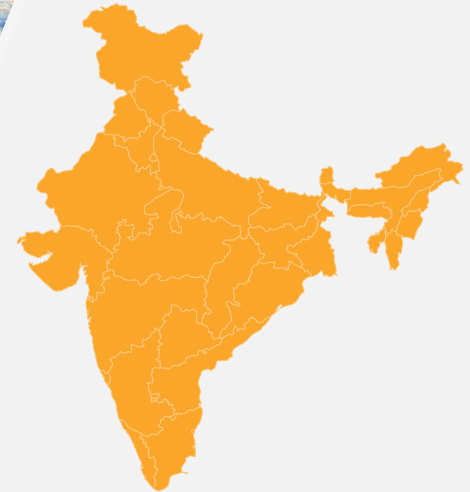




FAST MOVING CONSUMER GOODS (FMCG)



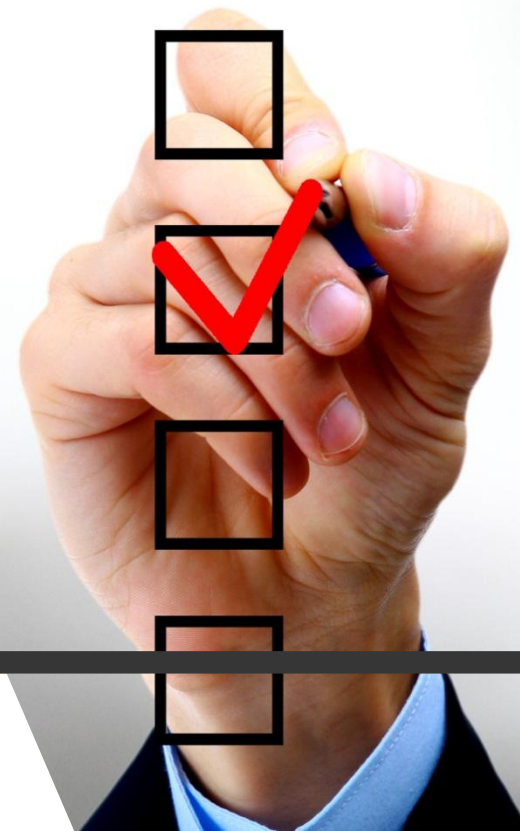
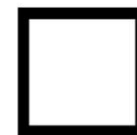
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October 2019

Table of Content

▶ Executive Summary.....	3
▶ Advantage India.....	4
▶ Market Overview	6
▶ Strategies Adopted.....	13
▶ Growth Drivers.....	16
▶ Opportunities.....	24
▶ Key Industry Organisations.....	26
▶ Useful Information.....	28



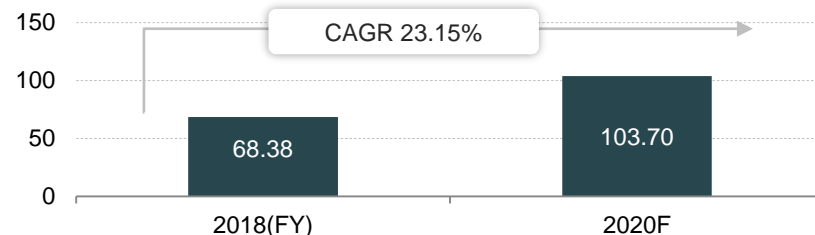
EXECUTIVE SUMMARY

- Favourable demographics and rise in income level to boost FMCG market.
 - FMCG market in India is expected to grow at a CAGR of 23.15 per cent and is expected to reach US\$ 103.70 billion by 2020 from US\$ 68.38 billion in FY18.
 - FMCG sector is the 4th largest sector in the Indian economy.
 - The FMCG sector is expected to grow at 12-13 per cent during April-June 2019
-
- Final consumption expenditure is set to increase at a CAGR of 25.44 per cent from 2017-2021.
 - Final consumption expenditure is expected to reach nearly US\$ 3.6 trillion by 2020 from US\$ 1.82 trillion in 2017.
-
- Rise in rural consumption to drive the FMCG market.
 - In FY18, Rural consumption rose by 9.7 per cent.
 - The rural FMCG market in India is expected to grow to US\$ 220.00 billion by 2025 from US\$ 23.63 billion in FY18.

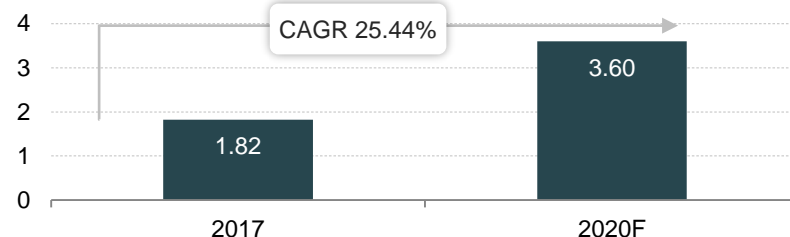
Notes: F- Forecast

Source: World Bank, Emami Reports, Dabur Reports, AC Nielsen, CRISIL, Nielsen Report, 2018

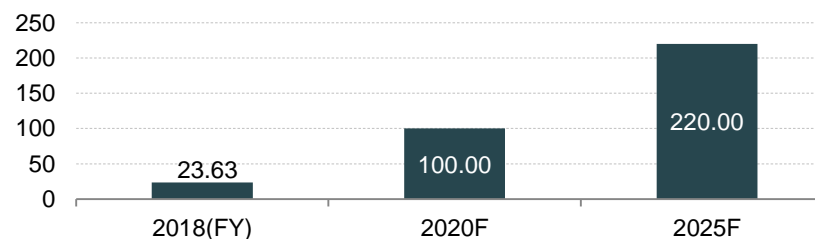
FMCG market in India (US\$ billion)



Final consumption expenditure (US\$ trillion)

