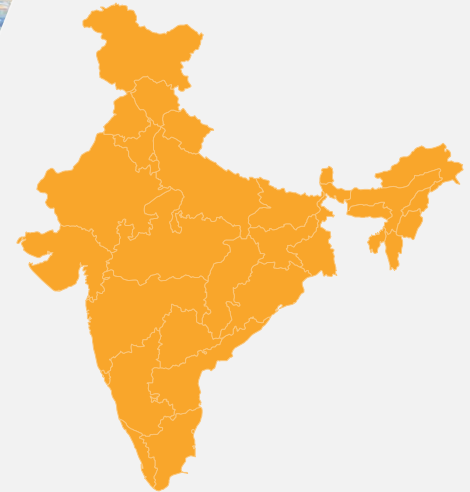




# FAST MOVING CONSUMER GOODS (FMCG)



**IBEF**

INDIA BRAND EQUITY FOUNDATION

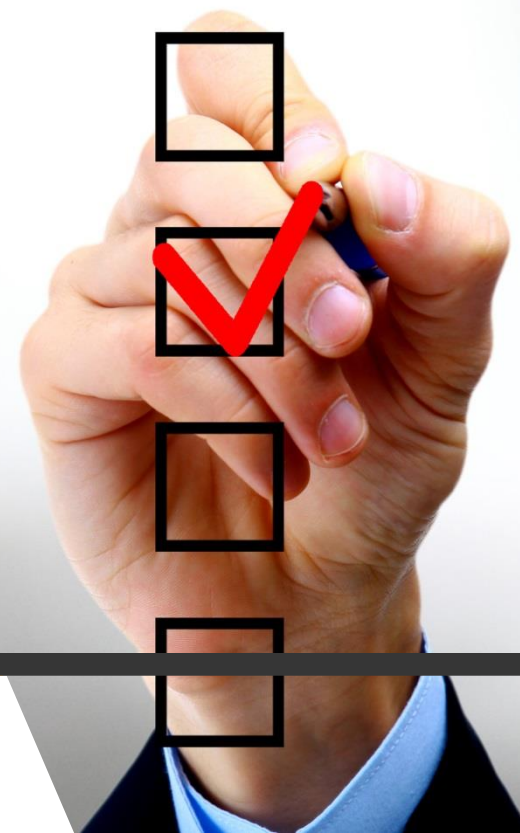
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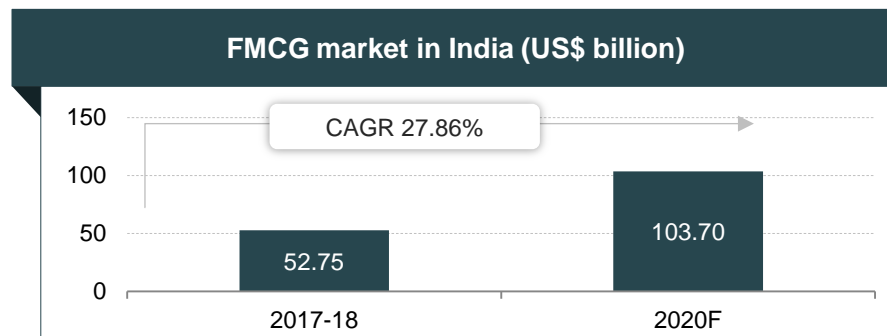
**July 2018**

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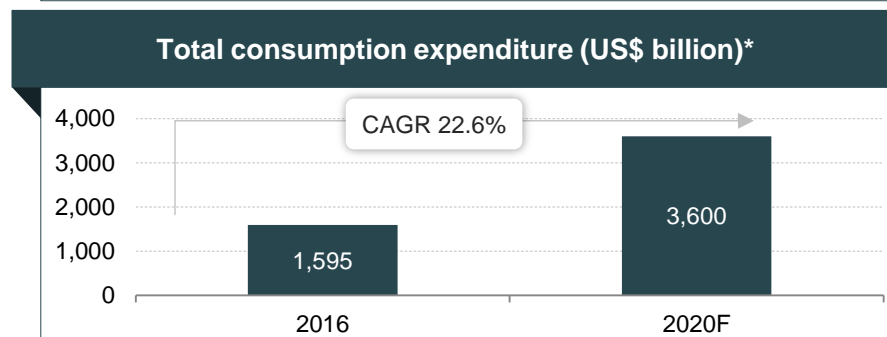
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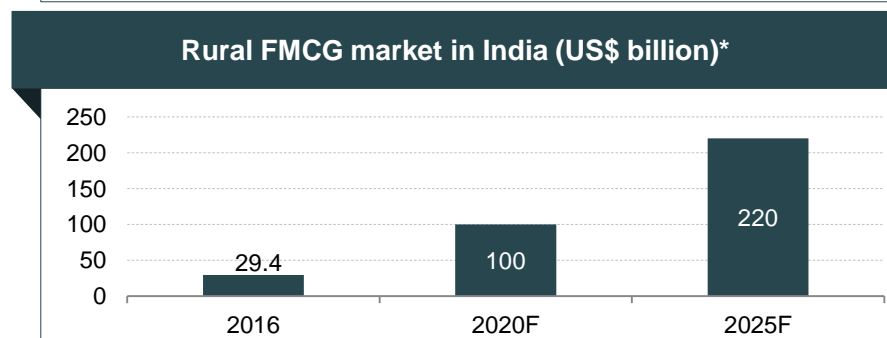
- Favourable demographics and rise in income level to boost FMCG market
- FMCG market in India is expected to grow at a CAGR of 27.86 per cent and is expected to reach US\$ 103.70 billion by 2020 from US\$ 52.75 billion in 2017-18.



- Total consumption expenditure is set to increase at a CAGR of 22.57 per cent from 2016-2021.
- Total consumption expenditure is expected to reach nearly US\$ 3600 billion by 2020 from US\$ 1,595 billion in 2016



- Rise in rural consumption to drive the FMCG market
- In FY18, Rural consumption rose by 9.7 per cent ^
- The rural FMCG market in India is expected to grow to US\$ 220 billion by 2025 from US\$ 29.4 billion in 2016



**Notes:** F- Forecast, \*As per latest data available, ^ - According to Nielsen Report

**Source:** World Bank, Emami Reports, Dabur Reports, AC Nielsen, CRISIL

# ADVANTAGE INDIA



**Growing Demand**

- Rising incomes and growing youth population have been key growth drivers of the sector. Brand consciousness has also aided demand
- India's contribution to global consumption is expected to more than double to 5.8 per cent by 2020.\*
- Tier II/III cities are witnessing faster growth in modern trade

**Attractive Opportunities**

- Low penetration levels in rural market offers room for growth
- Disposable income in rural India has increased due to the direct cash transfer scheme
- Exports is another growing segment
- E-commerce companies like Amazon are strengthening their business in FMCG sector, by positioning their platform pantry as front line offering to drive daily products sales.

