



# FAST MOVING CONSUMER GOODS (FMCG)

April 2010

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## Advantage India

### Large and growing youth population

- India is among the world's youngest nations, with a median age of 25 years as compared to 43 in Japan and 36 in the US. This, coupled with a large population and rapidly evolving consumer preferences, has translated into a large market opportunity for FMCG players.

### Emergence of organised retail business

- Real estate development in the country, such as the construction of shopping malls and hypermarkets, are opening up new business channels for FMCG companies.

### Growing urbanisation

- Indian cities are expected to add 379 million people to the consumer base for FMCG companies, as the urbanisation rate is expected to increase from the current 30 to 45 per cent in the next 40 years.

### Increasing disposable income

- According to recent estimates, household income in the top 20 boom cities in India is projected to grow at 10 per cent annually over the next eight years.

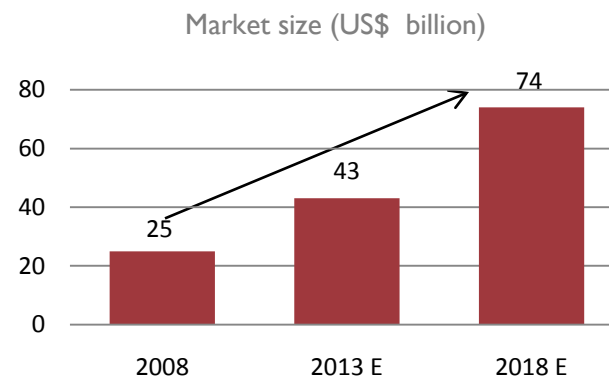
Sources: P.N. Mari Bhat, "Indian demographic scenario 2025," Population Research Centre, Institute of Economic Growth, Delhi, June 2001; <http://populationcommission.nic.in/facts1.html>; The Economic Times article on Top 20 cities hold keys to urban growth by Shailesh Dobhal, Dt: August 8, 2008, assessed on January 06, 2010 detailing the findings of study on 'The Next Urban Frontier: Twenty Cities To Watch'

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## Market overview

- The Indian FMCG sector, with a market size of US\$ 25 billion (2007–08 retail sales), constitutes 2.15 per cent of India’s GDP.
- The industry is poised to grow between 10 to 12 per cent annually.
- A well-established distribution network spread across six million retail outlets (including two million in 5,160 towns and four million in 627,000 villages) low penetration levels, low operating costs and intense competition between the organised and unorganised segments are key characteristics of this sector.



Sources: “GST, FDI can quadruple FMCG turnover in 10 yrs: Survey,” *Business Standard*, July 9, 2009; Economic Survey 2009–2010; An appetite for growth- Opportunities in the Indian food industry, Ernst & Young, 2009; Amritanshu Mohanty, “Challenges before the Indian FMCG sector and designing the blue print for future”; Dabur India Ltd, 5th Motilal Oswal Global Investor Conference, August, 2009

E\*- Estimated

## Market analysis ... (1/4)

### Organised retail — changing industry dynamics

- The Indian retail market size is estimated at US\$ 350.2 billion and is projected to grow at 13 per cent per annum to reach US\$ 590 billion by 2011–12.
- The current share of organised retail is estimated to be 4 to 5 per cent and is expected to increase by 14 to 18 per cent by 2015.
- Organised retail has created new channels for FMCG players through diverse retail formats such as departmental stores, hypermarkets, supermarkets and specialty stores.
- With organised retailing emerging in a major way across the country, the revenues of FMCG companies are expected to surge.

## Market analysis ... (2/4)

### Rural market — the new growth frontier

- Rural India accounts for close to one-third of the total consumption pie. Robust consumption in the rural economy is one of the key drivers of India's sustained growth.
- FMCG companies are devising exclusive rural marketing strategies to tap the rural consumer base.



#### ITC's e-Choupal

- Launched in June 2000, e-Choupal, has already become the largest initiative among all Internet-based interventions in rural India.
- Currently, e-Choupal services reach out to more than four million farmers growing a range of crops — soyabean, coffee, wheat, rice, pulses and shrimp — in more than 40,000 villages through 6,500 kiosks across 10 states.

#### DCM Shriram's "Hariyali Kisaan"



- Each centre operates in a catchment of about 20 km.
- Centres are engaged in bridging last-mile connectivity to consumers, providing quality agri input, offering financial services and farm output services as well as other products and services such as fuels, FMCG and apparel.

## Market analysis ... (3/4)

### Rural market — the new growth frontier

- A large number of FMCG companies derive a significant proportion of their overall sales from outside the top few 100 towns/cities, which reflects the growing economic importance of India's rural consumer base.

