

Fast Moving Consumer Goods (FMCG)

in INDIA

4th

Largest sector in Indian economy



27.86% CAGR
FMCG market in India by 2020F



9.7% rise in Rural Consumption



850 million Online users by 2025



25% Fall in Warehousing cost due to GST



69.32% FDI inflow share of Food processing

Consumption Expenditure CAGR 22.6%

Market Size CAGR 27.86%

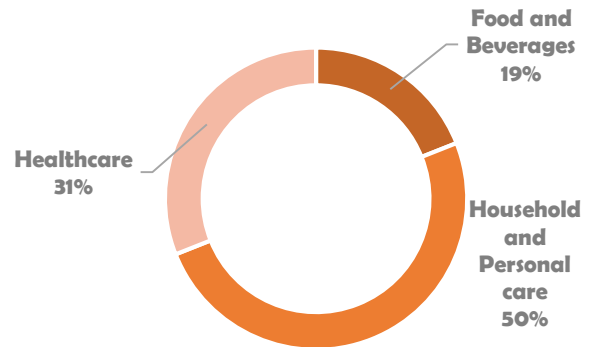
US \$ 3600bn
2020F

US \$ 103.7bn
2020F

US \$ 1595bn
2016

US \$ 52.75bn
2017-18

Segment Wise



GST to transform Logistic

2020F \$45Bn

2017 \$20Bn

E-COMMERCE



FDI

100% Single Brand Retail
51% Multi Brand



55%

share of FMCG revenue by URBAN Segment



23% of FMCG market share contributed by HAIR CARE

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FMCG sector is in transition and today's business environment is in constant state of change. The Indian FMCG market offers a level playing ground for both domestic as well as international players. A revival in rural demand boost the topline growth of FMCG companies. A shift towards e-commerce and adoption of digital technologies will continue to fuel the growth of FMCG market. A huge untapped opportunities and low penetration highlights the scope of growth in this sector

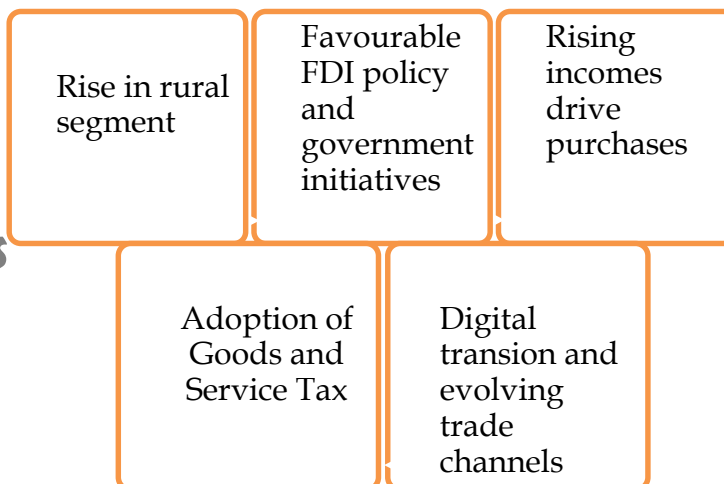
Overview

- FMCG sector is the fourth largest sector of the Indian economy.
- FMCG sector in India generated US\$52.75 billion in 2018 and forecasted to report revenue growth of around 11-12% in FY19.
- Total consumption expenditure to increase at CAGR of 25.44% from year 2017-2021 with US\$1595 billion in year 2016.
- Urban segment is largest contributor to overall revenue (55%) whereas rural segment rose by 9.7%.
- Household and Personal Care is the leading segment, accounting for 50 per cent of the overall market.
- The sector witnessed healthy FDI inflows of US\$ 13.07 billion, during April 2000 to December 2017.

5

Key Trends

in FMCG sector



The fast-moving consumer goods (FMCG) sector is an important contributor to India's GDP and it is the fourth largest sector of the Indian economy. FMCG, alternatively called as CPG (Consumer Packaged goods) are those goods that are sold quickly and at relatively low cost. These are non-durable products which are sold in packaged form. Some common FMCG product categories include food and dairy products, glassware, paper products, pharmaceuticals, packaged food products, plastic goods, printing and stationery, household products, drinks etc. These products are consumed by every strata of society irrespective of social class, income group, age group etc. FMCG companies have always enjoyed a vast potential market because of the large population of the country. The industry is highly competitive due to the presence of large multinational companies and the unorganized sector.

