Consumer Durables
MARKET & OPPORTUNITIES
Indian Consumer Durables Industry

The Consumer Durables industry consists of durable goods and appliances for domestic use such as televisions, refrigerators, airconditioners and washing machines. Instruments such as cellphones and kitchen appliances like microwave ovens are also included in this category. The sector has been witnessing significant growth in recent years, helped by several drivers such as the emerging retail boom, real estate and housing demand, greater disposable income and an overall increase in the level of affluence of a significant section of the population. The industry is represented by major international and local players such as BPL, Videocon, Voltas, Blue Star, MIRC Electronics, Titan, Whirlpool, etc.

The consumer durables industry can be broadly classified into two segments: Consumer Electronics and Consumer Appliances. Consumer Appliances can be further categorised into Brown Goods and White Goods. The key product lines under each segment are as follows.

### INDUSTRY SIZE, GROWTH, TRENDS

The consumer durables market in India was estimated to be around US$ 4.5 billion in 2006-07. More than 7 million units of consumer durable appliances have been sold in the year 2006-07 with colour televisions (CTV) forming the bulk of the sales with 30 per cent share of volumes. CTV, refrigerators and Air-conditioners together constitute more than 60 per cent of the sales in terms of the number of units sold.

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In the refrigerators market, the frost-free category has grown by 8.3 per cent while direct cool segment has grown by 9 per cent. Companies like LG, Whirlpool and Samsung have registered double-digit growth in the direct cool refrigerator market.

In the case of washing machines, the semi-automatic category with a higher base and fully-automatic categories have grown by 4 per cent to 526,000 units and by 8 per cent to 229,000 units, respectively.

In the air-conditioners segment, the sales of window ACs have grown by 32 per cent and that of split ACs by 97 per cent.

Since the penetration in the urban areas for these"
products is already quite high, the markets for both CTVs and refrigerators are shifting to the semi-urban and rural areas. The growth across product categories in different segments is assessed in the following sections.

**Consumer Electronics**

The CTV production was 15.10 million units in 2006-07 and is expected to grow by at least 25 per cent. At the disaggregated level, conventional CTV volumes have been falling while flat TVs have grown strongly. Market sources indicate that most CTV majors have phased out conventional TVs and have been instead focusing more on flat TVs. The flat segment of CTVs now account for over 60 per cent of the total domestic TV production and is likely to be around 65 per cent in 2007-08.

High-end products such as liquid crystal display (LCD) and plasma display CTV grew by 400 per cent and 150 per cent respectively in 2006-07 following a sharp decline in prices of these products and this trend is expected to continue.

The audio/video player market has seen significant growth rates in the domestic market as prices have dropped. This trend is expected to continue through 2007-08, as competition is likely to intensify to scale and capture the mass market.

**Mobile Phones – The New Opportunity**

Mobile phone production in India is expected to grow at a Compound Annual Growth Rate (CAGR) of 28.3 per cent from 31 million units in 2006 to 107 million units in 2011.

Production of mobile phones is expected to be a US$ 13.6 billion industry by 2011. The current US$ 4.9 billion industry revenue is growing at a CAGR of 26.6 per cent. The growth of mobile telephony market is highest in India with 6 to 7 million subscribers being added on a monthly basis compared to the US, which adds 2 million subscribers and China, which adds about 5 million subscribers.

India is also emerging as a global base for handsets as key global players. India produced nearly 31 million mobile phones in 2006 worth about US$ 5 billion. This segment made the largest contribution to overall electronics production revenue and the total available market for semiconductors. For 2007, it is projected that the handset production will increase by 68 per cent in volume to about 51 million units and 65 per cent in value terms. Starting on an already strong base, over six million users are being added every month and are building a large local market for mobile manufacturers.

Low mobile penetration and favourable government policies are driving global mobile phone manufacturers to set up manufacturing facilities in India. Nokia started its manufacturing unit in Chennai in January 2006 and produced about 25 million handsets in the first year of its operation. India has now become the second largest market for Nokia phones in the world. Nokia is also exporting mobiles from its Indian facilities to Sri Lanka. Motorola and Electronics Manufacturing Service vendors (EMS) like Foxconn and Flextronics have also set up plants in India.

