



# Indian Consumerism

*IERI, OGGI, DOMANI*

## IERI



## OGGI

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## DOMANI

 **IDFC** INSTITUTIONAL  
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*India Research*

May 2010



2000: Indian FMCG industry - USD9bn

2010: Indian FMCG industry - USD25bn

2000: Gross block of entire FMCG industry <Rs30bn

2010: Gross block of over Rs110bn



2000: Only 75m of the 275m+ cases of liquor sales was IMFL

2010: IMFL is 180m cases of the 400m liquor sales

2000: Chocolate industry - <USD100m, Fruit juices - non existent

2010: Chocolates - USD350m, Fruit Juices - USD200m categories



2000: HUL's sales > sales of rest of the listed FMCG space

**2010:** HUL sales <1/2x of rest of the listed FMCG space

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2000: Dabur - an ayurvedic company; Marico - an oil company

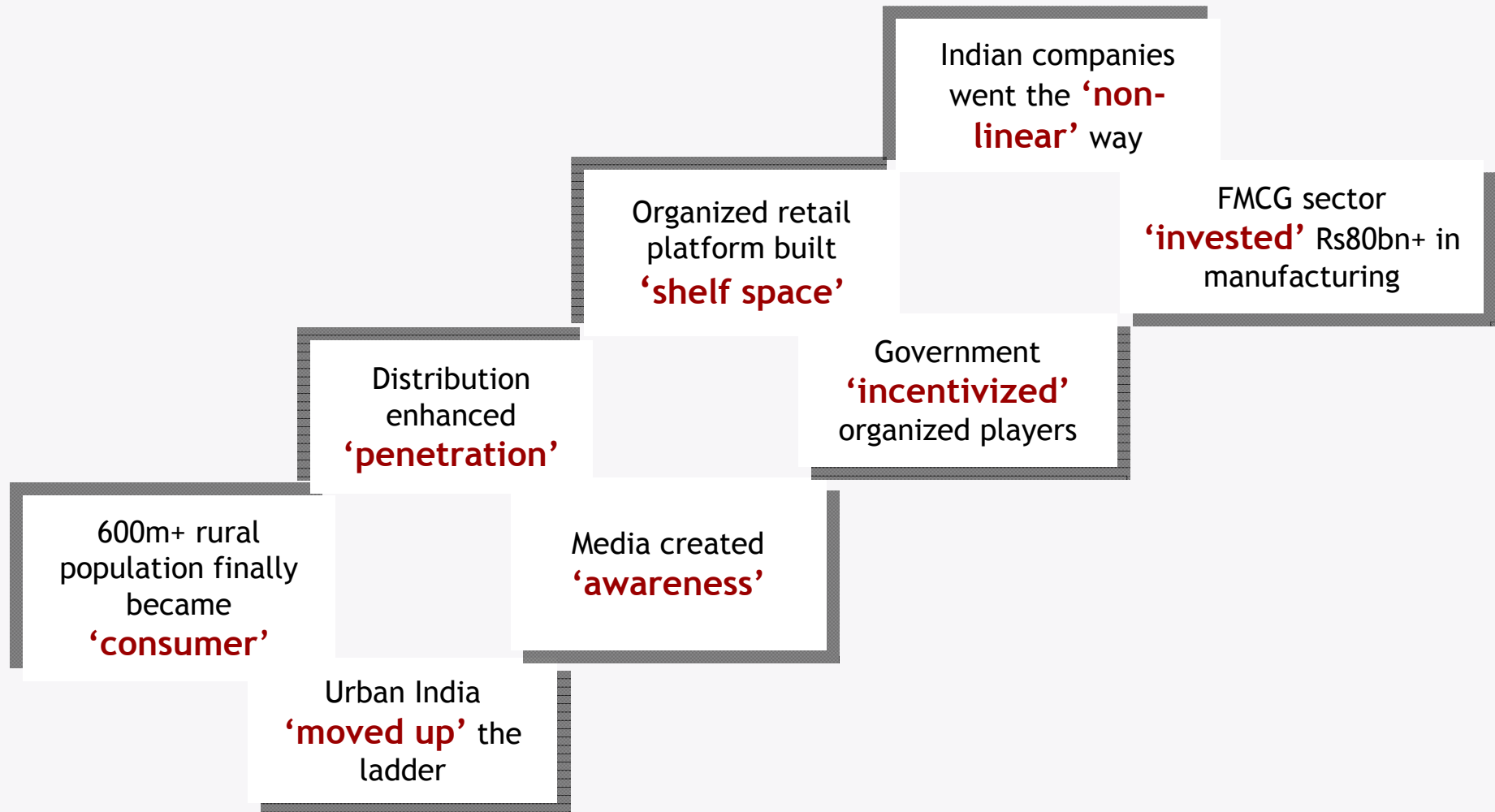
**2010:** Dabur a consumer player and Marico pans across  
health & beauty space

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## Drivers of Yesterday (IERI)...