The 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 percent - 25 percent per annum, which is likely to boost revenues of FMCG companies. The FMCG sector is predicted to undergo the highest level of growth in its history in India. FMCG industry in India is witnessing a change – a change in the pattern in which it is growing with the changing demographics hence the pattern of marketing would also change. The Indian FMCG companies enjoy a diverse industrial base and offer a variety of products to consumers. The Indian FMCG market offers a level playing ground for both domestic and international players. The improved economic situation of both the rural and urban consumers has helped FMCG companies to further expand their market to the hinterlands of the country. Mushrooming Indian population, particularly the middle class and the rural segments, presents the huge untapped opportunity to FMCG players. A distinct feature of the FMCG industry is the presence of international players through their subsidiaries (HUL, P&G, Nestle), which ensures innovative product launches in the market from their parent's portfolio.

Characteristics of FMCG market

From the consumer's perspective

- Frequent purchase
- Low involvement (little or no effort to choose the item)
- Low price
- Short shelf life
- Rapid consumption

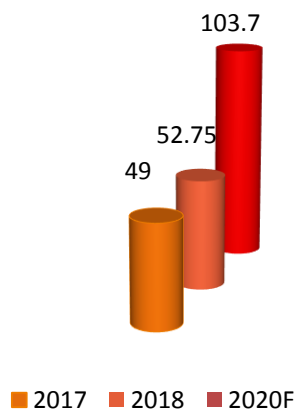
From the marketer's perspective

- High volumes
- Low contribution margins
- High stock turnover

Growth story of FMCG Industry

This sector witness growth through leaps and bounds due to government policies and changes in overall market place. The FMCG sector in India generated US\$52.75 billion in 2018 as compared to US\$49 billion in 2017, thereby resulting in the gain of 7.65% on YoY basis. Revenues in the FMCG sector is expected to advance to US\$ 103.7 billion in 2020. Indian FMCG sector is forecasted to report revenue growth of around 11-12% in FY19 from 8% in FY18.

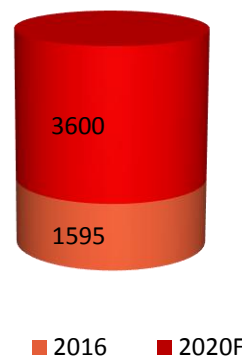
REVENUES



Incremental consumption expenditure in FY2016

Expenditure to increase at CAGR of 25.44% from the year 2017-2021. Total consumption is expected to reach nearly US\$3600 billion by 2020 from US\$1595 billion in 2016. India’s contribution to global consumption is expected to be more than 5.8 percent by 2020. Rising income and growing youth population have been key growth drivers of this sector. Brand consciousness has also aided demand.

EXPENDITURE



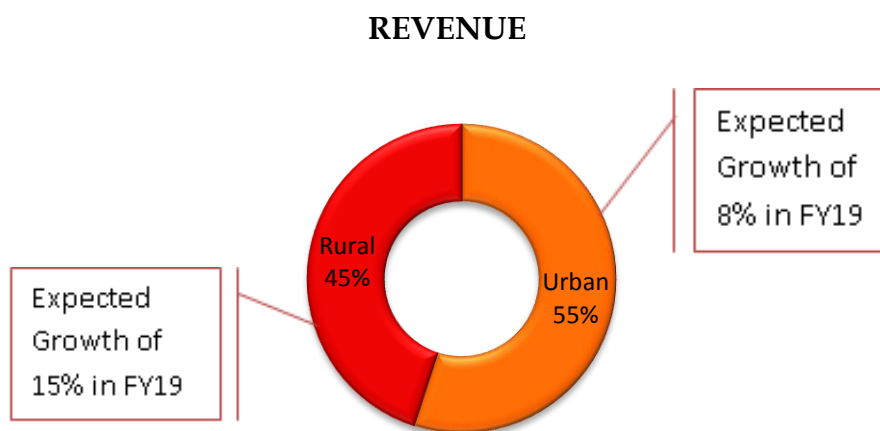
India is a very diverse market, therefore when it comes to the growth and development of any industry, there is always a multitude of factors which play a role in this development. FMCG is no exception. There are varieties of factors which can potentially promote its growth. This growth has been attributed to factors like, increased consumption, rise in income levels, changes in lifestyles and demographic changes. Riding on a rapidly growing economy, increasing per-capita incomes, and rising trend of urbanization, the Growth of FMCG industry is consistent with the Indian economy.

