

Indian FMCG Market 2020



Indian
F M C G
Market 2020

Jointly prepared by
ASSOCHAM & TechSci Research

Message from the President of ASSOCHAM



Sunil Kanoria
President
ASSOCHAM

The FMCG sector in India has grown at an average of about 11 percent over the last decade. India's robust economic growth and rising household incomes are expected to increase consumer spending to US\$ 3.6 trillion by 2020.

A country whose middle class population is as big as the entire population of USA is a market which no FMCG player can afford to overlook. In addition, as the fruits of economic growth become available to the masses and more people start to move up the economic strata, the Indian market only keeps on expanding. More importantly with a population where the median age is only 27, consumerism is on the rise in India with growing aspiration levels. This has been further aided by government's efforts to expand financial inclusion and creation of social security nets.

With rural India accounting for more than 700 million consumers and accounting for 50 percent of the total FMCG market, there exists huge opportunity at the so called 'bottom of the pyramid'. The market in India is fragmented with roughly half the market being dominated by unbranded, unpackaged, home-made products, operating mostly in the rural markets. The potential of the non-urban market is something which all FMCG players are very keen to tap. FMCG players are busy analyzing emerging consumer trends and identifying new consumer segments and accordingly drawing up plans and strategies to capture market share. On top of that, with growing penetration of telecom and internet, e-commerce is emerging as a viable alternative for traditional retail and kirana outlets. Thus, the choice of distribution channels in order to reach out to a larger market now forms an integral part of the planning process for FMCG players too.

After consecutive sub-optimal monsoons, this year the monsoon has been decent and this will stimulate demand in the rural markets once again. On top of it, very recently, government accepted the recommendation of 7th Pay Commission with increase in salary of 14 percent. This is very good news for the FMCG sector. The passing of the Goods & Services Tax (GST) Bill has united the Indian market. And this will multiply the opportunities of FMCG players manifold now.

In this backdrop, the timing for organizing ASSOCHAM's FMCG Summit could not have been more appropriate. I am hopeful that the ideas and suggestions emanating from this Summit will go a long way in helping India's FMCG sector grow further and contribute to the overall growth of the economy.

Message from ASSOCHAM



D S Rawat
Secretary General
ASSOCHAM

Fast moving consumer goods (FMCG) sector is an important contributor to the India's GDP growth. Currently, FMCG industry is the fourth largest sector in the Indian economy and provides employment to around 3 million people. Over the years, India FMCG sector has been growing at a healthy pace on account of growing disposable income, booming youth population and increasing brand consciousness among consumers.

Globally, India is becoming one of the most attractive markets for foreign FMCG players due to easy availability of imported raw materials and cheap labor costs. The urban segment is the biggest contributor to the growth of India FMCG sector, accounting for around two-thirds of the total revenues. However, the share of semi-urban and rural segments in the country's FMCG sector is anticipated to increase by the end of 2020.

I am pleased to present ASSOCHAM and TechSci's joint Publication - "**Indian FMCG Market 2020**" on the occasion of "**National Summit & Awards on FMCG - GST: Retail: Supply Chain: Counterfeiting**". The report provides an overview of Indian FMCG market, its growth prospects, challenges, emerging market trends & opportunities in this segment.

I extend my heartiest thanks to all the stakeholders for lending their support to this Summit. I also thank our Knowledge Partner "**TechSci Research**" for its wonderful efforts in putting up this report on FMCG Market. Also, I appreciate the efforts and contribution of ASSOCHAM team, **Dr Om S Tyagi**, **Ms Purnima Dhingra** and **Mr Nitesh Sinha** for organizing this Summit.

I wish all the success to this Summit.

Message from TechSci Research



Karan Chechi
Research Director
TechSci Research

Over the years, India FMCG industry has been growing at a robust pace on account of increasing income levels, changing consumer lifestyle, growing internet penetration and booming e-commerce market. Moreover, organized retail sector, new product launches by Indian as well as foreign brands and increasing demand for branded products coupled with favourable government initiatives such as FDI, GST Bill, Food Security Bill, etc., are positively influencing the country's FMCG market. India FMCG market has been segmented into Food & Beverages, Personal Care, Household Care & Others. Among these categories, the country's FMCG industry was dominated by Food & Beverage in 2015, followed by personal care and household care. Changing preferences of the upward middle class families in urban areas is aiding the growth of the country's food & beverages market.

Our report **"Indian FMCG Market 2020"** offers an overview of FMCG market in India. Indian consumers are increasingly inclining toward online retailing of branded products, thereby the report covers market comparison of Indian Vs Multinational and Online Vs Offline. The report also covers government regulatory & policies, market opportunities, market drivers & challenges and upcoming trends in Indian FMCG market. Moreover, the report has some important suggestions and recommendations for all the stakeholders of India FMCG market.

I sincerely thank to industry leaders, experts and all participants whose valuable inputs helped us to prepare this report. I welcome you to explore this report.



Karan Chechi

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About TechSci Research

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Table of Contents

1.	Indian FMCG Sector: Executive Summary	3
2.	Indian FMCG Market Outlook	5
3.	India Retail Market Outlook	17
4.	Supply Chain Analysis	19
5.	Government Policies	21
6.	Market Opportunities and Challenges Ahead	23
7.	Case Study	27
8.	Conclusion	32
9.	Recommendations	34

1.