**Higher Investments**

- Many players are expanding into new geographies and categories
- Patanjali will spend US\$743.72 million in various food parks in Maharashtra, M.P. Assam, Andhra Pradesh and Uttar Pradesh.
- Dabur is planning to invest Rs 250-300 crore (US\$ 38.79-46.55 million) in FY19 for capacity expansion and is also planning for acquisitions in the domestic market.

**Policy Support**

- Investment approval of up to 100 per cent foreign equity in single brand retail and 51 per cent in multi-brand retail
- Initiatives like Food Security Bill and direct cash transfer subsidies reach about 40 per cent of households in India
- The minimum capitalisation for foreign FMCG companies to invest in India is US\$100 million

**ADVANTAGE INDIA**

*Note: E – Estimated, F – Forecast, \* - as per a report by BCG and CII*  
*Source: Emami*

# MARKET OVERVIEW



# EVOLUTION OF FMCG IN INDIA

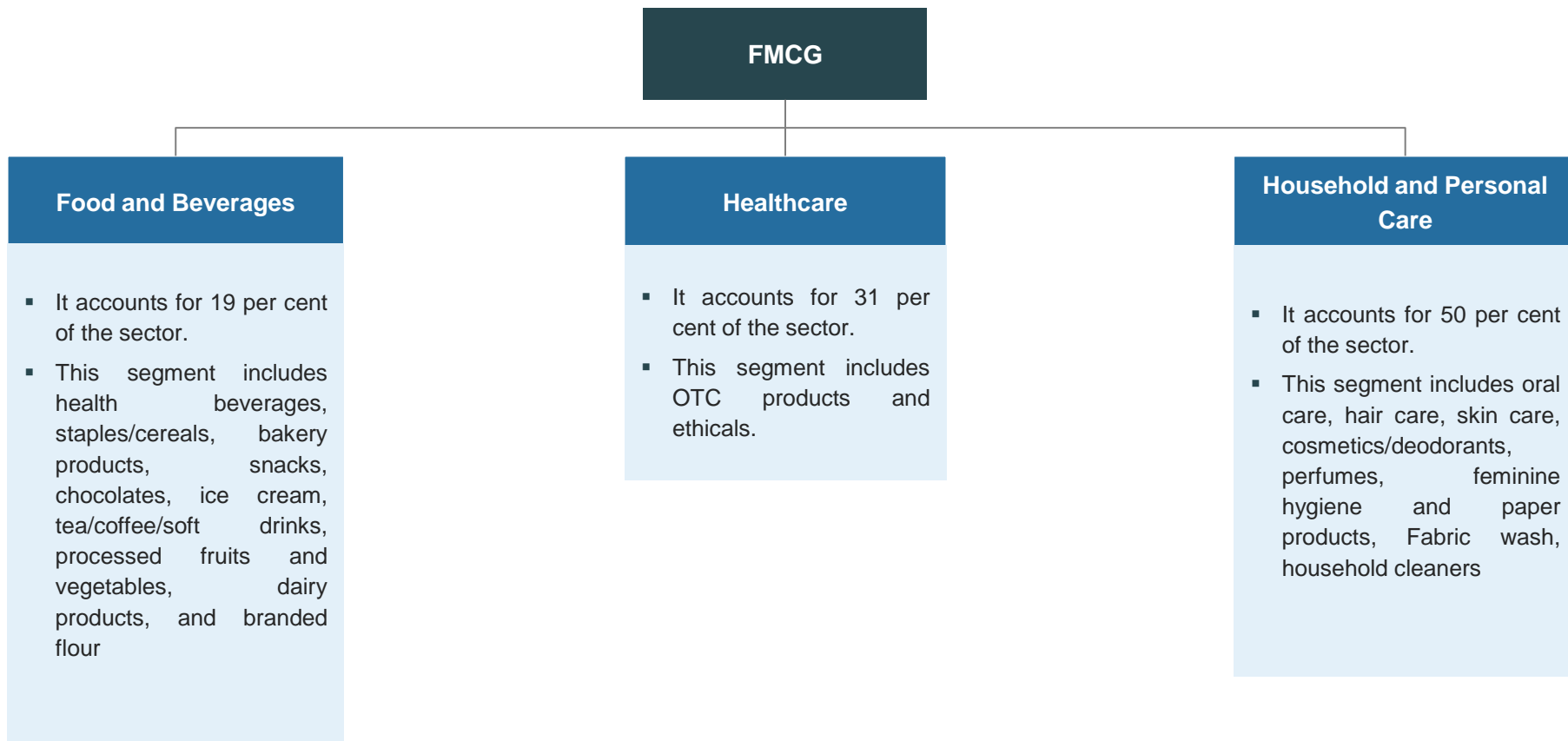
- FMCG is the 4th largest sector in the Indian economy
- Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent) and Food and Beverages (19 per cent) comes next in terms of market share
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector
- The number of online users in India is likely to cross 850 million by 2025.
- In April 2018, Mr Acharya Balakrishna, CEO of Patanjali announced that the company is generating Rs 10-15 crore (US\$ 14,916.47 – 22,374.70 million) through its online business.
- Retail market in India is estimated to reach US\$ 1.1 trillion by 2020 from US\$ 840 billion in 2017, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies
- People are gracefully embracing Ayurveda products, which has resulted in growth of FMCG major, Patanjali Ayurveda, with a revenue of US\$ 1.57 billion in FY17. The company aims to expand globally in the next 5 to 10 years.