Tier II and Tier III cities are witnessing faster growth in modern trade. The FMCG sector is predicted to undergo the highest level of growth in its history in India. FMCG sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, FMCG companies have immense possibilities for growth. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future.

Segment Wise Revenue Breakup

The sector is divided into two segments- Urban segment and Rural Segment. Accounting for a revenue share of 55%, the urban segment is the largest contributor to overall revenue from the FMCG sector and is expected to have a steady growth rate of 8% in FY19. Rural segment is growing at a rapid pace and accounted for a revenue share of 45% in the overall revenue generated by the FMCG sector with expected growth of 15-16 % in FY19. Rural segment is set to rise. Rural consumption has increased led by the rise in their disposal income and government schemes. Hence, having a larger consumer base as well as supplying

raw material to one of the largest FMCG segments, food and beverages, rural India is going to drive the growth of FMCG industry. Leading companies in the FMCG sector have a strong distribution network in rural India are benefiting from the contribution of technological advances such as internet and better logistics services. The growing incline of rural and semi-urban folks for FMCG products will be mainly responsible for growth in this sector, as manufacturers will have to deepen their concentration for higher sales volumes.



Production of various FMCG products

- Dairy products, tea, coffee, sugar, vegetable oils, bakery products, chocolates & confectionery, processed foods, milling products, etc

Food Products



- Cosmetics, toiletries, soaps and detergents, etc

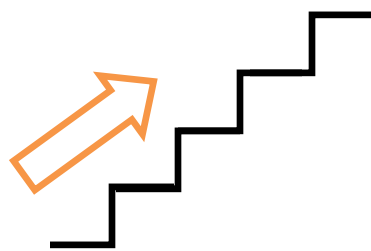
Consumer Goods



Factors that speed up the growth of FMCG

1. Higher income and rise in rural consumption
2. Evolving consumer tastes and preferences
3. Focus on innovation and R&D
4. Higher Investment
5. Government Initiatives
6. Modern trade channels

Nifty FMCG with a positive trend (2011-2018)



FMCG sector has posted
growth at **CAGR 15.76%**
from **2011- 2018.**

Sector Composition

FMCG sector has mainly 3 segments and its overall performance is driven by the internal competitiveness of the segment.



31%
Healthcare



50%
Household
and Personal
Care



19%
Food and
Beverages

Healthcare

Healthcare has become one of India's largest sectors - both in terms of revenue and employment and represents 31% of FMCG industry. The Indian healthcare sector is growing at a brisk pace due to its strengthening coverage, services and increasing expenditure by the public as well as private players. This segment includes OTC products and ethicals. The pharma companies that were selling OTC syrups, vitamin tablets, and pain reliever balms have forayed into the personal care space. And FMCG companies have jumped aboard the OTC bandwagon and are selling products with medicinal properties to end users. OTC market is under-penetrated today. As consumers become more health conscious, demand for such products is on the rise.

Household & Personal Care

It is the prominent segment and accounts for 50 of the overall market share. Hair care accounting to 23 percent comes next in terms of market share. Personal hygiene products, hair care, skin care, cosmetics, perfumes are the key segments of the personal care market. Each of these segments exhibit their unique trends and growth patterns. Active ingredients and personal care products experience high demand due to favorable demographic factors and increasing consciousness among the population. Rising incomes gives boost to this segment.

As of FY17, the contribution of herbal products to the overall personal care products market in India stood at 6-7 percent and is estimated to grow to 10 percent by FY20.