Company	Category	% sales from rural markets
Hindustan Unilever Ltd	Household products	45
Dabur India Ltd	Personal products	40



## Market analysis ... (4/4)



GSK has launched Asha, a low-cost variant (40 per cent lower cost) of Horlicks for rural markets only. The product is priced at US\$ 1.8 for a 500-gm pouch pack.



Recently, Nestlé launched Maggi Masala-ae-Magic and Maggi Rasile Chow priced at INR 2 and INR 4, respectively, for rural consumers with low purchasing power. Maggie Rasile Chow has been developed especially to provide a low-cost, light meal fortified with iron. Masala-ae-Magic is a taste enhancer containing iron, iodine and vitamin A. These products have been developed to address the widespread concern around micro-nutrient malnutrition in India.



Britannia launched Tiger Iron Zor for low-income groups.

Sources: Pantaloon Retail India Ltd, 2008–09 annual report;  
[http://www.pantaloonretail.in/Annual\\_Results\\_Conference\\_Call\\_26th\\_September\\_2009.pdf](http://www.pantaloonretail.in/Annual_Results_Conference_Call_26th_September_2009.pdf)

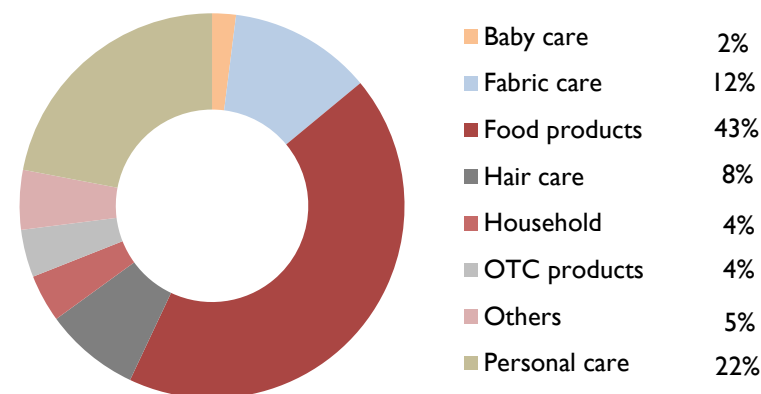
Sources: Relevant company websites — [www.itcportal.com](http://www.itcportal.com); [www.dscl.com](http://www.dscl.com); The Retailer, Ernst & Young, October 2009

Sources: “Nestle, Glaxo focus on rural-specific products,” *Business Standard*, January 28, 2010; The Retailer, Ernst & Young, October 2009.

## Market segments

- Food products is the largest consumption category in India, accounting for nearly 21 per cent of the country's GDP.
- Some of the leading players in this segment include Britannia Industries Ltd, Dabur India Ltd, GlaxoSmithKline Consumer Healthcare India Ltd and Gujarat Cooperative Milk Marketing Federation (GCMMF).

Indian FMCG market segments



Source: Dabur India Ltd; 5<sup>th</sup> Motilal Oswal Global Investor Conference, August 2009.

## Export potential ... (1/2)

- India is recognised as a cost-effective quality manufacturing base in the world market.
- As Indian companies are going global, they are focussing more on overseas markets such as the US, the UK, the UAE, Sri Lanka, Bangladesh, Thailand, Afghanistan, South Africa and Mauritius either through exports or the establishment of their own foreign subsidiaries.
- MNCs in India have also started supporting their global supply chain requirements by serving as cost-effective sourcing bases.

## Export potential ... (2/2)



### Exports

- Skin care products — Arabia, Malaysia and Sri Lanka
- Oral — Europe
- Tea — Europe
- Three-in-one tea premix — Arabia
- Culinary products such as soups and jams
- Marine products
- Rice — the Gulf



### Exports

- Culinary products
- Noodles
- Instant coffee
- Instant tea



### Exports

- Guar Gum — the UK and the US
  - Vatika Hair Oil — the Middle East and North Africa (MENA) region.
  - Dabur Vatika Naturals styling hair cream — MENA region
- The company also has a private label business in the US and the UK.



- GCPL currently exports to 33 countries, including the UAE, Sri Lanka, Bangladesh, Thailand, Afghanistan, South Africa and Mauritius.

Source: Relevant company annual reports.

## Key trends ... (1/4)

### Consolidation

Indian FMCG companies are either increasing their focus on certain market segments or are consolidating their existing business portfolios.



Dabur India Ltd merged its wholly owned subsidiary, Dabur Foods Ltd, with itself.



