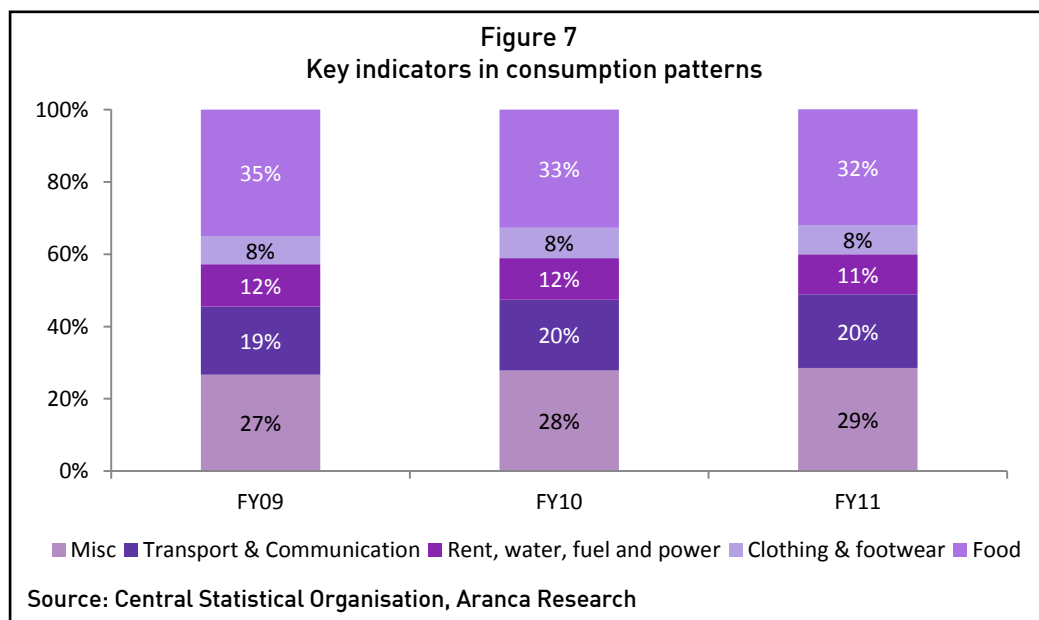


⁴ McKinsey Global Institute



The higher purchasing power of the middle class population, increased disposable income, and rising levels of urbanisation serve as a trigger for Private Final Consumption Expenditure (PFCE). The per capita PFCE has surpassed growth in the per capita income, reflecting higher consumption. In the past two decades, PCFE has registered a CAGR of 6.2 per cent vis-à-vis 5.0 per cent in per capita income. In constant (2004–05) prices, the PFCE is estimated at USD741.9 billion in FY12 as against USD687.2 billion in FY11. Majority of this expenditure is driven by demand for food. However, this consumption pattern is changing, as expenditure on discretionary items is increasing with rising income levels. There is increasing demand for durables such as white goods, automobiles, and services like hotels, restaurants, and tourism. This is evident from the rise in spending on sectors such as transport & communication and hotels; the share of hotels in overall consumption expenditure was 2.6 per cent in FY12 compared to 2.3 per cent in FY11, and that for transport services increased to 8.3 per cent from 8.1 per cent during the same period.



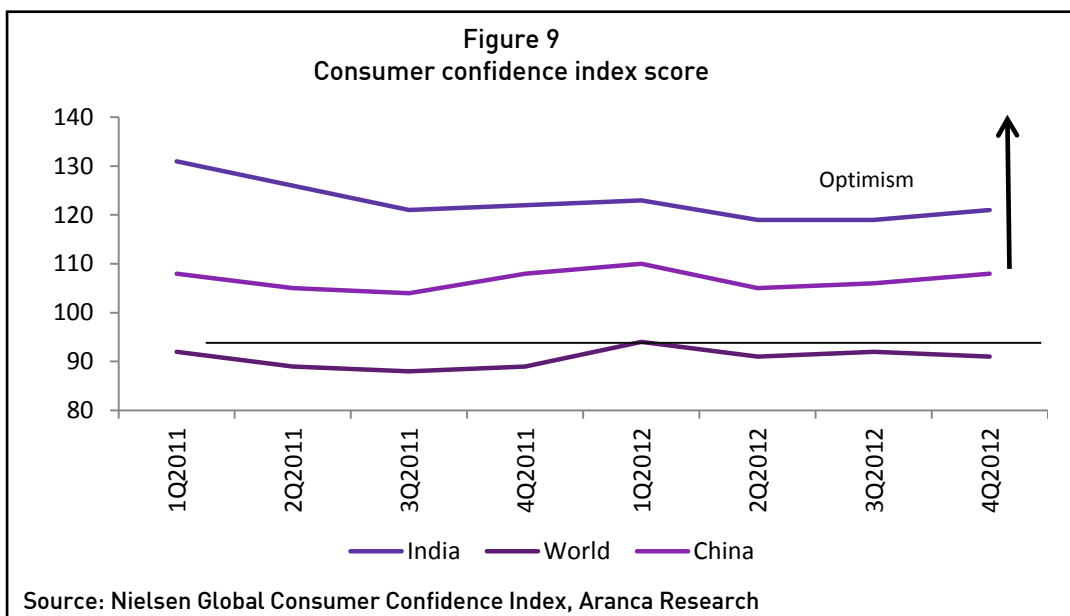
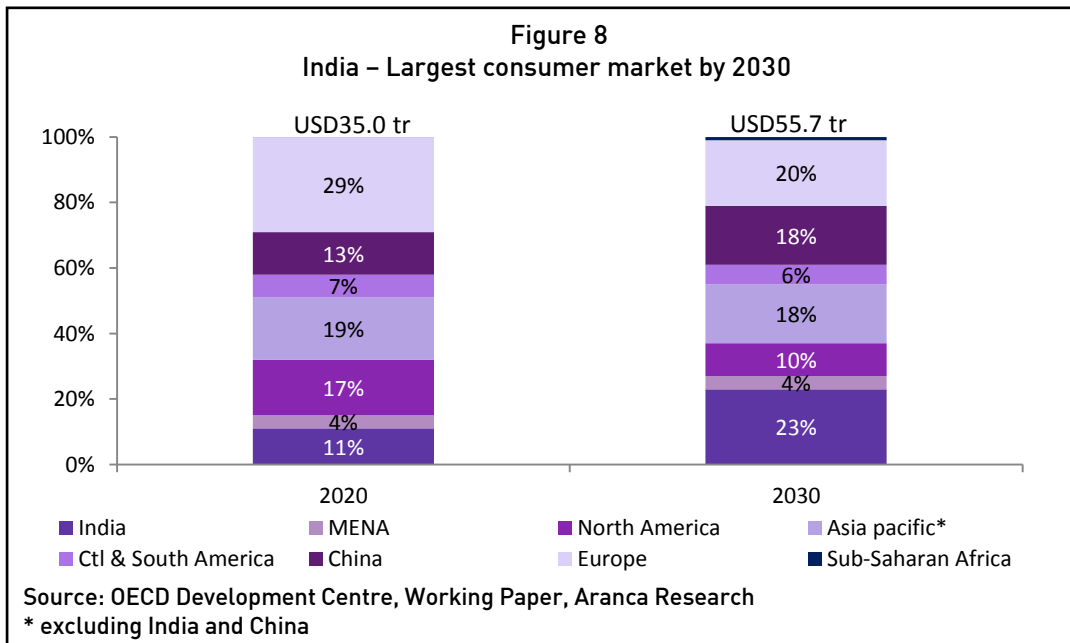


1.4. Scaling to world's largest consumption market by 2030

The rising level of urbanisation and aspirations among the lower economic group is shaping the Indian consumer market today. By 2030, India is expected to become the largest middle class consumer market, surpassing both the US and China. The expanding productive population not only induces growth but also triggers personal spending – aggregated consumers spending of USD13.0 trillion in 2030. The burgeoning consumer base of India is attracting attention worldwide not only because of its volumes but also because of the shifting nature of demand. Moreover, the consumption pattern in India is quite different compared to other emerging economies, as a major proportion of GDP is consumed in India. As per the CSO estimates, more than two-thirds of the GDP was consumed in FY12, which is considerably higher than that in China.