FY00	FY18
<ul style="list-style-type: none"> <li>▪ Indian FMCG Industry – US\$ 9 billion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Indian FMCG Industry – US\$ 52.75 billion</li> </ul>
<ul style="list-style-type: none"> <li>▪ Market size of chocolates - &lt;US\$ 100 million</li> </ul>	<ul style="list-style-type: none"> <li>▪ Market size of chocolates – US\$ 1,766.6 million*</li> </ul>
<ul style="list-style-type: none"> <li>▪ Market size of personal care - &lt;US\$ 3 billion</li> </ul>	<ul style="list-style-type: none"> <li>▪ Market size of personal care – US\$ 12.58 billion*</li> </ul>
<ul style="list-style-type: none"> <li>▪ HUL's share in FMCG market (personal care) - &gt;50%</li> </ul>	<ul style="list-style-type: none"> <li>▪ HUL's share in FMCG market (personal care) – 37.4%*</li> </ul>

**Note:** \*For FY17

**Source:** Dabur Annual Report, Economic Times, Emami Annual Report, McKinsey Global Institute, CII, Boston Consulting Group Report

# THREE MAIN SEGMENTS OF FMCG

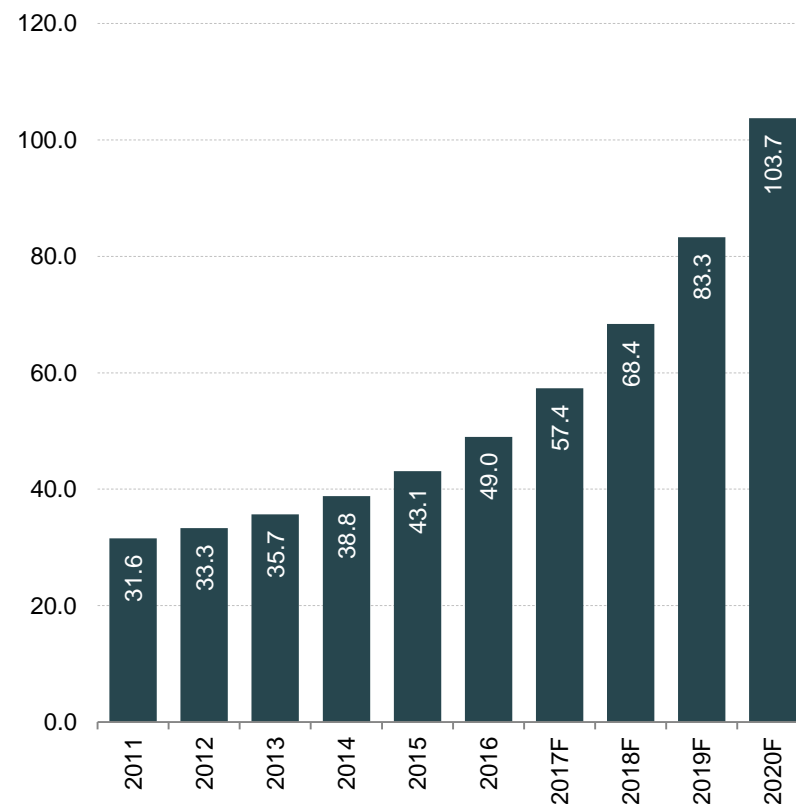


*Note: OTC is over the counter products; ethicals are a range of pharma products, Data as of March 2016*  
*Source: Dabur*

# STRONG GROWTH IN INDIAN FMCG SECTOR

- Revenues of FMCG sector are estimated to grow from US\$ 49 billion in 2016 to US\$ 103.7 billion in 2020F.
- The sector is estimated to have witnessed revenue growth of 14.8 per cent in October-December 2017, supported by improvement in consumer sentiment and rise in rural demand.#
- The Union Budget 2018-19 initiatives are expected to increase the disposable income in the hands of the common people, especially in the rural area, which will be beneficial for the sector.
- FMCG sector to gain support for growth from Inland Waterways Authority of India (IWAI) multi-modal transportation project of freight village at Varanasi which will bring together retailers, warehouse operators and logistics service providers, investment worth Rs 1.7 billion (US\$ 25.35 million).
- The FMCG sector is expected to register net revenue growth of 11.8 per cent in Q4 March 2018 due to accelerated volume growth, GST led savings and higher leverage benefits.
- Indian FMCG sector is forecasted to report revenue growth of around 11-12 per cent in FY19 from 8 per cent in FY18.

Trends in FMCG revenues over the years (US\$ billion)



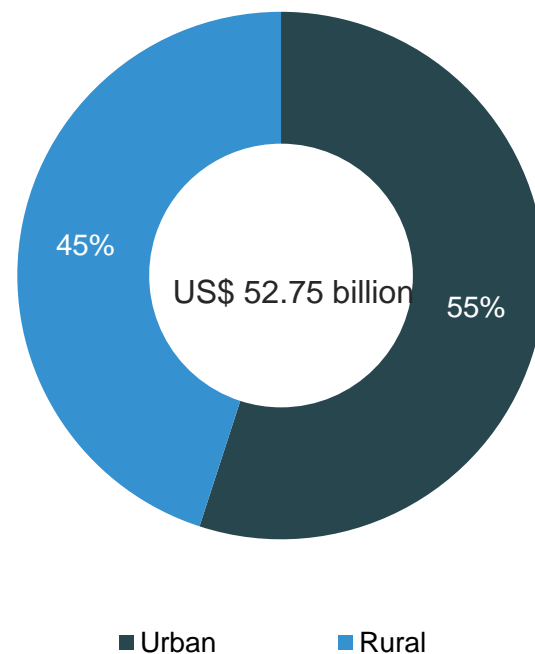
*Note: F – Forecast, ^ - according to Euromonitor International, #As per ICICI securities*

*Source: Dabur, AC Nielsen*

# URBAN MARKET ACCOUNTS FOR MAJOR CHUNK OF REVENUES

- Accounting for a revenue share of around 45 per cent\*, rural segment is the largest contributor to the overall revenue generated by the FMCG sector in India.
- Urban segment is growing at a rapid pace and accounted for a revenue share of 55 per cent in the overall revenues recorded by FMCG sector in India.
- In the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. In 2018-19, revenues from the rural segment are expected to grow 15-16 per cent outpacing
- FMCG products account for 50 per cent of total rural spending.
- Demand for quality goods and services has been going up in rural areas of India, on the back of improved distribution channels of manufacturing and FMCG companies.^
- FMCG urban segment is expected to have a steady revenue growth at 8 per cent in FY19.\*

