

FMCG

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2011



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Advantage India

Growing demand

- Rising disposable income of the young population has been a major growth driver for the sector
- Emergence of organised retail has boosted the distribution of FMCG sector

Attractive opportunities

- Low penetration levels in rural market offer room for growth
- Consumers are highly adaptable to new and innovative products
- There is a growing market for premium products

2018E

Market size:
USD74
billion

Advantage India

Increasing investments

- Industry saw heavy FDI inflows as they accounted for 2.1 per cent of the country's total FDI 2000-10
- Many players are pursuing inorganic growth by acquiring regional players

Policy support

- Automatic investment approval of up to 100 per cent foreign equity is allowed
- Have improved on the infrastructure facilities which has increased access to the industry

2010

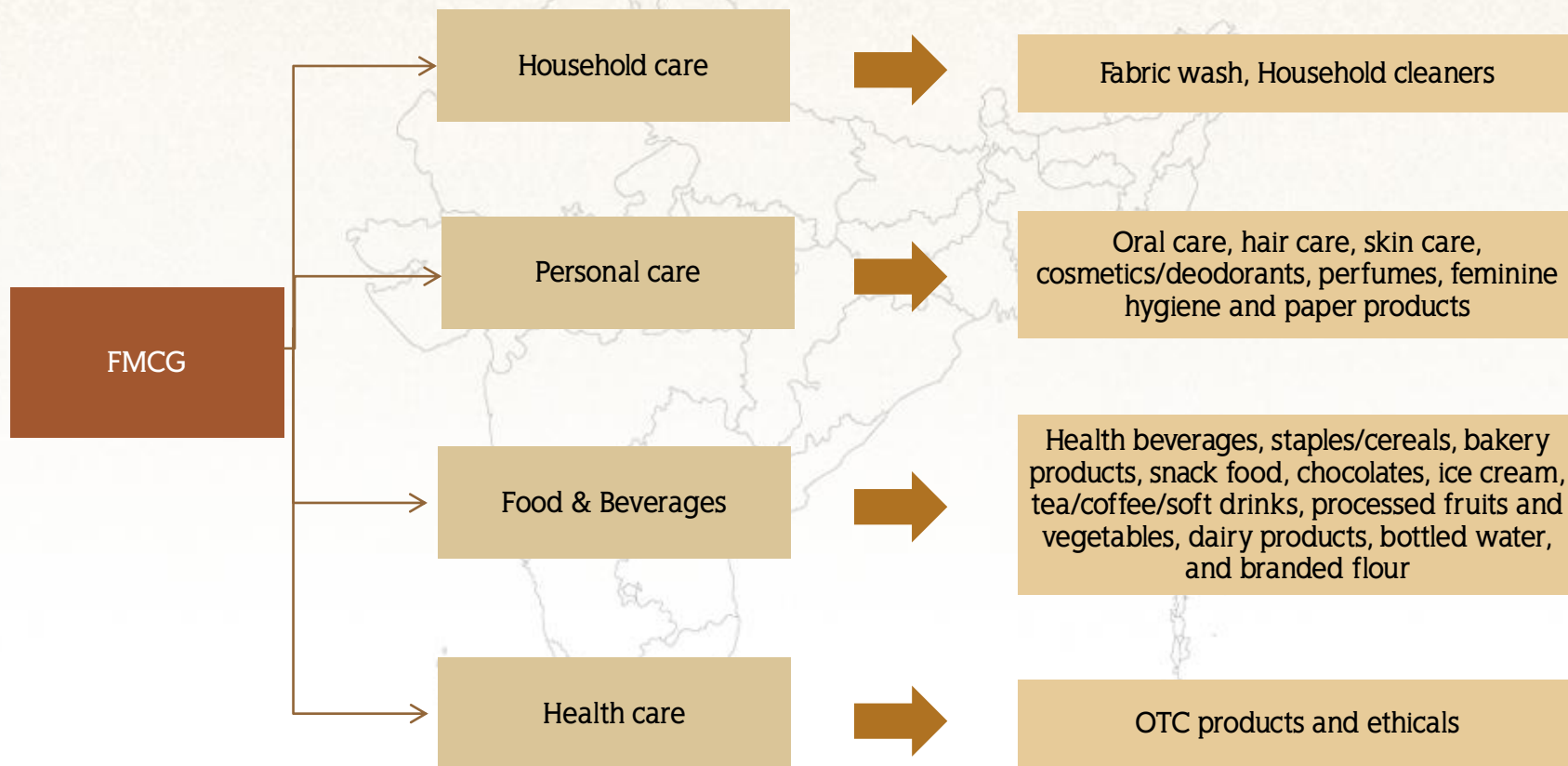
Market size:
USD28 billion

Notes: Market size estimates from Technopak
2018E – estimated figure for 2018

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The FMCG market has four main segments