Agro Tech Foods Ltd, an Indian subsidiary of global food major ConAgra, exited from its sourcing and institutional business of oil and agricultural raw-material procurement, seed buying and processing operations, food service and poultry feed ingredients.

### Product Innovation

Several companies have taken to innovation by launching or customising their existing product portfolios for new consumer segments.



Emami Ltd Launched a men's fairness cream.



Nestlé India and GCMF(Amul) have launched pro-biotic products by providing active ingredients in regular consumable products such as curd/yoghurt and ice cream.

## Key trends ... (2/4)

### Lifestyle products

Lifestyle and premium range products are the next target product segment among Indian FMCG players.



Procter and Gamble(P&G) launched its Olay range. The company also has plans to expand its current Indian product portfolio categories from eight to 25.



Hindustan Unilever Limited

The company launched Avinace, an exquisite range of high-technology, high-performance beauty services for women.

### Third-party manufacturing

Outsourcing the manufacturing or processing of certain range of products to small vendors is gaining importance among FMCG players. With such initiatives, the companies can focus on front-end marketing initiatives more effectively.



GlaxoSmithKline

GlaxoSmithKline Consumer Healthcare Ltd outsources the processing of products such as malt-based foods, biscuits and nutrition bar sweetmeats to third-party vendors.



Hindustan Unilever Limited

Hindustan Unilever Ltd outsources the processing of its products such as soaps, synthetic detergents and packaged tea to third-party vendors.

## Key trends ... (3/4)

### Expanding horizons

Several Indian companies are exploring the business potential of overseas markets and under-penetrated regional markets.



**TATA TEA**

Tata Tea acquired a 30 per cent stake in US-based Energy Brands Inc, a specialty water company.



**emami**

Emami India Ltd is setting up a manufacturing facility in Africa.

### Backward integration

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



**KS OILS**

KS Oils' acquisition of 53,000 acres of land for palm oil plantations in Indonesia complements its front-end strategy of establishing a refinery in East India to reinforce market leadership in the eastern and other regions of the country.

## Key trends ... (4/4)

### Reducing carbon footprint

- FMCG players in India are focussed on reducing their carbon foot print.
- Of the energy used in PepsiCo India's beverage business, 38 per cent comes from renewable resources.
- Dabur has 30 per cent of its steam generation fired by renewable resources.
- Hindustan Unilever Limited and ITC have earned Voluntary Emission Reduction (VER) and Certified Emission Reduction (CER) credits for their work, respectively. HUL was awarded 52,000 VER credits for developing a new soap-making process called Plough Share Mixer, which eliminates the need for steam altogether.

Sources: "Dabur Foods merged with Dabur India," Business Daily, July 12 2007; "Agro Tech Foods to exit from sourcing, institutional business," Business Standard, February 6, 2008.

Sources: "P&G's India plans will change the rules of the consumer game," Livemint, September 22, 2009; Relevant company annual reports.

Source: "Tata Tea in India Inc's biggest buy overseas," Business Standard; KS Oils website, [www.ksoils.com/KS65\\_07102009.htm](http://www.ksoils.com/KS65_07102009.htm), accessed April 2010.

Source: "FMCG firms try to reduce carbon footprint," Business Standard, December 10, 2009.



## Key players\* ... (1/3)

Company	Sales as on March 31, 2009 (in US\$ million)	Product segment/selective brands			
		Food	Personal care	Home care	Healthcare
Britannia Industries Ltd	648.4	Tiger, Good Day, Marie Gold			
Colgate Palmolive India Ltd	366.3		Colgate, Palmolive	Axion, Dish Wash	
Dabur India Ltd	590.4	Real, Activ, Hommade	Dabur Amla, Vatika	Dazzil, Odomos, Odonil	Dabur Chyawanprash , Hajmola
Emami Ltd	155.7	Sonachandi Chyawanprash	Boroplus, Fair and Handsome, Navratna Cool Talc		
GlaxoSmithKline Consumer Healthcare India Ltd	354.5**	Horlicks, Boost, Maltova	Eno, Iodex		

\* This is an indicative list.

\*\* year ending December 2008

## Key players\* ... (2/3)

Company	Sales as on March 31, 2009 (in US\$ million)	Product segment/brand			
		Food	Personal care	Home care	Healthcare
Godrej Consumer Products Ltd (GCPL)	234.7		Cinthol, Color Soft	Ezee	
Gujarat Cooperative Milk Marketing Federation (GCMMF)	1,398.2	Amul			
Hindustan Unilever Ltd	4,510.3***		Lakme, Lifebuoy, Lux, Pepsodent, Sunsilk	Active Wheel, Rin, Surf Excel, Vim	
Indian Tobacco Company Ltd	638.1****	Kitchens of India, Aashirvaad , Sunfeast, Bingo	Fiama Di Wills, Vivel Di Wills, Vivel		
Marico Industries Ltd	399.8		Parachute, Saffola, Sw eekar, Hair & Care, Revive		

\*\*\* 15 months' sales ending March, 2009

\*\*\*\* FMCG business sales

\* This is an indicative list.

