CONSUMER DURABLES

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AUGUST 2014

For updated information, please visit www.ibef.org
By 2025, India would rise from the twelfth to the fifth largest position in the consumer durables market in the world; the market is expected to reach USD12.5 billion by 2015.

By 2020, the electronics market in India is expected to increase to USD400 billion from USD69.6 billion in 2012. The production is expected to reach to USD104 billion by 2016.

By 2018, the television industry in India is expected to expand to USD14.7 billion from USD8.0 billion in 2014.

India is set to become the fifth largest consumer durables market in the world.

India is one of the largest growing electronics market in the world.

India has the world’s third largest television industry*.

*Source: CEAMA, KPMG Report, Asian Development Bank, Aranca Research
Notes: PPP - Purchasing Power Parity, E – Estimate, *As per Ministry of Information and Broadcasting
Growing demand

- Demand growth is likely to accelerate with rising disposable incomes and easy access to credit
- Increasing electrification of rural areas and wide usability of online sales would also aid growth in demand

Opportunities

- Rural and semi-urban markets currently contribute 35 per cent to total sales; their combined size is set to post a CAGR of 25 per cent over 2010-15
- Huge untapped rural market; currently there is only 2 per cent penetration for refrigerators and 0.5 per cent for washing machines

Increasing investments

- Sector has attracted significant investments over the years (even during the global downturn of 2009-10)
- USD1 billion worth of investments in production, distribution and R&D in the next few years
- Japanese giants LG, Samsung, Panasonic to invest in India to have a greater share in the market

Policy support

- 100 per cent FDI allowed in the electronics hardware-manufacturing sector under the automatic route; Approval of 51 per cent in multi-brand would further fuel the growth in this sector
- Duty relaxation, schemes such as EPCG, EHTP to provide tax sops
- National Electronic policy (2012) to boost investment in the sector

Source: Corporate Catalyst India, Moneycontrol, GEPL Capital, Aranca Research
Notes: FDI - Foreign Direct Investment, FY- Indian Financial Year (April - May), CAGR - Compound Annual Growth Rate, EPCG - Export Promotion Capital Goods Scheme, EHTP - Electronic Hardware Technology Park
CONSUMER DURABLES

THE CONSUMER DURABLES MARKET IS SPLIT INTO TWO KEY SEGMENTS

Consumer durables

- Consumer electronics (brown goods)
  - Televisions
  - CD and DVD players
  - Laptops
  - Electronic accessories
  - Audio and video systems
  - Personal computers
  - Digital cameras
  - Camcorders

- Consumer appliances (white goods)
  - Air conditioners
  - Refrigerators
  - Washing machines
  - Sewing machines
  - Electric fans
  - Cleaning equipment
  - Microwave ovens
  - Other domestic appliances

Source: Electronic Industries Association of India, Corporate Catalyst India, Aranca Research
CONSUMER DURABLES

EVOLUTION OF THE INDIAN CONSUMER DURABLES SECTOR

1980s and early 1990s
- Closed market
- Increased product availability, increased media penetration and advertising

Pre-liberalisation
- Liberalisation of markets
- Influx of global players such as LG and Samsung
- Shift in focus from promotion to product innovation

Mid and late 1990s

Liberalisation
- Increasing availability and affordability of consumer finance provides impetus to growth
- Low penetration of high-end products such as air conditioners (<1 per cent)

Early 2000s

Growth
- Companies look to consolidate market share
- Indian companies such as Videocon gaining global identity
- Increasing penetration of high-end products such as air conditioners (>3 per cent)
- Introduction of new aspirational products such as High Definition TVs (HDTVs)
- Companies targeting high growth rural market

Late 2000s

Consolidation

Source: Financial Express, Appliance Magazine, Aranca Research
The consumer durables sector ranked in revenues worth USD7.3 billion in FY12.

Growth has been healthy over the years; the sector recorded a CAGR of 10.8 per cent over FY03-12.

This sector is expected to post a CAGR of 13 per cent over 2003-15 to reach USD12.5 billion in FY15. Growth estimated to be 20 per cent in FY14.

Consumer durables market is expected to double at 14.7 per cent CAGR to USD12.5 billion in FY15 from USD6.3 billion in FY10.

Further, demand from rural and semi-urban areas is expected to expand at a CAGR of 25 per cent to USD6.4 billion in FY15 from USD2.1 billion in FY10.