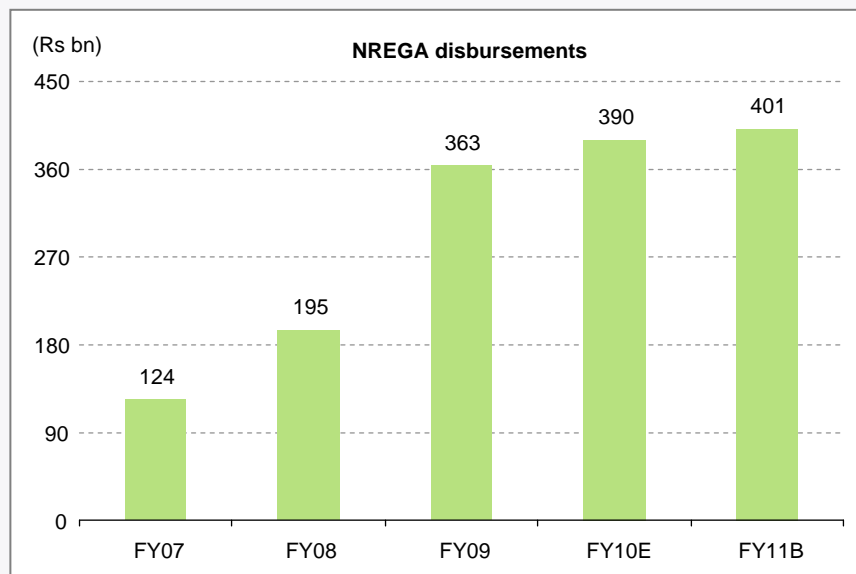
# Indian FMCG - Growth drivers of yesterday



# Demand: 600m+ rural India finally became 'consumer'

- ✓ **Government rural spends:** Up from USD5bn in 2006 to USD18bn in 2010
- ✓ Loan waiver scheme, NREGS, sale of land, infrastructure and telecom industry drive capital in rural India
- ✓ NREGS provided employment to ~50m homes in FY10E
- ✓ Trickle down effect of urbanization - repatriation of funds back home

## More in hands of landless labourer...



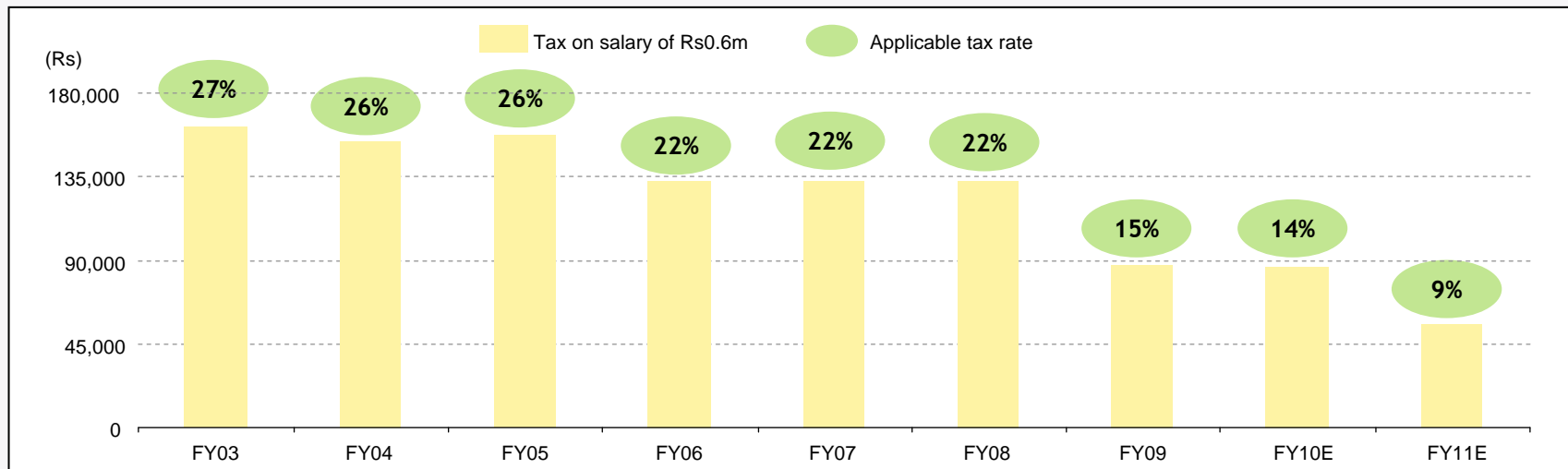
## ...also in the hands of agri producers

Growth in Minimum Support Price	CAGR (%) FY03-07	CAGR (%) FY07-10
Paddy	2.3	18
Jowar	2.7	16
Bajra	2.7	16
Maize	2.7	16
Cotton	1.4	12
Groundnut in shell	2.9	11
Soyabean	3.1	14
Wheat	4.9	20
Sugarcane	3.7	10

# Demand: Urban India - moved up the ladder

- ✓ **Increasing disposable income in the hands of urban India**
  - Multiple working member - reduced dependency ratio
  - India reports 12%+ salary increases over the past 5-6 years - highest globally
  - Tax rate for income of Rs0.6m down from 27% in FY03 to 9% in FY11
- ✓ **Rs400bn of pay out by Central Sixth Pay Commission since 2008**
- ✓ **Increasing lifestyle purchases**
  - Changing aspirations with globe trotting businesses like ITES, Financial services
  - Increased awareness (media and internet) and brand availability