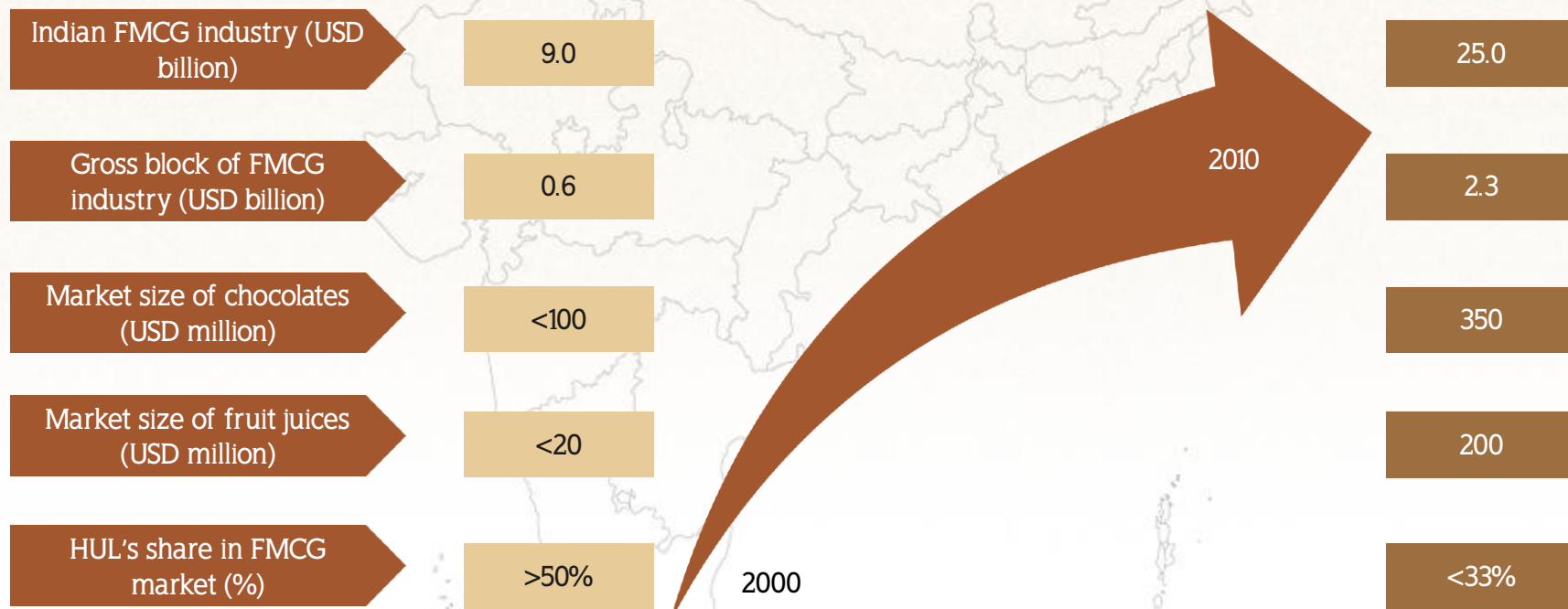


Source: HUL

Notes: OTC is over the counter products; ethicals are a range of pharma products

Evolution of FMCG in India

→ FMCG is the fourth largest sector in the Indian economy



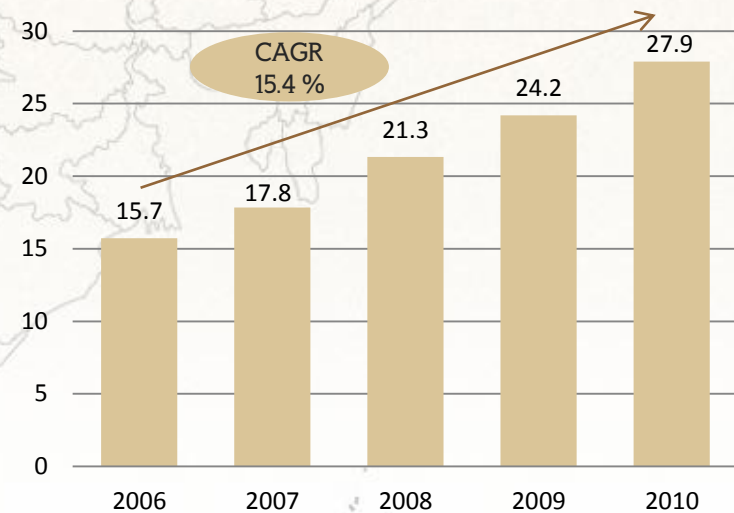
Source: IDFC

Notes: Gross block is the total value of all of the assets that a company owns

Strong growth in the Indian FMCG industry ... (1/2)