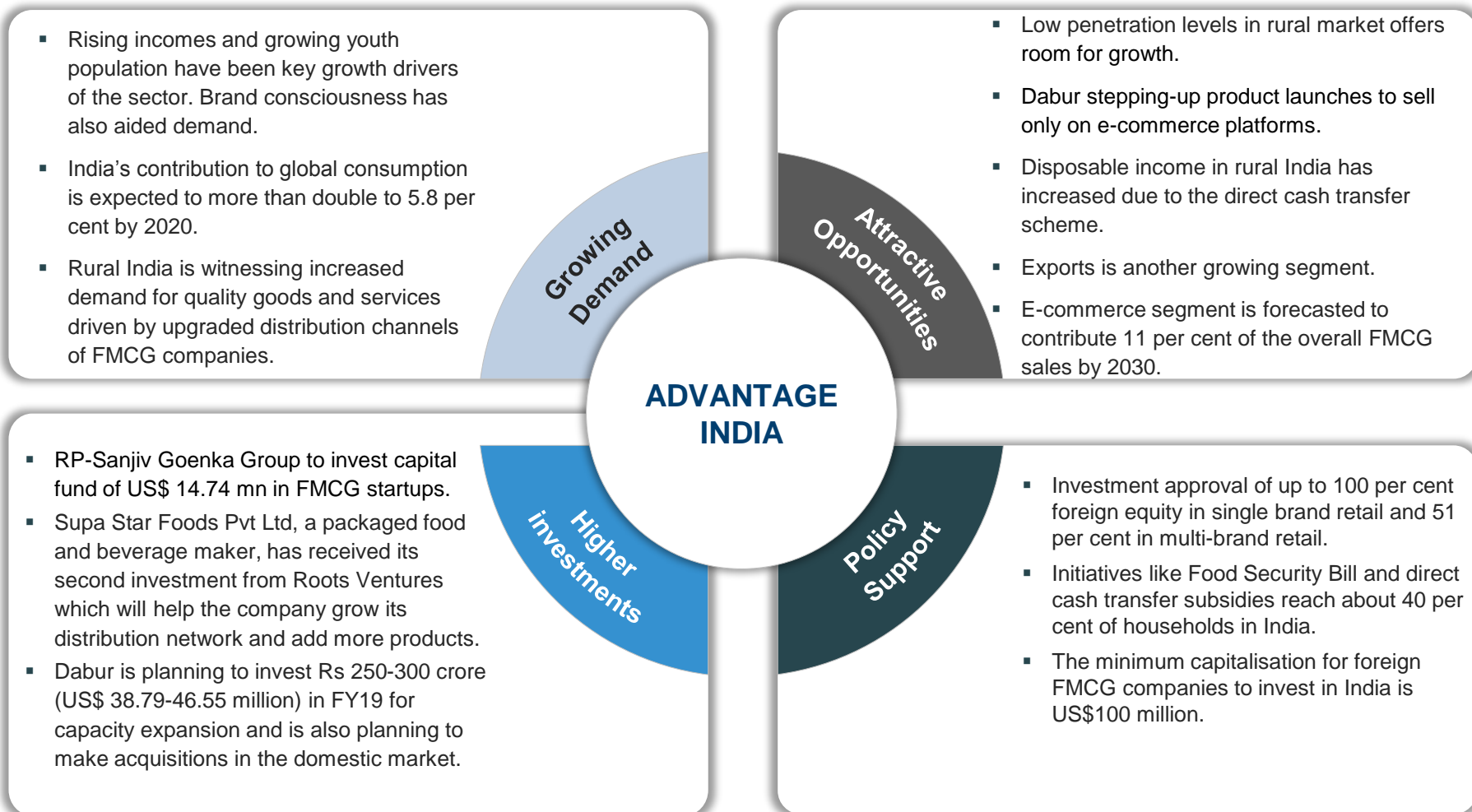


Rural FMCG market in India (US\$ billion)



