



CONSUMER DURABLES

October 2007

The Indian Consumer Durables Industry can be segmented into 3 Key Groups

Consumer Durables

White Goods

- Refrigerators
 - Washing Machines
 - Air Conditioners
 - Speakers and Audio Equipments
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The Indian Consumer Durables Industry can be segmented into 3 Key Groups

Consumer Durables

Kitchen Appliances/Brown Goods

- Mixers
 - Grinders
 - Microwave Ovens
 - Iron
 - Electric Fans
 - Cooking Range
 - Chimneys
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The Indian Consumer Durables Industry can be segmented into 3 Key Groups

Consumer Durables

Consumer Electronics

- Mobile Phones
 - Televisions
 - MP3 Players
 - DVD Players
 - VCD Players
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Several key trends are driving growth in the sector

Income growth and availability of financing

- Disposable income levels are rising and consumer financing has become easier

Increased affordability of products

- Advanced technology and increasing competition are narrowing the price gap and the once expensive appliances are becoming cheaper

Increasing share of organised retail

- Urban and rural markets are growing at the annual rates of 7%–10% and 25%, respectively, with organised retail expected to garner a 10% share by 2010 from a mere 3% share at present
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Several key trends are driving growth in the sector

Entry of heavyweight retail players is increasing competition

- Competitive evolution of organised retail due to the entry of heavyweight players like Croma, E Zone and Reliance Digital is stimulating the demand through exposure to experiences

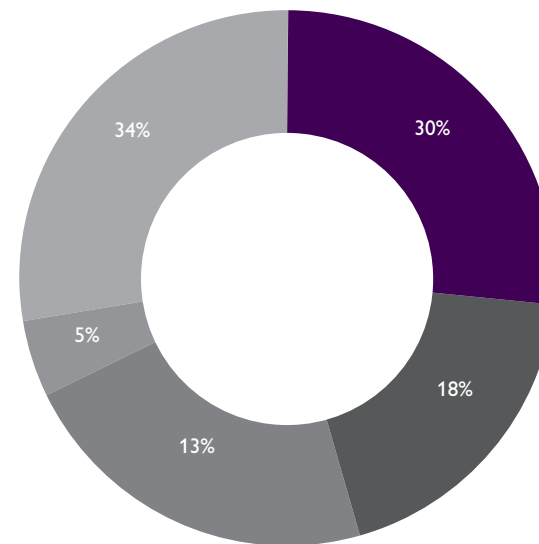
Increasing appreciation of the Rupee

- Raw materials constituting almost 75% of the costs are mostly imported and will now be cheaper
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Consumer Durables is one of the fastest growing industries in India

Industry sales were **US\$ 4.5 billion** in value, in **2006-07** and more than **7 million units** in volume terms

Key Consumer Durables - Share by Volume (%)



■ Colour TVs ■ Refrigerators
■ Air Conditioners ■ Washing M/Cs
■ Others

Consumer Durables is one of the fastest growing industries in India

A strong growth is expected across all key segments

Projected Growth Rates	
Colour TVs	25-30%
Refrigerators	18-22%
Washing Machines	15-20%
Air Conditioners	32-35%
Others (including VCDs and DVDs)	35-40%

Overall, the sector is a dynamic one, with significant growth opportunities

HIGH



MEDIUM



LOW



Threat of New Entrants



- Most current players are global players
- New entrants will need to invest in Brand, Technology and Distribution

Overall, the sector is a dynamic one, with significant growth opportunities

Supplier Power



- Indigenous supply base limited - most raw materials are imported

Competitive Rivalry



- Number of well established players, with new players entering
 - Good technological capability
 - Many untapped potential markets
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Overall, the sector is a dynamic one, with significant growth opportunities

Customer Power



- Multitude of brands across price points - wide variety of choice for customers

Threat of Substitutes



- Unbranded products and cheaper imports could enter the market

Some of the attractive areas for investment include

High End Colour TVs

- Plasma display panels and liquid crystal display TVs have registered an average growth of more than 250% in 2006-07 and the trend is expected to continue

Split Air-conditioners

- Split ACs have been growing at a much faster rate than window ACs - Growth of 97% in 2006-07 as compared to a 32% growth of window ACs

Some of the attractive areas for investment include

Mobile Phones

- Production is expected to grow at a compound annual growth rate (CAGR) of 28.3% from 31 million units in 2006 to 107 million units in 2011
- Low mobile penetration and favourable government policies are driving mobile phone Original Equipment Manufacturers (OEMs) to set up manufacturing facilities in India