- The FMCG sector generated revenues worth USD27.9 billion in 2010
- The industry expanded at a compound annual rate of 15.4 per cent during 2006-10

Market size over the past few years in USD billion

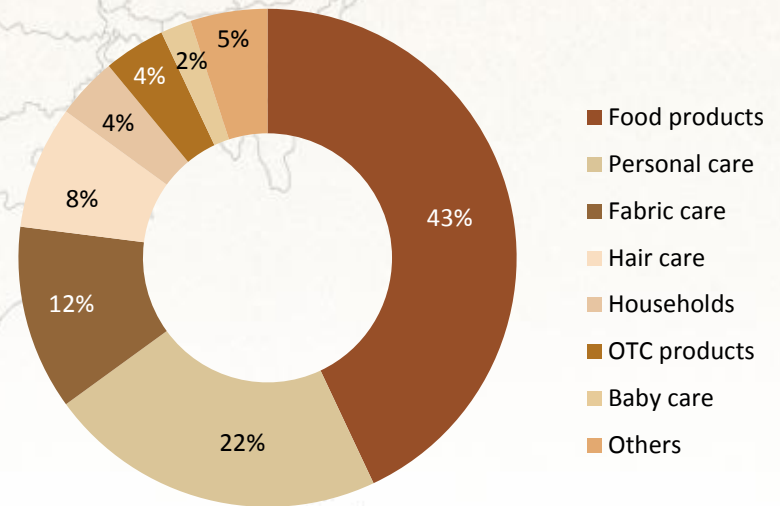


Source: AC Nielsen, Aranca Research

Strong growth in the Indian FMCG industry ... (2/2)

- 'Food products' is the leading segment, accounting for 43 per cent of the overall market
- Personal care (22 per cent) and fabric care (12 per cent) are the other large segments

Market break-up by revenues (2009)

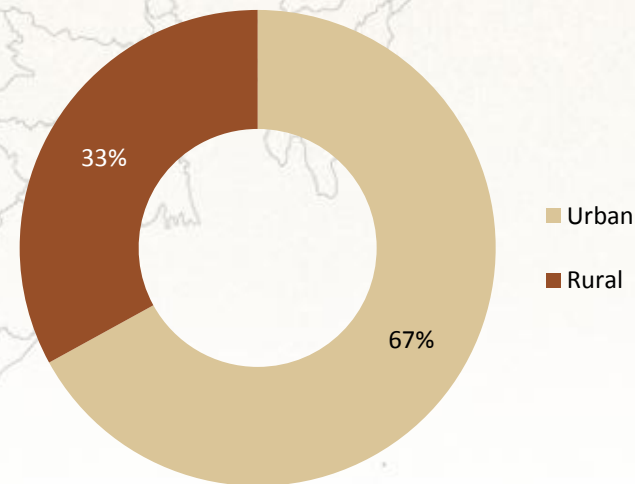


Source: Dabur, Aranca Research

Urban accounts for bulk of revenues, rural is catching up fast ... (1/2)

- The urban segment is the largest contributor, accounting for two-thirds of total revenue
- Semi-urban and rural segments are growing at a rapid pace, currently accounting for 33 per cent of revenues

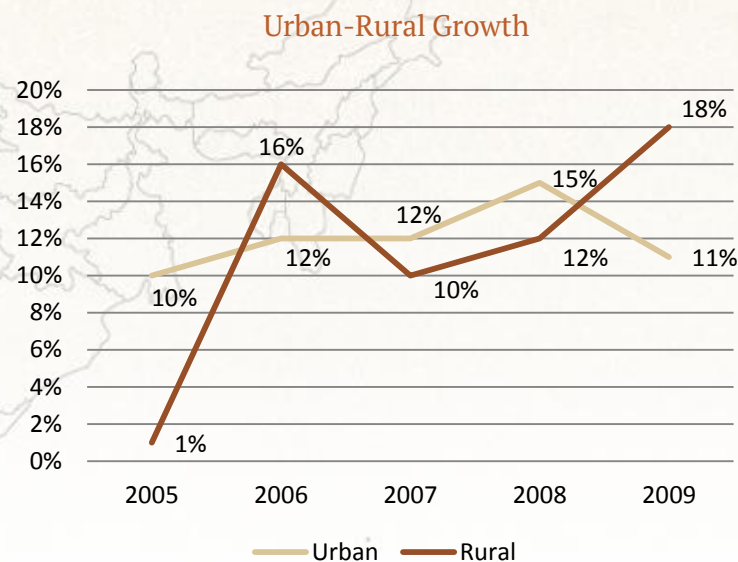
Urban-Rural Revenue break-up (2010)