Increasing disposable income with reducing tax incidence



# Availability: Distribution enhanced ‘penetration’



## FMCG - distribution push

- ✓ Urban distribution - Organized Retail adds to shelf space visibility
- ✓ FMCG sector extends its rural distribution by over 50% since 2004; Coke doubles its distribution in 10 years
- ✓ Rural distribution thrust through projects like *Shakti*, *Choupal Sagar*, *Aadhar* and *Hariyali Bazaar*



## Rural Penetration

	2001	2009
Fabric Wash	83	89
Personal Wash	88	90
Toothpaste	32.3	45
Skin	19.8	33
Shampoo	16	46
Dish Wash	11.5	16

## Rural market contribution % of total

	2009
Marico	25
GCPL	38
Dabur	50
HUL	30
Colgate	35

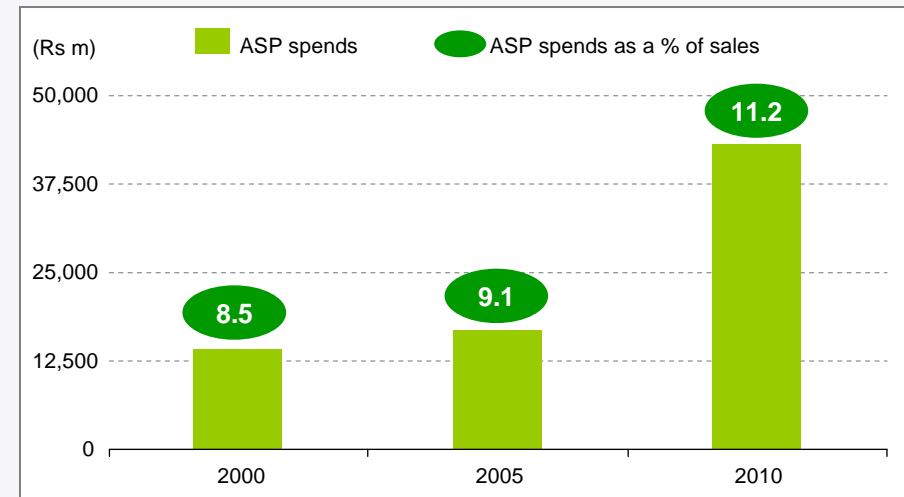
# Awareness: Driven by media proliferation



## As media reach expands multifold...

Media	2001	2010
C&S homes (m)	30	80
Television Channels	<50	450+
Radio stations	7	275
Circulation (m)	59	110

## ...so does the media spends by FMCG industry



- ✓ Television media now reaches out to over 50% of Indian population
- ✓ Total available air time slots across media increased by over 5x
- ✓ Emergence of DTH takes television media to rural market
- ✓ Emergence of niche media and regional media drives affordability amongst smaller brands
- ✓ Indian FMCG spends Rs43bn on ASP - up over 2X over the last decade

# Investments: Driven by government ‘incentives’

- ✓ Tax holidays in Uttaranchal, HP, Assam and J&K invite heavy investments - **Rs80bn+** of gross block addition
- ✓ Organized players better off vis-à-vis unorganized players with tax reliefs
- ✓ Pricing benefit for unorganized players reduced with favorable tax for organized players - Biscuits, noodles, cigarettes, etc
- ✓ Implementation of VAT and now movement to GST

## Gross block addition over the last decade

Company	Gross block addition FY00-09 (Rs bn)	Gross block FY09 / gross block FY00 (x)	Excise duty savings
GSK	1.8	1.5	7%
Britannia	6.7	3.7	1%
Colgate	2.4	1.8	5%
Dabur	5.2	2.8	4%
Godrej Consumer	4.0	3.8	6%
HUL	12.1	1.7	2%
ITC (FMCG)	38.3	3.8	10%
Marico	4.2	4.6	0%
Nestle	10.2	2.5	3%
<b>Total</b>	<b>85</b>	<b>2.8</b>	

# Appetite: 'Non-Linear' route for scale

Indian FMCG companies show aggression to take inorganic route to growth in domestic as well as international markets...

*...spent nearly billion dollar on acquisition growth since 2007*

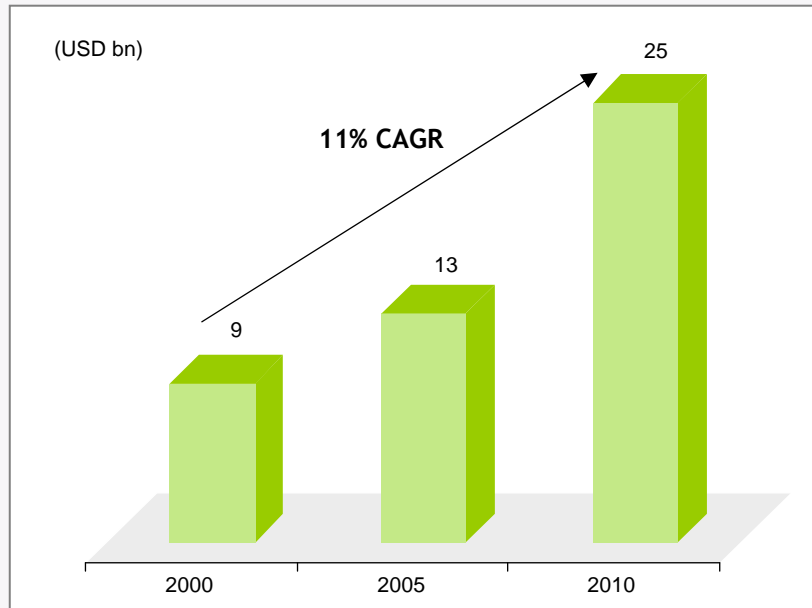
## Acquisitions by Indian FMCG space since 2004