India tops the global consumer confidence index list

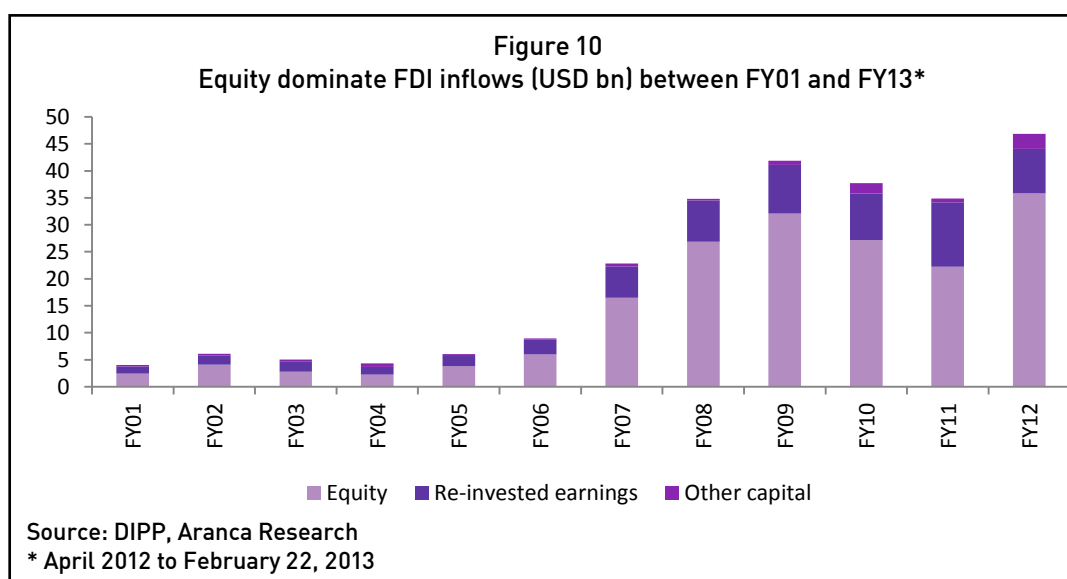
India leads the Nielsen Global Consumer Confidence Index at 121 points, much above China (108 points) in Q4 2012. India has witnessed momentum from its Q2 and Q3 figures, where it was steady at 119 points. For the same period last year, India's index stood at 122. The new Indian consumer is keen to upgrade, thus keeping the spending climate optimistic. The saving rate is coming down, as 54 per cent of respondents in India would prefer to save the extra cash in Q4 compared to 62 per cent in Q3. The majority of spare cash is expected to be spent on discretionary items, with 39 per cent willing to spend on new technology and products and 36 per cent on new clothes.



2. FDI OVERVIEW

Since liberalisation took place in 1991 India has been witnessing increased FDIs. The major factors driving investor confidence include a young population base, burgeoning middle class, urbanisation, and increasing disposable incomes leading the demand-driven economy. The demand side drivers are supported by robust and transparent institutional framework, rising business confidence and ease of

doing business, and strong domestic growth. India's attractiveness as a favoured destination is reflected in the tremendous growth in FDI inflows – CAGR of 31.7 per cent to USD46.8 billion in FY12 from USD9.0 billion in FY06. India's FDI inflows remained buoyant even during the global crisis period supported by confidence in the robust domestic growth expected after recovery and steady profits earned by foreign companies.



FDI in India has mainly been by way of equities and re-invested earnings. The figure demonstrates that contribution of equity towards the total FDI inflows has been increasing; equity accounted for 77.0 per cent of the total inflows during FY12 as against 59.6 per cent during FY01. On the other hand, the proportion of re-invested earnings declined to 17.5 per cent in FY12 from earlier 33.5 per cent in FY01. Moreover, the sharp rise of 154.7 per cent in FY07 was also driven by 175.8 per cent jump in equity.

2.1. India among the top five attractive destinations globally

Beginning its journey with less than USD1 billion in 1990, the rising FDI inflow to India has supported scaling up its rank in the global landscape. In 2012, India stood at the second position, an improvement from the third position in 2010⁵. Moreover, India is considered the second most desired destination for transnational corporations during 2010–12⁶.

India ranked fourth globally in terms of volume of FDI projects. In 2012, the country had 704 FDI projects. The rising attractiveness has led to an increase in India's share in FDI globally. The Department of Industrial Policy and Promotion (DIPP) has set a goal to increase the share of Indian FDI in total global inflows to 5 per cent by 2017, up from 1.3 per cent in 2007.

⁵ AT Kearney FDI Confidence Index, 2012

⁶ UNCTAD survey projects

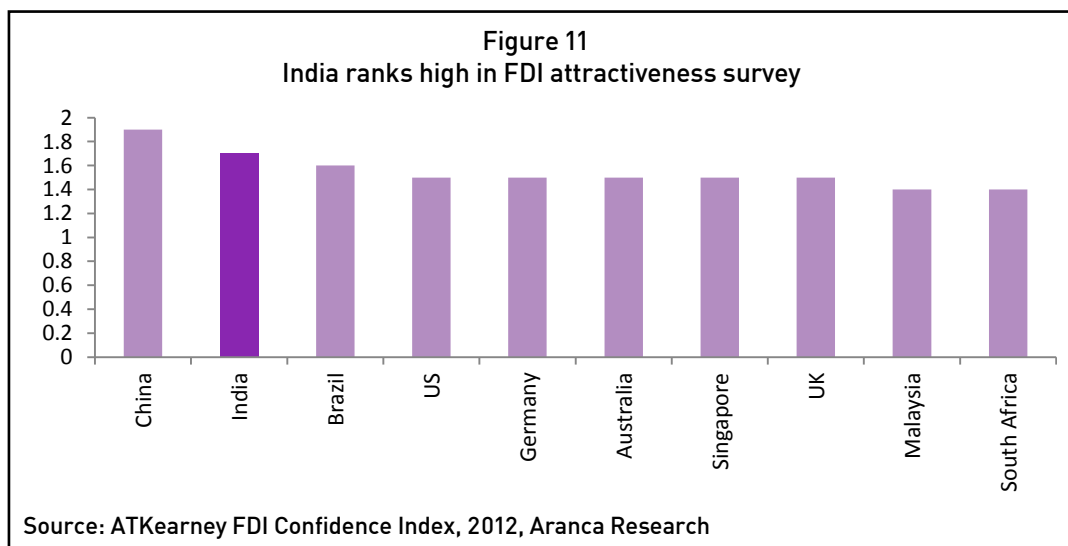


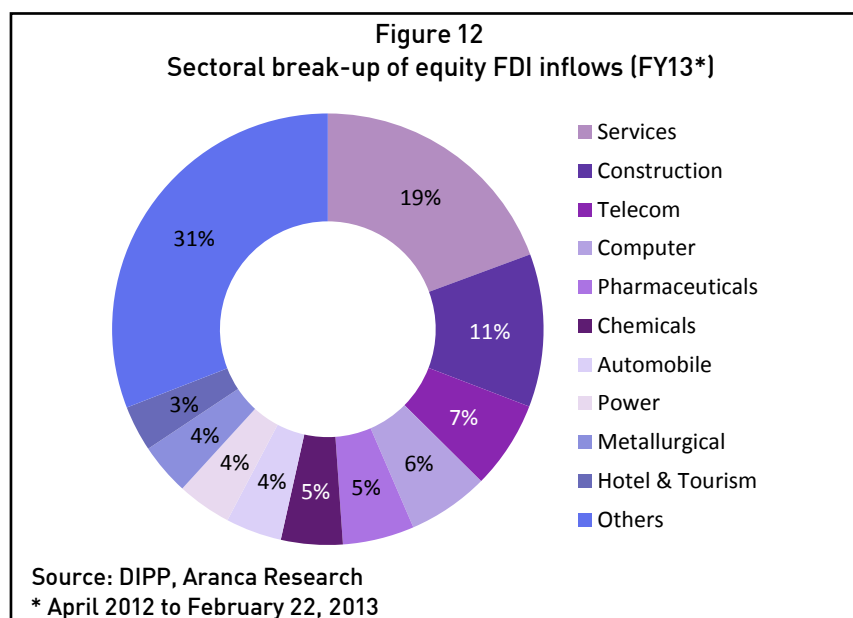
Table 1
India among top five destinations (201)

Country	Number of projects		
	2011	2012	y-o-y
US	1,892	1,671	-11.7%
China	1,270	944	-25.7%
UK	896	812	-9.4%
India	869	704	-19.0%
Brazil	491	432	-12.0%

Source: FDI Intelligence, Aranca Research

2.2. Services rule FDI inflows

The services sector has garnered the largest share of FDI inflows over the years. The services sector (including financial and non-financial services) attracted cumulative FDI of over USD37.2 billion over FY00–13*, thus accounting for an average 19 per cent of FDI inflows during the period. The sector was largely driven by the Banking and Financial Services Industry (BFSI) (accounted 59 per cent of services during FY00–11). Infrastructure sector followed with 11 per cent, led by rising investments in townships and housing developments during FY00–13*. Telecommunications stood third with 7 per cent during the same period.



2.3. Developed economies are major investors

The FDI dynamics in India has undergone a gradual change over the recent years. The trend indicates a gradual shift, with investments from developed economies increasing over the last few years. Mauritius and Singapore are being used as channels to mobilise funds and make investments, and these countries form a major part of these inflows, contributing around 48 per cent in FY00–13*. Excluding Mauritius and Singapore, India's largest investor is the UK, with cumulative inflows worth USD17.5 billion (9 per cent of the total) during the same period, followed by Japan with USD14.4 billion (8 per cent), and the US with USD11.1 billion (6 per cent). However, in FY13*, Japan with 10 per cent overtook the UK (5 per cent share).