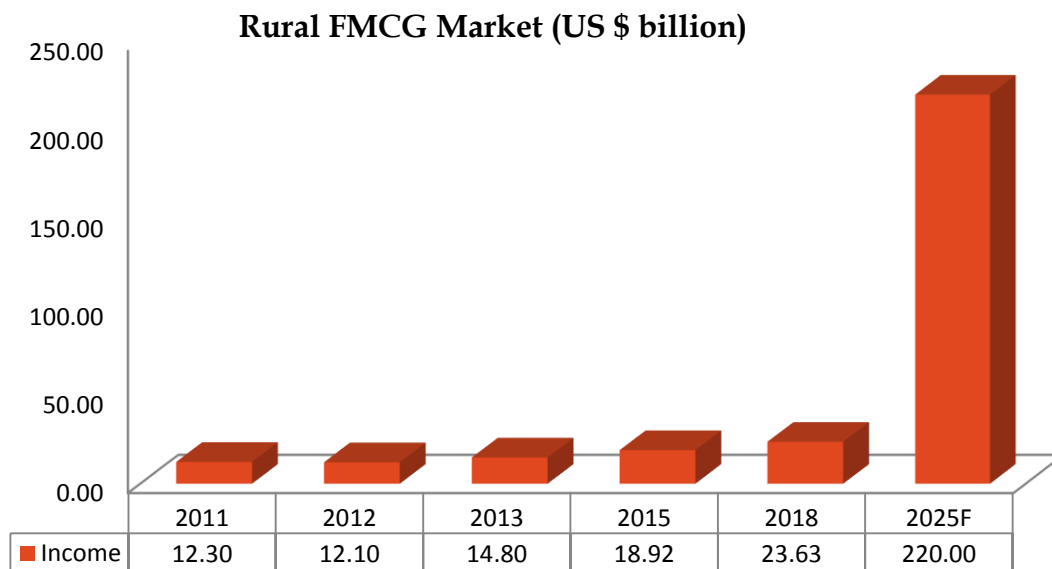
Food & Beverages

Food & Beverages segment accounts for 19% in Indian FMCG's market. This segment includes beverage, staples/cereals, bakery products, snacks, supplying raw chocolates, ice cream, tea/coffee/soft drinks, processed fruits and vegetables, dairy products, and branded flour. Some common trends which are being witnessed in this segment are growing affordability among increasing income groups in urban India, greater consumer acceptability of newer products due to the factors such as younger population, urbanization, more working women, easier availability due to better distribution by FMCG players coupled with growth in organized retail and creating product understanding amongst consumers.

Rural segment growth expectation ahead of the urban segment

Rural consumption growth has outpaced urban consumption with the increase in percentage in monthly per capita expenditure in rural markets surpassing its urban counterparts over the past five years. Total rural income, which is at around US\$ 572 billion in FY18, 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 percent to US\$ 631 by 2020. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 220 billion by 2025

Rising income levels and change in lifestyle shows a clear uptrend in the share of non-food expenditure in rural India. Rural customers have upgraded their lifestyles and as a result are purchasing lifestyle products like cosmetics, beverages, mobile phones, etc, which have become necessities for them. Urbanization has led to a better lifestyle in the rural areas, which is no longer bound by geographical areas. Huge untapped rural market helps companies to use various strategies to generate revenue. The demand for quality goods and services in the rural area in India and with the ease of improved distribution channels of manufacturing, FMCG companies is giving boost to growth in this sector. Due to government initiatives and increased industrialization in rural belt, this sector will keep growing leading to improved valuation and high in share prices.



Rural-focused companies at the sweet spot

- Hindustan Unilever
- Marico Industries
- Emami
- Colgate
- Dabur
- Britannia

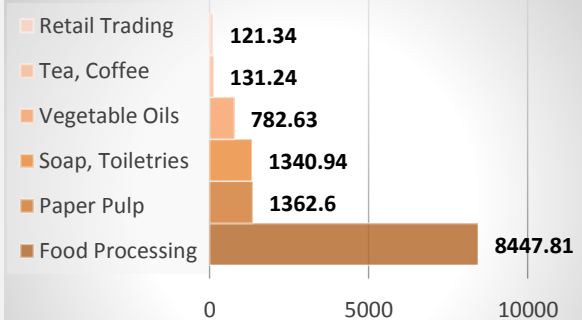
Foreign firms betting big on FMCG sector