Company	Companies acquired over the past 5 years	Amount (USD m)	Geographies
GCPL	Keyline brands, Rapidol, Kinky, Tura, 49% in Sara Lee, Megasari	600	UK, Africa, Indonesia
Dabur	Balsara, Fem Care	110	India
Marico	Nihar, Hair Code, Code 10, Fiancée, Enaleni	85	India, Africa
Wipro	Unza	220	Asia
Emami	Zandu	150	India



# Indian FMCG opportunity surges to USD25bn

## FMCG growth: 1.5x GDP



2000-05: 'Price wars' stalls growth to 7.5% CAGR

2005-10: FMCG space grows at 13% CAGR

## What worked in the past decade?

- ✓ Categories that worked
  - Skin Care, Hair Care, Cosmetics, Juices
- ✓ Themes that worked
  - Unbranded to branded
  - Premiumization
  - Marginalization of regional players
- ✓ Companies that worked
  - Second tier consumer plays gain at the cost of large cap

# Themes: Unbranded / Unorganized to Branded



Share of IMFL up from 27% to 45% over the decade

Packaged edible oil market has grown by 2.5x since 2005 to Rs150bn+

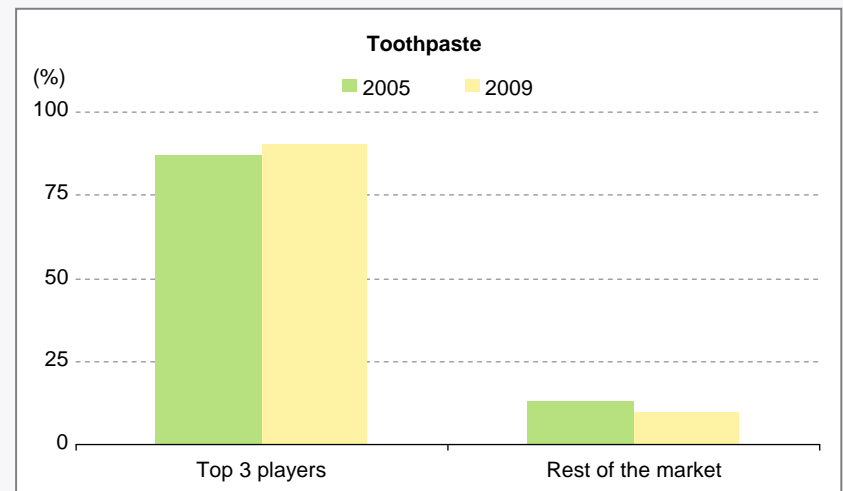
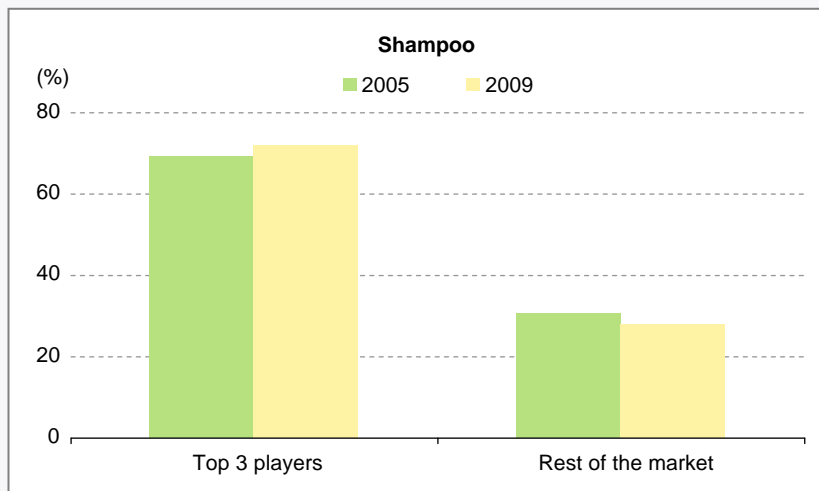
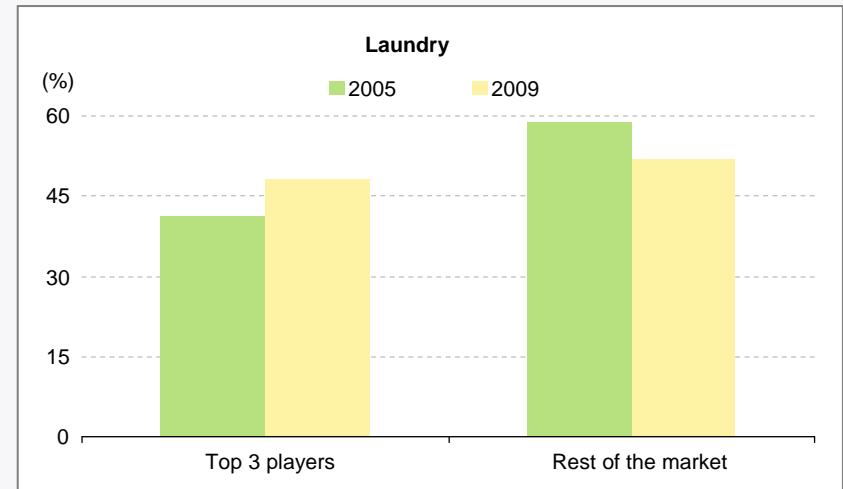