Urban – Rural industry Breakup (FY2017-18)\*

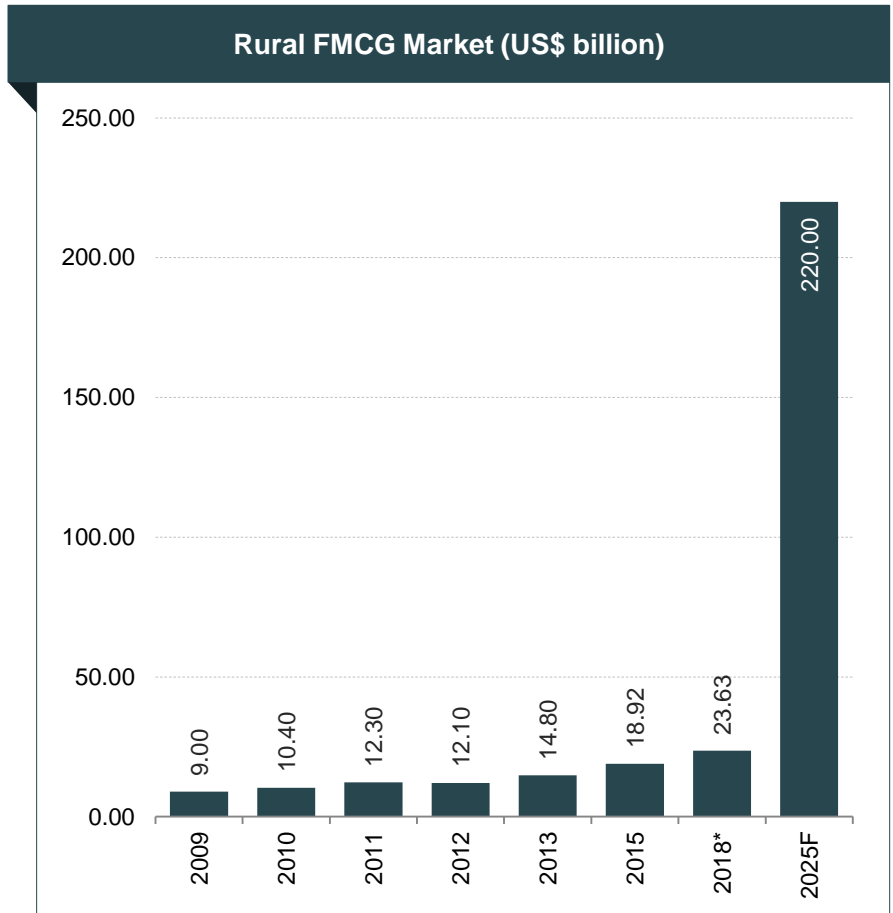


*Note: E – estimate, ^ - as per a report by State Bank of India, \* -According to CRISIL report*

*Source: BCG , KPMG- indiaretailing.com, Deloitte Report, Winning in India's Retail Sector, CRISIL*

# RURAL SEGMENT IS QUICKLY CATCHING UP

- In FY18, rural India accounted for 45 per cent of the total FMCG market.
- Total rural income, which is currently at around US\$ 572 billion, is projected to reach US\$ 1.8 trillion by FY21. India's rural per capita disposable income is estimated to increase at a CAGR of 4.4 per cent to US\$ 631 by 2020.
- As income levels are rising, there is also a clear uptrend in the share of non-food expenditure in rural India.
- The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 220 billion by 2025
- The revenue of FMCG's rural segment is forecasted to grow to 15-16 per cent in FY19 from estimated 10 per cent in FY18.^

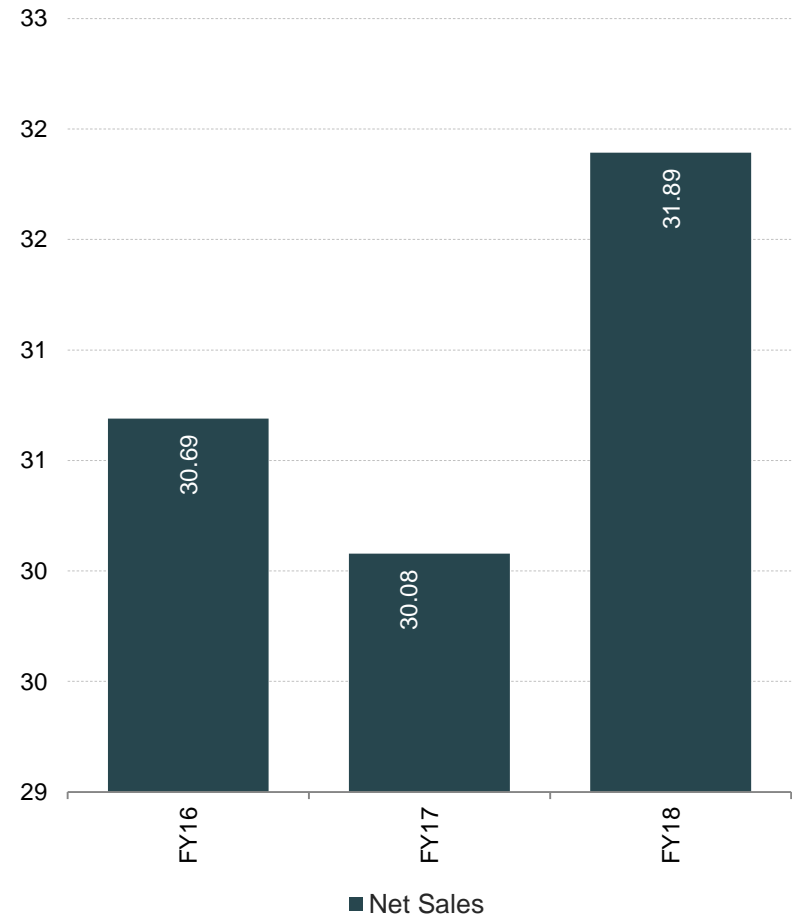


*Note: F-Forecast, 2018\* - Data relates to the financial year 2017-18, ^ - According to CRISIL report  
Source: AC Nielsen, Dabur Reports, Goderej Group, McKinsey Global Institute, CRISIL*

# INCREASING SALES OF TOP FMCG COMPANIES

- Consumer products manufacturers ITC, Godrej Consumer Products Limited (GCPL) and HUL reported healthy net sales in FY18.
- Net Sales of leading FMCG companies\* has recorded growth of 1.9 per cent in FY18.
- Net sales generated of the leading FMCG companies\* increased to Rs 205,547 crore (US\$ 31.89 billion) in FY18 from Rs 201,800 crore (US\$ 30.08 billion) in FY17

Net sales of FMCG companies\* (US\$ billion)



*Note: \* - includes net sales of 203 FMCG companies*

*Source: CARE FMCG industry report*

# LEADING COMPANIES IN A FEW FMCG CATEGORIES

	Market leader	Other Leading Players	
Hair oil			
Shampoo			
Oral care			
Skin care			
Fruit juice			

# STRATEGIES ADOPTED



## Promotions and offers

- FMCG companies are trying to influence consumers with intelligent deals
- Firms like ITC offers combo deals to the consumers. For example, in the case of soaps and cosmetics; 4 soap cases are offered at the price of 3, selling the range of deodorants for men and women at a discounted price
- Amazon India is planning to invest significantly over the coming months for expanding its grocery and food business, launching more products and categories and forming new partnerships with huge grocery and supermarket chains.
- In May 2018, Amazon India targetes to capture 100 million customers in the next 5 years by providing more features in Prime and Alexa.