ADVANTAGE INDIA





Source: Emami, BCG and CII report, Nielsen

MARKET OVERVIEW



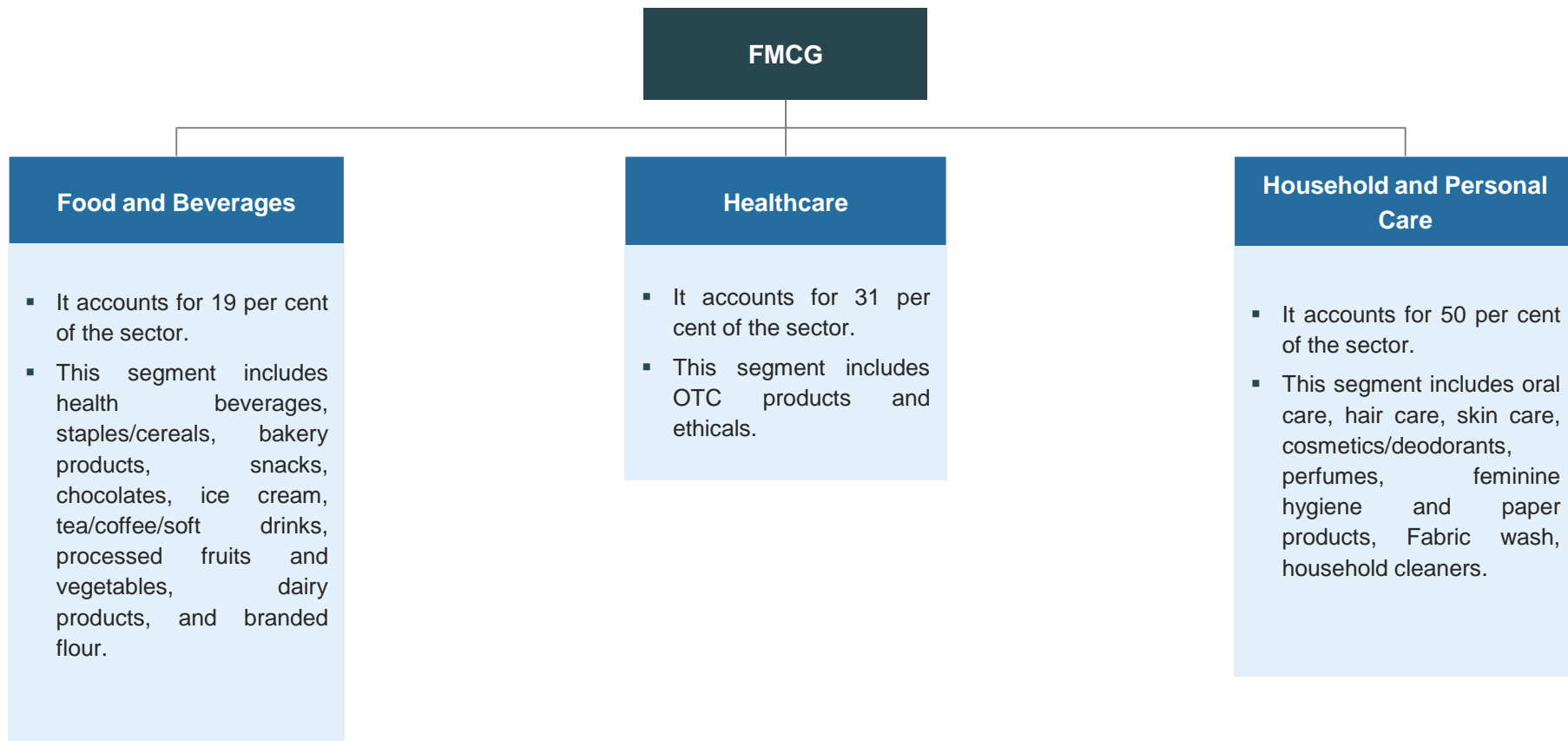
EVOLUTION OF FMCG IN INDIA

- FMCG is the fourth largest sector in the Indian economy.
- India's household and personal care is the leading segment, accounting for 50 per cent of the overall market, healthcare (31 per cent) and food and beverages (19 per cent) comes next in terms of market share.
- Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector.
- The number of online users in India is likely to cross 850 million by 2025.
- FMCG industry expected to grow 12-13 per cent in fourth quarter FY19.
- Retail market in India is estimated to reach US\$ 1.1 trillion by 2020, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies.
- In 2018, e-commerce segment contribution is projected to be around 1.3 per cent of the overall branded packaged FMCG sales.
- People are gracefully embracing Ayurveda products, which has resulted in Patanjali being ranked as the most trusted FMCG brand in India.

Current	Forecast
<ul style="list-style-type: none">▪ FMCG market reached US\$ 52.75 billion in FY18.	<ul style="list-style-type: none">▪ FMCG market is expected reach US\$ 103.70 billion by 2020.
<ul style="list-style-type: none">▪ The rural FMCG market reached US\$ 23.63 billion in FY18.	<ul style="list-style-type: none">▪ The rural FMCG market is expected to grow to US\$ 220 billion by 2025.
<ul style="list-style-type: none">▪ FMCG sales at India's organised retail stores rose 22 per cent year-on-year in 2018.	<ul style="list-style-type: none">▪ The online FMCG market is forecasted to reach US\$ 45 billion in 2020.

Source: Dabur Annual Report, Economic Times, Emami Annual Report, McKinsey Global Institute, CII, Boston Consulting Group Report, TRA's Brand Trust Report 2018

THREE MAIN SEGMENTS OF FMCG



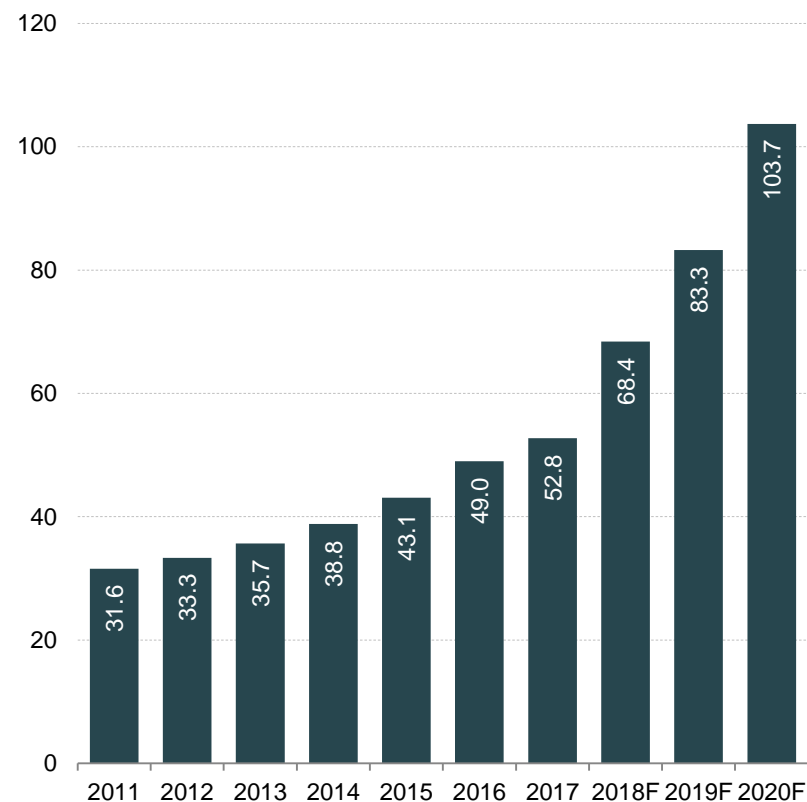
Note: OTC is over the counter products; ethicals are a range of pharma products, Share per cent as of FY18

Source: Economic Times

STRONG GROWTH IN INDIAN FMCG SECTOR

- Revenues of FMCG sector reached Rs 3.4 lakh crore (US\$ 52.8 billion) in FY18 and are estimated to reach US\$ 103.7 billion in 2020F. The sector is projected to grow 11-12 per cent in 2019.
- The sector witnessed growth of 16.5 per cent in value terms between July-September 2018; supported by moderate inflation, increase in private consumption and rural income. It is forecasted to grow at 12-13 per cent between September-December 2018.
- The Union Budget 2019-20 initiatives to increase consumer spending among middle class are expected to boost consumer confidence and improve demand generation for branded consumer products.
- FMCG sector to gain support for growth from Inland Waterways Authority of India (IWAI) multi-modal transportation project of freight village at Varanasi which will bring together retailers, warehouse operators and logistics service providers, investment worth Rs 1.7 billion (US\$ 25.35 million).
- Nielsen India estimates the FMCG industry to grow at 11-12 per cent in 2019 as against 13.8 percent in 2018.