## Key players\* ... (3/3)

Company	Sales as on March 31, 2009 (in US\$ million)	Product segment/brand			
		Food	Personal care	Home care	Healthcare
Nestlé India Ltd	861.0	Everyday, Fresh 'n' Natural, Nescafé Classic, Maggi			
Procter & Gamble Hygiene and Healthcare Ltd	161.0		Whisper, Pantene Pro V, Head & Shoulders	Ariel and Tide	Vicks
Tata Tea Ltd	283.7	Tata Tea Premium, Tata Tea Gold			

Source: Relevant company annual reports.

\* This is an indicative list.

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## Investments — mergers and acquisitions (M&A)\* ... (1/2)

Target name (segment)	Acquirer name (segment)	Merger/Acquisition
Tern Distilleries Pvt Ltd (beverages — wine/spirits)	United Spirits Ltd (beverages)	Acquisition
Vale Do Ivai 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

\* This is an indicative list.

## Investments — mergers and acquisitions (M&A) ... (2/2)

Target name (segment)	Acquirer name (segment)	Merger/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
Lotte India Corp Ltd (food)	Lotte Confectionery Co Ltd, South Korea (food)	Acquisition

Source: Bloomberg, accessed December 4, 2009.

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## Policy and regulatory framework

- Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity, or 100 per cent for NRI and overseas corporate bodies (OCBs) investment, is allowed in food processing segments such as coffee and tea.
- The Government of India (GoI) recognises food processing and agro industries as priority sectors.
- 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 and items reserved for exclusive manufacture in the small-scale sector.
- The GoI's announcement of a 4 per cent reduction in excise duty (as part of the earlier stimulus package in December 2008) has impacted the FMCG industry positively.
- In October 2009, the GoI 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).

India is set to implement Goods and Services Tax (GST) by April 1, 2011. This move is expected to stimulate growth in the Indian FMCG industry.



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## Opportunities

- With fast-evolving lifestyles and the increasing disposable income of urban consumers, there exists a definite opportunity for lifestyle and high-end products.
- With more than 33 per cent of the Indian consumer base present in rural areas, the rural market will be a key growth driver for FMCG majors planning to expand their domestic business.
- Indian consumers are highly adaptable to new and innovative products. For instance, the market acceptance of men's fairness creams clearly demonstrates an opportunity for companies to offer new products targeting specific customer segments.
- Indian and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive product development and manufacturing for their international markets.

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## Industry associations ... (1/2)

Association	Contact details
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: <a href="mailto:ida@nde.vsnl.net.in">ida@nde.vsnl.net.in</a> Website: <a href="http://www.indairyasso.org">www.indairyasso.org</a>
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: <a href="mailto:aibma@rediffmail.com">aibma@rediffmail.com</a> ; <a href="mailto:mallika@phdcci.in">mallika@phdcci.in</a> Website: <a href="http://www.aibma.com">www.aibma.com</a>
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: <a href="http://www.aifpa.net">www.aifpa.net</a>
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: <a href="mailto:fbmi@rediffmail.com">fbmi@rediffmail.com</a> ; <a href="mailto:mallika@phdcci.in">mallika@phdcci.in</a> Website: <a href="http://www.biscuitfederation.com">www.biscuitfederation.com</a>

## Industry associations ... (2/2)

Association	Contact details
Indian Soap & Toiletries Manufacturers' Association	Raheja Centre, 6th Floor, Room No 614, Backbay Reclamation, Mumbai – 400021 Phone: 91-22-28241115; Fax: 91-22-22853649 E-mail: <a href="mailto:istma@bom3.vsnl.net.in">istma@bom3.vsnl.net.in</a>
Indian Soft Drinks Manufacturers' Association	702, Ansal Bhawan, 16 KG Marg, New Delhi – 110001 Phone: 91-11-46470200; Fax: 91-11-23327747
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: <a href="mailto:solvent@mtnl.net.in">solvent@mtnl.net.in</a> Website: <a href="http://www.seaofindia.com">www.seaofindia.com</a>
Vanaspati Manufacturers' Association of India	903, Akashdeep Building, 26-A, Barakhamba Road, New Delhi – 110001 Phone: 91-11-23312640; Fax: 91-11-23315698

## Note

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Conversion rate used: US\$1 = INR48

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