## Research online Purchase offline

- The internet enables consumers to make their own research on the kind of products or commodities they want to purchase. 1 in 3 FMCG shoppers goes online 1st and then to the stores.
- About 43 per cent of new car-buyers in cities select the model online and purchase it from dealer.

## New product launches

- Keeping in mind the changing tastes of the Indian consumer, FMCG companies are introducing new products to gain market share.
- In February 2018, industry major Britannia announced that it will introduce 50 new products by the end of 2018-19.
- Godrej Consumer Products Limited (GCPL) is also planning to launch various new products in FY19.
- ITC is planning to launch 30-40 products every year to become India's biggest Fast Moving Consumer Goods (FMCG) company.

## Expansion

- Indian textile retailer, Raymond, plans to relaunch its FMCG brand, Park Avenue, in West Asia and SAARC countries, under its initiative 'One Park Avenue' aimed at repositioning its male grooming brand.
- As of January 2018, Carlsberg India Pvt Ltd has started a new brewery in Karnataka that will manufacture all of the company's existing brands with annual capacity of 80 million litres.
- Dabur to invest Rs 250-300 crore (US\$ 37.29-44.75 million) in FY19 for capacity expansion and is also looking for acquisitions in the domestic market.

Source: AC Nielsen

## Customisation

- Product Flanking: Introduction of different combinations of products at different prices, to cover as many market segments as possible
- Emami, has decided to rework on its overseas strategy by planning manufacturing and acquisitions in overseas markets. The company plans to re-work on its product portfolio by getting into new categories with higher buying preference and revamp its distribution networks.

## Green initiatives to lower costs

- FMCG companies are looking to invest in energy efficient plants to benefit the society and lower costs in the long term.
- HUL fulfils 80 per cent of its power requirement for its Sumerpur plant from solar energy. The company has been able to reduce the carbon footprint of its manufacturing plants by 13 per cent in FY17

## Joint Venture

- In January 2018, Eveready Industries India has entered into a joint venture with Wings Group, a large conglomerate and one of the major FMCG companies in Indonesia called, Universal Wellbeing. Through this JV with Universal Wellbeing, Eveready has planned marketing and distribution of a large basket of FMCG products in India.

## Analytics

- Hindustan Unilever Ltd (HUL) implemented a transformational programme called Connected 4 Growth (C4G) to help drive business growth by increased speed to market, faster decision making, localised and swifter innovation.
- Patanjali uses Oracle and SAP for Enterprise Resource Planning (ERP), they will further standardise the application on SAP. It plans to use machine learning for quality control and product enhancement. They are also in talks with Net App for big data solution.

## Product/ Category Expansion

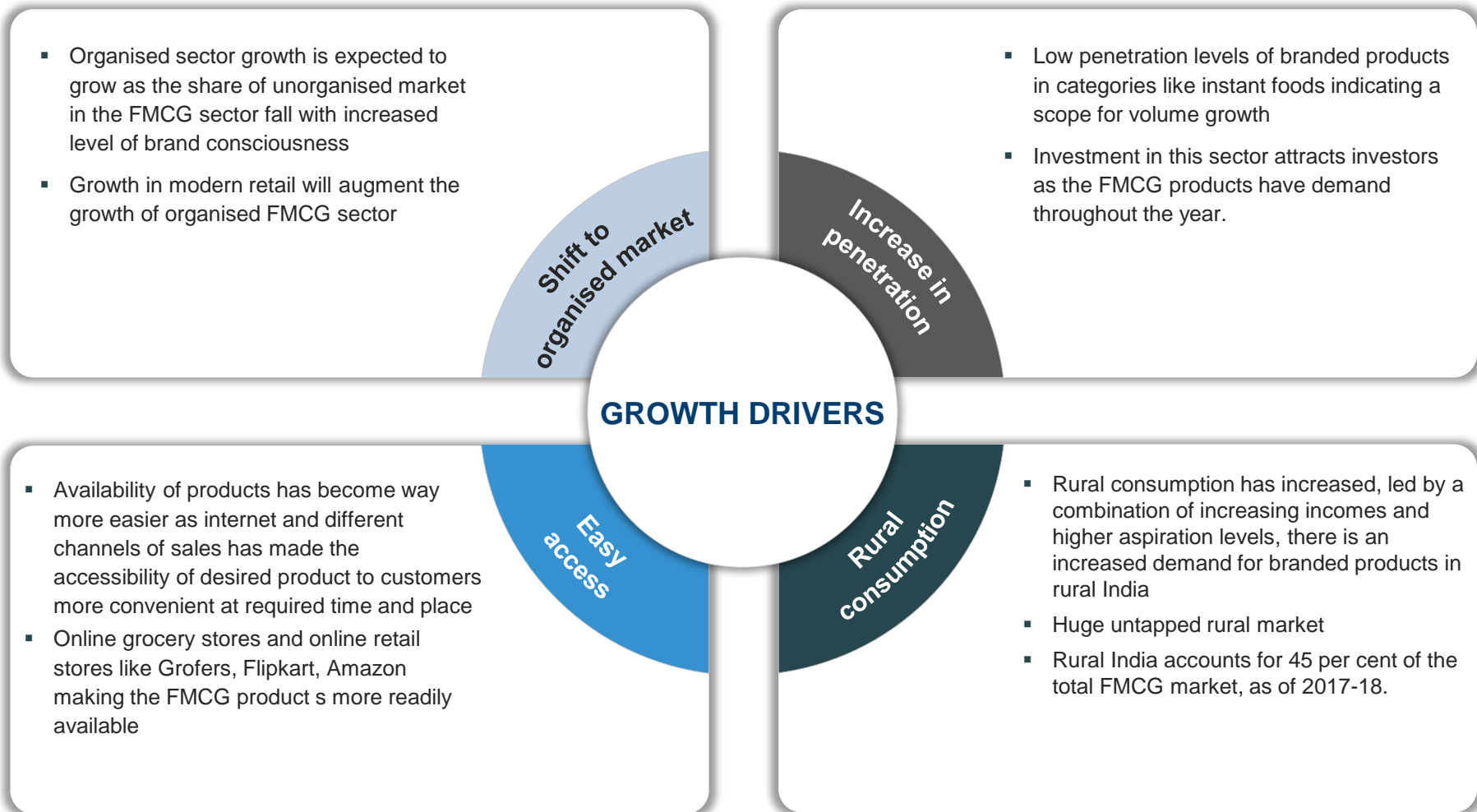
- In January 2018, Switzerland-based FMCG giant, Nestle, has forayed into India's pet care segment by introducing a range of premium dog food, called 'Purina Supercoat', under its subsidiary, Nestle Purina. As per the company, there are 19 million pets in India, so the pet food industry has a lot of potential and the industry is estimated to double by 2023.