Source: AC Nielsen, Aranca Research

Urban accounts for bulk of revenues, rural is catching up fast ... (2/2)

- The urban segment has shown a fairly stable and healthy growth over the years
- The rural segment has grown remarkably over the last five years

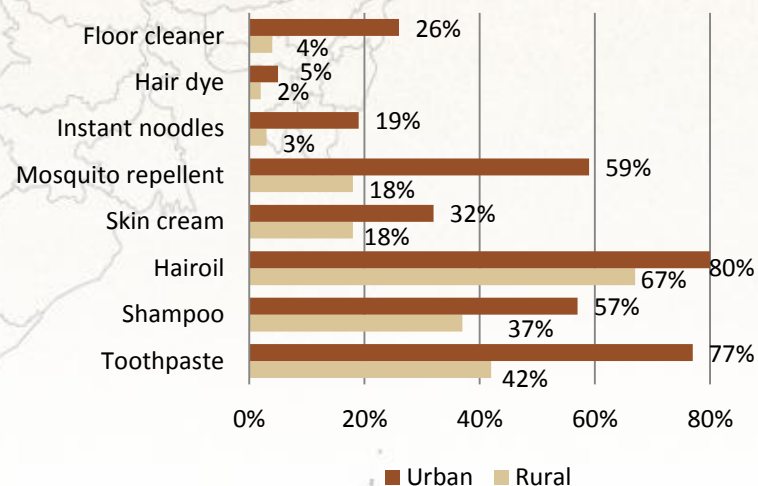


Source: AC Nielson, Aranca Research

Penetration levels vary; grocers remain the main sales channel ... (1/2)

- Hair oils, toothpastes and shampoos have penetrated significantly in both urban and rural markets
- Instant noodles, floor cleaners and hair dyes are picking up in the rural areas due to increased awareness

Penetration levels of few top selling FMCG (2010)

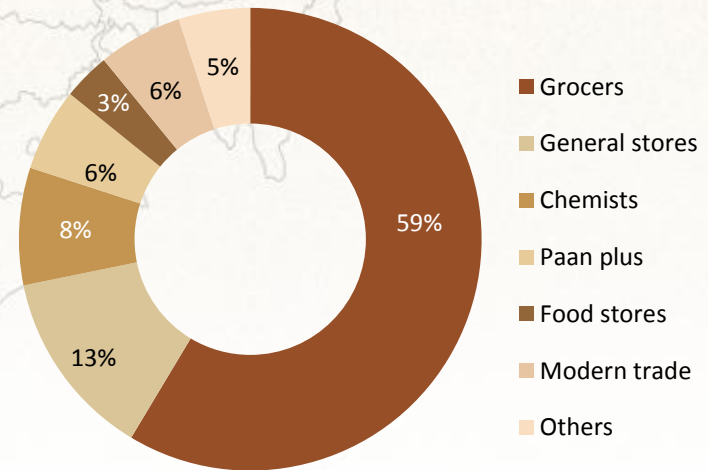


Source: AC Nielsen, Aranca Research

Penetration levels vary; grocers remain the main sales channel ... (2/2)

- A total of 7.8 million retail outlets sell FMCG in India
- Grocers are the dominant retail format, accounting for 59 per cent

Sales channel breakdown (2010)



Source: AC Nielson, Aranca Research

Market share of companies in a few FMCG categories

	Market Leader	Others		
Hair Oil	 42%	 15%	 8%	 5%
Shampoo	 46%	 24%	 10%	 6%
Oral care	 50%	 23%	 13%	
Skin care	 59%	 7%	 7%	 6%
Fruit juice	 52%	 35%		

Source: Industry estimates

Notable trends in FMCG ... (1/2)

Consolidation

- Indian FMCG companies are consolidating their existing business portfolios

Product innovation

- Several companies have started innovating by launching or customising their existing product portfolios for new consumer segments

Lifestyle products

- Lifestyle and premium range products are the current target product segments among Indian FMCG players

Expanding horizons

- A number of companies are exploring the business potential of overseas markets and several regional markets

Backward integration

- Backward integration is becoming the preferred strategy for increasing profit margins

Expanding distribution networks

- Companies are now focused on improving their distribution networks to expand their reach in rural India

Notable trends in FMCG ... (2/2)

Third-party manufacturing

- FMCG players often outsource manufacturing or processing of certain range of products to small vendors. This approach has helped companies focus on front-end marketing

Rising importance of smaller-sized packs

- Companies are increasingly introducing smaller stock keeping units at reduced prices. This helps them sustain margins, maintain volumes from price-conscious customers and expand their consumer base