Indian FMCG Sector: Executive Summary



With a population of over one billion, India is one of the largest economies in the world in terms of purchasing power and consumer spending. The International Monetary Fund has projected that India's GDP will grow by 7.4% during 2016–17, making it the world's fastest-growing large economy.

The fast-moving consumer goods (FMCG) sector is an important contributor to India's GDP growth. The sector includes food & dairy products, packaged food products, household products, drinks and others. FMCG is the fourth largest sector in Indian economy and provides employment to around 3 million people accounting for approximately 5% of the total factory employment in India. The sector is characterized by strong presence of leading multinational companies, competition between organized and unorganized players, well established distribution network, and low operational cost. Growth in the country's FMCG sector is being fuelled by improving scenario in both demand as well as supply side. Major demand side drivers include

growing affluence and appetite for consumption of the Indian consumer, growing youth population, rise in per capita expenditure, and increasing brand consciousness. On the other hand, easier import of materials and technology, reduced barriers to entry of foreign players, and new product development, rapid real estate infrastructure development and improvement in supply chain efficiency are the major supply side drivers for the sector. The growth of the FMCG sector, which primarily includes Food & beverages, personal care and household care has been driven in both the rural and urban segments. 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. Several government measures such as GST Bill, Food Security Bill and FDI in retail sector are expected to have a significant positive impact on the country's FMCG sector in the coming years.

2.

Indian FMCG Market Outlook



Fast-moving consumer goods (FMCG) can be defined as packaged goods that are consumed or sold at regular and small intervals. The prices of the FMCG are low and profits earned are more dependent upon the volume sales of the products. The FMCG market can be broadly categorised as Personal Care, Household care, Food & Beverages and Others.

The Indian FMCG sector is the fourth largest sector in the economy with a total market size of USD49 billion in 2016. The sector is projected to grow at a CAGR of 20.6% to reach USD103.7 billion by 2020. The FMCG industry in India, has grown rapidly over the last decade, predominantly on account of increasing income levels and changing lifestyle of Indian consumers.

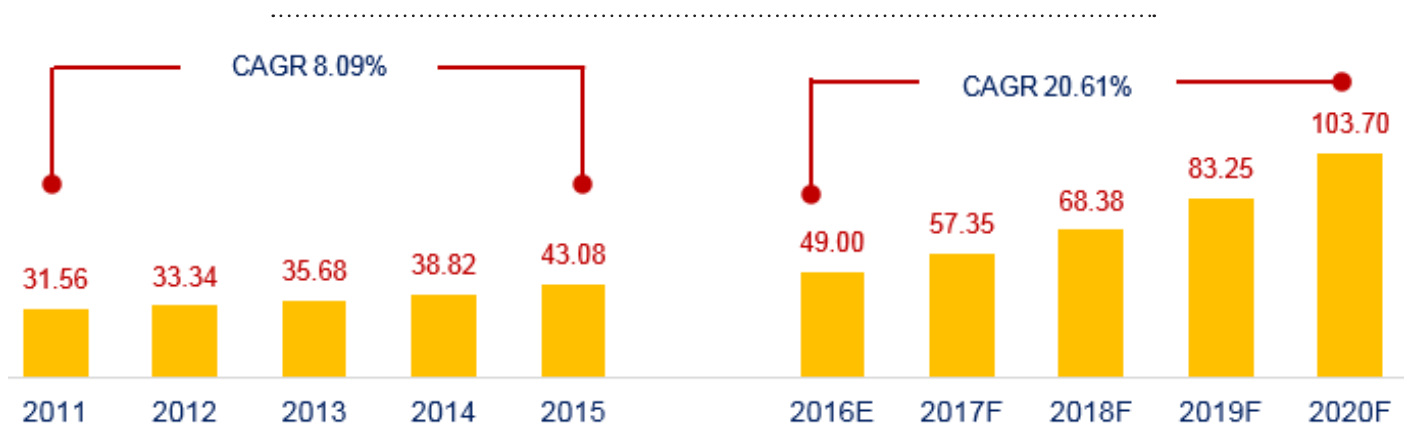
2.1. Indian FMCG Market in Comparison with Global FMCG Market:

Currently India accounts for a share of just 0.68% of the Global FMCG market, this share is expected to increase significantly over the next 5 years mainly due to the macro-economic factors such as improving demographics, rising disposable income, expansion of organised retail in tier II & III cities in India,

changing consumer preferences etc. Major FMCG markets include USA, China, European Union, Japan etc. Globally, the FMCG sector is expected to grow at a CAGR of 4.4%, which when compared to India is a lot slower. Many foreign FMCG multinationals have established themselves in India.

Globally, the FMCG companies have now shifted their focus on E-commerce due to the increasing mobile internet penetration. Globally, the share of online sales of FMCG products accounted for around 5% in 2015, which is relatively higher than India where online FMCG sales accounted for a share of just 1-2% of the overall FMCG market in 2015. The global economic growth has been decelerating as several large economies face decreasing economic growth, primarily China and the Eurozone, as well as a few key emerging markets like Brazil and Russia. This offers an advantage to India which has a significantly better economic condition. According to The World Bank, India's per capita income is expected to cross INR100,000 (USD 1,505.4) in FY 2017 from INR93,231 (USD 1,403.5) in FY 2016. Technology adoption, urbanisation and other structural reforms are the other major drivers resulting in better market potential compared to other markets.