Organized biscuits expands from Rs30bn in 2005 to Rs90bn



# Themes: Marginalization of regional plays

- ✓ After being a serious threats in early 2000, regional players and price warriors have stagnated since 2005
- ✓ Likes of Ajanta, Anchor, Nirma, Cavinkare, etc have failed to gain market share since 2004

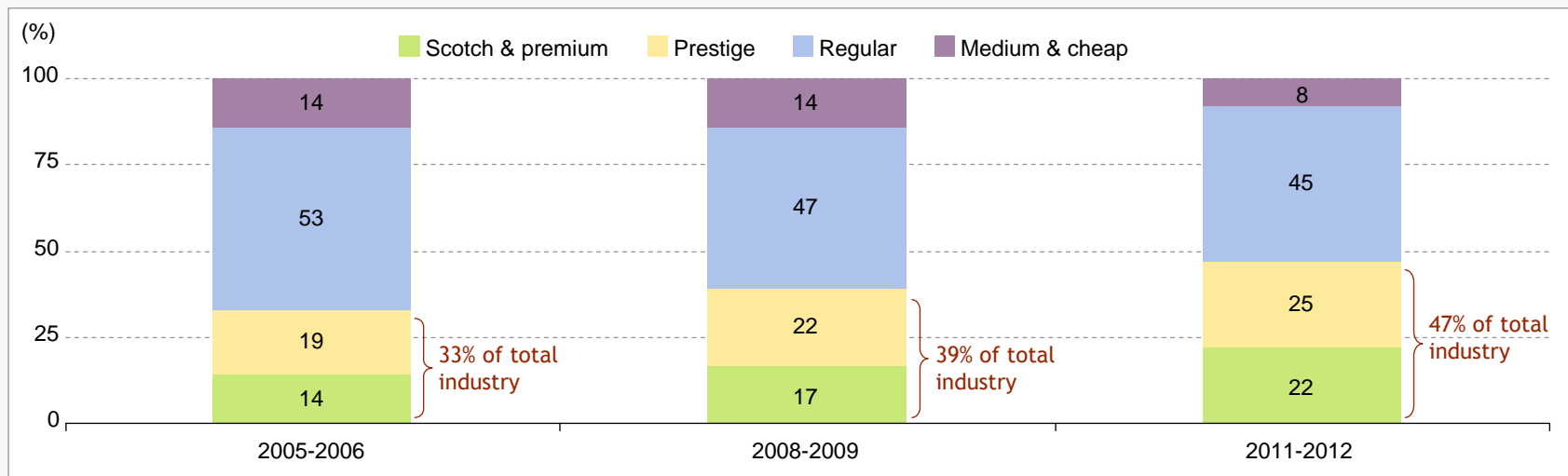


# Themes: Premiumization



Dove's market share up from 0.1% in 2005 to ~5% in 2010 in hair care

Indian Alcohol market profile by value



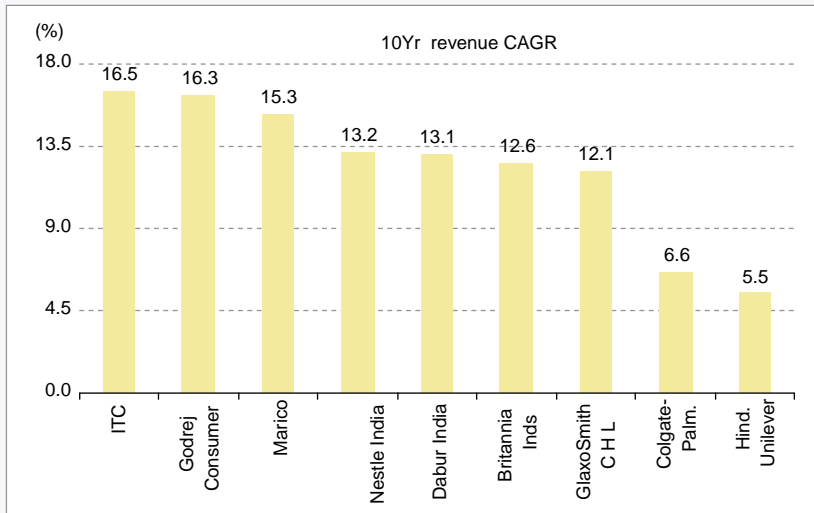
India annually sells 0.4m cars priced at over Rs0.5m - 25% of the total cars market in India



# Players: Second tier grew at the cost of HUL

- ✓ With ~50% market share in most of the segments in 2000 and lack of innovation into 'relevant categories', HUL was bound to take a hit
- ✓ Industry, ex-HUL, grew at 14.5% CAGR; HUL by 5.5% CAGR
- ✓ Market capitalization of industry, ex-HUL grows 5.7x; HUL down by 10%

Market cap chases revenue growth



Market capitalization, barring HUL, grow multifold

Company name (Rs m)	Mar-00	Mar-10	Multiplier (x)
Godrej Consumer	3,048	83,157	27
Marico	3,625	64,310	18
Nestle	36,100	254,025	7
Dabur	23,365	138,612	6
Colgate	19,732	97,391	5
ITC	180,376	986,059	5
GlaxoSmith C H L	18,152	63,098	3
Britannia	17,267	37,730	2
HUL	536,946	496,895	1

*HUL underperforms Sensex by 70% over the last decade ; has been the worst performing consumer stock globally!*



## Challenges of Today (OGGI)...

# Is the best behind?



'Food inflation' an ongoing concern?