Increased hiring from tier II/III cities

- Small towns are emerging as significant hiring zones. FMCG companies are hiring field staff from areas such as Kalpa (Himachal Pradesh), Mangaliya (Madhya Pradesh), Kota (Rajasthan), and Shirdi (Maharashtra) to sell diverse products

Focus on enhancing presence in Africa

- FMCG companies entering Africa as it helps to be close to consumption markets within Africa
- Such foreign investments are encouraged by local governments, as they offer incentives to enter the markets

Reducing carbon footprint

- FMCG players in India focus on reducing their carbon footprint. They generate the required energy from renewable sources and earn CER credits for the same

Notes: CER is Certified Emission Reductions

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Growth drivers of FMCG sector in India

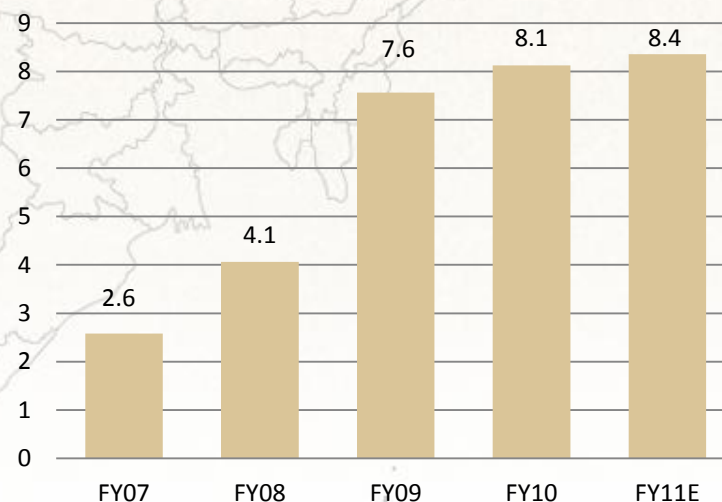


Higher disposable income in urban, rural segments aids growth ... (1/2)

- Government's rural expenditure rose to USD18 billion in 2010 from USD5 billion in 2006
- The Indian government is supporting the rural population with higher MSP, loan waivers and disbursements through the NREGA programme
- These measures have alleviated poverty in rural India and have increase their spending power

Notes: MSP is Minimum support price, NREGA is National Rural Employment Guarantee Act

NREGA disbursements (USD billion)

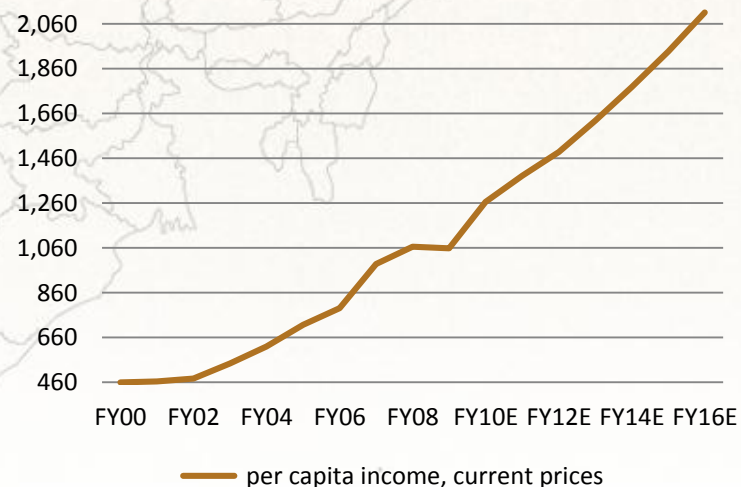


Source: NREGA, Aranca Research

Higher disposable income in urban, rural segments aids growth ... (2/2)

- India witnessed an average salary increase of 12 per cent (the highest globally) over the last five years
- Tax rate for an annual income of USD12,500 dropped to 9 per cent in FY11 from 27 per cent in FY03
- There is an increasing appetite for premium products in the urban segment due to rise in disposable income

India's per capita income at current prices (USD)

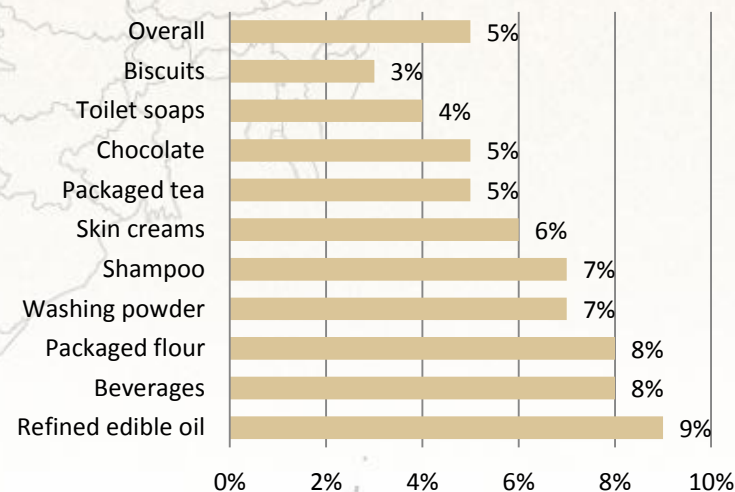


Source: IMF, Aranca Research

Organised retail – growing in significance; strong FDI inflows ... (1/2)