Distribution and Retail

- With the rural and semi-urban markets creating opportunity and an almost sedentary urban market, the need to have a strong distribution network is crucial for the companies to remain price competitive
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Attractive States for Investment

Key parameters used for determining attractiveness of states:

- Incentives for manufacturing sector
- Consolidation of factors, including skilled workforce
- Proximity to demand centres
- Proximity to ports for raw material imports

Maharashtra, Uttar Pradesh and Tamil Nadu are attractive locations for investment in manufacturing consumer durables.

Several global players are well established in the Consumer Durables sector in India, with competition from strong Indian players

Some of the key players in the sector in India include:

- Samsung
- Philips
- LG
- Whirlpool
- Nokia
- Sony



A successful MNC in India – Sample case

Situation

Mobile phone landscape in 1995 was one open business opportunity for all the players to capture and succeed



Nokia's Key Strategy

- Being focused and ahead of the curve
 - Invested in each vertical of the handset ecosystem manufacturing, distribution and design R&D
 - Parent company is always ready to invest more in India
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A successful MNC in India – Case Study

Key Success Factors

Strong Distribution Network

- India has some 95,000 outlets that sell mobile phones with a conservative estimate of 50,000 of them selling only Nokia

Manufacturing Edge

- Nokia has several R&D centres and labs in India including a \$150 million handset manufacturing facility in Chennai set up in 2005

The Mother Brand

- Whether it is N series or the E series, the key focus is the Mother Brand – Nokia
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A successful MNC in India – Case Study

Key Success Factors

Local Products

- Custom-made mobiles for Indian conditions: Nokia 1100, having a torch built into a mobile phone helps in a country with frequent power cuts - distinct and tangible benefit

Such examples highlight the Key Success Factors to succeed in the Indian market

Success in the industry would depend on addressing key factors

Market Positioning and Branding

- Addressing key customer requirements that act as demand drivers by proactive marketing and establishing strong brand association

Product Technology

- Providing technologies that benefit the customer through - low power consumption, low service requirement, low cost of operation, etc.
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Success in the industry would depend on addressing key factors

Distribution and Service Network

- From saturated urban regions to low penetration rural areas and tier II/III towns, distribution network and brand recognition will continue to play more significant roles

Attractive Locations

- With raw materials forming a significant chunk of costs, production facilities located near ports to import cheaper raw materials could provide an advantage
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Profiles of Key Indian Consumer Durables Players

Bluestar

- Largest central air conditioning company with a network of 23 offices, 4 modern manufacturing facilities and around 2,000 employees
 - Established leadership in the field of commercial refrigeration equipment ranging from water coolers to cold storages
 - The company plans to increase its production capacity by setting up a new manufacturing plant at Thane and enhance its product range, which includes developing special purpose products and comfort applications
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Profiles of Key Indian Consumer Durables Players

MIRC Electronics

- Commands strong brand equity among consumers, largely owing to the success of its Onida brand
 - Finest design has made the company a leading player in the electronics and entertainment business today
 - Planning to set up a manufacturing plant in Uttaranchal for manufacturing various consumer electronic products
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Profiles of Key Indian Consumer Durables Players

Voltas

- 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
 - Operations have been organised into 4 independent business specific clusters: air conditioning and refrigeration, unitary products, engineering products and international operations
 - Tied up with RBS Home Appliances Ltd for the use of 640 service centres that Voltas has across the country for after sales services
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Profiles of Key Indian Consumer Durables Players

Videocon

- Market leader of consumer electronics and home appliances in India - manufactures home appliances such as refrigerators, microwave ovens, compressors, ACs and washing machines
 - Planning to acquire Daewoo's consumer electronic businesses worldwide to bring LCD TVs, Plasma TVs and components into its fold and also helps in having a consuming partner for the recently acquired Thomson's picture tube business
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Profiles of Key Indian Consumer Durables Players

Bajaj Electricals

- Engaged in marketing of various consumer household and industrial goods
 - Manufactures erection and commissioning of transmission line towers, telecom towers, mobile telecom towers and wind energy towers
 - Planning to outsource manufacturing of gas appliances and water dispensers, which will be marketed under its own brand
 - Planning to introduce inverters and 2 new lines of business
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