Rural India - is the best 'delta' past us?

Niche media and retail - Product launches to get easier?

Is distribution a differentiator any more?

Global FMCG majors plan to enter Indian market aggressively

Organized retail - change in balance of power?

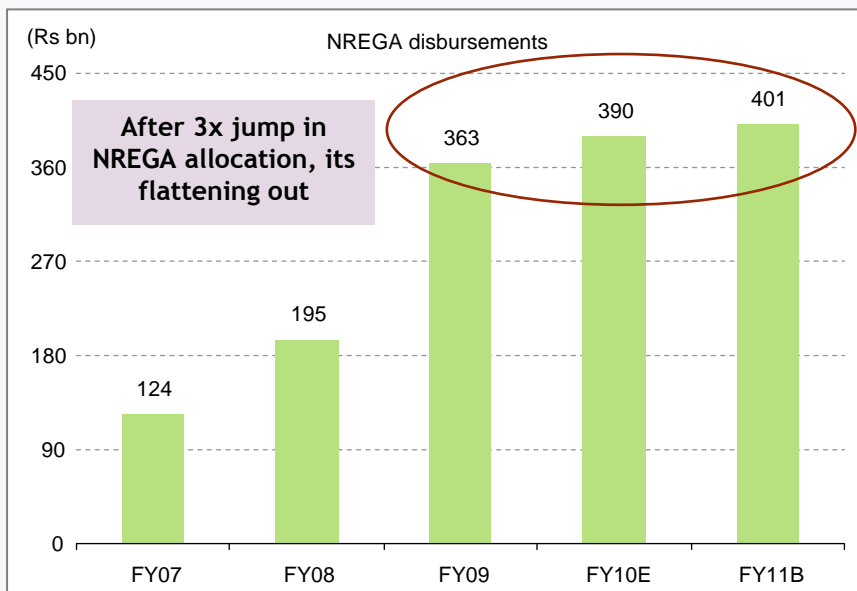
Government incentives to expire in 2010..

Increasing clutter - advent of price wars?

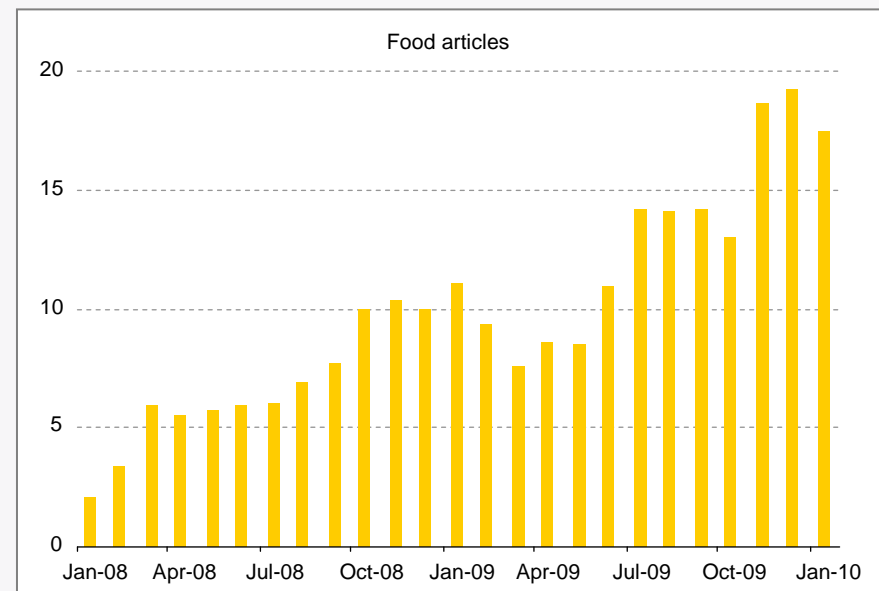
# Is the best 'delta' in rural past us?

- ✓ Rural India - can the pace of growth slowdown in near term?
  - NREGA allocation to flatten out in near term
  - Is there further scope of MSP price increase, given the food inflation concern?

NREGA disbursements to flatten out...