Investors are optimistic on India and sentiments are favorable following government's announcement of a series of reform measures in recent months. In the recent quarters, many of the foreign firms have increased their exposure in the FMCG companies like Hindustan Unilever, Godrej Consumer Products, Britannia Industries etc, motivated by their robust financial performance and attractive valuations. The government allowed 100 percent FDI in the cash and carry segment and in single-brand retail. It also approved 51 percent FDI in multi-brand retail in 2006, which will boost the nascent organized retail market in the country. This should also generate employment and give Indian consumers access to several international brands. This will not only help the economy to grow but the nation as a whole. FMCG sector witnessed healthy FDI inflows of USD 12186.57 million, during April 2000 to March 2018. Within FMCG, food processing was the largest recipient having a share of 69.32%. Between January and April 2018, investment intentions of Rs 9,144 crore from various FMCG companies were announced from sugar, food processing, vegetable oils, soaps, cosmetics, and toiletries industries. The food processing ministry has been pushing to ease rules for retailers that would allow them to sell soaps, shampoos, and toothpaste along with food products. 100% FDI not only bring in better products, competitive pricing will come in to play and reduce prices further. The latest technological development foreign company will bring along is a bonus. From the economic prospects, the approval will allow large-scale employment and benefit farmers by linking them to large retail outlets. It helps in bringing down prices at the retail level and calm inflation. This induces a better competition in the market, thus benefiting both producers and consumers. Small and medium enterprises will have a bigger market, along with better technology and branding. The main purpose of government FDI is to liberalize and simplify the policy so as to provide ease of doing business in the country.

Some recent deals are:

- Oct 2017 Ready-to-cook food brand Fingerlix raised US\$7 million in Series B funding by Accel Partners and Zephyr Peacock.
- Sept 2017 Baby and Mothercare brand, Mamaearth, raised a second round of funding of US\$1 million led by Fireside Ventures and other individuals.
- Feb 2017 Britannia announced a joint venture with Greek baker, Chipita, to produce bakery items.
- Jan 2017 Schreiber Dynamix Dairies, a subsidiary of American Schreiber International, opened an infant nutrition ingredient plant in Baramati, Maharashtra.
- June 2016 Cremica Food raised US\$15 million from Rabo Equity Advisors Pvt Ltd, by selling a minority stake.
- May 2016 Maiyas Beverages and Foods raised US\$30 million from Peepul Capital.

Cummulative FDI Inflow share



Climbing up the income ladder

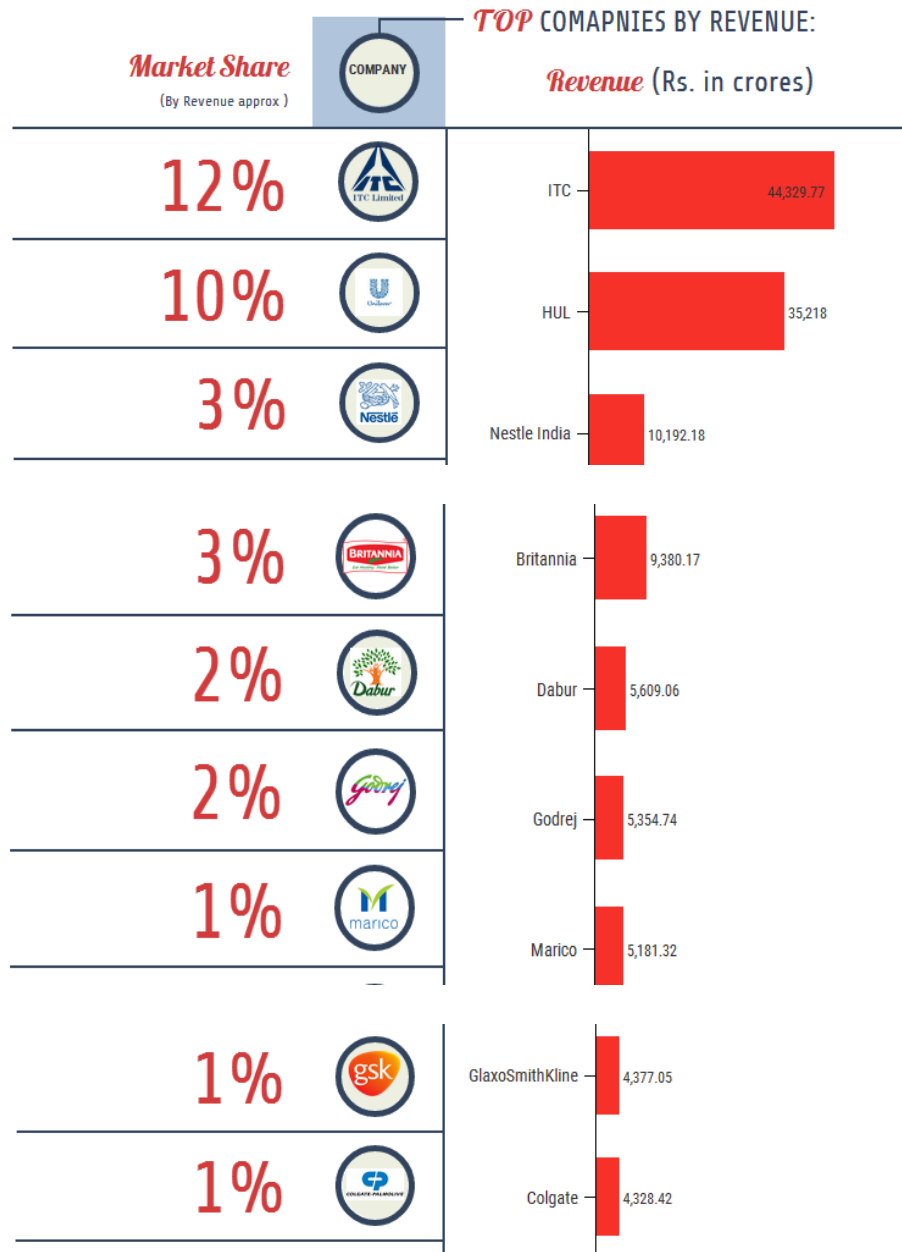
In 2018, some of the leading Indian FMCG companies, by revenue, were