Source: Electronic Industries Association of India, Corporate Catalyst India, Aranca Research
Notes: FY – Indian Financial Year (April-March), CAGR – Compound Annual Growth Rate
*Estimates
Urban markets account for the major share (65 per cent) of total revenues in the consumer durables sector in India.

Demand in urban markets is likely to increase for non-essential products such as LED TVs, laptops, split ACs and beauty and wellness products.

In rural markets, durables like refrigerators as well as consumer electronic goods are likely to witness growing demand in the coming years as the government plans to invest significantly in rural electrification.

Rural market is expected to grow from USD2.1 billion in FY10 to USD6.4 billion in FY15.

Rural and semi-urban markets are likely to contribute a majority of consumer sales. The rural consumer durables market is growing at the annual growth (CAGR) of 25 per cent.

Source: CEAMA (Consumer Electronics & Appliances Manufacturers Association), Corporate Catalyst India, Aranca Research
**CONSUMER DURABLES**

### CONSUMER ELECTRONICS – KEY PRODUCTS

<table>
<thead>
<tr>
<th>Product</th>
<th>Details</th>
</tr>
</thead>
</table>
| Colour TVs (CTVs)        | • CTVs are the largest contributors to this segment  
                           • Industry size estimated to be USD3.15 billion in 2014  
                           • Introduction of HDTVs is set to drive demand growth from affluent consumers   |
| Liquid Crystal Displays (LCDs) | • Market for LCD/LED\(^{\text{^\text{1}}}\) TVs have increased from 4 million units in 2011 to 5.5 million units in 2012 and the same is projected to increase to 7 million units in 2013  
                           • The price decline due to relatively low import duty on LCD panels, higher penetration levels, and the introduction of small entry-size models are key growth drivers in the segment   |
| Digital Video Discs (DVDs) | • The Indian DVD market accounted for 3.7 million units sold in 2012  
                           • The organised market has a share of 80 per cent in the total market   |
| Direct-to-Home (DTH)     | • The Set-Top Box (STB) market is growing rapidly, due to the expansion of DTH and introduction of the Conditional Access System (CAS) in metros  
                           • The DTH market was worth USD2.2 billion in FY13; the subscriber base reached 56.5 million* from 23 million during 2010-13, subscriber base is expected to reach 200 million by 2018, thereby making India the one of the world’s largest DTH market   |

*Source: CEAMA, Electronic Industries Association of India, Corporate Catalyst India, KPMG, Aranca Research  
Notes: \(^{\text{\text{1}}}\)LCD – Liquid Crystal Display, LED – Light Emitting Diode
## Consumer Durables

### Refrigerators
- The size is estimated to be USD1.38 billion in 2014 and its sales stood approximately at 14 million units in 2013.
- This segment makes up 31 per cent of the consumer appliances market.
- The market share of direct cool and frost free segment is 75 per cent and 25 per cent respectively.
- Key growth drivers are lower prices and rising demand for frost-free refrigerators.

### Air Conditioners (ACs)
- The Indian ACs market accounted for sales of 3.6 million units in 2013.
- The size of the segment expanded to USD1.6 billion in 2014.
- ACs are perceived as high-end products; current penetration stands at 6.8 per cent.
- The segment had a 13.0 per cent share in 2013 in the consumer appliances market.
- High income growth and rising demand for split ACs are the key growth drivers.

### Washing appliances
- Washing machines are the second largest contributor to the consumer appliances market (after refrigerators); in FY13 total sales was 7.5 million units.
- Segment size is estimated to be USD612 million in 2014.
- Fully automatic washing machines are garnering an increasing share of the market due to reduction in prices and higher disposable incomes.

### Electric fans
- Production of fans in 2011 stood at 36.2 million units.
- This is a highly penetrated market.
- The Bureau of Energy Efficiency to offer USD64 million to the manufacturers for promoting energy efficient fans.

Source: CEAMA, Electronic Industries Association of India, Corporate Catalyst India, TV Veopar Journal, Aranca Research.
### CONSUMER DURABLES

**KEY PLAYERS* IN THE CONSUMER DURABLES SECTOR … (1/2)**

<table>
<thead>
<tr>
<th>Company</th>
<th>Product category</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLUE STAR</td>
<td>ACs, refrigerators and specialty cooling products</td>
</tr>
<tr>
<td>DAIKIN</td>
<td>ACs and cooling equipment</td>
</tr>
<tr>
<td>Godrej</td>
<td>Refrigerators, ACs, washing machines, microwave ovens, DVD players, digital-imaging products and audio-visual products</td>
</tr>
<tr>
<td>HITACHI</td>
<td>ACs and refrigerators</td>
</tr>
<tr>
<td>LG</td>
<td>TVs, audio-visual solutions, computers, mobile phones, refrigerators, washing machines, microwave ovens, vacuum cleaners and ACs</td>
</tr>
<tr>
<td>ONIDA</td>
<td>LCDs, washing machines, DVD players, ACs, microwave ovens, mobile phones, projectors and display products</td>
</tr>
</tbody>
</table>