Source: News Articles

# GROWTH DRIVERS



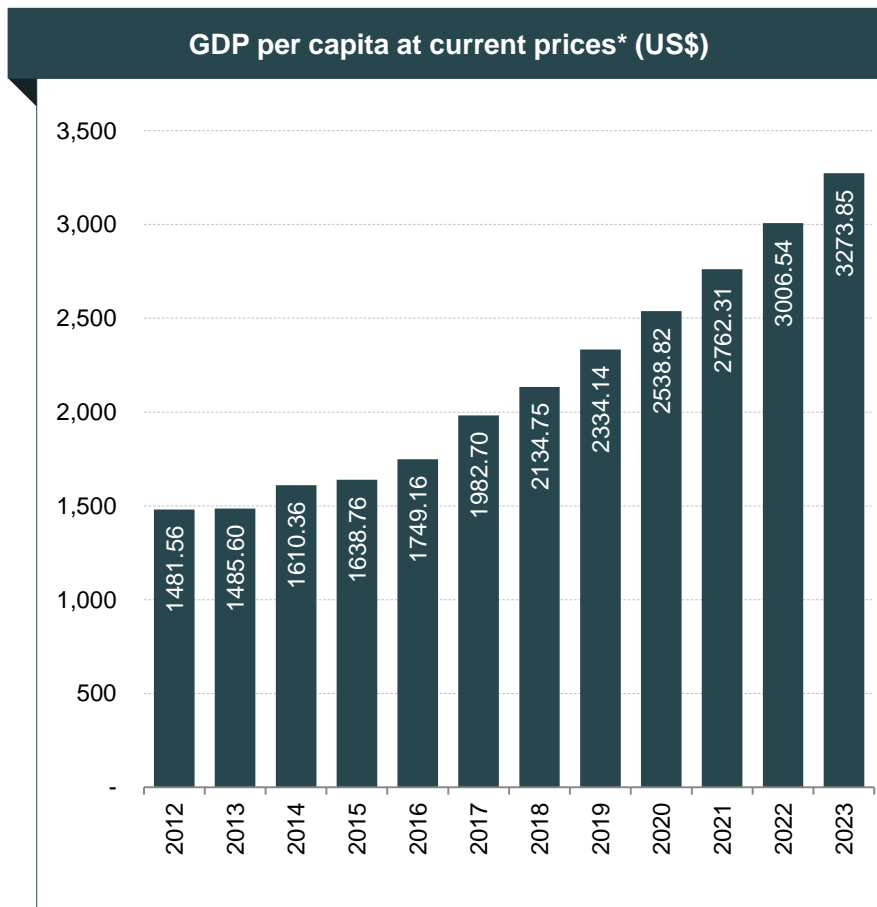
# GROWTH DRIVERS FOR INDIA'S FMCG SECTOR



Source: Dabur

# HIGHER INCOMES AID GROWTH IN URBAN AND RURAL MARKETS

- Incomes have risen at a brisk pace in India and will continue rising given the country's strong economic growth prospects. According to IMF, nominal per capita income is estimated to grow at a CAGR of 4.94 per cent during 2010-19F
- India's GDP per capita at current prices is expected to increase from US\$ 1,481.56 in 2012 to US\$ 3,273.85 in 2023.
- An important consequence of rising incomes is growing appetite for premium products, primarily in the urban segment
- As the proportion of 'working age population' in total population increases, per capita income and GDP are expected to surge.



*Note: \*Estimates after 2013*

*Source: IMF World Economic Outlook Database April 2018*

## Union Budget 2018-19

- The standard deduction of Rs 40,000 (US\$ 618) for transport allowance and reimbursement of miscellaneous medical expenses, will increase the disposable income in the hands of the common people.
- The customs duty on import of products such as shaving and after-shave preparations, fruit juices and vegetable juices, edible oils of vegetable origin are expected to boost the domestic sector.

## Goods and Service Tax (GST)

- The rate of GST on services lies between 0-18 per cent and on goods lies between 0-28 per cent
- Major consumer product manufacturing companies like PepsiCo, Dabur, Hindustan Unilever etc. are aligning their supply chains, IT infrastructure and warehousing systems ahead of unified GST regime, so as to facilitate seamless interstate movement of goods.
- Prices of commodities in the FMCG sector, like soaps, shampoo, detergents, biscuits, savory snacks etc decreased after the implementation of GST, leading to a 3-8 per cent decrease in prices of goods at modern retail stores.
- The GST is expected to transform logistics in the FMCG sector into a modern and efficient model as all major corporations are remodeling their operations into larger logistics and warehousing.
- Warehousing cost for FMCG companies is estimated to fall by 25-30 per cent backed by the implementation of the GST. The number of warehouses will decrease from 45-50 to 25-30 and the size of warehouses will become larger.