Indian FMCG Market Size, by Value, 2011-2020F (USD Billion)



Source: TechSci Research

2.2. Market Size & Forecast:

Indian FMCG sector had a market size of USD43.08 billion in 2015. Well-established distribution networks, as well as intense competition between the organised and unorganised segments are the characteristics of this sector. The FMCG market in

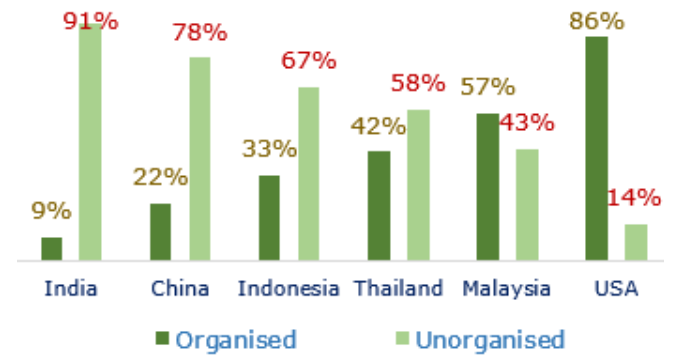
India is anticipated to grow at a significantly high CAGR during the forecast period and is expected to cross USD100 billion mark by 2020. FMCG in India has a strong distribution presence across the entire value chain.

FMCG Market Share, By Urban Vs Rural (%), 2015



Source: TechSci Research

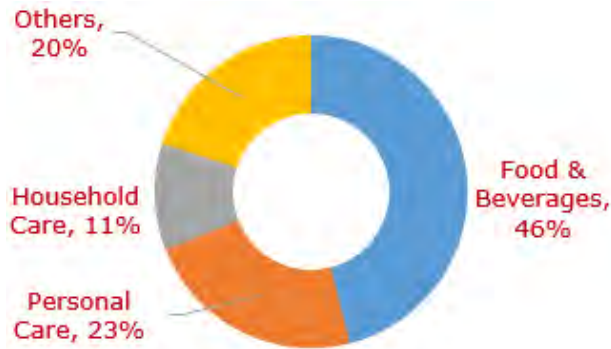
Retail Share, Organized Vs Unorganized (%), 2015



Source: TechSci Research



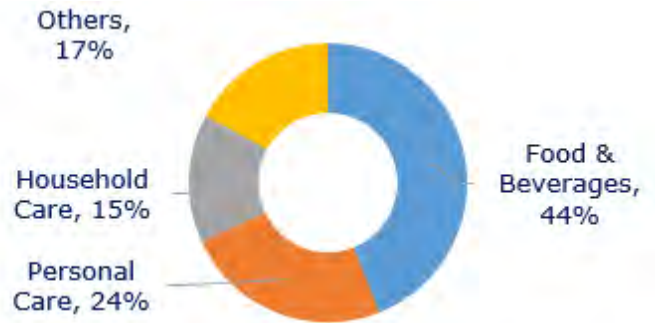
Indian FMCG Market Share, By Segent (%), 2015



Source: TechSci Research

Growing share of the organised retail sector in India has been one of the major drivers for India’s FMCG market. Though the share of organised retailing in India is still very low compared to the other countries, it is among the fastest growing retail markets, globally. The urban segment is the biggest contributor to the sector, accounting for two-third of total FMCG sector revenue. However, with the emergence of new consumption hubs in India,

Indian FMCG Market Share, By Segent (%), 2020F



Source: TechSci Research

and economic growth in smaller cities the share of semi urban and rural FMCG markets is anticipated to grow significantly during the forecast period.

Over the last decade, India has witnessed a demographic shift, with rapid adoption of internet and growing digital media, and has significantly altered the purchase decision of Indian consumers.

2.3. Indian FMCG Market by Type:

Indian FMCG Product Classification by Segments	
Food & Beverages	Health beverages, staples/cereals, bakery products, snacks, chocolates, ice cream, tea/coffee/soft drinks, processed fruits and vegetables, dairy products, and branded flour, etc.
Personal Care	Oral care, hair care, skin care, cosmetics/deodorants, perfumes, feminine hygiene, baby care, shower products, etc.
Household Care	Dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, etc.
Others	OTC products, Tobacco products etc.

2.3.1. Food & Beverages:

Food & beverages sector accounted for the largest share in India's FMCG market. The changing preferences of the upward middle class families from the urban areas gave importance to food & beverages sector and thus, fuelled the growth in the last few years. India is the world's second largest producer

of food, next only to China, and has the potential of being the largest player in food and agricultural sector. The food processing industry is one of the largest industries in India and is ranked fifth in terms of production, consumption, export, and expected growth.

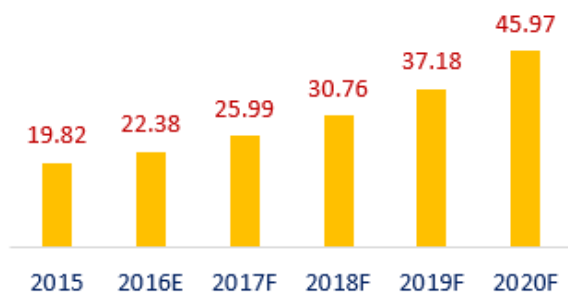
Number of Food Services Outlets in India, By Type, 2014

Type	Geographical Presence
QSRs	61,470
Others	1,729,530
Total Standalone	1,791,000
Total Café Outlets	21,889
Total Retail Outlets	136,100
Total Lodging Facilities	68,800
Total Food Services Outlets	2,017,789

Growing food services sector that includes both Indian and foreign food services restaurants boosted growth of organised food services sector in India. Furthermore, various policies undertaken by the government such as allowing 100% FDI in food services sector in 2012 catalysed growth in Indian food services market.

