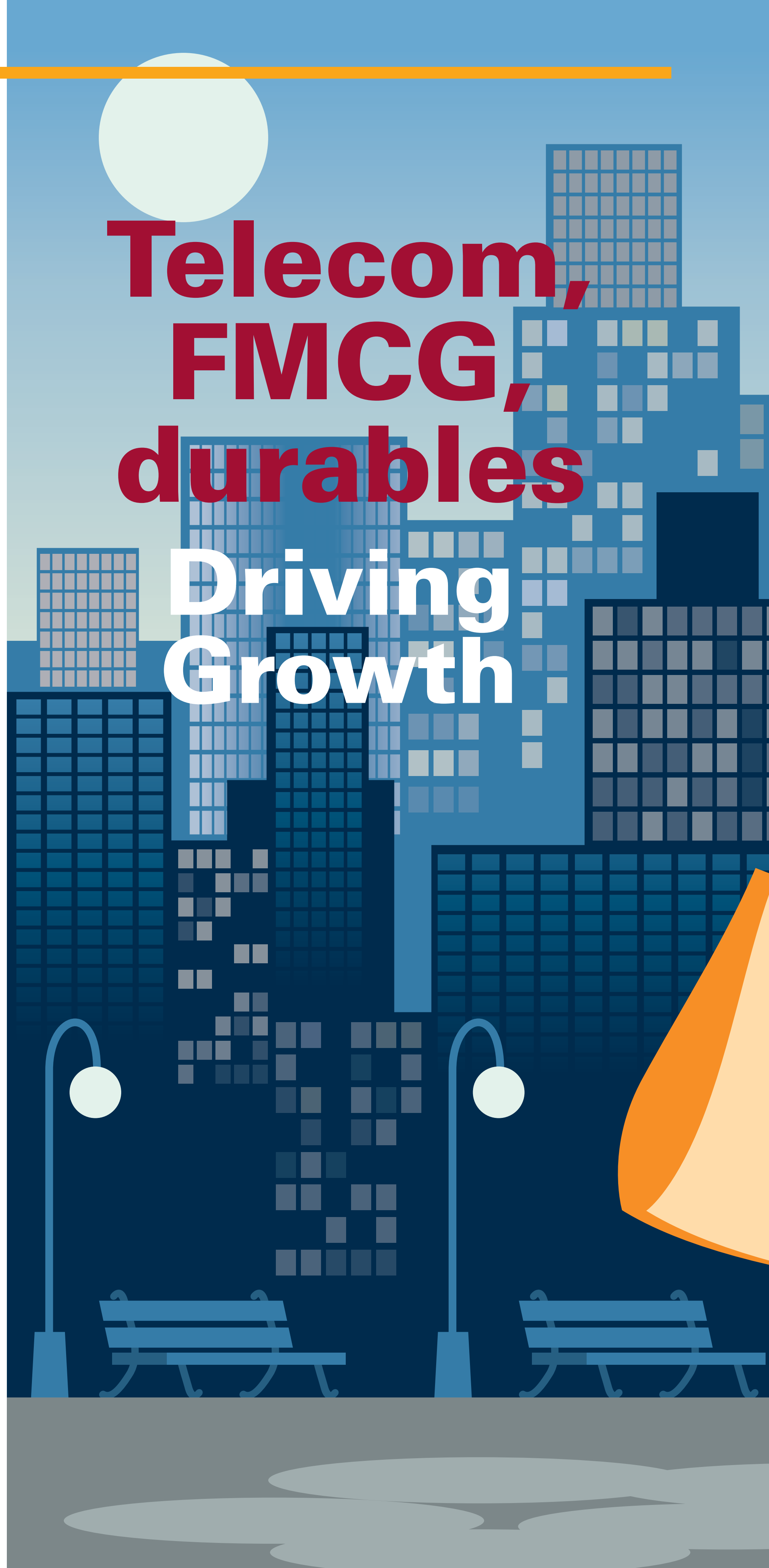
Telecom, FMCG, durables

Driving Growth



Demand for telecom services and products, fast moving consumer goods, consumer durables and electronics are rising, especially in rural India, notes **N.B. Rao.**