Companies Revenue (Rs. In cr.)	
ITC	44329.77
Hindustan Unilever Ltd	35218.00
Nestle India	10192.18
Britannia Industries	9380.17
Dabur	5609.06
Marico	5181.32
Godrej Consumer Products	5354.74
GlaxoSmithKline Consumer Healthcare	4377.05
Colgate-Palmolive India	4328.42

Incomes have risen at a brisk pace in India and will continue rising given the country's strong economic growth prospects. The growing purchasing power and rising influence of the social media have enabled Indian consumers to splurge on good things. According to IMF, nominal per capita income is estimated to grow at a CAGR of 4.94 percent 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. The share of FMCG items in the Indian consumer's wallet has increased gradually over the past few years. This willingness to spend, backed by the ability to spend, is likely to lead to higher growth in the FMCG sector going forward. Large appetite for premium products mostly in urban India is a result of rising incomes. As the proportion of 'working age population' in total population increases, per capita income and GDP are expected to surge. Changes in income levels and demographics have already led to changes in consumption and savings patterns of Indian households. The increase in income lead to higher consumption expenditure. It also leads to the change in the consumption pattern. With higher earnings, people move to better and higher end products. Consumers move from basic to luxury goods. Hence, demand for high end and premium products would grow, indicating better times for FMCG companies.

Strategies adopted by Few prominent players in FMCG Industry

- Cost Cutting strategy- HUL fulfills 80 percent of its power requirement for its Sumerpur plant from solar energy.
- Analytics- Hindustan Unilever Ltd (HUL) implemented a transformational program called Connected 4 Growth (C4G) to help drive business growth.
- Product Expansion- 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.
- Product launches- ITC to launch 30-40 products every year to become India's biggest FMCG company.
- Expansion- 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.
- Joint Venture- Eveready Industries India has entered into a joint venture with Wings Group, a large conglomerate and major FMCG companies in Indonesia called, Universal Wellbeing.



Impact of GST

The post GST tax rates for the FMCG industry is capped at 18-20 percent. Before the implementation of GST, most of the FMCG products were taxed rates ranging from 22-24%. Basic food products such as milk, eggs, curd, sanitary napkin, salt and fresh vegetables have been kept under the NIL bracket which is in line with the expectation from the FMCG experts. Due to lower tax rated on some of the FMCG products, companies have started passing down the benefit to consumers in the form of low or reduced



GST to transform
Logistic

prices. Post GST implementation, prices of various commodities in the FMCG sector, like shampoos, soaps, detergents, biscuits, other snacks etc. decreased, leading to about 3-8 % decrease in prices of goods at modern retail stores. The lower cost has motivated people to invest more in FMCG companies. The FMCG industry is going to benefit from the lower logistics cost and better competitive market and rates for most of the products being kept under the expected tax bracket. 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.