Food inflation - a hurdle for MSP increase



# Intensifying competitive landscape

Product launches getting 'easier' - distribution no more a differentiator

Organized retail - changing balance of power;  
threat of private labels

MNCs increasing India focus



# Product launches getting 'easier'

## Mass segment brand launches - Distribution no more a differentiator

- ✓ Most of the top 10 FMCG companies have retail reach of over 3m+, as against only HUL and Colgate a decade back

## Niche product launches getting favorable

- ✓ Micro segmentation becoming viable - Relevant market for every niche
- ✓ Organized Retail, a perfect platform for niche product launches - Accounts for 7% of FMCG sales; but 25%+ in metros and large cities
- ✓ Brand marketing at low cost - niche and regional media offer visibility



# Organized Retail - threat of private labels



## Global experience

- ✓ USD1.8trillion global private label market is growing at 6% annually vis-à-vis 3% growth for national brands
- ✓ Private labels account for 17% of the FMCG sales globally; for likes of Wal-Mart, Tesco and Sainsbury its is > 40%
- ✓ Aldi's (German deep discounter) private label 'Tandil' is one of the largest selling washing powders in Germany.
- ✓ Private label contribution in categories like frozen foods, pet food, feminine hygiene etc is over 20% globally

## Top 10 most susceptible categories

- ✓ Refrigerated and Frozen Food
- ✓ Paper, Plastic and Wraps
- ✓ Pet Food
- ✓ Diapers and Feminine Hygiene
- ✓ Health Care
- ✓ Non Alcoholic Beverages
- ✓ Home Care
- ✓ Snacks and confectioneries
- ✓ Alcoholic Beverages
- ✓ Personal Care

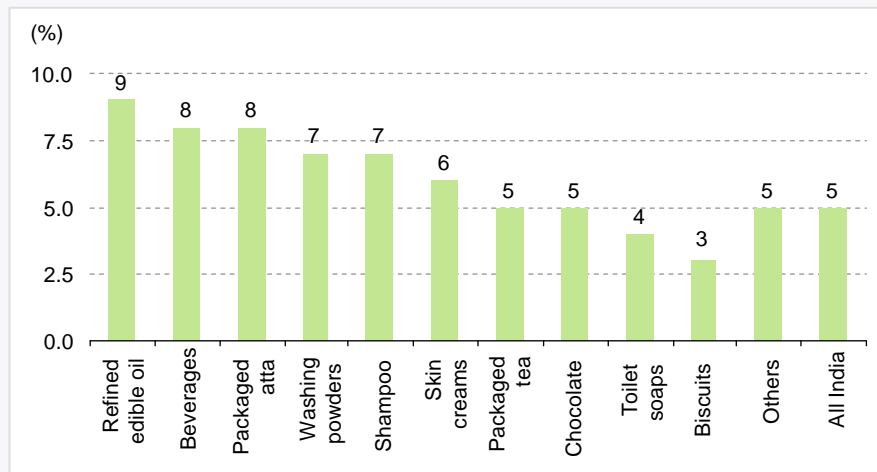
# Organized Retail - threat of private labels

## India perspective

Though just 6-7% of FMCG sales all India, Organized Retail already 25%+ of sales in large cities

- ✓ Private labels account for 20% of Pantaloons' grocery sales
- ✓ Private label share higher in snacking, staples and butter

## Contribution from organized retail



## Private label 'Tasty Treat' replaces 'Frito-Lay' as category leader in Big/ Food Bazaar chains!

June 21st, 2007 · No Comments

We have, in the past few weeks, [reported](#) about PepsiCo owned snack food brand Frito Lay disappearing from the Future Group owned, Big Bazaar and Food Bazaar retail chains. The quick to eat food brand was taken out of the shelves due to differences on commercial terms in general and trade margins in



*Organized retailer to 'extract' more from branded players – margins, placement fees, etc*

# MNCs to increase Indian focus



*20% CAGR in Nestle India's sales over the past three years. But sales of USD1bn in India today is equivalent to Nestle's China sales in 2003*

*Of the 1bn new consumers P&G has targeted by 2015, 500m of them are expected to come from India – India spend less than \$1 per person per year on P&G products compared to \$100 in the United States, \$20 in Mexico, and >\$3 in China*

- Bob Mcdonald, CEO, P&G Global

*'The Cadbury acquisition was aimed primarily at getting a footprint in markets like India'*

- Sanjay Khosla, President, Kraft's Developing markets

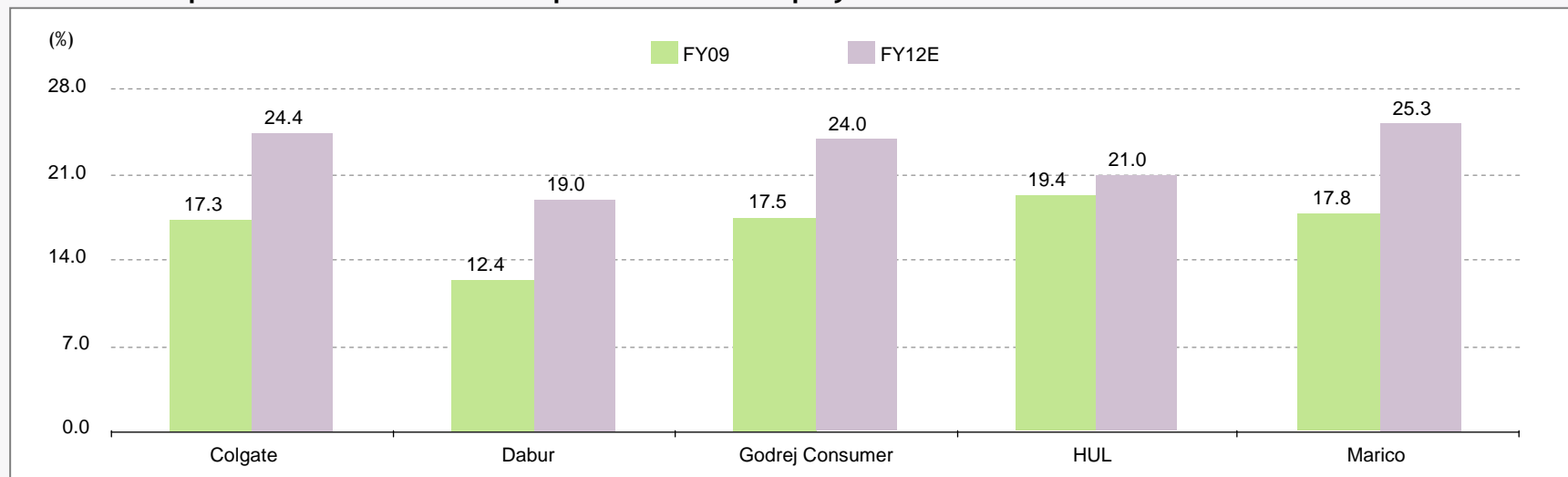
Kraft to potentially bootstrap growth in India through Cadbury