Trends in FMCG revenues over the years (US\$ billion)



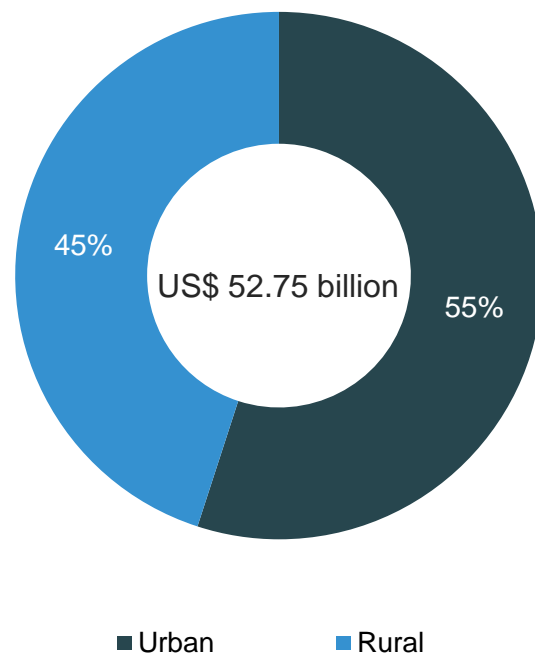
Note: F – Forecast, * - FY18

Source: Dabur, AC Nielsen, Euromonitor International, ICICI securities, Nielsen India

URBAN MARKET ACCOUNTS FOR MAJOR CHUNK OF REVENUES

- Accounting for a revenue share of around 55 per cent, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India.
- Rural segment is growing at a rapid pace and accounted for a revenue share of 45 per cent in the overall revenues recorded by FMCG sector in India. FMCG products account for 50 per cent of total rural spending.
- In the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. In 2018-19, revenues from the rural segment are expected to grow 15-16 per cent outpacing.
- Demand for quality goods and services has been going up in rural areas of India, on the back of improved distribution channels of manufacturing and FMCG companies.
- FMCG urban segment is expected to have a steady revenue growth at 8 per cent in FY19.

Urban – Rural industry Breakup (FY2017-18)

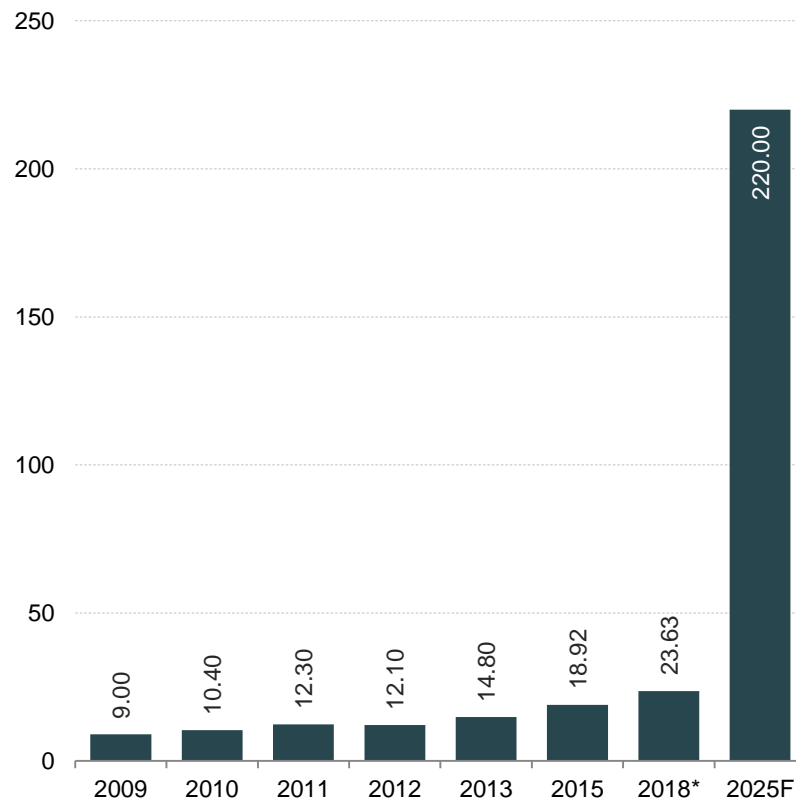


Source: BCG, KPMG-indiaretailing.com, Deloitte Report, Winning in India's Retail Sector, CRISIL, State Bank of India, CRISIL report

RURAL SEGMENT IS QUICKLY CATCHING UP

- In FY18, rural India accounted for 45 per cent of the total FMCG market.
- Total rural income, which is currently at around US\$ 572 billion, 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 per cent to US\$ 631 by 2020.
- As income levels are rising, there is also a clear uptrend in the share of non-food expenditure in rural India.
- The Fast-Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 220 billion by 2025.
- The revenue of FMCG's rural segment is forecasted to grow to 11-12 per cent in FY19 from estimated 10 per cent in FY18.

Rural FMCG Market (US\$ billion)



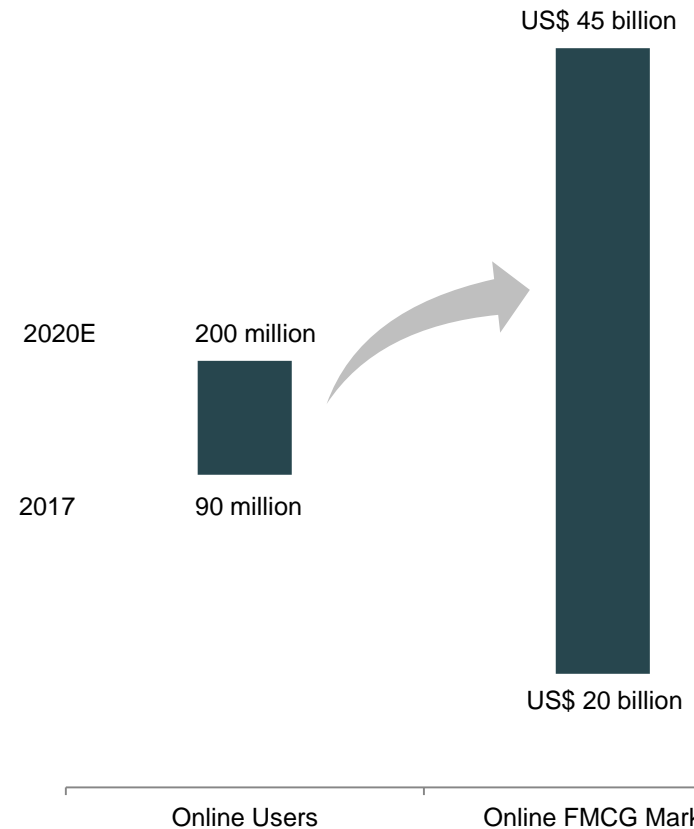
Note: F-Forecast, 2018* - Data relates to the financial year FY18