This was on account of the release of pent-up demand post the cash crunch in the market led by demonetization in Q3 and Q4 FY17 due to which purchases took a hit. The movement of goods has become much easier reducing the need for maintaining large inventories.

Cost Reduction

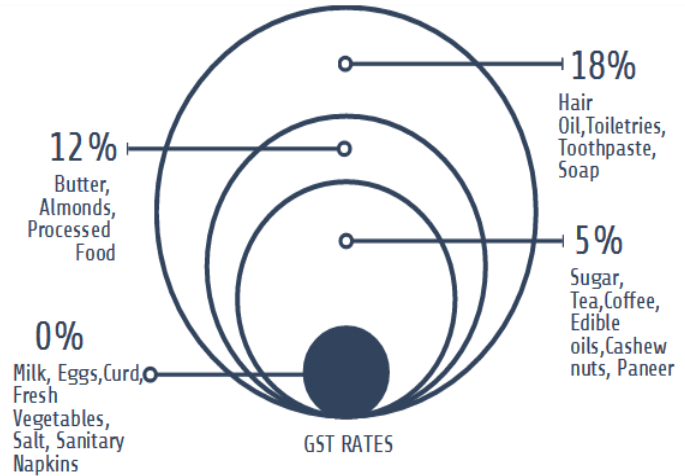
Logistics and distribution cost

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. Distribution cost of the FMCG sector currently amounts to 2-7% of total cost, which is expected to drop to 1.5% after implementation of GST. Due to the smoother supply chain management, payment of tax, claiming input credit, removal of CST under the GST regime, there will be a cost reduction in terms of transportation and storage of goods.

Warehouse cost

Warehousing cost for FMCG companies is estimated to fall by 25-30 percent 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. As for warehousing hubs, the five major ones including Mumbai, National Capital Region (NCR), Bengaluru, Hyderabad, and Kolkata, will retain their importance being major consumption centers for FMCG, while Assam and Haryana would emerge as new hubs.

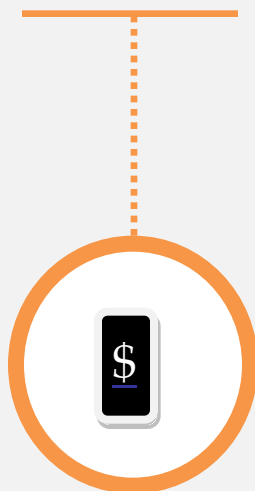
TAX RATES	PRODUCTS
0%	Milk Eggs Curd Fresh vegetables Salt Sanitary napkins
5%	Sugar Tea Edible Oils Cashew nuts Packed paneer Coffee
12%	Butter Almonds Processed foods
18%	Hair Oil Toiletries Toothpaste Soap



E-commerce portals take care of Distribution channels

- Paytm Mall, ecommerce platform of Paytm, is planning to expand its groceries segment and is targeting a Gross Merchandise Value (GMV) of US\$ 3 billion from this segment by the end of 2018.
- Flipkart, India's largest e-commerce marketplace has raised US\$ 1 billion in a funding round led by Chinese internet giant, Tencent, and Microsoft.
- Paytm's e-commerce unit raised US\$ 200 million in a funding round led by Chinese e-commerce giant, Alibaba and existing investor, SAIF Partners.
- Nestle India will partner with Flipkart to launch Maggi Special Masala Noodles