- Organised retail has created new channels for FMCG players through diverse retail formats
- While organised retail accounts for 5–6 per cent of total FMCG sales, it contributes to over 25 per cent of FMCG sales in large cities

Organised retail sales (% of total FMCG sales) (2010)

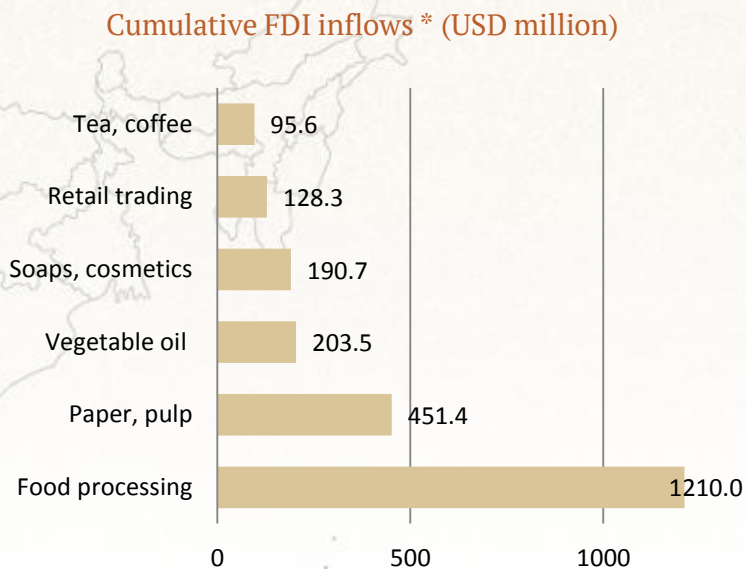


Source: IDFC, Aranca Research

Organised retail – growing in significance; strong FDI inflows ... (2/2)

- Industry saw heavy FDI inflows as they accounted for 2.1 per cent of the country's total FDI 2000-11*
- Food processing is the most popular FMCG category; it attracts over 53 per cent of total FDI in the industry

* April 2000 – Feb 2011



Source: DIPP, Aranca Research

Policy and regulatory framework

Investment approval

- Automatic investment approval up to 100 per cent foreign equity for NRI and overseas corporate bodies
- These investments are allowed in food processing segments such as coffee, tea

Priority sector

- The Government of India recognises food processing and agro industries as priority sectors

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

Statutory Minimum Price

- In October 2009, the government amended the Sugarcane Control Order, 1966, and replaced the Statutory Minimum Price (SMP) of sugarcane with Fair and Remunerative Price (FRP) and the State-Advised Price (SAP)

FDI in organised retail

- India currently allows 100 per cent FDI in Cash & Carry segment and 51 per cent in single-brand retail, which is expected to be further increased to 100 per cent
- India is also expected to allow 51 per cent FDI in multi-brand retail, which will boost the nascent organised retail market in the country

Key M&A deals in the industry ... (1/2)

Target name (segment)	Acquirer name (segment)	Merger/Acquisition
Aesthetics Business of Derma Rx Asia Pacific Pvt Ltd (Skin care products)	Marico Ltd (food and personal care)	Divestiture
Agro Dutch Industries Ltd (Food-Misc/Diversified)	Penta Homes Pvt Ltd (Builder)	Acquisition
Rasoi Ltd (Food-Misc/Diversified)	Pallawi Resources Ltd (Food)	Acquisition
Isklar (Beverages—non-alcoholic)	Sterling Infotech Group (Telecommunications)	Acquisition
CC Health Care Products Pvt Ltd (Cosmetics)	Colgate-Palmolive India Ltd (Cosmetics and toiletries)	Acquisition
Eastern Condiments Pvt Ltd (Food-Misc/Diversified)	McCormick & Co Inc (Food-Misc/Diversified)	Acquisition
Vietnam Spice Unit (Food and beverages)	Bafna Enterprises (Food and beverages)	Acquisition
Noble Hygiene Pvt Ltd (Household & Personal Products)	Bennett Coleman & Co Ltd (Publishing)	Acquisition
Hobi Kozmetik, Turkey (personal care products)	Dabur India (Personal care)	Acquisition
Argencos, Argentina (Hair care products)	Godrej Consumer Products Ltd (Home and personal care)	Acquisition
Lotte India Corp Ltd (Food)	Lotte Confectionery Co Ltd, South Korea (food)	Acquisition