Table 2
Top 10 destinations for FDI inflows (USD billion) during FY10–12

Country	FY11	FY12	FY13*	Total
Mauritius	7.0	9.9	9.0	25.9
Singapore	2.7	7.9	1.1	11.7
UK	1.7	5.3	2.0	8.9
Japan	1.6	3.0	2.1	6.6
Cyprus	1.2	1.4	1.7	4.3
Netherlands	0.9	1.6	0.5	3.0
USA	1.2	1.1	0.5	2.8
Germany	0.2	1.6	0.6	2.5
France	0.7	0.7	0.6	2.0
UAE	0.3	0.4	0.2	0.9
Total	21.4	35.1	20.9	77.4

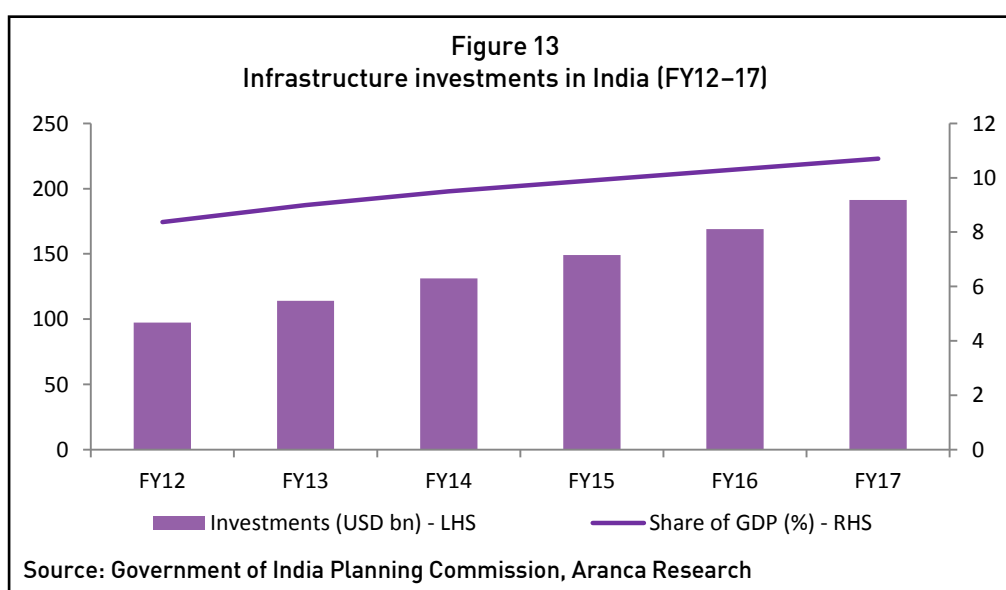
Source: DIPP, Aranca Research
* April 2012 to February 22, 2013

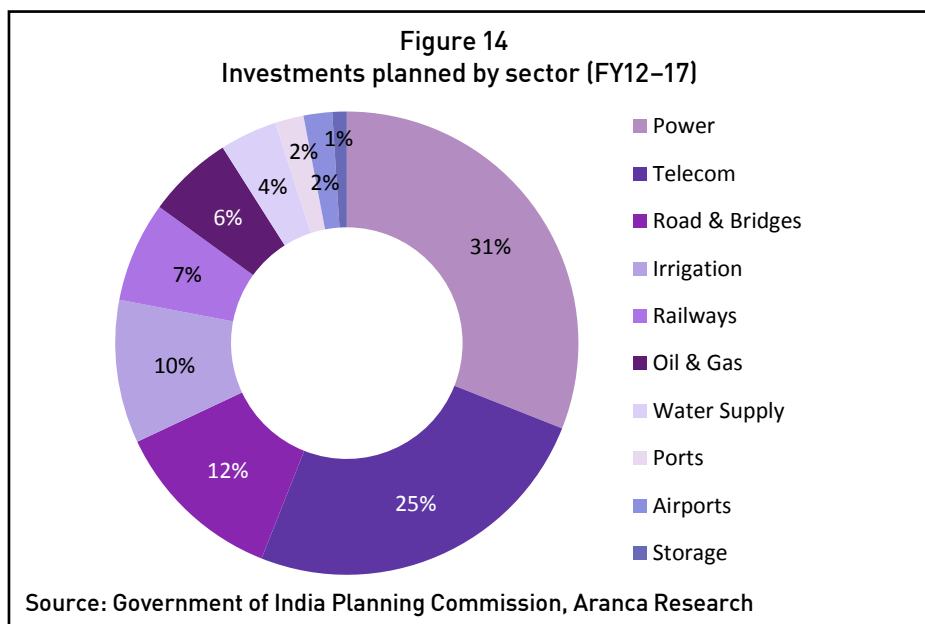
2.4. Abundant investment opportunities offered by sectors in India

An emerging middle class with rising disposable incomes, change in consumption patterns, under-penetrated markets, and an urbanised economy present a huge potential for various industries. The Indian demographic profile is set to attract investments in sectors spanning fast moving consumer goods (FMCG), infrastructure, pharmaceuticals, life sciences, automobiles, IT, banking and insurance, among others, in the coming years. Different geographies, based on their expertise and value propositions, have achieved success in diverse sectors in lucrative Indian markets. US- and Europe-based companies have made their mark on India's luxury and high-end technology space in a bid to diversify amid faltering domestic economies. Meanwhile, companies from the Asia-Pacific region have made an impact with technological innovations catering to mass market segments such as consumer goods and automobiles. On the other hand, their Gulf counterparts have established a strong foothold in the infrastructure and real estate domain.

Infrastructure – A USD1 trillion opportunity

An aggregate value of investments worth over USD1 trillion has been marked for infrastructure in the 12th Five-Year Plan. The key sectors expected to receive bulk of these investments are power (31.0 per cent), followed by telecom (25.0 per cent) and road & bridges (12.0 per cent). Investments are required to create new infrastructure and revamp existing facilities. This would require significant outlays from both the public and private sector players, offering a platform for global firms to increase their presence in the Indian infrastructure market. Middle East players have been in the forefront of capturing this infrastructure opportunity. Dubai Ports World, RAK Investment Authority, RAK Ceramics, Zamil Industrial Investment, and Construction Products Company, among others, have made huge investments in India. Likewise, companies such as Caterpillar, Siemens, and Honeywell from the US and the UK have established a strong presence in India with their advanced engineering solutions.

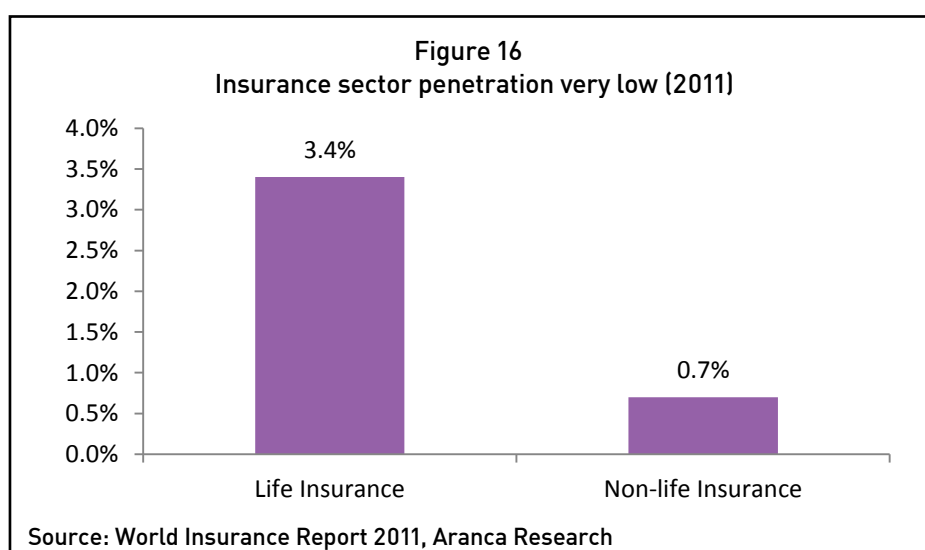
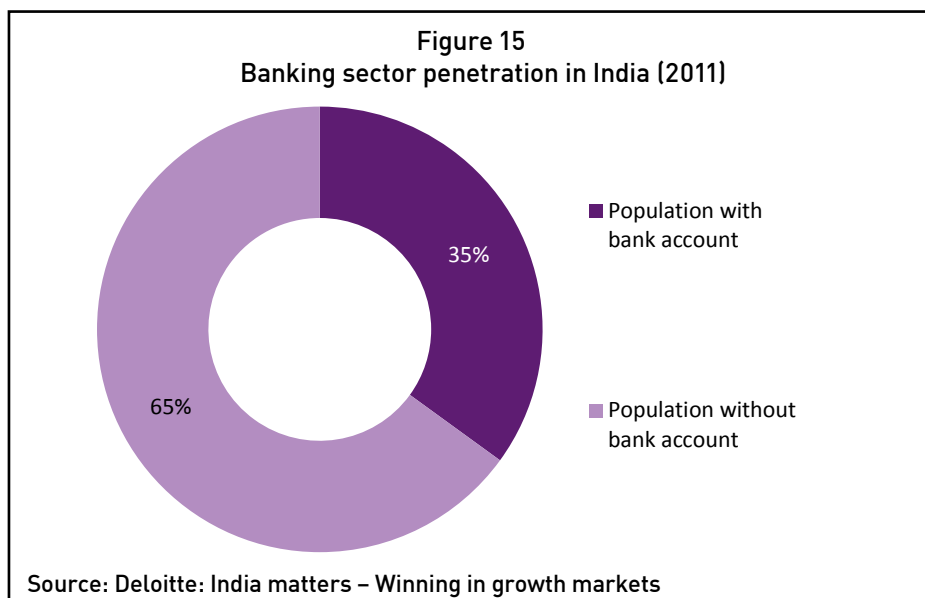




Financial Services – Penetration levels to improve

Over the period, India has attracted huge investments in the Banking & Financial Services Industry (BFSI). Low penetration of banking and insurance offers ample scope for further growth. Although the banking sector has expanded in India, around 65.0 per cent of the Indian population remains unbanked. This offers strong prospects for foreign banks to enter India with innovative low-cost delivery schemes to tap the emerging middle class population of India. Likewise, the insurance market in India, with only 3.4 per cent penetration in life insurance and less than 1.0 per cent in non-life insurances, offers huge potential. While foreign banks are allowed to operate in India with a FDI cap of 74 per cent, insurance players need to partner with a local player. The cap for FDI in insurance is expected to be raised from 26 per cent to 49 per cent.