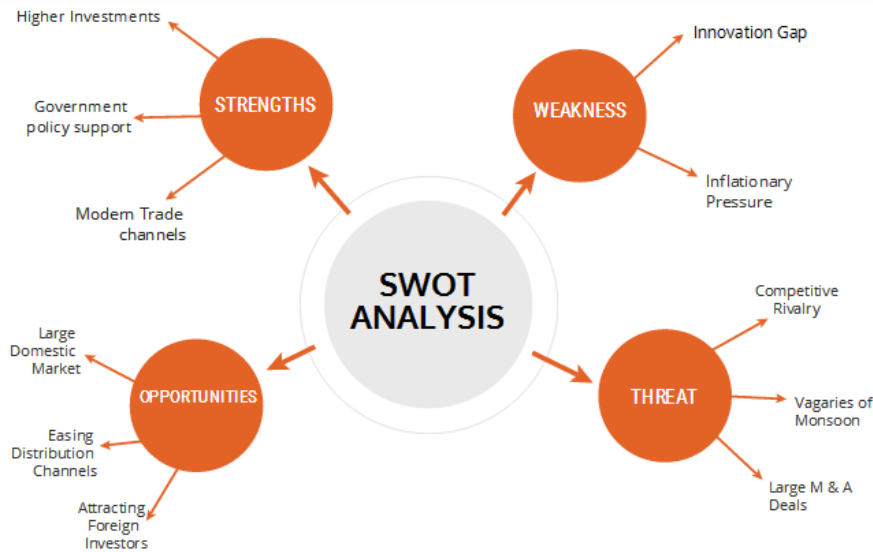
The number of online users in India is likely to cross **850 million by 2025.**



The Indian e-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034. Online retail sales in India are expected to grow by 31 percent to touch US\$32.70 billion in 2018, led by Flipkart, Amazon India, and Paytm Mall. The platform also provides sellers visibility and options for relatively low-cost, targeted online/digital marketing. This has resulted in the huge opportunity for small producers of a variety of consumer products, especially niche products. The impact of technology is directly and clearly visible in the FMCG sector. Retailers and brands are now convinced that investment in growing their online business is crucial, if not mandatory. The myths surrounding e-commerce only five years ago – a ‘small opportunity’, ‘a poor shopper experience’, ‘unprofitable’ have all been swiftly discredited. 2017 has seen the multiplication of models which bridge the gap between the online and offline worlds, from both bricks-and-mortar and pure players. Amazon, BigBasket, and Grofers are leading players in the online FMCG and grocery space. The urban India consumer is now spending more time online than on print and TV.

Even as Chinese e-commerce giant Alibaba Group Holding Ltd nears a deal to invest in BigBasket, the largest Indian online groceries start-up is set to face its toughest test with the expansion of Amazon India and the launch of Flipkart's grocery business later this year. Sales have been driven largely by volume growth—which points to growing acceptance and penetration of online grocery among consumers. Despite the fact that the online grocery space has been slow to take off, India's largest online retailers Amazon India and Flipkart are ramping up their plans for the sector. While Amazon India is already present in the consumer goods business, Flipkart is preparing to launch the grocery offering. India as a country is undergoing a digital revolution and we will embrace this positively.

S.W.O.T Analysis of FMCG Industry



Looking Forward

- Demographic trends in emerging markets suggest there is vast potential in many different product categories, rendering these markets very attractive to many global CP companies. Major food company, Nestle notes that's they achieve 45% of sales from emerging market. Similarly, Unilever has its sights set on making emerging markets 75 percent of its revenue stream by 2020.
- Digital technologies have removed business barriers for many agile players. It will drive differentiation through efficiency and creativity. Digital technologies will continue to enable the growth of e-commerce. The transition from traditional sales channels to e-retailers will fuel the growth of the FMCG sector.
- Innovation is required not only in launching or marketing new products but also in technology, business model, distribution channel, and network. New value to a customer, new basis of competition in the existing market, new players in the value network and new technologies for making and delivering the product or service.

The opportunity in terms of incremental penetration and consumption is present. In addition, the opportunity for FMCG products is large given that per capita consumption in India is lower than in most markets. Many FMCG companies will continue tapping the rural market. The industry is budding in rural areas, where consumption of products is increasing. M&A activity will likely continue in the near future as the company will expand their global presence in the quest for growth and development.

Future Plans

Britannia Industries will reportedly invest Rs.400-500 crore by 2019, and will set up a dairy plant worth Rs.300 crore.

On 11 July 2018, Dunkin' Donuts (DD), operated by Jubilant Food Works has entered into a partnership with Nestle India to launch three new signature donuts

Britannia Industries is reportedly planning to expand its business in neighboring countries as well as Africa and the Middle East, in line with its plan to enter new geographic.

Walmart will invest \$16 billion in Flipkart for a 77 percent stake making it Walmart's biggest ever acquisition and the world's largest e-commerce deal.

The Swiss food group Nestle has agreed to sell its U.S. confectionery business to the Italian company Ferrero Rocher for a little over one billion euros

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