In the food and beverages industry, emerging presence of private labelling has altered the buying habits of consumers. Many companies in food and beverages segment are now focusing on innovation to offer various categories across various price points in order to penetrate majority of buyers across each income group.

Indian Food & Beverages Market Size, (USD Billion), 2015-2020F



Source: TechSci Research

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, faster urbanization, more working women and smaller families, easier availability due to better distribution

by FMCG players coupled with growth in organized retail and creating product understanding amongst consumers. Food & beverages segment has one of the smallest share in Indian E-commerce market;

however, due to change in consumer shopping habits, significant growth has been witnessed in purchase of food and beverages through online channels.

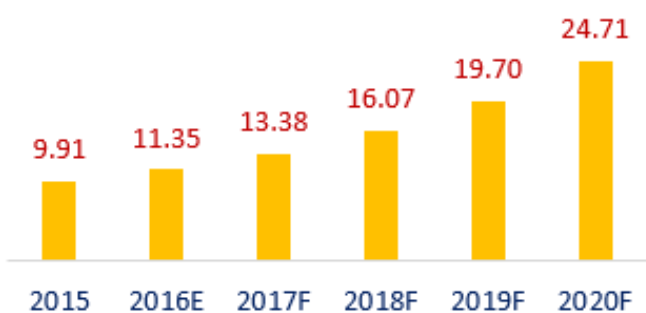
Leading FMCG Companies in Food & Beverages Segment along with key products	
ITC	Aashirvaad, Sunfeast, Bingo! Yippee! Kitchens of India, B Natural, mint-o, Candyman
Amul	Amul Milk, Cheese, Ice Cream, Mithai Range, Chocolates, Butter milk, beverages
Parle Agro	Frooti, Café Cuba, Hippo, Maaza, Parle-G, Melody, Mango Bite, Poppins, Kismi Toffee Bar, Monaco and Krack Jack
Britannia Industries	Dairy products, Biscuits (Vita Marie Gold, Tiger, Nutrigo Junior, Good day, 50 50, Treat, Pure Magic, Milk Bikis, Good Morning, Bourbon), breads, etc.
Nestle	Nescafé, Kit Kat, Maggi, etc.

2.3.2. Personal Care:

Personal care products (PCP) market in India is estimated to be worth USD9.91 billion in 2015. Personal hygiene products such as bath and shower products, deodorants, etc., hair care, skin care, colour cosmetics and fragrances are the key segments of the personal care market. Each of these segments exhibit their unique trends and growth patterns.

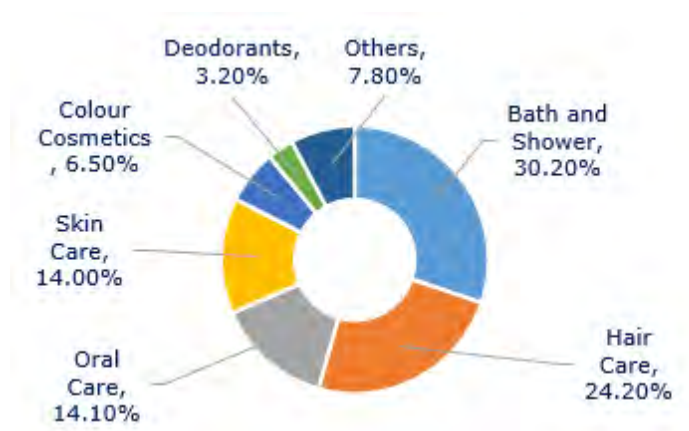
Favourable demographic factors and increasing consciousness among the population indicates high future demand for personal care products and specifically for active ingredients.

Indian Personal Care Market Size, (USD Billion), 2015-2020F



Source: TechSci Research

Indian Personal Care Market Share, by Product Type (%), 2015



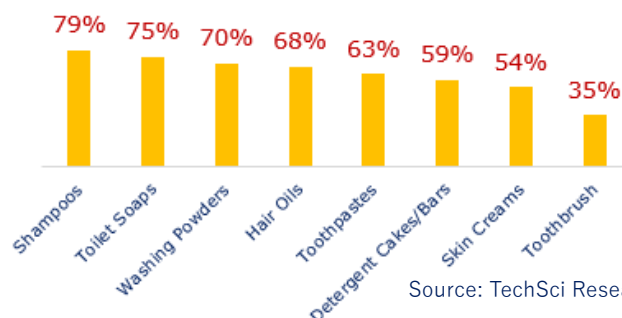
Source: TechSci Research

Globally, the personal care market stood at USD700 billion in 2015, of which India's share stood at around 1.4%. Bath and shower products which includes bar soap, body wash, shower gel, etc. occupied the maximum share in the market followed by hair care products.

Lower priced small quantity products offered by the companies have improved the pace of penetration of FMCG personal care products market. Growing literacy levels, higher government spending on welfare programs, increasing support to agricultural sector, and rising DTH and mobile connections have

also acted as a catalyst in bolstering rural demand for FMCG personal care products in rural areas.