Banking & financial services companies worldwide have been attracted to the underpenetrated markets in India. Prominent global banks, including the Hong Kong and Shanghai Banking Corporation (HSBC), Standard Chartered Bank, and the Development Bank of Singapore Limited (DBS), offer banking services in India. Global insurance companies, such as Bupa Life Insurance, AXA, and Allianz, have collaborated with local partners to expand into India.



Consumption-driven sectors remain attractive

The shifting trend towards manufacturing sector showcases capabilities: supply side with low-cost labour force and global competency in the manufacturing and demand side with rising consumption and expanding middle class. Driven by these factors, sectors such as retail, pharmaceutical, and FMCG, among others, are set to benefit in the coming future.

FMCG: The sector expanded at a CAGR of 17.3 per cent during 2006–11. Riding on the untapped rural demand and rising middle class, the sector is set to grow in segments like packaged foods, toiletries,

beverages, detergents, edible oil, and cosmetics. Moreover, the under-penetrated markets in rural regions offer tremendous opportunities for the basic household and skin care products. International companies such as Unilever, Procter & Gamble, and Colgate Palmolive have been the early movers, garnering a dominant share in the Indian marketplace.

Healthcare: The healthcare industry in India has risen at a CAGR of 19.1 per cent during 2005–11. The industry is poised to touch USD 275.6 billion by 2020⁷, thereby reflecting a great need for investments. The number of beds per 1,000 people in India stands at around 0.9, way below the global average of 2.9 beds⁸. Driven by a large untapped market, many foreign players have forayed into the Indian market – Columbia Asia Group and Amcare Labs to name a few.

Pharmaceutical: The Indian pharmaceutical sector has increased at a CAGR of 12.4 per cent during FY08–11 and is expected to further expand by 15.3 per cent between FY12 and FY14⁹. Demand for pharmaceutical products is expected to rise, triggered by the low levels of drug penetration, rising government and private spending on healthcare, improved medical insurance penetration, and rise in chronic lifestyle-driven diseases. Companies from advanced economies such as the US and Europe have been able to gain a prominent share in India's pharmaceutical segment. Players such as Abbott, AstraZeneca, Aventis Pharma, Burroughs Wellcome, GlaxoSmithKline, Merck, Novartis, Pfizer Limited, and Wyeth Lederle are among the few early movers who have capitalised on such benefits.

Education: With nearly 150 million people belonging to age group of 18–23 years, the education sector in India is one of the most attractive markets for foreign players. In FY11 alone, 17 million enrolments in higher education took place, which is set to grow further. The 12th Five-Year Plan has targeted enrolment of 10 million additional seats in the higher education system. Foreign players have collaborated with Indian groups – Usha Martin Education & Solutions partnered with Pearson Education to begin a chain of 200 K12 schools in India. Also, Apeejay Institute of Design (AID), New Delhi and Apeejay Stya University (ASU), Haryana have signed MoUs with three leading Dutch universities – AKV St. Joost and Avans University of Applied Sciences, Willem de Kooning Academy Rotterdam, and University of Applied Sciences Rotterdam.

3. REGULATORY FRAMEWORK

The optimistic view among investors backed by strong macro-economic factors present in India has been encouraged by more than two decades of reforms by the Indian government. The Indian government liberalised the regulatory framework for foreign investment by its Statement on Industrial Policy in 1991. Since then the regulatory policy for foreign investment has been regularly amended to make it progressively more investor-friendly, which has supported consistent inflow of investments to India. Inflows into India increased steadily from less than USD0.1 billion in FY91 to USD46.6 billion in FY12.

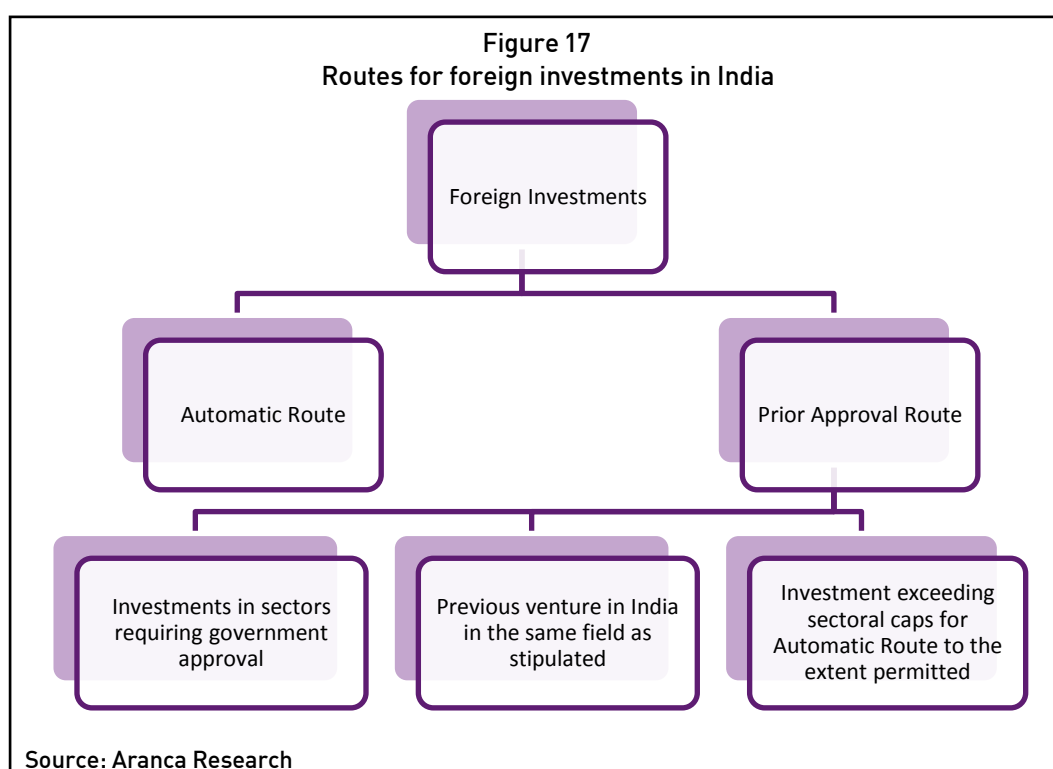
⁷ Fitch estimates

⁸ World Health Statistics

⁹ Barclays Capital Equity Research

3.1. Key regulatory and supervisory bodies

The key regulatory body responsible for policy pronouncements on FDI is the DIPP, Ministry of Commerce & Industry, Government of India. The administrative and compliance features of the FDI policy including the modes and instruments of investments are embedded in the Foreign Exchange Regulations, which are released by the Reserve Bank of India. Foreign investments may be made either through the automatic route or by prior approval from the relevant government body.



Proposals for foreign investment under Government route are considered by the Foreign Investment Promotion Board (FIPB). The figure below provides an indicative list of sectoral guidelines for FDI inflows through Automatic or Government Route. These limits are amended by the Indian government each year. In addition to these laws, FDI is subjected to sector-specific laws. For instance, the banking sector is governed by its separate banking law and Insurance sector is regulated by Insurance Regulatory Development Authority (IRDA).

Table 3
Sectoral details for FDI

Sector/Activity	% of FDI Cap/Equity	Entry Route
Agriculture	100%	Automatic
Mining	100%	Automatic
Petroleum and Natural Gas	100%	Automatic
Non-Banking Finance Companies (NBFC)	100%	Automatic
Insurance	26%	Automatic
Trading (including sourcing from MSEs)	100%	Automatic
Industrial Parks – new and existing	100%	Automatic
Construction Development Townships, Housing, Built-up infrastructure	100%	Automatic
Airports – Greenfield projects	100%	Automatic
Pharmaceuticals	100%	Greenfield-Automatic Brownfield-Government
Banking –Private sector	74% including investment by FII	Automatic up to 49%
Telecom Services	74%	Automatic up to 49%
Airports – Existing projects	100%	Automatic up to 74%
Defence	26%	Government
Banking – Public Sector	20% (FDI and Portfolio Investment)	Government
Multi-Brand Retail Trading	51%	Government
Single-Brand product retail trading	100%	Government
Power Exchanges	49% (FDI and FII together)	FDI-Government

Source: DIPP, Aranca Research

Some sectors in which FDI is currently prohibited are Lottery Business, chit funds, nidhi companies, trading in transferable development rights (TDRs), real estate business, tobacco industry, and sectors not open to the private sector, including Atomic Energy and Railway Transport (other than Mass Rapid Transport Systems). Apart from the above-mentioned sectors, foreign technology collaboration in any form including licensing for franchise, trademark, brand name, and management contract is prohibited for Lottery Business, and Gambling & Betting activities.