*This list is indicative*
# CONSUMER DURABLES

## KEY PLAYERS* IN THE CONSUMER DURABLES SECTOR … (2/2)

<table>
<thead>
<tr>
<th>Company</th>
<th>Product category</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PHILIPS</strong></td>
<td>TVs, home theatre systems, DVD players, audio products, personal care products, household products, computers and phones</td>
</tr>
<tr>
<td><strong>SAMSUNG</strong></td>
<td>TVs, home theatre systems, DVD players, mobile phones, digital cameras and camcorders, refrigerators, ACs, washing machines, microwave ovens and computers</td>
</tr>
<tr>
<td><strong>SONY</strong></td>
<td>TVs, projectors, DVD players, audio systems, home theatre systems, digital cameras and camcorders, computers, video-gaming products and recording media</td>
</tr>
<tr>
<td><strong>VIDEOCON</strong></td>
<td>TVs, DVD players, microwave ovens, refrigerators, washing machines, ACs and power backup solutions</td>
</tr>
<tr>
<td><strong>Whirlpool</strong></td>
<td>Refrigerators, washing machines, microwave ovens, water purifiers and power backup solutions</td>
</tr>
</tbody>
</table>

*This list is indicative*
The Indian retail industry has experienced growth of 10.6 per cent between 2010-12 and retail industry is worth USD500 billion and is expected to reach USD750-850 billion by 2015.

The penetration of modern retail is 12.0 per cent in consumer durables segment.

The sector is witnessing the emergence of modern durable retail chains and e-retailers like Tata Croma, Reliance Digital, E zone.

Within the organised retail sector, apparel is the largest segment.
CONSUMER DURABLES

NOTABLE TRENDS IN THE CONSUMER DURABLES SECTOR … (2/2)

Expansion into new segments

• Companies are expanding their product portfolio to include products like High-Definition Televisions (HDTVs), tablets and smart phones, etc, demand for which are rising with consumer’s income, easy availability of credit and wide use of online sales

Increased affordability of products

• Advancement in technology and higher competition are driving price reductions across various consumer durable product segments such as computers, mobile phones, refrigerators and TVs

Focus on energy-efficient and environment-friendly products

• Leading companies have introduced star-rated, energy-efficient ACs and refrigerators
• Companies also plan to increase the use of environment-friendly components and reduce e-waste by promoting product recycling

Source: CEAMA, Corporate Catalyst India, Aranca Research
**CONSUMER DURABLES**

**PORTERS FIVE FORCES ANALYSIS**

<table>
<thead>
<tr>
<th>Competitive Rivalry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuous innovation leads to intense rivalry</td>
</tr>
<tr>
<td>Homogeneity in product and low switching cost</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Threat of New Entrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly capital intensive</td>
</tr>
<tr>
<td>Major players have developed brand equity</td>
</tr>
<tr>
<td>Brand loyalty is moderate</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Substitute Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology advancements</td>
</tr>
<tr>
<td>Buyers have huge propensity to substitute</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bargaining Power of Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product differentiation is very low</td>
</tr>
<tr>
<td>By changing the input, firms cannot drastically differentiate on price</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bargaining Power of Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Internet to get all the information enables customers to be powerful</td>
</tr>
<tr>
<td>Buyer’s switching cost is very less</td>
</tr>
</tbody>
</table>

Source: Aranca Research
CONSUMER DURABLES

STRATEGIES ADOPTED

AUGUST 2014
Samsung is more focusing on product innovations and diversification than LG

- Sony is focusing on both quality and technology; it launched Z1 with a latest technology

- The firms are now offering combo products instead of discounts to attract the customers
- Such kind of offers help manufacturers to boost sales and also ensures a saving. For example a firm offers a combo of LCDs and home theatres

- India, being the land of occasions and festivals, therefore, customers are offered great deals
- For instance the prices of products during Diwali, New Year, etc go down and also the customers are offered with great deals. Such strategies are adopted so as to enhance revenues plus to maintain the goodwill amongst the buyers