Source: Bloomberg, Aranca Research

Key M&A deals in the industry ... (2/2)

Target name (segment)	Acquirer name (segment)	Merger/Acquisition
Megasari, Indonesia (Soap and cleaning products)	GCPL (Home and personal care)	Acquisition
Issue Group, Argentina (Hair products)	GCPL (Home and personal care)	Acquisition
Tura, Nigeria (Soap and cleaning products)	GCPL (Home and personal care)	Acquisition
Tern Distilleries Pvt Ltd (beverages — wine/spirits)	United Spirits Ltd (beverages)	Acquisition
Vale Do Ivaí SA Acucar E Alcool (sugar and ethanol)	Shree Renuka Sugars Ltd (food)	Acquisition
Greenol Laboratories Pvt Ltd (tea)	Asian Tea & Exports Ltd (food — tea)	Acquisition
Olyana Holding LLC (tea)	UK-based Borelli Tea Holdings Ltd, a wholly-owned unit of Mcleod Russel India Ltd	Acquisition
Garden Namkeens Pvt Ltd (food — misc.)	Cavinkare Pvt Ltd (food)	Acquisition
Bacardi Martini India Ltd's 26 per cent shares from Gemini Distillery Private Ltd (beverages)	Bacardi Martini BV, Netherlands (beverages)	Acquisition
Godrej Hygiene Care Pvt Ltd (home care)	Godrej Consumer Products Ltd (home care)	Merger
Britannia New Zealand Foods Pvt Ltd (joint venture partner Fonterra Cooperative Group Ltd) (food)	Britannia Industries Ltd (food)	Acquisition

Source: Bloomberg, Aranca Research

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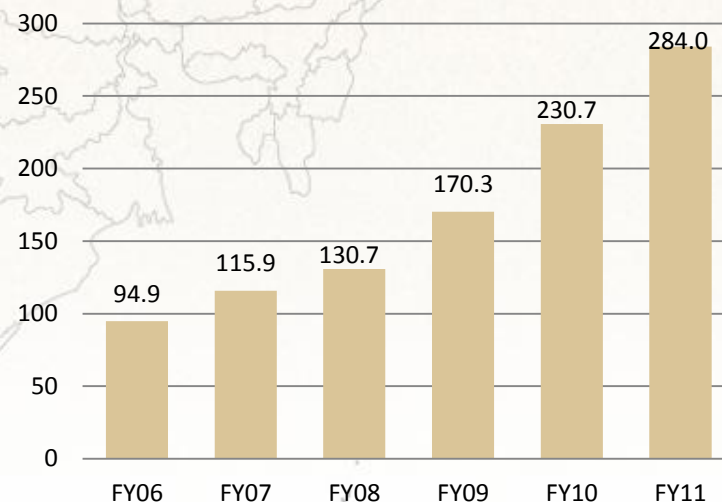
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Emami – one of the fastest growing FMCG companies ... (1/2)

Salient features

- Niche category player and innovator
- Key brands are strong market leaders in their respective categories
- Portfolio includes Zandu, one of the strongest Ayurvedic brands
- Over 80 per cent of business comes from Wellness categories
- Superior gross margins in the industry; EBITDA margin before A & P at 39 per cent

Net sales (USD million)



Source: Company reports, Aranca Research

Emami – one of the fastest growing FMCG companies ... (2/2)

Awards and recognitions

- Among Asia's 'Best Under A Billion' 2010 list of companies compiled by Forbes magazine
- Ranked 125th among BT (Business Today) Most Valuable Companies of India in private Sector
- Ranked 272nd among Fortune 500 India's largest corporations on profitability

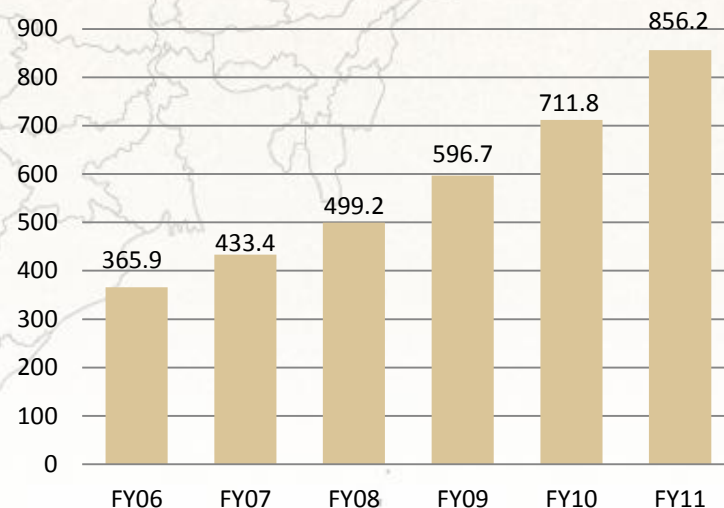


Dabur – riding on strong brand equity in India ... (1/2)