3.2. Highlights of FDI Policy: April 2013

- FDI in retail trading (except single-brand product retailing) up to 51 per cent is allowed.
- FDI limit for Asset Reconstruction Companies (ARC) has been raised to 74 per cent from 49 per cent. However, limit for a single FII is set at 10 per cent of the total paid up capital of the ARC.
- The cap limit for various broadcasting services has been increased to 74 per cent.
- FDI in power exchanges is set at 49 per cent (inclusive of limits of 26 per cent and 23 per cent on FDI and FII investments, respectively). However, FII investments would be allowed in secondary markets only and non-resident investor (including individuals acting in unison) can hold not more than 5 per cent of the equity in power exchanges.

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- Non-Banking Finance Companies (NBFC) having foreign investment of 75–100 per cent, and minimum capitalisation of USD50 million are permitted to set up as many step down subsidiaries for specific NBFC activities without additional capital.
 - Allows 49 per cent stake of foreign players in domestic airlines.
 - FDI from Pakistani nationals and companies has been allowed.
 - Through the Automatic Route, Indian companies having FDI are allowed downstream investment in a Limited Liability Partnership (LLP). However, company and the concerned LLP should operate in sectors where 100 per cent FDI is permitted (automatic route), and there are no FDI-linked performance conditions.

Impact of the New Policy

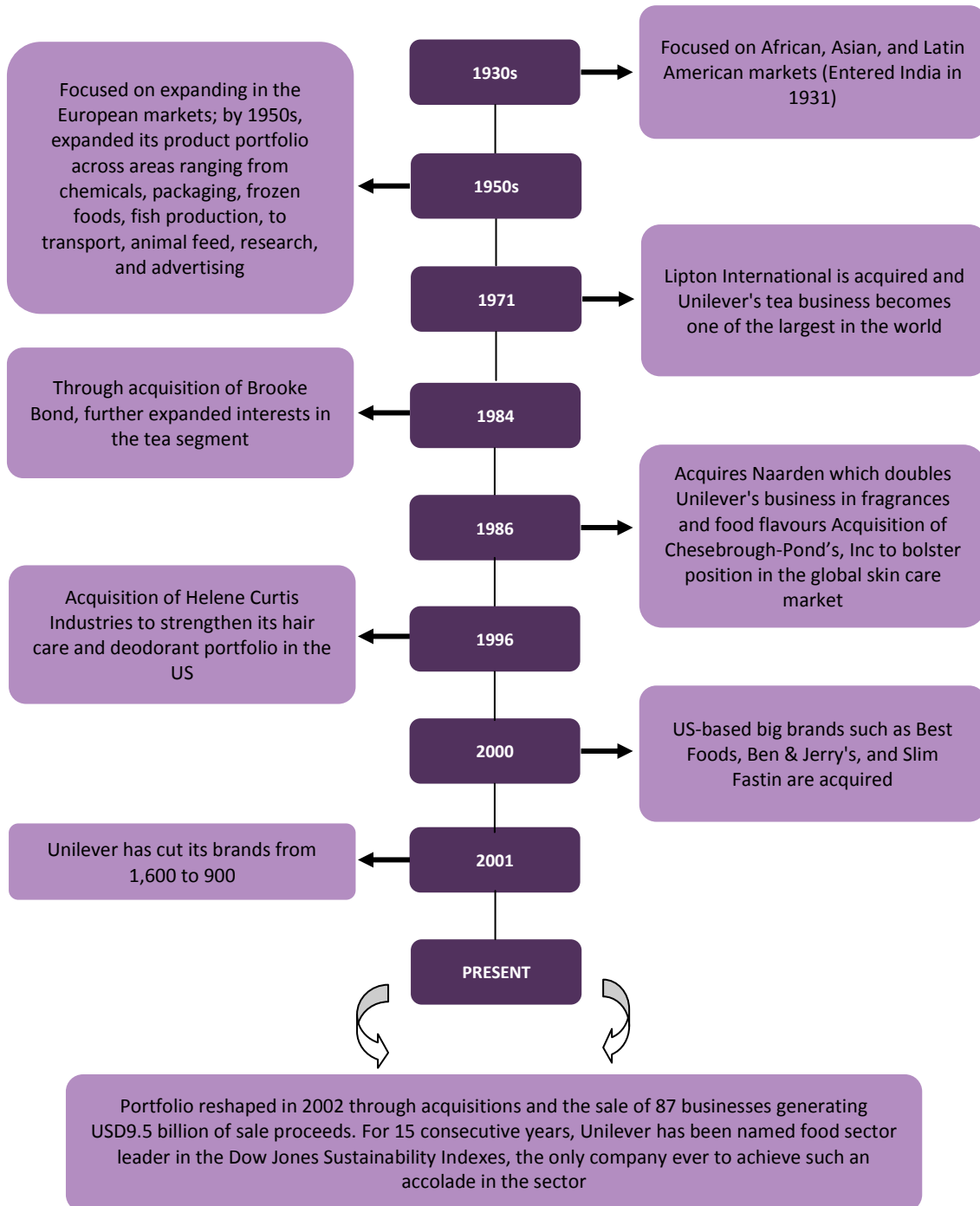
The recent policy reforms in FDI in retail, aviation, and broadcasting as well as the positive decisions on tax amendments (deferral of GAAR) have boosted investor confidence and inflows into India. Major strides have been witnessed in the retail sector. Due to the easing of government norms to allow 100 per cent FDI in single-brand retail and 51 per cent FDI in multi-brand retail, many foreign retailers have shown interest in entering the Indian market. Japan's Uniqlo and Sweden's Hennes and Mauritz are among the recent global apparel labels to have entered India. Furthermore, the Cabinet Committee on Economic Affairs recently approved Swedish furniture major IKEA's USD1.9 billion investment proposal in India – the largest ever FDI in single-brand retail. Some of the other international players in single-brand retail include Decathlon, Pavers, Fossil, and Promod. Moreover, in the aviation sector, Etihad Airways Public Joint Stock Company (PJSC) plans to acquire a 24 per cent stake in Jet Airways (India) Ltd – the first aviation deal since the FDI rule was liberalised.

4. CASE STUDY – UNILEVER

4.1. Historical background

Established in 1930, Unilever is an Anglo-Dutch consumer goods company formed by the merger of Britain-based Lever Brothers and Dutch-based Margarine Unie. Lever Brothers, a British soap-maker was founded in 1885, while Margarine Unie – a Dutch margarine producer – was formed in the 1920s.

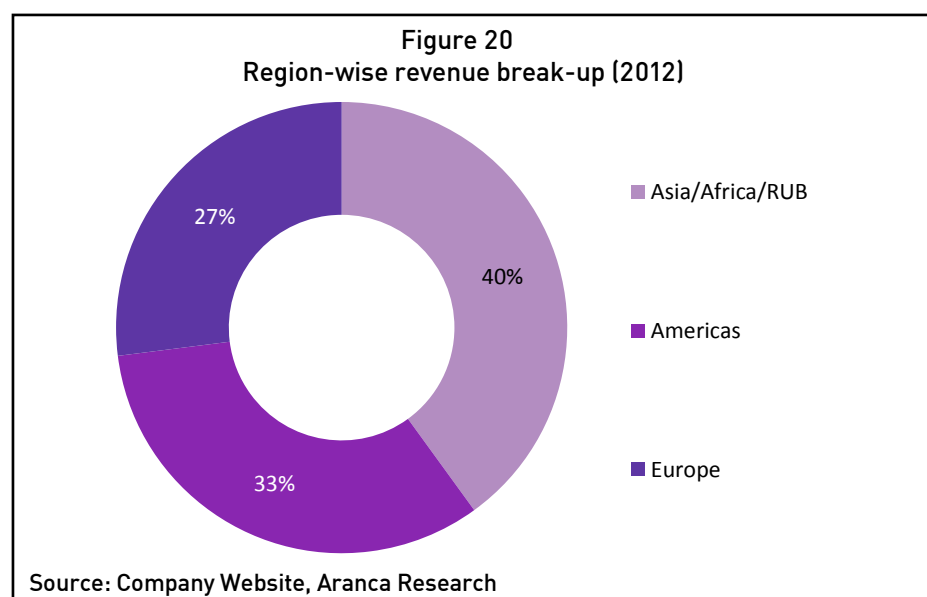
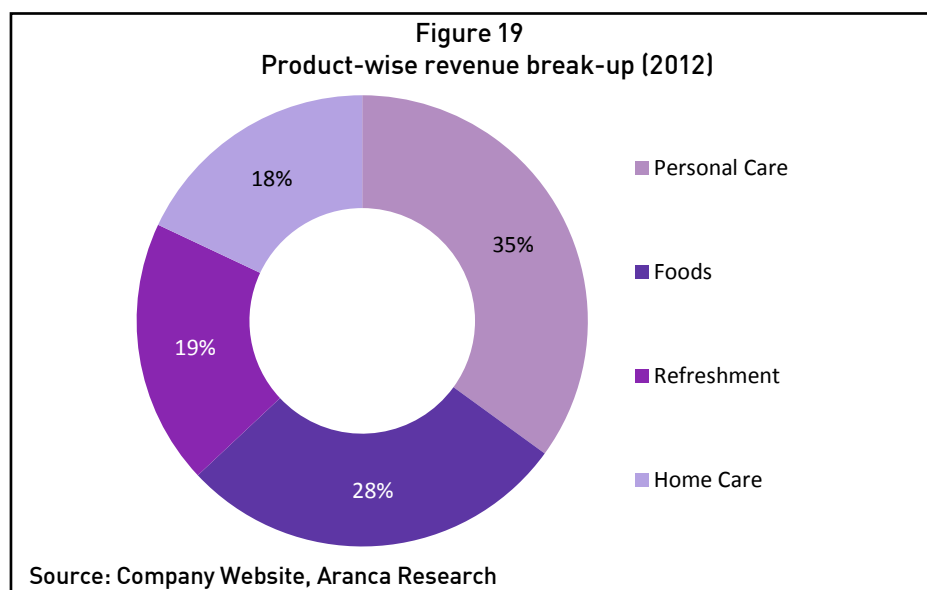
Figure 18
Unilever timeline