Source: AC Nielsen, Dabur Reports, Goderej Group, McKinsey Global Institute, CRISIL

INCREASING ONLINE USERS BOOST ONLINE FMCG SALES

- India's increasing internet penetration, rising digital maturity along with developing infrastructure has helped boost online transactions.
- The online FMCG market is forecasted to reach US\$ 45 billion in 2020 from US\$ 20 billion in 2017, backed by growth in online users from 90 million in 2017 to 200 million in 2020E.
- By 2020, about 40 per cent of FMCG consumption is estimated to be digitally influenced.
- Around 72 per cent Indian consumers are most likely to shop online locally for premium products.

Growth in Online Users to drive Online FMCG Market



Note: E - Estimated

Source: Google and BCG report – September 2017 and February 2018

STRATEGIES ADOPTED



Promotions and offers

- FMCG companies are trying to influence consumers with intelligent deals.
- Firms like ITC offers combo deals to the consumers. For example, in the case of soaps and cosmetics; 4 soap cases are offered at the price of 3, selling the range of deodorants for men and women at a discounted price.
- Amazon India is planning to invest significantly over the coming months for expanding its grocery and food business, launching more products and categories and forming new partnerships with huge grocery and supermarket chains.
- In May 2018, Amazon India targets to capture 100 million customers in the next 5 years by providing more features in Prime and Alexa.

Research online Purchase offline

- The internet enables consumers to make their own research on the kind of products or commodities they want to purchase. 1 in 3 FMCG shoppers goes online 1st and then to the stores.
- About 43 per cent of new car-buyers in cities select the model online and purchase it from dealer.

New product launches

- By end of 2019, Nestle plans to launch up to 36 products.
- Marico's Coco Soul introduces a range of three 100 per cent natural-infused oil variants.
- India's first kids cooking oil launched by Mother Sparsh in 2019.
- In June 2019, ITC launches dairy beverage range "Sunfeast Wonderz Milk" in four variants
- In May 2019, Naturell (India) Pvt Ltd, innovator of power snacking launched RiteBite Max protein chips

Expansion

- Besides food and beverages now, Tata is planning to enter in home and personal care business.
- Nestle plans to invest Rs 700 crore (US\$ 100.16 million) to open a new plant in Sanand for Maggi
- In February 2019 India's leading FMCG Contract Manufacturer Hindustan Foods Limited received an investment of US\$ 22 million from Convergent Finance LLP for its 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.

Source: AC Nielsen, News Article

Customisation

- Product Flanking: Introduction of different combinations of products at different prices, to cover as many market segments as possible.
- Emami, has decided to rework on its overseas strategy by planning manufacturing and acquisitions in overseas markets. The company plans to re-work on its product portfolio by getting into new categories with higher buying preference and revamp its distribution networks.

Green initiatives to lower costs

- FMCG companies are looking to invest in energy efficient plants to benefit the society and lower costs in the long term.
- HUL fulfils 80 per cent of its power requirement for its Sumerpur plant from solar energy. The company has been able to reduce the carbon footprint of its manufacturing plants by 13 per cent in FY17.

Joint Venture

- In August 2018, Fonterra announced a joint venture with Future Consumer Ltd which will produce a range of consumer and foodservice dairy products.

Analytics

- Hindustan Unilever Ltd (HUL) implemented a transformational programme called Connected 4 Growth (C4G) to help drive business growth by increased speed to market, faster decision making, localised and swifter innovation.
- Patanjali uses Oracle and SAP for Enterprise Resource Planning (ERP), they will further standardise the application on SAP. It plans to use machine learning for quality control and product enhancement. They are also in talks with Net App for big data solution.

Product/ Category Expansion

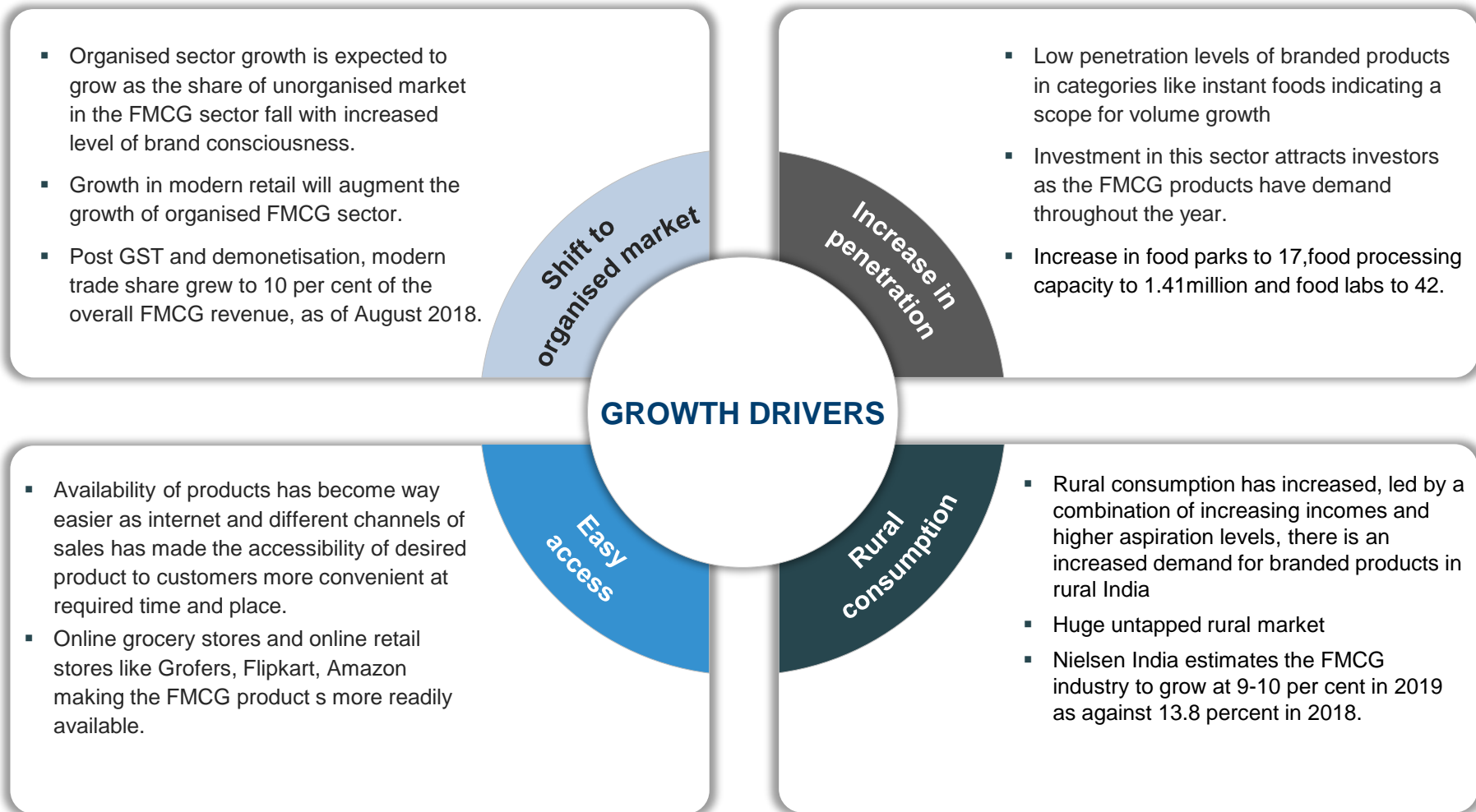
- Nestle India is planning to expand aggressively in the Indian market by launching two to three dozen new products in existing and new product categories over the next few years,.