- Companies are focusing on energy efficiency in their range, pushing the low cost of ownership
- Bureau of Energy Efficiency is encouraging the companies to manufacture 35 Watt fans

*Source: Aranca Research*
CONSUMER DURABLES

GROWTH DRIVERS

AUGUST 2014
CONSUMER DURABLES

STRONG DEMAND AND POLICY SUPPORT DRIVING INVESTMENTS

Growing demand
- Higher real disposable incomes
- Easy consumer credit
- Growing consumer base

Inviting

Policy support
- Setting up of EHTPs
- Increasing liberalisation, favourable FDI climate
- Policies like National Electronics Mission and Digitisation of television

Resulting in

Increasing investments
- Expanding production and distribution facilities in India
- Increased R&D activity
- Providing support to global projects from India

Source: Aranca Research
Notes: EHTP - Electronic Hardware Technology Park, R&D - Research and Development
Demand for consumer durables in India has been growing on the back of rising incomes; this trend is set to continue even as other factors like rising rural incomes, increasing urbanisation, a growing middle class, and changing lifestyles aid demand growth in the sector.

Consequently, industry analysts expect the sector to post a CAGR of 15.0 per cent over 2010-15.

Significant increase in discretionary income and easy financing schemes have led to shortened product replacement cycles and evolving lifestyles where consumer durables, such as ACs and LCD TVs, are perceived as utility items rather than luxury possessions.

Growth in demand from rural and semi-urban markets to outpace demand from urban markets.

Per capita income is expected to expand at a CAGR of 5.4 per cent for the period 2010-2019.
<table>
<thead>
<tr>
<th>Policy Support Aiding Growth in the Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customs duty relaxation</strong></td>
</tr>
<tr>
<td>• Electronics sector the first in India to be allowed complete customs exemption on certain items used for manufacturing electronic goods</td>
</tr>
<tr>
<td>• The peak rate of basic customs duty is 10 per cent and 217 tariff lines (under the ITA-1) are exempted from duty</td>
</tr>
<tr>
<td><strong>Reduced central excise</strong></td>
</tr>
<tr>
<td>• A reduction (12 per cent to 10 per cent) in Central Excise duty was definitely the way forward to support demand and fuel growth in consumer durable sector. Industry seeks relaxation in excise duty</td>
</tr>
<tr>
<td>• Excise duty is being reduced to 6.0 per cent on LED lamps and LEDs required for manufacture of such lamps</td>
</tr>
<tr>
<td><strong>Encouragement to FDI</strong></td>
</tr>
<tr>
<td>• 100 per cent FDI is permitted in electronics hardware-manufacturing under the automatic route</td>
</tr>
<tr>
<td>• FDI into single brand retail has been increased from 51.0 per cent to 100 per cent; the government is planning to hike FDI limit in multi-brand retail to 51.0 per cent</td>
</tr>
<tr>
<td><strong>EPCG, EHTP schemes</strong></td>
</tr>
<tr>
<td>• EPCG allows import of capital goods on paying 3.0 per cent customs duty</td>
</tr>
<tr>
<td>• EHTP provides benefits, such as duty waivers and tax incentives, to companies which replace certain imports with local manufacturing</td>
</tr>
<tr>
<td>• Harmonisation Zero duty and 3 per cent EPCG Scheme into zero duty EPCG scheme</td>
</tr>
<tr>
<td><strong>National Electronics Policy 2012</strong></td>
</tr>
<tr>
<td>• Aims to create an ecosystem for a globally competitive electronic manufacturing sector and to achieve a turnover of about USD 400 billion by 2020, including investments of about USD 100 billion, as well as to provide employment to around 28 million people</td>
</tr>
</tbody>
</table>

Source: Department of Commerce, Government of India; Corporate Catalyst India, Aranca Research
Notes: EPCG - Export Promotion Capital Goods scheme, EHTP - Electronic Hardware Technology Park Scheme, ITA-1 - Information Technology Agreement
CONSUMER DURABLES

RECENT INVESTMENTS BY KEY PLAYERS

2010

- May 10: LG earmarks around USD85 million for upgrading Indian plants
- Sep 10: Haier invests to open 75 new retail stores (called Experience Centres) in India in 2010
- Nov 10: Samsung inaugurates USD75 million manufacturing facility in Chennai

2011

- Feb 11: Whirlpool announces USD25 million investment in FY11
- Apr 11: Hitachi allocates USD400 million to set up R&D centre in Bangalore
- May 11: Panasonic establishes its first R&D centre in India in Gurgaon