According to a study by Gartner, though the world's top five handset makers will retain a major share of production volume, local manufacturers can be expected to capture up to a fifth of India's overall mobile phone production volume by the end of 2011. Growing demand for low-cost mobile phones and the need for EMS vendors to reduce their revenue exposure to Nokia, Motorola and Sony Ericsson, for whom they are now manufacturing in India, are the key factors expected to contribute to this trend. Most of the components are imported today. Development of local component manufacturing industry will be essential for continuous growth of total handset manufacturing. Given the price-sensitivity of the Indian consumer, access to low-cost, feature-rich and local-specific chip designs, as well as a strong distribution network, remain key considerations in this market. Key stakeholders in the mobile phone industry value chain provide these, and local manufacturers could be expected to look to form alliances and partnerships.

**White Goods**

Increased consumer demand is expected to boost the white goods segment to achieve production levels of US$ 5.09 billion by the end of 2007-08 against US$ 4.54 billion in 2006-07, with a growth rate of 12.5 per cent.

**Air-Conditioners**

Growth in the white goods segment was largely driven by the Air-conditioner (AC) segment. Within this, split ACs have been the main growth drivers, recording a growth of over 90 per cent in 2006. Growth, albeit at a slower rate
of 32 per cent, has also been experienced in the segment of window ACs. The window AC segment is slightly less organised as compared to split AC segment. The market for air-conditioners is divided quite uniformly across customer segments, with about 45 per cent share for private sector corporates, 20 per cent for domestic use, 15 per cent each for public sector companies and government use and 5 per cent for hospitals.

### Washing Machines

The sales of washing machines has grown from about 780,000 units to 1,948,000 units during the period, fiscal year 1999 to 2007, registering a near 12.2 per cent annual growth rate.

The washing machine market may be segmented into semi-automatic and fully automatic machines. Semi-automatic washing machines enjoy a dominant share of 85 per cent. Fully automatic washing machines have been gaining share as a consequence of product improvement, competitive pricing and resultant convenience. However, semi-automatic machines will continue to play a major role in the Indian market for quite sometime. Fully automatic washing machines have been the growing at 44.5 per cent and semi-automatic segment, at about 18 per cent.

The entry of MNCs has widened the range to more than 10 brands with a proliferation of models, while ensuring technology upgradation. A visible impact of this churn has been the exit of a few established players from the market.

### Refrigerators

Refrigerators are one of the most sought after appliances in Indian middle class homes. The refrigerator market has two segments: Direct Cool and the relatively new Frost-Free type. The market for refrigerators in 2006-07 was about 6.5 million units. The growth of refrigerator segment is projected to be between 18 to 22 per cent over the next 5 years.

A critical success factor for the refrigerator market, given its widespread use, is deeper reach into the market and increased penetration. Recently, the market is getting reinforced by the replacement segment as well.

### Vacuum Cleaners

Vacuum Cleaners are an emerging segment in the Indian market, still at a nascent stage. The drivers for demand have been the improvement in life style and higher aspirations of urban middle class and the top income brackets. While the market has been growing, this segment is not expected to reach significant volumes soon.

Part of this could be attributed to the lifestyle compatibility of Indian customers with the product. In the large majority of Indian houses, for instance, floors are not carpeted and the product will have to meet dual requirements of sweeping and mopping. Another impediment to the adoption of vacuum cleaners has been the availability of cheap domestic help in most cities.
**Domestic Electrical Appliances**

Brown goods or domestic kitchen appliances are indicators of the changing consumer scenario in post-liberalisation economic environment. The major products constituting the brown goods market are mixers, grinders, irons, microwave-ovens, rice cookers, water heaters or geysers, electric fans and exhausts.