Country	Revenue (US\$ m)		
	Kraft Foods	Cadbury	X
India	0	300	0
China	400	50	8
Brazil	1,200	400	3
Russia	800	200	4
<b>RoW</b>	<b>37,550</b>	<b>8,100</b>	<b>4.6</b>

# Losing competitiveness post discontinuation of tax

- ✓ With sunset clause on 31st March 2010, no 'tax sops' on incremental investments
- ✓ Bulk of the investments over 2005-2006 moving out of 100% tax exemption to 30% exemption
- ✓ Excise duty benefit to continue for 10 years from commencement of unit
- ✓ Not only would it impact profitability, but also competitiveness vis-à-vis unorganized players

Effective corporate tax rates to move up for most of the players





# Opportunities of Tomorrow (DOMANI)

# Indulgence Age - Ability, willingness and mindset



I can **“SPEND”** - INCOME effect

I am **“WILLING TO SPEND MORE”** - MINDSET change

I know **“WHERE TO SPEND”** - AWARENESS levels

I have **“OPTIONS TO SPEND”** - AVAILABILITY

I **“WANT MORE THAN I NEED”** - ASPIRATION effect

There are MORE like me - BROADBASED growth

Second fastest growing economy -  
8%+ growth

35% of Indians born in post  
liberalization

Increased media proliferation and  
15m foreign travelers

Increased brand options in each of  
the business segment

India moving up the value chain -  
premiumization

Multiple job creations and trickle  
down effect

*India to be USD1trillion consumption opportunity by 2015;  
USD350bn Food and FMCG opportunity*

# Changing Consumer...



## ✓ India, amongst the youngest age profile

- 600m+ people below the age of 25 years

## ✓ 170m+ working women

- Women account for 1/4th of workforce in India

## ✓ Increased consumer durable ownership

- Increased spends on consumer durables, home furniture, etc

## ✓ Savvy and informed kids - influencer in decision making

- 361m of India in age group below 15 (6x USA)

## ✓ Increasing health consciousness

- India expected to spend USD237bn on lifestyle diseases by 2015

# Changing retail landscape...

## **Inadequate power supply is the most important obstacle to retailing**

From a list of twenty obstacles, stores were asked to identify the one most important for their business (figure 1). Most stores (33 percent) identified electricity as the most important obstacle followed by access to finance (16.7 percent), corruption (11.5 percent), land related problems (9.8 percent) and high taxes (9.1 percent). These top five obstacles are consistent across small and large stores as measured by the floor area of the

- ✓ Albeit the affinity for sweets, penetration of chocolates and ice-cream too low in India - refrigeration facilities at retail end the biggest concern
- ✓ More that 50% of Indian retailers have problem of power supply or load shedding

### **Changing trend:**

- ✓ Rapid infrastructure development - roads and power
- ✓ India to be 'no power shortage' by 2015



# Emerging themes...

## Indulgence



HUL, L'Oreal, UB Group, Radico, ITC, Cadbury, Mahindra Holidays

## Convenience



Nestle, ITC, Dabur, PepsiCo, Amul, ADF Foods

## Home Care and Hygiene



HUL, P&G, Reckitt Benckiser, GCPL

## Health



Nestle, Marico, GSK Consumer, Zydus Wellness, Talwalkars



# Value Creators of Tomorrow...

# What has created value globally?

1

**World's fastest growing FMCG company**

Pace of growth at 2x the average FMCG industry growth



Value driver: NEW PRODUCT FUNNEL



**World's largest FMCG company**

USD90bn of revenues

2

Value driver: HEALTH PORTFOLIO



# What has created value globally?

3

World's most valuable FMCG company (PE Multiple)

Trades at 20% premium to nearest peer

L'ORÉAL



Value driver: INDULGENCE and PREMIUMIZATION



World's most profitable company

25% net profit margins

4

Value driver: HIGH BRAND STICKINESS



5

World's largest market capitalization company

USD69bn of acquisitions since 2000



Value driver: ACQUISITION

# How do Indian companies stack up?



## Value Drivers

1 New Product Funnel

2 Health platform

3 Indulgence

4 Brand Stickiness

5 Acquisition

## Company demonstrating the trait

Nestle, Marico, Dabur

Nestle, Marico, GSK Consumer

ITC, UB Group, Radico

Nestle, ITC, United Spirits

GCPL, Dabur, Marico

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