Source: News Articles

GROWTH DRIVERS



GROWTH DRIVERS FOR INDIA'S FMCG SECTOR

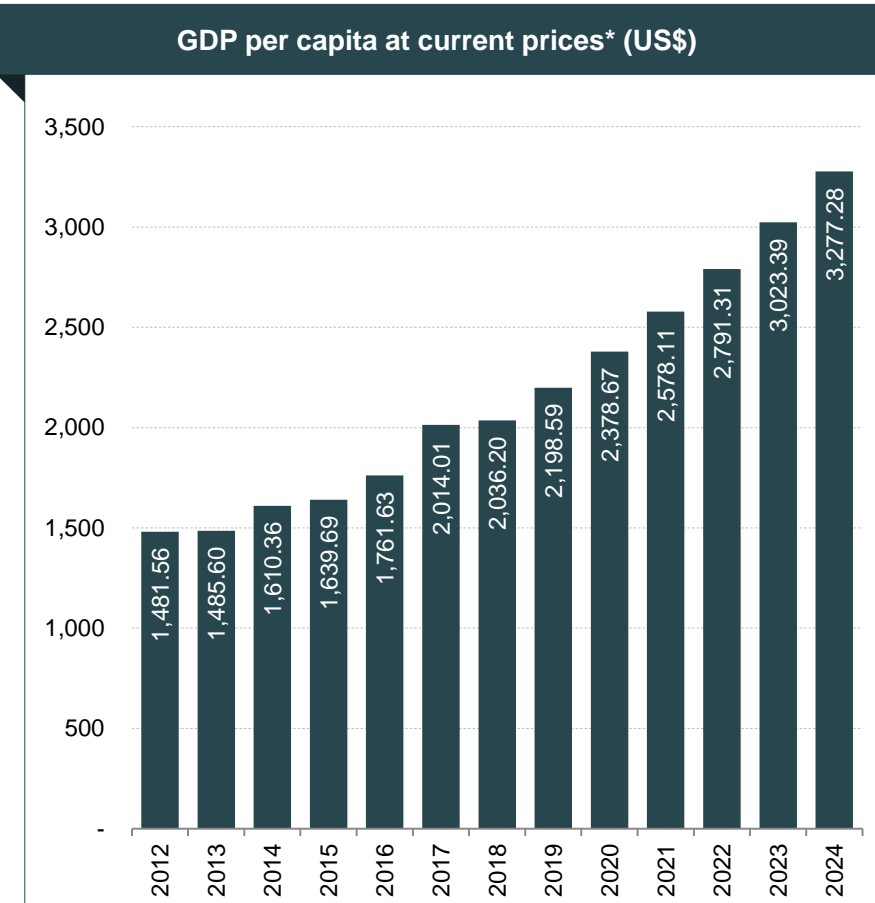


Note: GST: Goods and Services Tax

Source: Dabur, Nielsen

HIGHER INCOMES AID GROWTH IN URBAN AND RURAL MARKETS

- Incomes have risen at a brisk pace in India and will continue rising given the country's strong economic growth prospects. According to IMF, nominal per capita income is estimated to grow at a CAGR of 4.94 per cent during 2010-19F.
- India's GDP per capita at current prices is expected to increase from US\$ 1,481.56 in 2012 to US\$ 3,277.28 in 2024.
- An important consequence of rising incomes is growing appetite for premium products, primarily in the urban segment.
- As the proportion of 'working age population' in total population increases, per capita income and GDP are expected to surge.



Note: *Estimates after 2013

Source: IMF World Economic Outlook Database April 2019

Union Budget 2019-20

- The Government of India has provided a full tax rebate for an income up to Rs 5 lakh (US\$ 6,930), which is expected to boost disposable income in the hands of the common people.

Goods and Service Tax (GST)

- The rate of GST on services lies between 0-18 per cent and on goods lies between 0-28 per cent.
- 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, to facilitate seamless interstate movement of goods.
- Prices of commodities in the FMCG sector, like soaps, shampoo, detergents, biscuits, savory snacks etc. decreased after the implementation of GST, leading to a 3-8 per cent decrease in prices of goods at modern retail stores. 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.
- Warehousing cost for FMCG companies is estimated to fall by 25-30 per cent 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.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come under 18 per cent tax bracket against the previous 23-24 per cent rate . Also rates on food products and hygiene products have been reduced to 0-5 per cent and 12-18 per cent, respectively.