The branded brown goods market has expanded at a significant pace and is expected to retain the momentum into the future as well. The market has been transformed by the entry of over a dozen new brands, moreover competition has intensified. While focus on price competency remains a key priority, players have also started focusing on other product features such as safety and total cost of ownership of the device.

Goods, like the rice cooker have been continuously growing in a slow and steady manner over a significant period of time, while microwave ovens have grown exponentially after the initial period of customisation to local requirements.

The electrical iron market can be divided into two segments: heavy and light-weight. The market is also segmented into two sub-segments: steam and non-steam irons.

India being a tropical country, electric fans are an essential utility for more than six months of the year in most parts of the country. The present market size is estimated at around 11.6 million pieces. The market is divided among ceiling, pedestal, wall and table fans. Industrial and exhaust fans are another important segment. The major players include Orient Fan, Crompton Greaves, Jay Engineering, Bajaj Electricals, Polar, Khaitan and Alsthom.

The electrical appliances industry, which had been focused on the urban market, is now reaching out to semi-urban and rural markets as well, because of the shift in living style of the population, increasing electrification of villages and relatively higher purchasing power of consumers. As the market penetrates into the core middle class segment in both urban and rural areas, it is expected to expand phenomenally, offering large volumes to the industry.

**Trends Favoring the Growth of the Consumer Durables Industry**

The key trends that impact the Indian Consumer Durables Industry today are reflected in the diagram and discussed separately in the following sections.

**Increasing Share of Organised Retail**

The urban and rural markets in India are growing at an annual rate of 7 to 10 per cent and 25 per cent respectively. One of the key enablers of this growth has been the increasing penetration of organised retail. While there are established distribution networks in both rural and urban India, the presence of well-known brands and organised sector is increasing.

At present around 96 per cent of the more than 5 million retail premises of all types in India are smaller than 50 sq mtrs. This situation is, however, transforming. Shopping malls are becoming increasingly common in Indian cities, and based on plans announced by key developers, a proliferation of new malls is expected over the next three years. Although many of the new malls would be much smaller than their western counterparts, Indian consumers will have a far larger number of attractive, comfortable, brand-conscious outlets in which to shop. As a result, the organised retail industry is expected to cover a market share of 15 to 18 per cent by the end of 2010, from just 3 per cent at present.

This will have a positive impact on the consumer durables industry, as organised retailing would not only streamline the supply chain, but also facilitate increased demand, especially for high-end and branded products.
Narrowed Price Gap and Increased Affordability of Products

Advanced technology and increasing competition is narrowing the price gap between products in this sector, which has driven demand and enabled high growth. Products that were once beyond the reach of the middle class Indian are now affordable to many. Growth in demand for products, once considered luxuries, such as air-conditioners, washing machines and high end CTVs, is a reflection of this phenomenon.

Entry of Large Players Increasing Competition

With potential heavyweight retail stores like Croma, E Zone and Reliance Digital, the high-end segment has been exposed to a new form of purchase, allowing the consumer to feel/experience the product in a suitable ambience (significant in decision-making). Part of the growth momentum in high-end segments of consumer electronics could be attributed to the competitive evolution of organised retail, stimulating the demand through exposure to high end shopping experiences.

Rupee Appreciation

Raw material cost constitutes more than 75 per cent of expenditure incurred by consumer durable manufacturers in India. The rapid appreciation of rupee vis-à-vis the US dollar in 2007 is expected to ease raw materials costs for Indian manufacturers and benefit those addressing the domestic market.

Income Growth and Structural Changes

Apart from steady growth in income of consumers, consumer financing has become a major driver in the consumer durables industry. In the case of more expensive consumer goods, such as refrigerators, washing machines, colour televisions and personal computers, retailers are marketing their goods more aggressively by providing easy financing options to the consumers by partnering with banks.

While this is aimed at the lower and middle income groups, the higher income groups are also being attracted by opportunity.

Critical Success Factors for Manufacturers in the Sector

All key segments of the Indian consumer durables industry are growing and the industry offers an attractive investment option. Success would require players to address a few key factors, based on the industry drivers and trends.