Penetration of Select FMCG Personal Care Products in India (%), 2014



Source: TechSci Research

Leading FMCG Companies in Personal Care Segment along with key products

HUL	Clinic Plus, Lifebuoy, Pears, Dove, Lakme, Sunsilk, Vaseline, Fair & Lovely etc.
ITC	Vivel, Fiana Di Wills, Engage, Savlon, Superia
GCPL	Cinthol, Godrej No. 1, Godrej Nupur, Godrej Expert, Renew, etc.
P&G	Vicks, Oral-B, Olay, Gillette, Pampers, etc.
Colgate Palmolive India	Toothpastes, Toothbrushes, Mouthwash, Toothpowder, Palmolive thermal spa, etc.



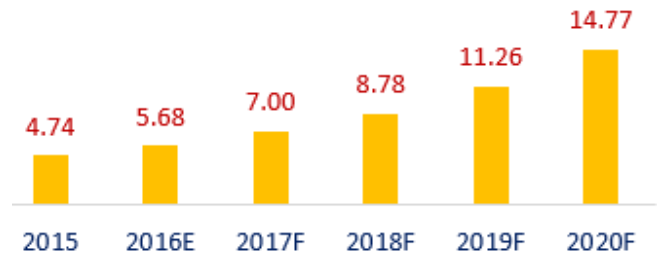
2.3.3. Household Care

The household care segment mostly includes fabric wash and household cleaners. This segment is a volume driven market with low margins and is marked with stiff competition. This segment occupied a share of 11% in Indian FMCG market and recorded robust growth in the past five years due to focused innovation in the product portfolio to provide greater consumer value. The increasing household budgets have allowed for new categories of household care products to enter the Indian market.

Leading brands in household care categories such as laundry care, air care and toilet care have launched variants of their regular products with additional benefits such as fragrance, germ-fighting capabilities, better cleaning and packaging in order to increase their sales value.

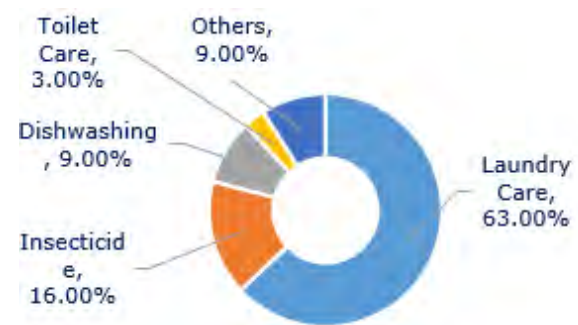
Although, majority of household care products sales are generated through local independent small grocers, modern grocery retailers. Internet retailing has emerged as a potential channel for the growth of household care segment in cities.

Indian Household Care Market Size, (USD Billion), 2015-2020F



Source: TechSci Research

Indian Household Care Market Share, by Product Type (%), 2015



Source: TechSci Research

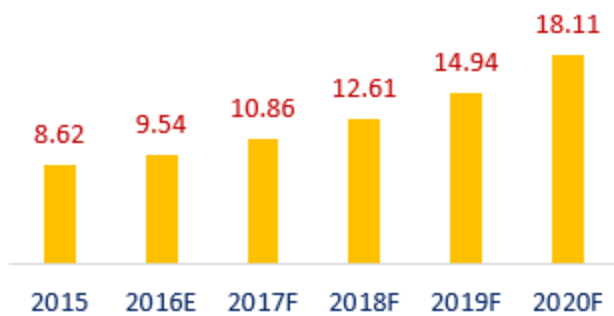
Leading FMCG Companies in Household Care Segment along with key products

HUL	Wheel detergent, Cif Cream Cleaner, Comfort fabric softeners, Domex disinfectant, Surf Excel detergent, Vim, etc.
Reckitt Benckiser	Lysol, Air Wick, Mortein, Harpic, etc.
Rohit	
Surfactants	Xpert Ultra Gel (Liquid), Ghari Detergent Powder, Ghari Detergent Cake, etc.
P&G	Ariel, Tide, Ambi Pur, etc.
GCPL	Goodnight, HIT, Aer, Ezee, etc.

2.3.4. Other FMCG Products:

Other FMCG products include OTC drugs and tobacco products, which had a combined market share of 20% in 2015. Rising awareness about preventive care is driving the growth of various categories like nutraceuticals, vitamins, and dietary supplements. However, declining market of chewing tobacco products has affected the overall tobacco market of India. Stringent anti-tobacco measures taken by the government such as a ban on the sales of loose cigarettes and consecutive hikes in excise duty on cigarettes is expected to decrease the segment's share to 17% by 2020.

India Other FMCG Products Market Size, (USD Billion), 2015-2020F



Other FMCG products include OTC Drugs and Tobacco products

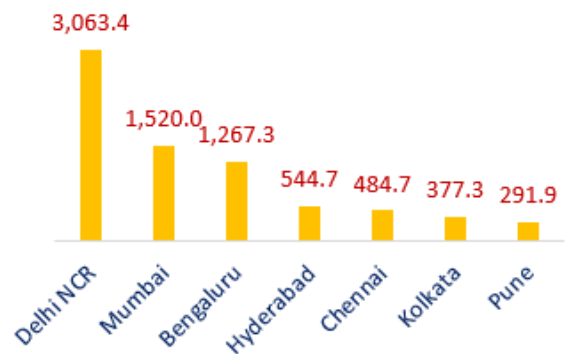
Source: TechSci Research

2.4. Online Vs Offline:

FMCG sales through E-commerce channels have been increasing on account of mounting smartphone sales leading to rise in the number of mobile internet users, internet penetration rate in the country grew from 19% in 2014 to around 25% in 2015. Online shopping has emerged very fast in recent years.