2012

- May 05: LG Electronics launches latest series of Cinema 3D Smart TVs with marketing spending of USD20.8 million
- Jan 17: Samsung to raise its investments to USD41.4 billion for consolidating its position in mobile chips and flat screens
- May 11: Panasonic announces plans to invest around USD12.5 million in R&D in FY13
- Panasonic plans to invest USD208 million by 2014 in setting up manufacturing units and an advanced R&D centre

2013-2014

- Mar 2013: Sony plans to spend USD62.5 million in promoting its products
- Mar 2013: Reliance and Videocon are in talks to invest USD5.2 billion to set up a chip manufacturing plant
- July 2013: LG Electronics to invest USD13.6 million by 2014 to promote its smart phone business in India
- The Department of Electronics and Information Technology has received proposals for investments worth a total of about USD12 billion in the area of semiconductor and electronics manufacturing
- Samsung India Electronics Pvt Ltd has been recently given approval for investment of USD67,352.2 billion under MSIPS
- Panasonic invested USD83 billion in 2013-14

Notes: R&D - Research and Development, MSIPS - Modified Special Incentive Package Scheme
Economic initiatives

- Approval of establishing 2 semi-conductor water fab units

Vision for future

- Manufacturing sector should be the base for India’s development. There should be a minimum tariff protection to motivate domestic manufacturing
- Secondary and University education must prioritise skill development
- Centre and states to partner in development so as to focus on telecommunication

Funding scientific research

- It is proposed to set up a Research Funding Organisation that will fund the research projects selected. Contribution to the organisation will be eligible for tax benefits

Changes in tax rates

- The Excise Duty on all goods falling under Chapter 84 & 85 of the Schedule to the Central Excise Tariff Act is reduced from 12 per cent to 10 per cent for the period up to June 2014.
- Encourage the domestic production of mobile handsets, excise duty for all categories of mobile handsets is restructured. The rates will be 6 per cent with CENVAT credit or 1 per cent without CENVAT credit

Source: Union Budget 2014-2015
CONSUMER DURABLES

KEY MANUFACTURING PLANTS OF CONSUMER DURABLES ACROSS INDIA

NORTH: Delhi and Uttarkhand are the key consumer durables manufacturing hubs in North India

WEST: Maharashtra and Gujarat host units for LG, Videocon and Samsung

EAST: West Bengal is major hub for Videocon and Philips

SOUTH: Tamil Nadu hosts manufacturing facilities for a number of leading firms

Source: Aranca Research
Note: All figures as of 2011-12
CONSUMER DURABLES

OPPORTUNITIES

AUGUST 2014
Consumer durables market expected to expand at a CAGR of 14.8 per cent to USD12.5 billion in FY15 (from USD7.3 billion in FY12)

Demand from rural and semi-urban areas is expected to expand at a CAGR of 25 per cent to USD6.4 billion in FY15 from USD2.1 billion in FY10

By FY15, rural and semi-urban markets are likely to contribute a majority of consumer durables sales

The rural market is expected to expand at a CAGR of 25 per cent from 2012-15

Source: Corporate Catalyst India, Aranca Research
CONSUMER DURABLES

OPPORTUNITIES IN RURAL AREAS … (2/2)

- Increasing reach of companies and customised products for the rural market
- Lower penetration generating demand for first time buyers
- Increasing rural income with higher non-farm income

Monthly per capita consumption expenditure in rural areas (USD)

- 2005: 20.6 USD
- 2012: 50.1 USD

CAGR: 13.5%

Source: Corporate Catalyst India, Aranca Research
Market leader LG plans to invest USD166.7 million in capacity expansion for various product categories and India specific R&D and USD145.8 million in marketing and branding in 2013

Whirlpool plans to invest more than USD156.3 million in India by 2015, with more than half of it earmarked for innovation

Japanese consumer durables major Panasonic will invest USD USD276 billion in India over next three years. It plans to invest USD208 million by 2014 in setting up manufacturing units and an advanced R&D centre

Samsung India Electronics Pvt Ltd has been recently given approval for investment of USD75 million under MSIPS and will get 25 per cent subsidy under it. It plans to invest USD94 million to expand capacity by 2015

Nokia intends to invest up to USD52.1 million to revamp operations in India by 2014

Carrier plans to invest USD104 million over the next five years to expand production capacity at its newly commissioned plant in Gurgaon

Cumulative FDI in electronics sector for April 2000 – April 2014 stood at USD1340.2 million and that in telecommunication stood at USD14173.4 million