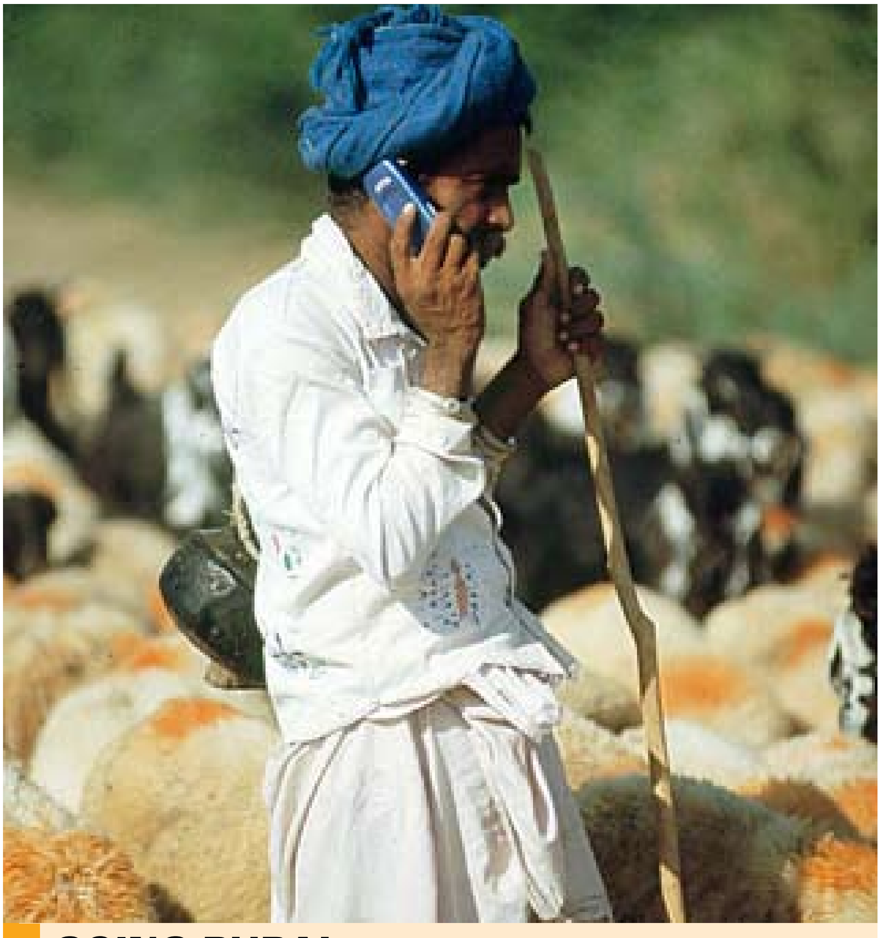
Delhi, the national capital, became the first Indian city in December 2008 to report 100 per cent telecommunication penetration, joining a select list of international cities including London, New York, Paris, Tokyo, Hong Kong and Singapore, which are already members of this exclusive club. With 109 mobile connections for every 100 residents, Delhi ranks seventh in the world in terms of tele-density.

While the national capital represents the cream of the Indian consumer market – with millions of affluent consumers as its residents – there is equally rapid growth at the other end of the spectrum, the rural market.

Prime Minister Manmohan Singh notes: "Many of the new subscribers are now coming from rural areas. More than three million rural subscribers are being added every month," he says. "India has one of the cheapest cell phone rates in the world. This helps our rural countrymen, farmers and fishermen in using mobile phone services," Dr Singh said while inaugurating India Telecom 2008 in New Delhi in December.

Growing affluence across all sections of Indian society is driving the expansion of a host of sectors in the country, including telecommunications, consumer durables, automobiles, fast moving consumer goods (FMCG) and even luxury goods. Interestingly, incomes are rising across different consumer segments: urban and rural, lower-middle income and upper-income.