E-Commerce Share in FMCG, by Selected Countries, 2015	
France	10%
UK	10%
India	1.4%
China	15%
South Korea	30%

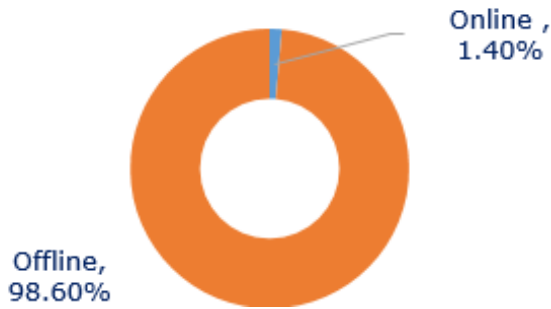
Online Shoppers in India in Top Cities, (Thousand), 2015



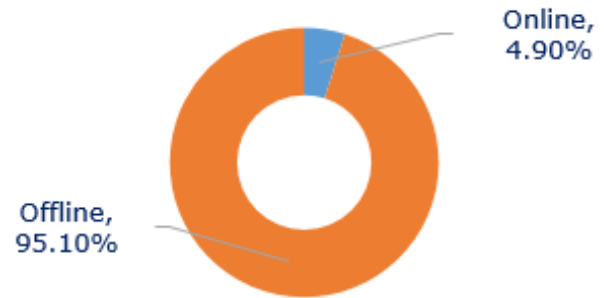
Source: TechSci Research



Indian FMCG Market Share by Online Vs Offline (%), 2015



Indian FMCG Market Share by Online Vs Offline (%), 2020F

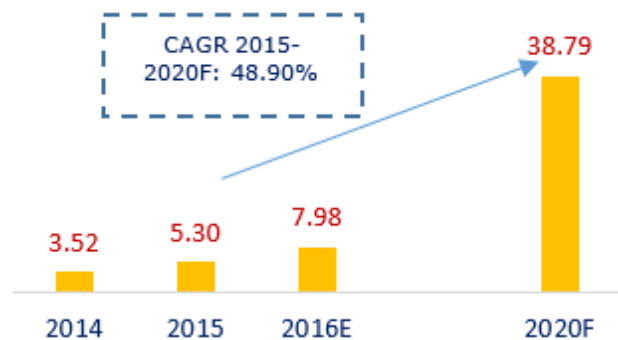


Source: TechSci Research

Nowadays, online shopping has caught attention of major Indian retail and FMCG players. Current online shoppers, typically middle and upper class, tend to favour branded products. Consumers are embracing the idea of buying branded packaged goods online. Although, the share of FMCG products sold online in India is still low compared to other major economies.

According to the report published by Internet & Mobile Association of India (IAMAI) and the Indian Council for International Economic Relations (ICRIER) on mobile app economy, as of 2015, over 100 million app downloads, per month, were done by users across the country. With increasing popularity of E-commerce and shopping portals in India, many FMCG companies are launching their websites to sell their products through online channels.

Indian E-Tail Market Size, (USD Billion), 2015-2020F



Source: TechSci Research



Source: TechSci Research

2.5. Indian Vs Multinational Companies:

Indian companies such as ITC, Patanjali, Amul, Godrej, etc. have witnessed a higher revenue growth compared to foreign brands namely HUL, GSK, Nestle, etc. Indian companies have increased their product portfolios, improved their supply chain, and increased their market share through inorganic growth.

Indian companies have focussed on increasing

their presence in unexploited markets such as Ayurvedic products. Other factors such as increasing product innovations, proper product pricing, growing international business have also helped these companies improve their presence compared to the multinational firms.

Performance of Selected Indian FMCG Companies

Company Name	Revenue USD Million		y-o-y	EBITDA USD Million		EBITDA Margin, FY16	PAT USD Million		PAT Margin, FY16
	FY16	FY15		FY16	FY15		FY16	FY15	
ITC Ltd.	5,944.79	5,853.93	1.55%	2,468.00	2,310.26	41.52%	1514.57	1478.11	25.48%
Britannia Industries Ltd.	1,222.75	1,104.0	10.76%	172.54	140.55	14.11%	115.24	95.76	9.43%
Dabur India Ltd.	884.62	835.58	5.87%	169.04	140.70	19.11%	144.54	117.32	16.34%
Patanjali Ayurved	769.23	312.31	146.31%	-	70.32	-	-	47.51	-
Marico Ltd.	761.14	720.19	5.69%	129.58	101.84	17.02%	107.98	83.87	14.19%
Amul	743.69	637.97	16.57%	3.34	2.47	0.45%	2.38	1.80	0.32%
Godrej Consumer Products Ltd.	740.24	681.51	8.62%	151.13	130.85	20.42%	113.80	100.68	15.37%