Distribution and Service Network

As the market spreads out from saturated urban regions to low penetration rural areas and tier II/III towns, distribution network and brand recognition will continue to play even more significant roles in determining market share and profitability. The market for consumer durables is moving towards a stage where it could soon be defined “as broad as it can be reached”. The central government plans of making electricity available for all by 2012, will also open up immense opportunities for the consumer durables segment.

Product Technology

While the market is continuously expanding, there are several concerns that will have to be addressed while moving the focus towards tier III towns and rural areas. Total cost of ownership would be a key factor that would drive purchase in these regions. From an organised industry’s perspective, success would be determined by superiority of product technology, which could provide added benefits to the customer, for example; low power consumption, low service requirement and low cost of operation.
Innovation in Advertising and Promotions

Increasing competition and technology adoption has led to a situation where the basic function of most of the consumer durable goods has been largely commoditised. This has created a situation where identifying a unique differentiating factor and promoting it effectively has become imperative. The advertising and promotions spends in the industry have been growing steadily.

Significant focus has been laid on mapping key concerns, that could act as demand drivers and proactive marketing campaigns aimed at addressing specific concerns of prospective customers. For instance, instead of focusing on the basic space conditioning attribute, LG’s AC marketing campaigns focus on health benefits resulting from their superior air filtering technology, thus striking a chord with urban consumers for whom safety from pollution and dust is perhaps as significant a need as air-conditioning.

Consumer financing has become a major engine of growth in the consumer-durables industry. In the case of more expensive consumer goods, such as refrigerators, washing machines, colour televisions and personal computers, retailers are joining forces with banks and finance companies to market their goods more aggressively.

Among department stores, other factors that will support rising sales include a strong emphasis on retail technology, loyalty schemes, private labels and the sub-letting of floor space in larger stores to smaller retailers selling a variety of products and services, such as musical recordings and coffee.

Attractive locations

Since raw materials account for more than 75 per cent of the manufacturing cost of consumer durables and with a significant part of it being imported, Maharashtra’s, Gujarat’s and Tamil Nadu’s proximity to ports, high demand for durable goods and factor consolidation in manufacturing sector make them amongst the more considered destinations for investment in manufacturing.

OPPORTUNITIES FOR INVESTING IN CONSUMER DURABLES INDUSTRY

The rapid growth in the consumer durables industry offers several attractive investment options. Based on the industry size, growth trends and key drivers, the following segments can be outlined for their sustained growth:

- High End CTV
- Mobile Phones
- Distribution & Retail
- Air-conditioners

Some key Observations of Pertinence to Investors

Branded products sell in unorganised retail as well

Brands account for 10 per cent of the total consumer goods market in India, while organised retailing is around 2 per cent of the total industry. Though branded products are perceived to be costlier than non-branded products, the penetration of branded products is increasing. The relative shares of branded products and organised retail indicate that a significant share of branded products is being sold through unorganised channels. This highlights the need for a strong distribution network to penetrate deeper into the potential market.

Different requirements to address urban and rural population

While income levels are rising across consumer segments in both urban and rural markets, the level of infrastructure development and facilities vary widely across these markets. This has resulted in the emergence of two separate consumer segments with different demands. Independent retail outlets, handcarts and kiosks serve rural areas. In cities, independent retailers, retail chains (including shopping malls), department stores and supermarkets are becoming increasingly common.

Products need to address Indian working environment

The other major influence on the consumer durable industry is product customisation to address unique requirements of the Indian market. Some examples of products customised for India include refrigerators that can keep foodstuff cool for long even during a power cut and washing machines with extra rinse cycles. At the same time, these features are to be delivered at no extra cost to the consumer, given the price sensitive nature of the market.
Conclusion

The consumer durables industry in India is set for sustained growth over the long term, fuelled by favourable consumer demographics, overall growth in services and industrial sectors and infrastructure development in suburban and rural areas. Several Indian and MNC players are looking to strengthen their presence in India to leverage this opportunity.