Source: Aranca Research

4.2. Company overview

Unilever is one of the world's leading suppliers of FMCG with annual sales of over USD65 billion. Today, Unilever has a vast customer base of around 2 billion spread across 190 countries. The company has one of the largest portfolios of global brands with around 14 brands having sales of over USD1.3 billion. Globally, it leads in products such as savoury foods, dressings, tea, spreads, ice cream, deodorants, and mass skin care. Through its expansion strategy, the company holds significant share in developing and emerging economies, approximately 55 per cent of the sales come from developing and emerging markets.



4.3. Celebrating more than 100 years of success in India

The era of marketing branded FMCG in India was started by Unilever. The company's entry into India dates back to 1888, when Sunlight soap was first exported to India by Lever Brothers (UK). Introduction of Lifebuoy in 1895, Vanaspati in 1918, and Dalda in 1937 followed thereafter.

However, Unilever officially forayed in the Indian markets in 1931 by forming its subsidiary Hindustan Vanaspati Manufacturing Company. Given the growth prospects, Unilever incorporated two more subsidiaries: Lever Brothers India Limited in 1933 and United Traders Limited in 1935. In November 1956, the successful merger of these three companies gave rise to Hindustan Unilever Limited (HUL). HUL became the first foreign subsidiary to offer equity to the Indian public. The current share of the parent company in HUL is 52.5 per cent. Today, the company has more than 70 manufacturing locations (own and outsourced) and an employee base of 16,000 in India.

4.4. The journey so far...

With strong support from its parent company, HUL gradually expanded its foothold in the Indian markets. HUL continued recording strong growth with support from its established in-house products. Apart from organic growth, the company expanded its product portfolio through acquisitions. Liberalisation of the Indian economy in 1991 allowed HUL to undertake a series of mergers and acquisitions (M&A). The M&As began with Tata Oil Mills Company (TOMCO) merging with HUL in 1993. Moreover, the international acquisition of Lipton in 1972 and Brook Bond in 1984 by Unilever facilitated formation of Brooke Bond Lipton India Limited (BBLIL) in 1994 – a merger between Indian subsidiaries Brooke Bond India and Lipton India. After this merger, BBLIL was merged with HUL in 1996. During 1998–2000, Pond's and Modern Foods were merged into HUL. Over the years, HUL has been constantly reviving its strategies to synchronise with the Indian market trend, and has been successful in maintaining its stronghold. The different strategies enabled the company to cater to the urban and rural needs.

Today, HUL is the largest FMCG company in India. Its product portfolio has over 35 brands spread across different categories such as fabric cleansing, skin cleansing, hair care, skin care, toothpaste, beverages, processed foods, ice cream, and water purifiers. Segment-wise, soaps and detergents contribute a major chunk of revenues (around 48 per cent), followed by personal care products (31 per cent), beverages (12 per cent), and packaged foods (6 per cent). Some of the leading brands include Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's, and Pureit.

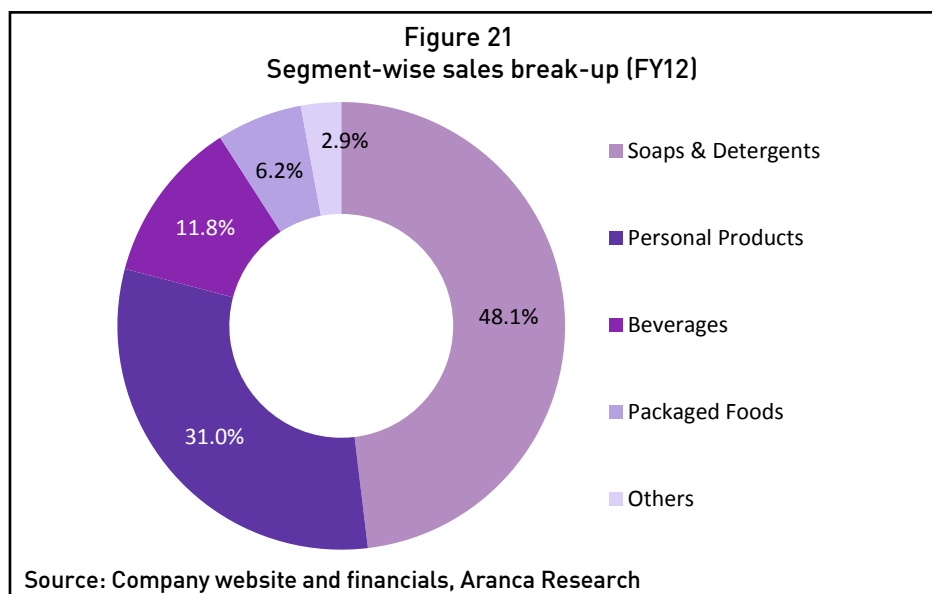


Table 4
Strategies adopted in the past decade

Year	Strategy	Description
2000	Power Brands	Restricted focus on marketing of fewer brands
2005-06	Masstige	Making premium brands (prestige) available for a larger base (mass)
2007	One Unilever	Establishing leadership position in fast-growing markets
2010	Pump Up The Volumes	Delivering volumes alongside value from Indian operations

Source: Company reports, Aranca Research

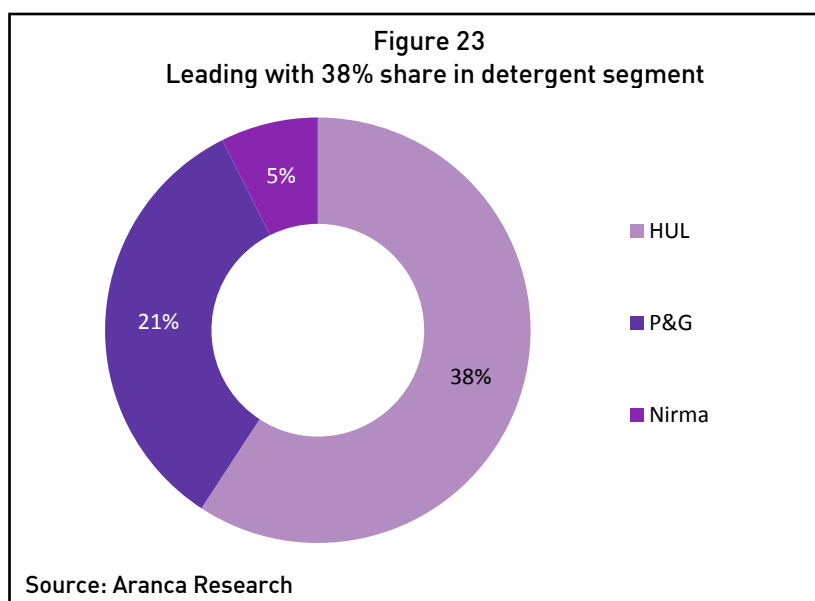
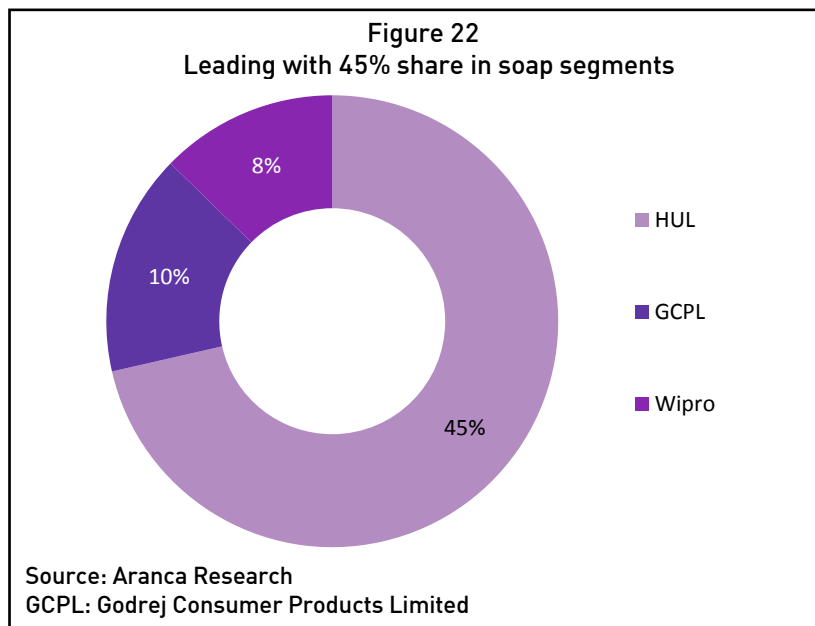
Leading the Indian FMCG space

Over the years, HUL has been able to sustain its leading position in the competitive Indian market place. The company enjoys a lion's share in majority of its product categories.