Performance of Selected Indian FMCG Companies

Company Name	Revenue USD Million		y-o-y	EBITDA USD Million		EBITDA Margin, FY16	PAT USD Million		PAT Margin, FY16
	FY16	FY15		FY16	FY15		FY16	FY15	
Hindustan Unilever Ltd.	4,921.10	4,739.33	3.84%	875.52	903.47	17.79%	628.06	663.89	12.76%
Nestle India Ltd.	1,257.74	1,516.13	(17.04%)	162.17	313.66	12.89%	86.66	182.26	6.89%
PepsiCo India	1,250.77	1,106.88	13.00%	-	-	-	(27.23)	(43.08)	(2.18%)
Glaxosmithkline Consumer Healthcare Ltd.	662.88	662.71	0.03%	128.44	112.32	19.38%	105.68	89.78	15.94%
Colgate-Palmolive (India) Ltd.	640.35	612.61	4.53%	138.45	126.50	21.62%	88.69	86.00	13.85%
Procter & Gamble Hygiene & Health Care Ltd.	382.20	359.04	6.45%	93.02	74.53	24.34%	65.10	53.25	17.03%
Gillette India Ltd.	321.62	318.82	0.88%	55.63	44.53	17.30%	32.77	24.33	10.19%

2.6 Market Drivers & Trends



Future growth of FMCG sector in India is mainly dependent upon multiple market drivers. Continuing upward trend in the country's economy has been boosting the per capita income, which is leading to growing appetite for premium products, primarily in the urban areas of India.

- FMCG companies are investing in innovation by launching new products to take advantage of the rapidly evolving retail landscape and the changing purchasing behaviour of consumers.
- Growth in rural consumption has increased and, hence there is an increased demand for branded products in rural India which has made rural India a huge untapped market. Godrej launched OneRural programme to generate more revenues from rural areas. Rural India is estimated to account for ~50% of the total FMCG market in 2016.

- Government initiatives such as FDI, Food Security Bill, and GST are expected to boost the FMCG market sentiments. Moreover, government's focus on rural areas have also encouraged many FMCG companies to expand their rural network and increase their product penetration.

Indian Per Capita Income (USD), & Y-o-Y Growth Rate (%), 2010-2019F



Source: IMF, World Bank, TechSci Research

- Growth in organised retail and E-commerce is also a major driver for the FMCG sector as the availability of products have become way easier due to the growing organised retail stores and rising internet penetration. E-commerce websites such as Grofers, Flipkart, Amazon are making the FMCG products readily available to the Indian consumers.



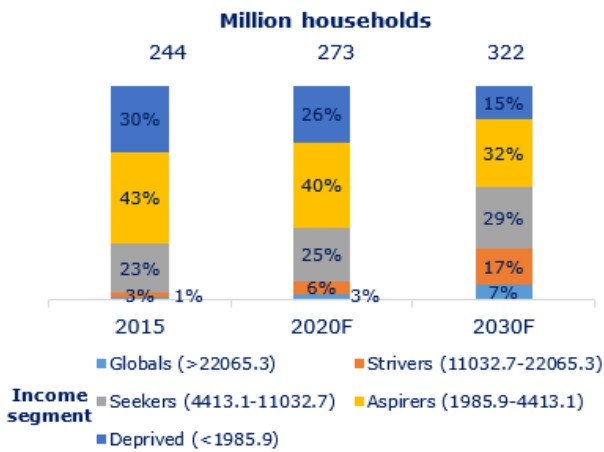
3.

Indian Retail Market Outlook



Healthy economic growth, changing demographic profiles, increasing disposable incomes, changing consumer tastes and preferences are driving growth in the retail market in India. Over 20% of India's gross domestic product (GDP) is contributed by retail sector and in terms of total employment it contributes 8%.

Indian Income Segment Share (%) (USD), 2015, 2020F & 2030F

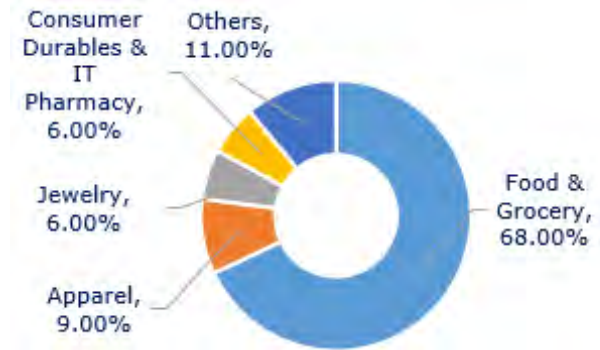


Source: TechSci Research

The market has witnessed some significant trends such as shift towards smaller cities and rural areas, entry of international brands due to FDI in single-brand retail up to 100% from 51%, increase in private label brands by retail players (in India, the share of private label brands was 5% in 2015) and growth in E-commerce.