Bosch Automotive Electronics India Pvt Ltd gets approval for investing USD80 million under MSIPS

Source: CEAMA, Aranca Research;
Note: LCD - Liquid Crystal Display, MSIPS- Modified Special Incentive Package Scheme
CONSUMER DURABLES FIRMS TO AUGMENT INVESTMENTS IN COMING YEARS … (2/2)

Upcoming investments* by major players (2012)

<table>
<thead>
<tr>
<th>Company</th>
<th>Investment (million units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrier</td>
<td>104.2</td>
</tr>
<tr>
<td>Whirpool</td>
<td>375.0</td>
</tr>
<tr>
<td>Blue star</td>
<td>208.3</td>
</tr>
<tr>
<td>Haier</td>
<td>12.5</td>
</tr>
<tr>
<td>Videocon</td>
<td>187.5</td>
</tr>
<tr>
<td>Panasonic</td>
<td>300.0</td>
</tr>
<tr>
<td>LG</td>
<td>312.5</td>
</tr>
</tbody>
</table>

LCD TV shipments (million units)

- 2009: 1.5
- 2010: 3.3
- 2011: 6.3
- 2012: 9.9
- 2013: 13.8

CAGR: 74%

Source: TV Veopar Journal 2011, IHS Technology, Aranca Research

Note: *Announced during the year
ERA OF DIGITISATION OPENS NEW OPPORTUNITIES

Households with TVs in India

- Around 155 million television households in 2013 with 82 million in rural areas only
- Approx. 140 million cable TV homes (2013)
- India reaches 54.52 million DTH subscriber base

DTH subscribers (million units)

- 2013*: 54.52
- 2018E: 200
- CAGR: 28.7%

The government announced digitisation of cable television in India in four phases, which would be completed by the end of 2014

Digitisation may lead to complete switchover from analogue cable to Digital Addressable Systems in a phased manner

The number of DTH subscribers in India is expected to increase from 54.52 million currently to 200 million by 2018

Source: TRAI Annual Report 2011-12, Department of Information Technology; KPMG; Aranca Research
Note: 2013* - Data as on March 2013
APPENDIX: BENEFITS TO CONSUMER DURABLES AND WIDER RETAIL SECTOR FROM FDI POLICY

Benefits of FDI in Indian retail

- Increase in employment
- Infrastructure investment
- Removing middlemen
- Benefiting Indian manufacturers

**Sector**
- Whole sale cash and carry trading
- Single brand product retailing
- Multi brand, front end retail

**Entry route**
- Automatic
- Foreign Investment and Promotion Board

**FDI limit**
- 100%
- 100%
- 51%

Source: Aranca Research
In 2013, the FDI was at USD1.79 billion according to the Department of Industrial Policy and Promotion. In January, 2014 FDI had increased by 1.5 per cent at USD2.18 billion. Overseas investor’s cumulative inflows into the country are nearing the USD200 billion mark.

51 per cent FDI in multi brand retail
Status: Approved

- Minimum investment cap is USD 100 million
- 30 per cent procurement of manufactured or processed products must be from SMEs
- Minimum 50 per cent of the first minimum tranche of USD 100 million must be invested in back-end infrastructure (logistics, cold storage, soil testing labs, seed farming and agro-processing units)
- Removes the middlemen and provides a better price to farmers
- Development in the retail supply chain system
- 50 per cent of the jobs in the retail outlet could be reserved for rural youth and a certain amount of farm produce could be required to be procured from poor farmers
- To ensure the Public Distribution System (PDS) and Food Security System (FSS), government reserves the right to procure a certain amount of food grains
- Multi brand retail would keep food and commodity prices under control
- Will cut agricultural waste as mega retailers would develop backend infrastructure
- Consumers will receive higher quality products at lower prices and better service

100 per cent FDI in single brand retail
Status: Policy passed

- Products to be sold under the same brand internationally
- Sale of multi brand goods is not allowed, even if produced by the same manufacturer
- For FDI above 51 per cent, 30 per cent sourcing must be from SMEs
- Consumerism of the retail market
- Any additional product categories to be sold under single brand retail must first receive additional government approval

Source: Aranca Research, DIPP
One of the largest Colour Picture Tube (CPT) manufacturers globally and is currently in second position (after LG) in the colour TV segment

During 2007–13, Videocon’s revenues increased at a CAGR of 11.14 per cent

In 2013, the company earned the revenue base of USD3420 million with a net loss of USD13 million