## Excise duty

- Excise duty on instant tea, quick brewing black tea, and ice tea would be decreased to reduce the retail price by 30 per cent
- Excise duty on other beverages and lemonade would be decreased to reduce retail sale price by 35 per cent
- Excise duty on various tobacco products other than beedi would be increased, resulting in retail price of tobacco products going up by 10-15 per cent

# POLICY AND REGULATORY FRAMEWORK

## FDI in organised retail

- The government approved 51 per cent FDI in multi-brand retail in 2006, which will boost the nascent organised retail market in the country
- It also allowed 100 per cent FDI in the cash and carry segment and in single-brand retail

## Food Security Bill (FSB)

- FSB would reduce prices of food grains for Below Poverty Line (BPL) households, allowing them to spend resources on other goods and services, including FMCG products
- This is expected to trigger higher consumption spends, particularly in rural India, which is an important market for most FMCG companies

## SETU Scheme

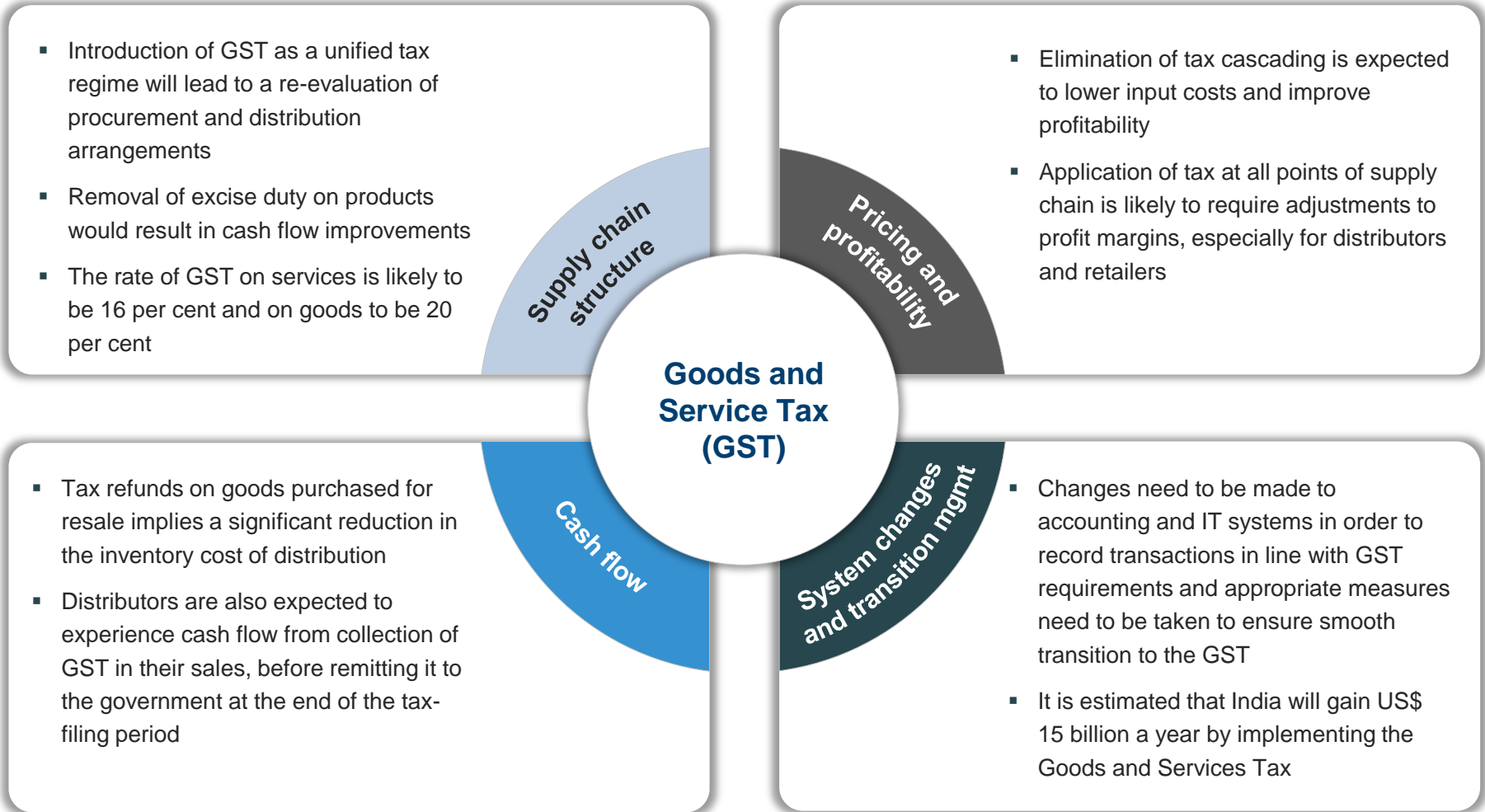
- Government has initiated Self Employment and Talent Utilisation (SETU) scheme to boost young entrepreneurs. Government has invested US\$ 163.73 million for this scheme

## Relaxation of license rules

- Industrial license is not required for almost all food and agro-processing industries, barring certain items such as beer, potable alcohol and wines, cane sugar and hydrogenated animal fats and oils as well as items reserved for exclusive manufacture in the small-scale sector

Source: SBI, Union Budget 2015-16

# NEW GOODS AND SERVICE TAX (GST) WOULD SIMPLIFY TAX STRUCTURE

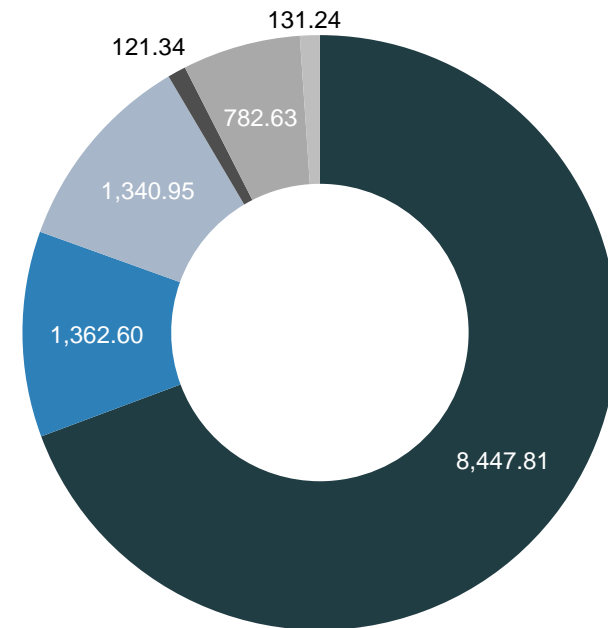


Source: GST India

# BOOSTS IN FDI INFLOWS AND INVESTMENTS

- 100 per cent FDI is allowed in food processing and single-brand retail and 51 per cent in multi-brand retail.
- This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organised retail markets, bolstering consumer spending and encouraging more product launches
- The sector witnessed healthy FDI inflows of US\$ 12,186.57 million during April 2000 to March 2018.
- Within FMCG, food processing was the largest recipient; its share was 69.32 per cent
- FMCG companies announced investment intentions of Rs 9,144 crore (US\$ 1.36 billion) between January – April 2018 from sugar, fermentation, food processing, vegetable oils and vanaspathi, soaps, cosmetics and toiletries industries. \*