Success in the long-term will require firms to develop a wide and robust distribution network, differentiate their products in areas of relevance to the consumer and innovate in the areas of promotion, product financing, etc. The product and approach to market need to be customised to suit the unique needs of the Indian market.
Profiles of Key Players

**BLUESTAR**

- **Net Sales (US$ million)** = 354.97 (FY'07)
- **PAT (US$ million)** = 15.78
- **EPS (Cents)** = 17.56
- **P/E** = 26.4
- **ROE** = 33 per cent
- **ROCE** = 28 per cent

Blue Star is the largest central air-conditioning company with a network of 23 offices, four modern manufacturing facilities and around 2,000 employees. It fulfils air-conditioning needs of a large number of corporate and commercial customers and has also established leadership in the field of commercial refrigeration equipment ranging from water coolers to cold storages.

The company recorded an increase in net sales by 48 per cent to US$ 102.46 million in Q1, FY’08 compared to US$ 69.23 million in Q1, FY’07. For financial year ended March 2007, the company recorded an increase in profit by 46 per cent to US$ 15.78 million and is expected to reach US$ 24.50 million and US$ 33.36 million in the financial year ending March 2008 and March 2009 respectively. The net sales of the company in the financial year ended March’ 07 recorded an increase of 36 per cent to US$ 354.97 million and is expected to increase to US$ 479.56 million and US$ 640.32 million in the financial year ending March 2008 and March 2009 respectively. This increase in profit can be attributed to the company’s plans to expand, to increase its production capacity and enhancing its product range, by developing special purpose products and comfort application. The company is setting up a new manufacturing plant in Thane.

**MIRC ELECTRONICS**

- **Net Sales (US$ million)** = 355.60 (FY'07)
- **PAT (US$ million)** = 7.50
- **EPS (Cents)** = 5.27
- **P/E** = 7.18
- **ROE** = 14 per cent
- **ROCE** = 21 per cent

MIRC Electronics commands strong brand equity largely owing to the success of its Onida brand among consumers. The company aims at technology leadership. The finest design have made the company a leading player in the electronics and entertainment business today.

For financial year ended March 2007, the company recorded change in the profit by 3 per cent to US$ 7.49 million. The net sales of the company in the financial year ended 2007 recorded an increase of 24 per cent to US$ 335.60 million and is expected to increase to US$ 422.81 million and US$ 540.03 million in the financial year ending March 2008 and March 2009, respectively. The operating profit of the company during fiscal year 07 increased by 1 per cent as compared to financial year 06 due to increase in net sales by 24 per cent offset by an increase in operational expenditure of 26 per cent.

The company is planning to set up a manufacturing plant in Uttaranchal for manufacturing various consumer electronic products. This plant aims to take advantage of direct and excise tax benefits. Although, nothing has been finalised yet, it is likely that the expenditure for the project will be financed through internal accruals.
VOLTAS
Voltas is an engineering company of the US$ 8.86 billion Tata Group. 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. The operations have been organised into four independent business specific clusters: air conditioning and refrigeration, unitary products, engineering products and international operations.

The company recorded an increase in net sales of 44 per cent to reach US$ 184.81 million in Q1, FY’08 compared to US$ 128.66 million in Q1, FY’07. For financial year ended March 2007, the company recorded a profit of 22 per cent to US$ 26.16 million. The net sales of the company in the financial year ended 2007 recorded an increase of 30 per cent to US$ 532.15 million.

Voltas 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.

VIDEOCON
Videocon is a market leader of consumer electronics and home appliances in India. Videocon manufactures home appliances such as refrigerators, microwave ovens, compressors, ACs and washing machines.

The company recorded a change in net sales by -3 per cent to US$ 64.08 million in Q1, FY’08 compared to US$ 65.75 million in Q1, FY’07. For financial year ended March 2007, the company recorded a change in profit by 3 per cent to US$ 7.24 million. The net sales of the company in the financial year ended 2007 recorded an increase of 3 per cent to US$ 258.65 million.