It is this growth in income levels, and the consequent rise in consumer spending that will ensure expansion. Private consumption accounts for nearly two-thirds of India's gross domestic product (GDP)



> India has one of the cheapest cell phone rates in the world. This helps our rural countrymen, farmers and fishermen in using mobile phones.

GOING RURAL

RURAL India has emerged on the sights of India Inc as growing demand for fast moving consumer goods (FCMG), automobiles, consumer durables and electronics is boosting the topline and bottomline growth of many firms.

Good monsoons over the last three years, increased public expenditure on rural infrastructure (including roads, markets, food storage facilities, schools, health and sanitary facilities), money invested in rural missions and employment guarantee schemes, and even the write-off of farm loans have resulted in increased liquidity in rural India.

Companies in the automobiles, telecommunications, FMCG, financial services and consumer durables sector see tremendous opportunities for growth in rural areas. Says Sunil Duggal, ceo, Dabur India: "Rural demand is intrinsic to our growth story." Today, about 75 per cent of its sales are accounted for by demand from rural areas. Duggal points out that the growing importance of rural areas is encouraging companies to study spending patterns in villages.

A growing number of Indian companies and multinationals are looking at expanding their marketing network in rural areas. These include automobile majors such as Maruti Suzuki, Mahindra & Mahindra and Bajaj Auto, FMCG giants such as ITC Ltd and Hindustan Unilever Ltd and consumer electronic firms such as Videocon, Samsung and LG. And it makes sense for them to focus on rural markets; for when there is a slowdown in the cities, demand from rural India would help them tide over the temporary crisis.

and is driving demand to a large extent. Not surprisingly, the Indian government has been focussing on boosting consumer demand by providing incentives to buyers. The first fiscal stimulus package announced in December 2008, adding up to about US$4 billion included a 4 per cent cut in Central Value Added Taxes (Cenvat) rates on a range of consumer products and manufactured items, including cars, cement and textiles. It also included a 2 per cent interest rate subsidy on bank loans for mid-sized enterprises in the textile, leather and fine jewellery businesses.

The government also aims to reduce duties on a wide range of imported goods, especially mass consumption items, to accelerate private consumption and demand. The Reserve Bank of India (RBI), the country's central bank, has also been reducing the short-term lending rates over the past few months, to boost demand.

"We believe 2009 would be a watershed year for a domestic consumption-led economy like India," remarks V.R. Srini-

vasan, ceo, Brics Securities Ltd, a leading Mumbai-based brokerage. "While there is a slowdown to be expected across sectors and oversupply keeping prices low, volume growth should revert to the mean over the next few quarters," he adds.

Srinivasan notes: "In our view, the real backbone for India will emerge from the money multiplier muscle of rural India. Rising incomes, coupled with farm loan waivers, should set the tone for a broader aspiring India."

The telecommunications sector best reflects this all-round growth of income levels and consequent consumer spending. According to a report by the Confederation of Indian Industry (CII) and Ernst & Young – India 2012: Telecom Growth Continues, November 2008 – rural users will account for over 60 per cent of the total telecom subscriber base in India by 2012.

The next 250 million Indian mobile phone subscribers would include at least a 100 million from rural areas, forecasts the report. The Telecom Regulatory Authority of India (TRAI) notes that during the first nine months of 2008, rural India saw 11.3 million new mobile phone subscribers, as against an addition of 10.3 million subscribers in the four metros.

"The majority of new wireless subscribers will emerge from circle B and circle C," points out Prashant Singhal, telecom analyst with Ernst & Young. Currently, there are over 70 million mobile phone subscribers in rural areas. The CII-E&Y joint report estimates that 120 million new subscribers will sign up for mobile phone services in rural areas by 2012, as against 62 million in the metros.

The telecom sector has recorded a growth of 42.2 per cent in the second quarter of fiscal 2008-09.