Household Care: The Indian detergents segment has been expanding at an annual growth rate of 10–11 per cent over the past five years. HUL with its dominant position – 38 per cent share in the detergent segment – is well positioned and has benefitted from this growth.

Personal Care: The segment includes personal wash products, hair care products, oral care products, cosmetics, etc. HUL is a leader with a market share of 45 per cent in the soap segment, over 30 per cent share in the oral care segment, and close to 50 per cent share in skin care segment.

Food & Beverages: Within the branded tea segment, HUL and Tata Tea together command a market share of close to 40 per cent.



Awards and Achievements – 2012

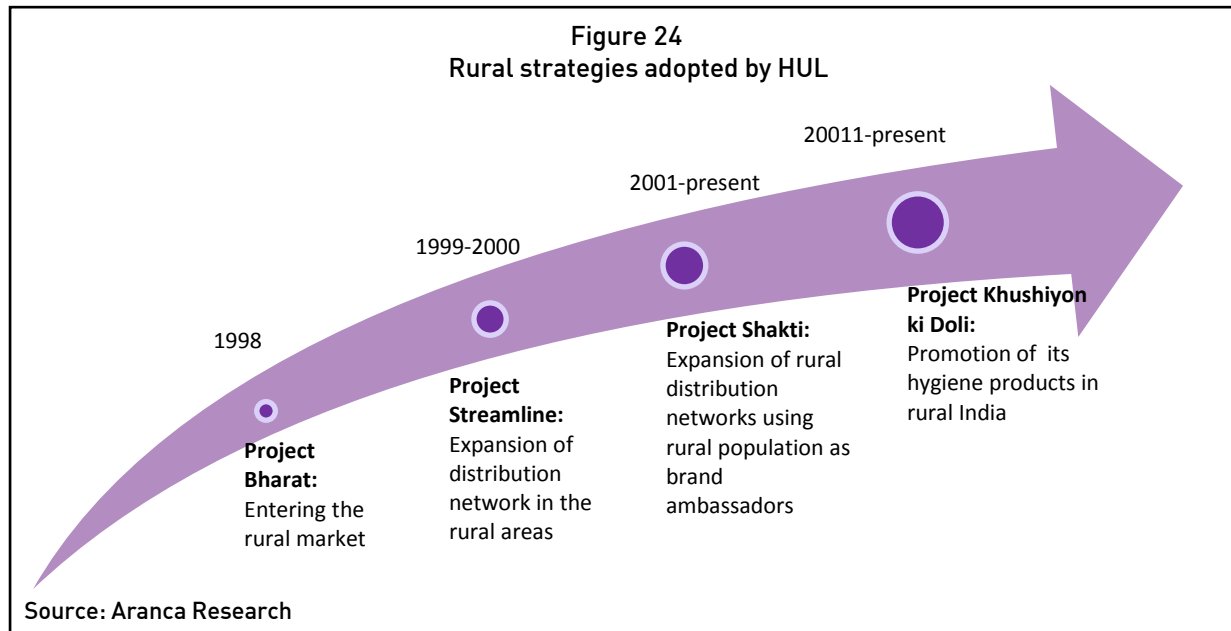
- At the sixth position, HUL was the highest ranked FMCG company among the world's most innovative companies recognised by Forbes in 2012
- HUL stood first at FICCI Water Awards 2012 under the category of 'community initiatives by industry' for its Gundar Basin Project, a water conservation initiative
- Bagged 13 awards at the Emvies 2012 Media Awards organised by the Advertising Club Bombay in September 2012
- Won four awards at the Spikes Asia Awards 2012, which included one Grand Prix, one Gold Award, and two Silver Awards
- Won the Golden Peacock Occupational Health and Safety Award for 2012 in the FMCG category
- Pond's Talcum Powder's packaging innovation bagged a Silver Award for cost and waste reduction at the 24th DuPont Global Packaging Award in 2012
- HUL & Star Bazaar bagged silver award for 'Creating Consumer Value through Joint Promotional and Event Forecasting' at the 13th Efficient Consumer Response (ECR) Asia Pacific Conference in 2012
- Eighteen of HUL's brands featured in the ACNielsen Brand Equity list of 100 Most Trusted Brands Annual Survey (2012)
- Direct reach with more than 2 million stores and more than 2,700 distributors in India
- No 1 and strong No 2 in 95 per cent of its Indian operations

Recent investment plans

February 2013: Plans to set up its first Asian aerosol deodorant manufacturing facility in Khamgaon, Maharashtra, with an investment of USD75 million. The facility would employ over 150 people and cater to markets in India as well as South East Asia, including Malaysia, Thailand, Singapore, and Vietnam.

4.5. Differentiating to cater to Indian needs

HUL was quick to understand the dynamics of the Indian market. With its early mover advantage, it captured a considerable market share across all its product categories. Most of the company's strategies are focussed towards rural markets given the underlying growth potential offered by rural India amid saturating urban marketplace. Rural population accounts for around 70 per cent of India's total population.



The late 90s witnessed the launch of *Project Bharat* – an initiative by HUL for expanding in rural markets. The initiative was unique and the largest ever home-to-rural operation undertaken by any company at that time. The project was a huge success that extended its product reach to over 13 million rural households in just over a year.

The remarkable success achieved in its first project encouraged HUL to continue undertaking initiatives targeted towards rural market. In 1999, the company launched *Project Streamline* with a view to expand rural distribution system. Through a hub-and-spoke model, a network of rural sub-stockist was developed, thereby improving its control on the rural supply chain.

Project Streamline was followed by *Project Shakti* in 2001 – the most successful project till date. The project was aimed at increasing distribution network in small villages alongside empowering rural women. The rural population working in Project Shakti are considered as Shakti entrepreneurs. Started as a small pilot project in few villages in Andhra Pradesh, it expanded to 13,000 entrepreneurs in 12 states in early 2000. Currently, Project Shakti represents over 45,000 entrepreneurs covering more than 100,000 villages across 15 states. In 2011, through Project Shakti, HUL collaborated with State Bank of India to provide banking facilities to low-income individuals in small villages. Project Shakti is a win-win model, as it not only supports expansion of the company's rural channel but also improves its brand positioning in the rural India, besides providing income-generating opportunities for rural women.

The recent addition to the company's rural outreach programmes is Project '*Khushiyon Ki Doli*' started in 2011. The campaign aimed at connecting the media-dark villages to HUL's hygiene brands, thus simultaneously creating awareness about the importance of personal hygiene. Initially, the campaign was launched in Uttar Pradesh, Andhra Pradesh, and Maharashtra. The company was successful in connecting with more than 10 million consumers and about 170,000 retailers spread across over 28,000 villages in these states. Successful implementation of this project led to further extension of this project

to West Bengal and Bihar. Today, 25 million consumers and 400,000 retailers spread across 70,000 villages are connected by this campaign.

In addition to expanding its rural distribution network, HUL has modified its products to cater to the rural needs. For instance, after success of its premium Taj Mahal Tea, popular Red Label, and middle-income targeting Taaza, HUL introduced Brooke Bond Sehatmand to cater to the rural population. Through this new offering where each granule of tea is infused with vitamins, the company tapped the 200 million undernourished rural Indians. Also, HUL began the sachet revolution in the shampoo segment for its rural customers, and today these shampoo sachets contribute 70 per cent of HUL's shampoo sales in India¹⁰.

Apart from targeting the rural population, HUL has modified its strategies to cater to the urban market. It recently launched washing powders specific for washing machines, a liquid alternative of Surf Excel, and a fabric conditioner, among others, targeted at the urban populace in small towns that are willing to pay a premium for upgrading their home care brands.