Salient features

- Among top four FMCG companies in India
- 10 brands with sales worth over USD20 million each
- Wide distribution network covering 2.8 million retailers across the country
- 17 world-class manufacturing plants catering to needs of diverse markets
- Strong brand equity, especially in Ayurveda and healthcare category

Sales (USD million)

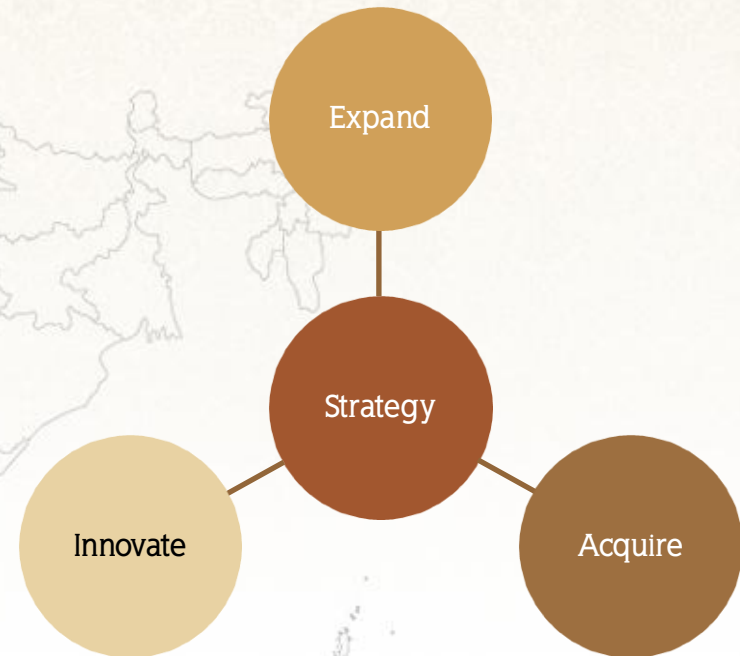


Source: Company reports, Aranca Research

Dabur – riding on strong brand equity in India ... (2/2)

Awards and recognitions in 2011

- Ranked 200 in Fortune India 500 list
- Ranked 78 in Super-100 (Business India)
- Ranked 45 among Most Trusted Brands in India (Brand Trust Report, India Study, 2011)



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Growth opportunities in the Indian FMCG industry

Rural market

- Leading players of consumer products have a strong distribution network in rural India and are looking to capitalise on rising brand consciousness
- Technological advances such as internet and e-commerce would enable better logistics in these areas

Innovative products

- Indian consumers are highly adaptable to new and innovative products. For instance, market acceptance of men's fairness creams clearly demonstrates an opportunity for companies to offer new products targeting niche customer segments

Premium products

- Mid- and high-income consumers in urban areas have started purchasing value-added mass brands and premium products. Firms have started enhancing their premium product portfolio to take advantage of this opportunity

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. Furthermore, rural penetration is catching up with urban penetration levels

Source: Aranca Research

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Industry Associations ... (1/3)

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

Website: 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; mallika@phdcci.in

Website: 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

Industry Associations ... (2/3)

Federation of Biscuit Manufacturers of India

PHD House, 4/2, Siri Institutional Area, August Kranti Marg, New Delhi – 110016

Phone: 91-11-26515137; Fax: 91-11-26855450

E-mail: fbmi@rediffmail.com; mallika@phdcci.in

Website: www.biscuitfederation.com

Indian Soap & 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

Indian Soft Drinks Manufacturers' Association

702, Ansal Bhawan, 16 KG Marg, New Delhi – 110001

Phone: 91-11-46470200; Fax: 91-11-23327747

Industry Associations ... (3/3)

The Solvent Extractors' Association of India

142, Jolly Maker Chambers, No 2, 14th Floor, 225, Nariman Point,
Mumbai – 400021

Tel : 91-22-22021475, 22822979; Fax: 91-22-22021692

E-mail: solvent@mtnl.net.in

Website: www.seaofindia.com

Vanaspati Manufacturers' Association of India

903, Akashdeep Building, 26-A, Barakhamba Road,
New Delhi –110001

Phone: 91-11-23312640; Fax: 91-11-23315698

Glossary

- **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
- **USD:** US Dollar
 - Conversion rate used: USD 1= INR 48
- Wherever applicable, numbers have been rounded off to the nearest whole number

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