India has emerged as the second-largest and the fastest-growing telecommunications market in the world. Every month, about 10 million new subscribers sign up for mobile phone services in the country.

According to the TRAI, there were a total of 363.95 million telephone connections in India (both landline and mobile) at the end of October 2008, as against 256.55 million a year ago, indicating a tele-density of 31.5 per cent (as against 12.7 per cent 18 months earlier). Cell phone subscribers accounted for over 325 million of the total number of subscribers.

"The telecom sector in India has registered a remarkable growth during the last few years propelled largely by the unprecedented growth of mobile telephony," notes Nripendra Misra, chairman, TRAI. "Three years back, a target of 250 million telephone subscribers by 2007 was considered too ambitious. We achieved this target a few months ahead of schedule."

Indeed, many believe that the extension of the telecommunications network to rural India will be as important as the Green Revolution, raising rural incomes significantly.

Major changes are occurring in the socio-economic profile of rural India, which is attracting marketers of a range of consumer products. According to a report by the National Council of Applied Economic Research (NCAER), though the lower middle income group adds up to 41 per cent of the Indian middle class, it accounts for 58 per cent of the total disposable income.

Those in the lower middle income bracket in rural areas number twice as many as those in cities. The total number of rural households in India is expected to touch 153 million in fiscal 2009-10, up from 135 million at the beginning of this decade.

Similarly, in urban areas, nearly 70 per cent of households will represent the middle class by next fiscal, according to the NCAER.

The middle income group – those with an annual household income of between US$4,130 and US$20,650 – is projected to increase at 13.7 per cent a year over the next four years, says a report by the NCAER. This is much higher than the previous four-year period growth of 12.2 per cent per annum.

Conversely, the size of the lowest income class is expected to fall from 72 per cent to 52 per cent over the next four years. All these factors will lead to a surge in demand in consumer spending on durables, FMCG, telecommunications, consumer electronics, two-wheelers, automobiles, and other products.

In fact, overall consumer spends in rural areas on FMCG items grew by over 20 per cent during the first six months of fiscal 2008-09, as against 18 per cent in urban areas, according to a report by international market intelligence consultancy, AC Nielsen. For example, demand for skin creams and lotions expanded by 26.3 per cent in rural markets as compared with 12.5 per cent in cities during the April-September period, says the Nielsen report.

Even auto makers are reporting brisk growth in sales in rural areas, despite the overall slowdown in the industry. For instance, for Maruti Suzuki India, rural areas accounted for 10 per cent of its sales in 2008, as against 3 per cent in 2007. For General Motors India, rural areas contributed over 40 per cent to its sales in 2008.

Demand for high-value consumer

goods – including television sets, microwave ovens, washing machines and refrigerators – continues to surge both in rural and urban markets.

According to a survey by ORG-GFK Marketing Services India, TV sales increased by almost 30 per cent during the 12-month period ended October 31, 2008. Microwave ovens saw a 26 per cent growth, air-conditioner sales rose by 17 per cent, washing machines sales grew by 15 per cent and refrigerator demand rose 12 per cent.

Ravinder Zutshi, deputy managing director, Samsung India Electronics, notes that higher purchasing power among the affluent was driving growth in the mid- to high-end products segment. For instance, according to V. Ramachandran, director, sales and marketing, LG India, the consumer electronics industry saw a growth of 12 to 15 per cent in 2008, while the home appliances segment expanded by almost 20 per cent.

The recent moves by the RBI to cut interest rates – to ensure adequate liquidity and to boost other sectors – will help the consumer durables and consumer electronics sectors significantly.

With millions of Indians – in rural, semi-urban and urban markets – witnessing a steady rise in incomes, demand for a host of products will continue to grow at a brisk clip. This growth in consumer spending augurs well for India.

> The consumer electronics industry saw a growth of 12 to 15 per cent in 2008, while the home appliances segment expanded by almost 20 per cent.