Source: Company website, ISM Capital, Aranca Research
Notes: 2010* - Data for 15 Months
FY13* - Data for 18 months (Jan 2012 – June 2013)
**CONSUMER DURABLES**

**VIDEOCON: THE INDIAN BEHEMOTH … (2/2)**

- **Market capitalisation of USD940 million**
- **Sales expanded at a CAGR of 12.4 per cent during FY08–13**
- **Strong presence in the consumer electronics market**

**Revenue base of USD 3,420 million, with net loss of USD13 million during FY13**

- **Focuses primarily on consumer electronics products**
  - 1985-95

- **Focuses on R&D**

- **Builds strong brand presence in Tier 2 and Tier 3 cities**

- **Forays into telecom services and handset manufacturing**

- **Plans to set up a SEZ in Pune and Aurangabad in Maharashtra**

- **Launches LCD TV bundled with DTH and Internet chip**

- **Forays into compressors and motors manufacturing and crude oil business**
  - 1995-05

- **Grows aggressively via acquisitions and enters the telecom, DTH, and mobile handset manufacturing sectors**
  - 2005-2014

- **Plans to expand D2h portfolio and new set up box plant**

- **Acquires Thomson, Philips, and Electrolux plants**

- **To launch 16 Inch LED at an economical price.**

**Source:** Company website, Aranca Research
LG and Samsung together account for over 40 per cent of the consumer durables market in India.

Samsung entered India in 1995 whereas LG began operations in 1997.

However, high growth in mobile phone sales saw Samsung equal LG’s revenues by 2010 (USD3.6 billion) and by 2011 it outpaced LG. The revenues in 2012 were more of Samsung than LG.

Source: Company website, Aranca Research
Before 2005, LG’s entry strategy was to establish its presence across the country, offering a range of affordable but feature-rich products.

Samsung focused on creating a premium brand image by emphasising on the design and technology aspects of its higher-priced products and targeting a more affluent customer base.

After 2005, the two have expanded the scope of their target markets and offer both functional and high-end products.

Product innovation, heavy investment in R&D, and customer preferences have been the key factors behind the success of the two Korean giants.
Between the two, Samsung leads the mobile handset market.

Samsung currently accounts for 31.5 per cent of the Indian mobile handset market.

Samsung aims USD10 billion revenue in India by 2013.

LG has a market dominance in other consumer durables, including refrigerators, air conditioners, flat panel TVs and microwave ovens.

LG currently claims a 30 per cent market share for itself in the consumer durables space. Its share for microwaves is 39 per cent, washing machines is 38 per cent, refrigerators is 37 per cent, TVs are at 25 per cent and air conditioners are at 23 per cent.

India to become 3rd largest market with USD4.6 billion sales in three years for LG.

---

**Market share of players in the consumer durables market (2013)**

<table>
<thead>
<tr>
<th>Product</th>
<th>LG</th>
<th>Samsung</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refrigerator</td>
<td>37%</td>
<td>43%</td>
<td>20%</td>
</tr>
<tr>
<td>Flat panel TV</td>
<td>54%</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>Air Conditioners</td>
<td>66%</td>
<td>23%</td>
<td>11%</td>
</tr>
<tr>
<td>Mircowaves</td>
<td>27%</td>
<td>39%</td>
<td>27%</td>
</tr>
<tr>
<td>Mobile Phones</td>
<td>32%</td>
<td>34%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Source: Company website, Aranca Research*
LG and Samsung: Compelling Success Stories … (4/4)

- LG expects India’s share in its global revenues to increase to 12.0 per cent in FY15 from 4.8 per cent in FY12; Samsung anticipates a similar increase from 2.5 per cent to 5.0 per cent.

- LG launches mobile handset G2 and aims to make the Indian operations among its top 3 businesses globally, by 2015.

- The Korean giants are also looking at India as a manufacturing base for other markets and are ramping up investments accordingly.

- LG plans to increase its penetration level in the Indian rural market to 15.0 per cent by 2015 from 5.0 per cent in 2011; during the same period it wants to increase penetration in the urban market to 40.0 per cent from 34.0 per cent.

- Samsung in 2010 launched its Galaxy Series in mobile handsets is trying to keep the momentum of high revenues.