Food Security Bill (FSB)

- FSB would reduce prices of food grains for Below Poverty Line (BPL) households, allowing them to spend resources on other goods and services, including FMCG products.
- This is expected to trigger higher consumption spends, particularly in rural India, which is an important market for most FMCG companies.

POLICY AND REGULATORY FRAMEWORK

FDI in organised retail

- The government approved 51 per cent FDI in multi-brand retail in 2006, which will boost the nascent organised retail market in the country.
- It also allowed 100 per cent FDI in the cash and carry segment and in single-brand retail.

SETU Scheme

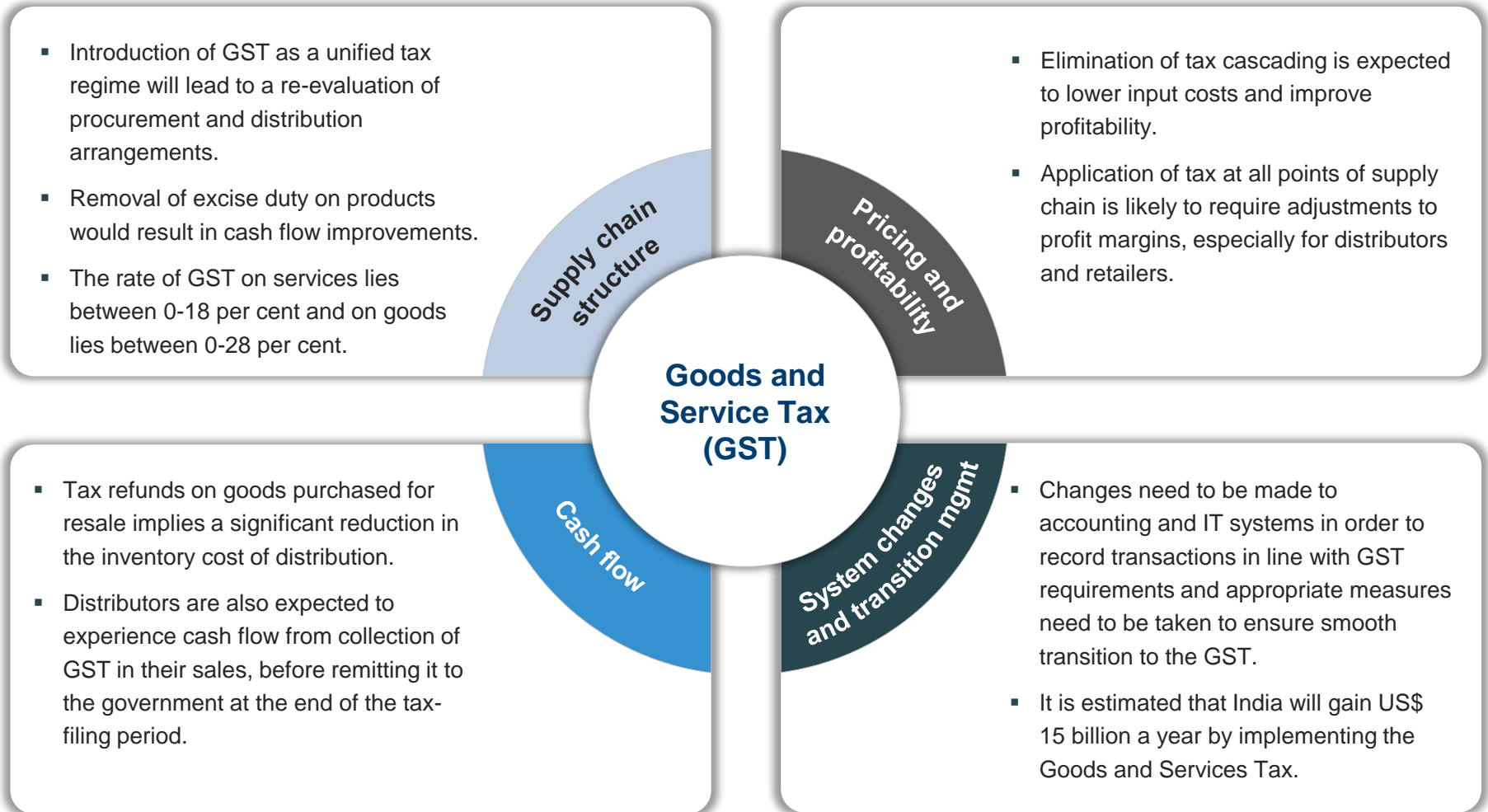
- Government has initiated Self Employment and Talent Utilisation (SETU) scheme to boost young entrepreneurs. Government has invested US\$ 163.73 million for this scheme.

Relaxation of license rules

- 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 as well as items reserved for exclusive manufacture in the small-scale sector.

Source: SBI

NEW GOODS AND SERVICE TAX (GST) WOULD SIMPLIFY TAX STRUCTURE

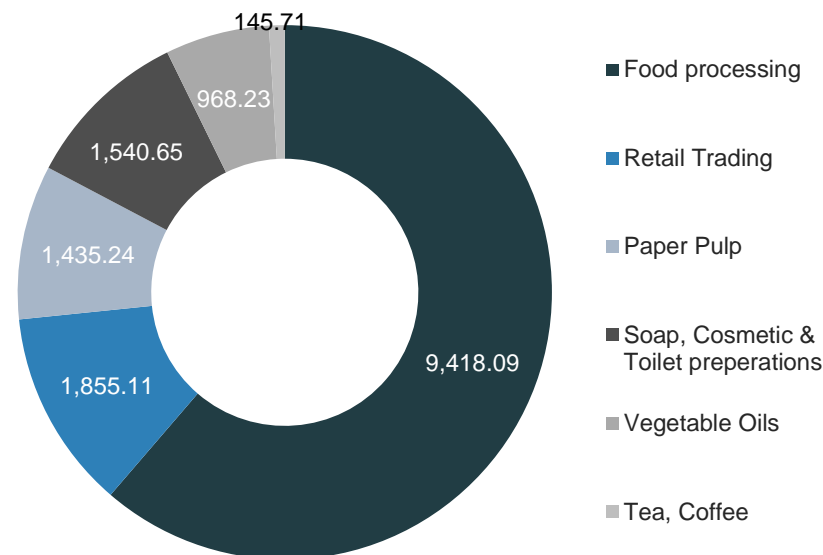


Source: GST India

BOOSTS IN FDI INFLOWS AND INVESTMENTS

- 100 per cent FDI is allowed in food processing and single-brand retail and 51 per cent in multi-brand retail.
- This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organised retail markets, bolstering consumer spending and encouraging more product launches.
- The sector witnessed healthy FDI inflows of US\$ 15.36 billion during April 2000-June 2019.
- Within FMCG, food processing was the largest recipient; its share was 62.03 per cent.
- Investment intentions, related to FMCG sector, arising from paper pulp, sugar, fermentation, food processing, vegetable oils and vanaspati, soaps, cosmetics and toiletries industries, worth Rs 15,961 crore (US\$ 2.28 billion) were implemented between January 2017-July 2019.