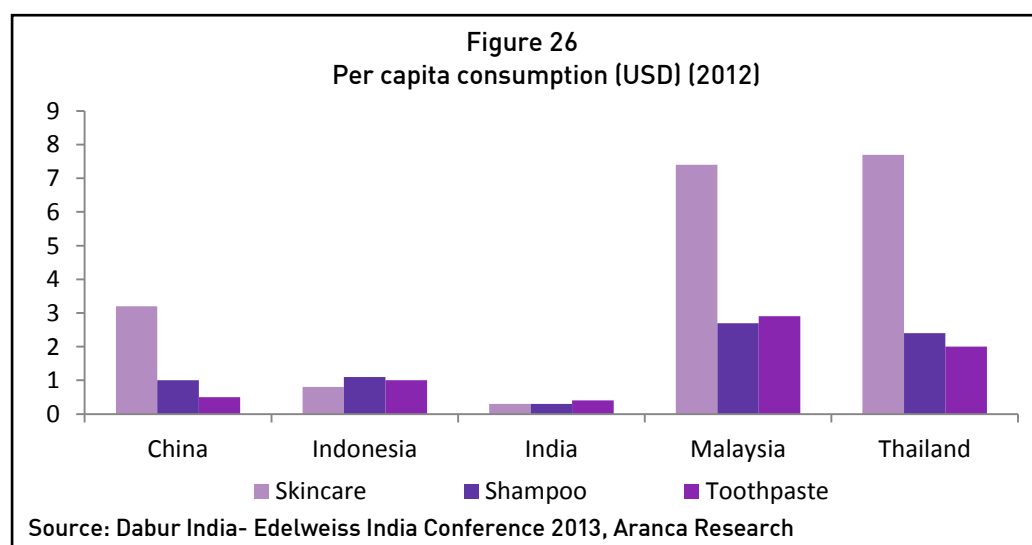
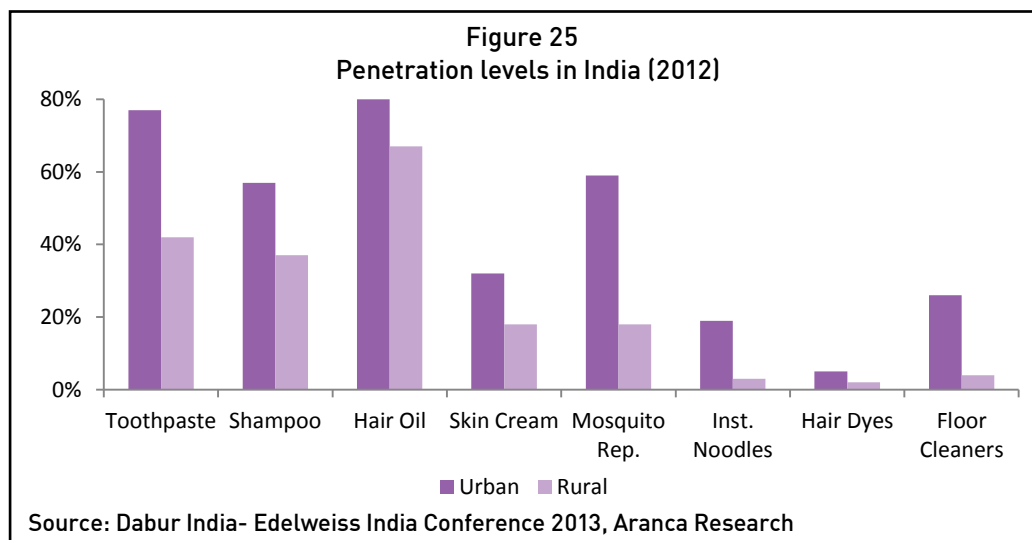
4.6. Key advantages offered by India to HUL

Growing FMCG market supported by under-penetrated markets

The rising population backed by emerging middle class offered a huge opportunity for Unilever. The Indian FMCG market has recorded an average annual growth of about 11 per cent over the last decade. Furthermore, the changing consumption patterns driving growth in new categories, such as processed and packaged food, and mouth wash, has benefitted the company.

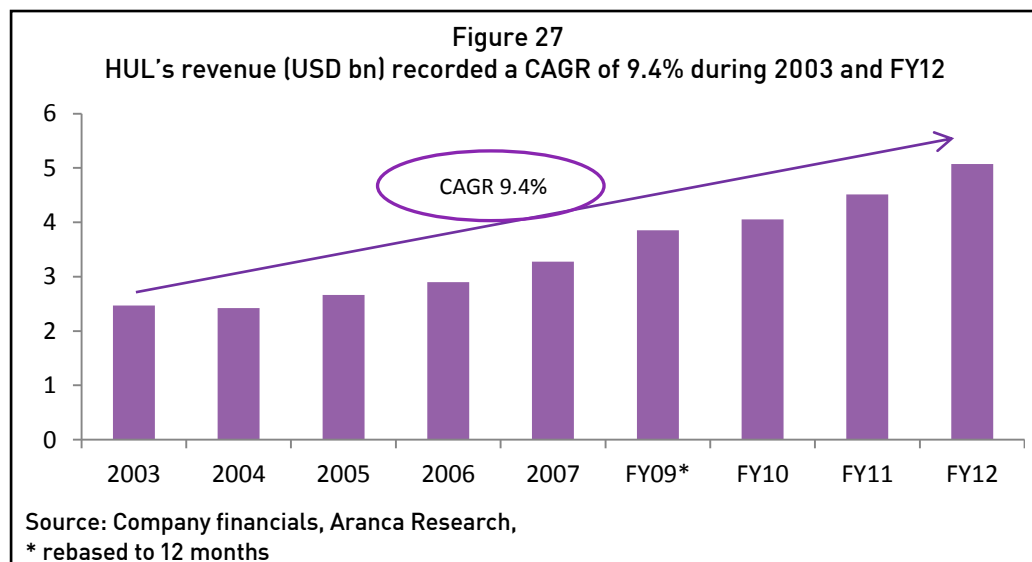
Factors such as easy access to raw materials, inexpensive labour costs, and presence across the entire value chain position India well compared to other emerging countries. The inexpensive labour coupled with availability of raw materials has helped in lowering production cost for Unilever. The raw material advantage is driven by varied agro-climatic condition offered by India, thus enabling extended supply for FMCG sub-segments. India is the leading producer of milk, livestock, coconut, sugarcane, spices, and cashew nuts, and it is the second largest in rice, wheat, and fruits & vegetables production. Likewise, India has ample supply of caustic soda and soda ash –major raw materials in soaps and detergents.

¹⁰ Kashyap and Raut, Page 159



Indian operations recorded a CAGR of 9.4 per cent over 2003–12

Unilever's increased dependence over the emerging and developing markets reflect the instrumental role that these economies have played in its growth story. The company targets developing and emerging markets (D&E) to account for 75 per cent of its turnover by 2020. India is a key part of this, reflected through HUL's remarkable success. Unilever's plan to increase its stake in its Indian subsidiary testifies the increased importance of Indian operations to the parent company. Moreover, India is home to one of its six global R&D centres.



India through its massive untapped consumer base provides a significant potential for the company's growth. Unilever has successfully increased its stronghold over this customer base, which is apparent through HUL's increasing revenue – a CAGR of 9.4 per cent between 2003 and FY12. This has translated to increased contribution to the global revenues. HUL is well positioned to tap the Indian consumer market, which is expected to grow 3.6 times over 2010–20¹¹. There remains room for further expansion. The penetration levels and per capita consumption in India are low, especially in the rural segment. HUL has one of the largest rural distribution networks in the industry and is, therefore, well positioned to exploit the untapped potential of this market. Around 40 per cent of HUL's revenues are generated from rural India.

Unilever replicates the Indian model in its other markets

The successful implementation of Project Shakti in India helped the company in boosting sales in the personal wash, fabric wash, shampoos, and oral care and skin care segments. As emerging countries account for nearly 44 per cent of its global revenues, Unilever plans to replicate Project Shakti to tap the rural markets in Asia, Africa, and Latin America. Currently, the campaign is being tailored to meet the requirements of Sri Lanka, Vietnam, and Bangladesh. The campaign is being promoted as Joyeeta and Saubaghya in Bangladesh and Sri Lanka, respectively. Unilever is betting on the success from this model to support the recessionary trends in the developed markets – the US and Europe.

In addition to other emerging markets, the Indian model is being implemented in advanced economies such as Europe. The innovations developed for the Indian market are offered at similar lower prices points – a pound in recession-hit regions of Europe. Moreover, the water purifier "Pure it" manufactured for Indian consumers is now being sold in more than 15 countries.

¹¹ BCG/CII report, 2012

5. CONCLUSION

The relaxation of investment norms in India in 1991 resulted in many international companies entering Indian markets. The favourable policy environment offered a lucrative option for multinational companies looking for diversifying their businesses. The opportunistic investment climate, a fast-growing, low-cost, domestic consumption-driven economy, and a rising middle class with higher disposable income are some of the prime factors that make India an attractive investment destination. The country attracted cumulative FDI inflows of USD287.1 billion during FY01–13¹².

India has received FDI from companies in diverse sectors globally. The majority of the investments were in the services sector, primarily in the banking & financial services space. This can be attributed to the immense opportunity arising from low penetration levels in the banking and insurance sector. Advanced economies such as the UK, the US, Japan, France, and the Netherlands are the major investors in India. Companies from these regions have succeeded mainly in the high-tech sectors and the luxury segment. A slowdown in their domestic markets led such companies to enter the Indian market. Moreover, UAE and Japan are among the top 10 investors in India. Firms from the UAE have primarily tapped into India's infrastructure sector – the second-largest sector in terms of foreign investments. Backed by their expertise in the segment, these companies aim to benefit from the USD1 trillion worth of infrastructure opportunity. On the other hand, Asia-Pacific companies have established a strong foothold in the mass market sectors of electronics and automobile. The India advantage, along with opportunities across various sectors, would continue to lure investments into the country.

¹² DIPP; Up to February 2013

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