**India’s share in each Company’s global revenues**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2015E</th>
</tr>
</thead>
<tbody>
<tr>
<td>LG</td>
<td>4.8%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Samsung</td>
<td>2.5%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

*Source: Company website, Economic Times, Aranca Research
Note: E – Estimates,*
Whirlpool accounts for over 25 per cent of the consumer durables market in India

India is currently the fifth largest market for Whirlpool

Whirlpool entered the Indian market in late 1980s through a joint venture with TVS group

Whirlpool acquired Kelvinator India Limited in 1995 and marked an entry into Indian refrigerator market as well

Whirlpool brand stretches from the mass to premium segments; the company plans to launch a new brand, KitchenAid, which would operate in the super-premium appliances segment

Whirlpool plans to invest more than USD156.3 million in India by 2015, with more than half of it earmarked for innovation

Net sales are estimated to be USD5.2 billion by FY14

Source: Company website, Bloomberg, Aranca Research
CONSUMER DURABLES

WHIRLPOOL: EYEING MARKET LEADERSHIP … (2/2)

<table>
<thead>
<tr>
<th>Product</th>
<th>Standing</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refrigerator</td>
<td>Third</td>
<td>17 per cent</td>
</tr>
<tr>
<td>Washing machine</td>
<td>Third</td>
<td>15 per cent</td>
</tr>
<tr>
<td>Microwave</td>
<td>Fourth</td>
<td>9 per cent</td>
</tr>
<tr>
<td>Air conditioner</td>
<td>Fifth</td>
<td>6 per cent</td>
</tr>
</tbody>
</table>

*Source: Economic Times, Aranca Research*
CONSUMER DURABLES

GODREJ APPLIANCES: CHANGING LIFESTYLE

- Revenue base of over USD 241.1 million in FY14
- Voted Most Trusted Brand, Gold Award (Reader’s Digest Consumer Survey) for 4 years in a row
- Sales expected to expand at a growth of 25 per cent during FY13–14
- Strong brand presence in the consumer electronics market

- Focuses on refrigerators, microwaves, air conditioners and washing machines.
- Achieves presence through more than 2200 wholesale dealers and 18000 retail outlets
- Builds strong brand presence in metros and Tier 1 cities
- Targets rural market by lower pricing and innovation like “Chotokool”
- Launches a new premium product range under EON brand to target high-end segment
- Penetrates into medical refrigeration business in 2014
- Godrej Appliances sees 25 per cent growth in the FY14

- Launches the very first refrigerator in India and dominates the Indian consumer durable space for decades Before 2005
- Focuses primarily on consumer electronics products 2005–2012
- Focuses on innovation and high-end products to lure premium customer base. Launches TVs and water purifier, a new segment for the company 2012 onwards

Source: Company website, Aranca Research

For updated information, please visit www.ibef.org
CONSUMER DURABLES

USEFUL INFORMATION

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CAGR: Compound Annual Growth Rate

Capex: Capital Expenditure

CENVAT: Central Value Added Tax

EHTP: Electronic Hardware Technology Park

EPCG: Export Promotion Capital Goods Scheme

FDI: Foreign Direct Investment

FY: Indian Financial Year (April to March)

   So FY10 implies April 2009 to March 2010

LCD: Liquid Crystal Display

R&D: Research and Development

USD: US Dollar

Wherever applicable, numbers have been rounded off to the nearest whole number
### Exchange rates (Fiscal Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>44.81</td>
</tr>
<tr>
<td>2005-06</td>
<td>44.14</td>
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<tr>
<td>2006-07</td>
<td>45.14</td>
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<tr>
<td>2007-08</td>
<td>40.27</td>
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<td>2008-09</td>
<td>46.14</td>
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<tr>
<td>2009-10</td>
<td>47.42</td>
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<tr>
<td>2010-11</td>
<td>45.62</td>
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<tr>
<td>2011-12</td>
<td>46.88</td>
</tr>
<tr>
<td>2012-13</td>
<td>54.31</td>
</tr>
<tr>
<td>2013-14</td>
<td>60.28</td>
</tr>
</tbody>
</table>

### Exchange rates (Calendar Year)

<table>
<thead>
<tr>
<th>Year</th>
<th>INR equivalent of one USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>43.98</td>
</tr>
<tr>
<td>2006</td>
<td>45.18</td>
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<tr>
<td>2007</td>
<td>41.34</td>
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<td>2008</td>
<td>43.62</td>
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<td>2009</td>
<td>48.42</td>
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<tr>
<td>2010</td>
<td>45.72</td>
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<tr>
<td>2011</td>
<td>46.85</td>
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<tr>
<td>2012</td>
<td>53.46</td>
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<tr>
<td>2013</td>
<td>58.44</td>
</tr>
<tr>
<td>Q12014</td>
<td>61.58</td>
</tr>
</tbody>
</table>

Average for the year
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