Cumulative FDI inflow share – April 2000 to June 2019 (US\$ million)



Source: DPIIT, Media articles

KEY M&A DEALS IN THE INDUSTRY

Target name	Acquirer Name	Merger/ Acquisition	Year
Everstone Capital and Pan India Food Solutions Pvt. Ltd	Haldiram Prabhuji (Haldiram group)	Acquisition	2019
Splash Corporation, Philippines	Wipro Consumer Care & Lighting	Acquisition	2019
GlaxoSmithKline Consumer Healthcare (GSKCH India)	Hindustan Unilever Limited (HUL)	Acquisition	2018
Avadh Snacks Pvt. Ltd	Prataap Snacks Ltd	Acquisition	2018
Bombay Shaving Company	Colgate Palmolive	Acquisition (14 per cent stake)	2018
Brillare Science	Emami	Acquisition (26 per cent stake)	2018
Beardo	Marico	Acquisition (45 per cent)	2018
Future Consumer Limited	Future Capital Investment Private Limited	Acquisition	2017
D&A Cosmetics Proprietary Ltd and Atlanta Body & Health Products Proprietary Ltd	Dabur India	Acquisition	2017
Helios Lifestyle Pvt Ltd	Emami Ltd	Acquisition (30 per cent stake)	2017
Godfrey Phillips India (GPI) (packed tea brands)	Goodricke Group Ltd	Acquisition	2017
HyperCity	Future Retail (Future Group)	Acquisition	2017
Godrej Industries	Godrej Agrovet Ltd.	Increase in stake	2017
Argencos, Argentina (Hair care products)	Godrej Consumer Products Ltd (Home and personal care)	Acquisition	2016
Issue Group, Argentina (Hair products)	GCPL (Home and personal care)	Acquisition	2016

Source: Bloomberg, Economic Times, Business Standard, News Article

OPPORTUNITIES



GROWTH OPPORTUNITIES IN THE INDIAN FMCG INDUSTRY

Rural Market	<ul style="list-style-type: none">▪ Leading players of consumer products have a strong distribution network in rural India; they also stand to gain from the contribution of technological advances like internet and e-commerce to better logistics.▪ Rural FMCG market size is expected to touch US\$ 220 billion by 2025.
Innovative products	<ul style="list-style-type: none">▪ Indian consumers are highly adaptable to new and innovative products. For instance there has been an easy acceptance of men's fairness creams, flavoured yoghurt, cuppa mania noodles, gel based facial bleach, drinking yogurt, sugar free Chyawanprash.
Premium products	<ul style="list-style-type: none">▪ With the rise in disposable incomes, mid and high-income consumers in urban areas have shifted their purchase trend from essential to premium products.▪ Premium brands are manufacturing smaller packs of premium products. Example: Dove soap is available in 50g packaging.▪ Nestle is looking to expand its portfolio in premium durables cereals, pet care, coffee, and skin health accessing the potential in India.
Sourcing base	<ul style="list-style-type: none">▪ Indian and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive product development and manufacturing to cater to international markets.
Penetration	<ul style="list-style-type: none">▪ Low penetration levels offer room for growth across consumption categories.▪ Major players are focusing on rural markets to increase their penetration in those areas.
Online FMCG	<ul style="list-style-type: none">▪ It is estimated that 40 per cent of all FMCG purchases in India will be online by 2020, thereby making it a US\$ 5-6 billion business opportunity.
Start-up Ventures	<ul style="list-style-type: none">▪ In May 2018, RP-Sanjiv Goenka Group created a Rs 1 billion (US\$ 14.92 million) venture capital fund to invest in FMCG start-ups.

Source: Assorted articles and reports, AC Nielsen, Boston Consulting Group (BCG) and Google report September 2017

KEY INDUSTRY ORGANISATIONS



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: ida@nde.vsnl.net.in

Website: www.indairyasso.org

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: aibma@rediffmail.com; mallika@phdcci.in

Website: www.aibma.com

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: www.aifpa.net

Indian Soap and Toiletries Manufacturers' Association

Raheja Centre, 6th Floor, Room No 614, Backbay

Reclamation, Mumbai – 400021

Phone: 91-22-2824115; Fax: 91-22-22853649

E-mail: istma@bom3.vsnl.net.in

USEFUL INFORMATION



- **FDI:** Foreign Direct Investment
- **MSP:** Minimum Selling Price
- **NREGA:** National Rural Employment Guarantee Act
- **FY:** Indian Financial Year (April to March)
 - So FY09 implies April 2008 to March 2009
- **SEZ:** Special Economic Zone
- **MoU:** Memorandum of Understanding
- Wherever applicable, numbers have been rounded off to the nearest whole number

EXCHANGE RATES

Exchange Rates (Fiscal Year)

Year INR	INR Equivalent of one US\$
2004–05	44.95
2005–06	44.28
2006–07	45.29
2007–08	40.24
2008–09	45.91
2009–10	47.42
2010–11	45.58
2011–12	47.95
2012–13	54.45
2013–14	60.50
2014–15	61.15
2015–16	65.46
2016–17	67.09
2017–18	64.45
2018–19	69.89

Exchange Rates (Calendar Year)

Year	INR Equivalent of one US\$
2005	44.11
2006	45.33
2007	41.29
2008	43.42
2009	48.35
2010	45.74
2011	46.67
2012	53.49
2013	58.63
2014	61.03
2015	64.15
2016	67.21
2017	65.12
2018	68.36

Source: Reserve Bank of India, Average for the year

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