**Cumulative FDI inflow share – April 2000 to March 2018 (US\$ million)**



- Food processing
- Paper Pulp
- Soap, Cosmetic & Toilet preparations
- Retail Trading
- Vegetable Oils
- Tea, Coffee

*Note: \* - According to Department of Industrial Policy and Promotion - DIPP statistics  
Source: DIPP, Media articles*

# KEY M&A DEALS IN THE INDUSTRY

Target name (segment)	Acquirer name (segment)	Merger/ Acquisition	Year
Brillare Science	Emami	Acquisition (26% stake)	2018
D&A Cosmetics Proprietary Ltd and Atlanta Body & Health Products Proprietary Ltd	Dabur India	Acquisition	2017
Helios Lifestyle Pvt Ltd	Emami Ltd	Acquisition (30% stake)	2017
Godfrey Phillips India (GPI) (packed tea brands)	Goodricke Group Ltd	Acquisition	2017
HyperCity	Future Retail (Future Group)	Acquisition	2017
Godrej Industries	Godrej Agrovet Ltd.	Increase in stake	2017
Argencos, Argentina (Hair care products)	Godrej Consumer Products Ltd (Home and personal care)	Acquisition	2016
Issue Group, Argentina (Hair products)	GCPL (Home and personal care)	Acquisition	2016
Tura, Nigeria (Soap and cleaning products )	GCPL (Home and personal care)	Acquisition	2015
Frika Hair (Pty) Ltd, Africa	Godrej Consumer Products Ltd (Home and personal care)	Acquisition	2015
Megasari, Indonesia (Soap and cleaning products )	GCPL (Home and personal care)	Acquisition	2014
Olyana Holding LLC (Tea)	UK-based Borelli Tea Holdings Ltd, a wholly-owned unit of Mcleod Russel India Ltd	Acquisition	2014

Source: Bloomberg, Economic Times, Business Standard

# OPPORTUNITIES



# GROWTH OPPORTUNITIES IN THE INDIAN FMCG INDUSTRY

## Rural Market

- Leading players of consumer products have a strong distribution network in rural India; they also stand to gain from the contribution of technological advances like internet and e-commerce to better logistics. Godrej is focusing on rural market for household insecticides segment. At present, Godrej accounts for 25 per cent of the household insecticides sales from rural areas
- Rural FMCG market size is expected to touch US\$ 220 billion by 2025

## Innovative products

- Indian consumers are highly adaptable to new and innovative products. For instance there has been an easy acceptance of men's fairness creams, flavoured yoghurt, cuppa mania noodles, gel based facial bleach, drinking yogurt, sugar free Chyawanprash

## Premium products

- With the rise in disposable incomes, mid and high-income consumers in urban areas have shifted their purchase trend from essential to premium products
- Premium brands are manufacturing smaller packs of premium products. Example: Dove soap is available in 50g packaging
- Nestle is looking to expand its portfolio in premium durables cereals, pet care, coffee, and skin health accessing the potential in India.

## Sourcing base

- Indian and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive product development and manufacturing to cater to international markets

## Penetration

- Low penetration levels offer room for growth across consumption categories
- Major players are focusing on rural markets to increase their penetration in those areas

## Online FMCG

- It is estimated that 40 per cent of all FMCG purchases in India will be online by 2020, thereby making it a US\$ 5-6 billion business opportunity. ^

**Note:** ^ - as per Boston Consulting Group (BCG) and Google

**Source:** Assorted articles and reports, AC Nielsen

# KEY INDUSTRY ORGANISATIONS



## Indian Dairy Association

Secretary (Establishment)  
Indian Dairy Association, Sector-IV, New Delhi –110022  
Phone: 91-11-26170781, 26165355, 26179780  
Fax: 91 11 26174719  
E-mail: [ida@nde.vsnl.net.in](mailto:ida@nde.vsnl.net.in)  
Website: [www.indairyasso.org](http://www.indairyasso.org)

## All India Bread Manufacturers' Association

PHD House, 4/2, Siri Institutional Area, August Kranti  
Marg, New Delhi –110016  
Phone: 91-11-26515137; Fax: 91-11-26855450  
E-mail: [aibma@rediffmail.com](mailto:aibma@rediffmail.com); [mallika@phdcci.in](mailto:mallika@phdcci.in)  
Website: [www.aibma.com](http://www.aibma.com)

## All India Food Preservers' Association

206, Aurobindo Place Market Complex  
Hauz Khas, New Delhi –110016  
Phone: 91-11-26510860, 26518848; Fax: 91-11-  
26510860  
Website: [www.aifpa.net](http://www.aifpa.net)

## Indian Soap and Toiletries Manufacturers' Association

Raheja Centre, 6th Floor, Room No 614, Backbay  
Reclamation, Mumbai – 400021  
Phone: 91-22-2824115; Fax: 91-22-22853649  
E-mail: [istma@bom3.vsnl.net.in](mailto:istma@bom3.vsnl.net.in)

# USEFUL INFORMATION



- **FDI:** Foreign Direct Investment
- **MSP:** Minimum Selling Price
- **NREGA:** National Rural Employment Guarantee Act
- **FY:** Indian Financial Year (April to March)
  - So FY09 implies April 2008 to March 2009
- **SEZ:** Special Economic Zone
- **MoU:** Memorandum of Understanding
- Wherever applicable, numbers have been rounded off to the nearest whole number

# EXCHANGE RATES

## Exchange Rates (Fiscal Year)

Year INR	INR Equivalent of one US\$
2004-05	44.95
2005-06	44.28
2006-07	45.29
2007-08	40.24
2008-09	45.91
2009-10	47.42
2010-11	45.58
2011-12	47.95
2012-13	54.45
2013-14	60.50
2014-15	61.15
2015-16	65.46
2016-17	67.09
2017-18	64.45
Q1 2018-19	67.04

## Exchange Rates (Calendar Year)

Year	INR Equivalent of one US\$
2005	44.11
2006	45.33
2007	41.29
2008	43.42
2009	48.35
2010	45.74
2011	46.67
2012	53.49
2013	58.63
2014	61.03
2015	64.15
2016	67.21
2017	65.12

Source: Reserve Bank of India, Average for the year

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