Videocon is planning to acquire Daewoo’s consumer electronic businesses worldwide. The acquisition would bring Daewoo’s consumer electronics business including LCD TVs, plasma TVs and components into Videocon’s fold, strengthening its position in the industry. It would also have a strategic fit into the group as it would find a consuming partner for its recently-acquired Thomson’s picture tube business.

BAJAJ ELECTRICALS
Net Sales (US$ million) = 239.12 (FY’07)
PAT (US$ million) = 8.67
EPS (US$) = 0.99
P/E = 8.71
ROE = 39 per cent
ROCE = 24 per cent

Bajaj Electricals is engaged in marketing of various consumer household and industrial goods. They are also into the business of manufacturing, erection and commissioning of transmission line towers, telecom towers, mobile telecom towers and wind energy towers. Its plants are located in Maharashtra.

The company recorded an increase in net sales by 33 per cent to US$ 55.92 million in Q1, FY’08 compared to US$ 42.01 million in Q1, FY’07. For financial year ended March 2007, the company recorded an increase in the profit by 39 per cent to US$ 8.67 million and is expected to reach US$ 13.72 million and US$ 18.18 million in FY’08 and FY’09 respectively. The net sales of the company in the financial year ended 2007 recorded an increase of 28 per cent to US$ 239.12 million and is expected to increase to US$ 310.83 million and US$ 413.43 million in the financial year ending March 2008 and March 2009 respectively.

Bajaj Electricals is planning to outsource manufacturing of gas appliances and water dispensers, which will be marketed under its own brand, reports agency sources. The company aims to introduce two new lines of products into the market by end of 2007. The company is further planning to introduce inverters into the market by September-October this year, as well as expanding the capacity of its Ranjangaon facility with an investment of US$ 9.97 million.

NOKIA- A SUCCESSFUL MNC IN INDIA
Mobile phone landscape in 1995 was one open business opportunity for all the players to capture and succeed. Nokia was one company that succeeded in capturing this opportunity effectively. One of the key differences between Nokia and its competitors was that Nokia was completely focused on mobile phones; while its competitors had consumer electronics, home appliances, etc. The case study analyses what went right for Nokia and its success strategy.
Being focused and ahead of the curve are the chief components of Nokia’s strategy. Nokia invested in each vertical of the handset ecosystem – manufacturing, distribution, design and R&D.

THE DISTRIBUTION LEADER

Nokia started distributing its phones through a partnership with HCL (formerly Hindustan Computers Ltd.), which had already built an extensive network for its own products. Recently, Nokia has decided to supplement that with its own distribution efforts. Nokia’s lead in distribution is clear. Today, India has some 95,000 outlets that sell mobile phones. It is estimated that Nokia has a monopoly presence in more than half of them.

MANUFACTURING EDGE

Nokia’s big investment in India has been in the Manufacturing and R&D centers in India. Nokia has several R&D centers and labs in India including a $150 million handset manufacturing facility in Chennai setup in 2005. More than 25 million handsets have been produced so far with almost 30 per cent of them exported to neighboring countries.

THE “BRAND”

Whether it is N series or the E series, the key focus is the ‘Mother Brand’ – Nokia. All the products for various segments of the market from low-end to high-end are produced under the Nokia brand. Nokia brand is present across price segments with value for money at that price with a most sought after and must have brand image.

‘LOCAL’ PRODUCTS

Nokia built custom-made mobiles for Indian conditions. The Nokia 1100, the first made-for-India phone, has been a runaway success. Having a torch built into a mobile phone is a distinct and tangible benefit which helps in a country with frequent power cuts.
Exchange Rate Used

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India Brand Equity Foundation
c/o Confederation of Indian Industry
249-F Sector 18, Udyog Vihar Phase IV
Gurgaon 122015, Haryana, INDIA

Tel: +91 124 401 4087, 4060 - 67
Fax: +91 124 401 3873, 401 4057
Email: j.bhuyan@ciionline.org
Web: www.ibef.org
Website in the Russian language: www.ibef.org/russia