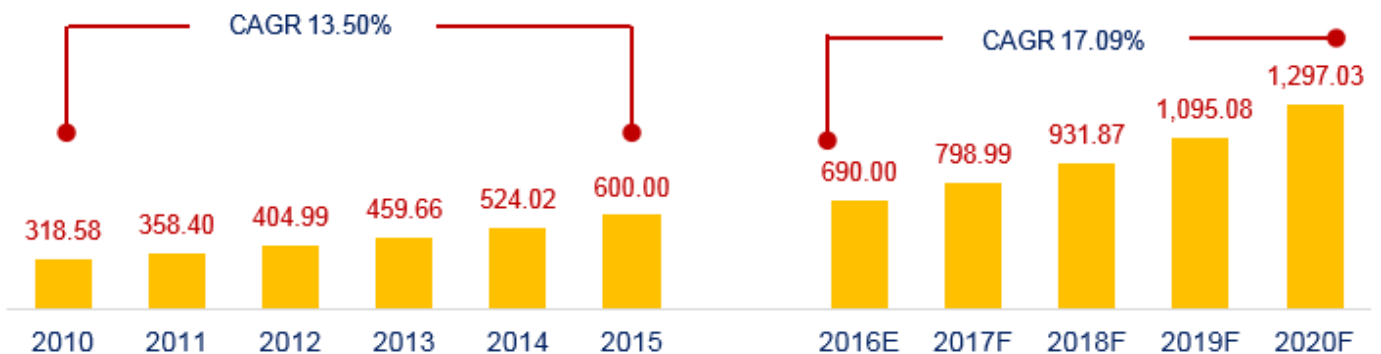
Food & grocery products occupied a major chunk of the retail market in India. It is expected that the share of organised retail would increase to 13% thereby becoming a major demand driver for the industry.

Indian Retail Market Share, by Product Type (%), 2015



Source: TechSci Research

India Retail Market Size, By Value, 2011-2020F (USD Billion)



Source: TechSci Research

4.

Supply Chain Analysis



The FMCG industry is characterised by complex distribution network and intense competition, forcing firms to constantly work on supply chain innovation. Although, the basic structure of supply chain in the Indian FMCG sector has not changed over the years. Micro-economics play an important role in the supply chain structure of India.



The Indian FMCG sector is a low margin business, where success mostly depends on the volume of products sold. In order to develop and maintain an efficient supply chain, the companies focus on availability of products in the complex distribution network. Presence of multiple layers between company and end customer results in increase in the number of Stock Keeping Units (SKUs), to ensure availability at the last stage of distribution. In order to increase market penetration, a growing number of companies are focusing on launching smaller

packaged size products to address needs of consumers present at the lower end of the economic scale. The entry of large third party logistics (3PL) carriers and the expansion of domestic networks of Indian firms like Gati and Shreyas Shipping is transforming the nature of services and the business practices across the sector.

India Logistics Sector Facts	
Logistics Performance Index (2016)	3.42 (35th Rank)
Logistics cost as % of GDP	13%
Transportation cost as a % of GDP	8.2%
Warehousing cost as a % of GDP	3.8%
Other logistics costs as a % of GDP	1.0%
FMCG Logistics as a % of revenues	6%-8%

Emergence of modern retail formats have an advantage over small stores as they are able to demand huge discounts from FMCG companies. Moreover, a huge emphasis is laid by modern retailers on ensuring permanent on-shelf product availability during peak periods; cost optimization and R&D.



5.

Government Policies



» Goods and Service Tax (GST)

GST, upon being implemented shall replace the multiple indirect taxes levied on FMCG sector with a uniform, simplified and single-point taxation system. A swift move to the proposed GST may reduce prices, bolstering consumption of FMCG products.

» Food Security Bill

The Food Security Bill has been passed recently by the Union Cabinet. As per the bill, 5Kg of food grains per person per month will be provided at subsidized prices by the State Governments under the targeted public distribution system. This is expected to result in higher inflow of investments into the agriculture sector in the coming years.

» Excise Duty

Excise duty on other beverages and lemonade would be decreased to reduce retail sale price by 35%. Excise duty on various tobacco products other than beedi would be increased, resulting in retail price of tobacco products going up by 10-15%.

» Relaxation of License Rules

Industrial license is not required for almost all food and agro-processing industries, barring certain items such as alcoholic beverages, cane sugar, and

hydrogenated & animal fats as well as items reserved for exclusive manufacture in the small-scale sector.

Cumulative FDI inflows in India from April 2000 to March 2016 (USD Million)



Source: TechSci Research

» FDI in Organised Retail:

The government approved 100% FDI in selling of food products through E-commerce in 2016. This is expected to boost the online food market in the country in the coming years. It also allowed 100% FDI in the cash and carry segment and in single-brand retail.

Other government initiatives such as Pradhan Mantri Jan Dhan Yojana through which wage seekers are encouraged to open up bank accounts under Mahatma Gandhi National Rural Employee Guarantee Act.

6.

Market Opportunities & Challenges Ahead



Market Opportunities

» Rural Market

Rural consumption of FMCG products has outpaced urban consumption with the percentage increase in monthly per capita expenditure in rural markets surpassing its urban counterparts. Leading companies in the FMCG sector have a strong distribution network in rural India and are benefitting from the contribution of technological advances such as internet and better logistics services.

» Innovative Products

Indian consumers are highly adaptable to new and innovative products. As Indian consumers become increasingly exposed to global products, their demand for innovative products has been increasing, which is resulting in higher R&D expenditure by the leading market players.

» Premium Products

With growing disposable incomes, middle and upper middle class income consumers in urban areas have shifted their purchasing trends from essential to premium products. Premium brands are manufacturing smaller packs of premium products. In response, firms have started enhancing their premium products portfolio.

» India as an Export Hub

With emergence of India as a strong regional economy, domestic and multinational FMCG players can leverage India as a strategic sourcing hub for cost-competitive products to cater to international markets. This has been witnessed as a strategy of several FMCG companies whose revenues from the international markets has been increasing.

» Inorganic Growth Strategies for a Wider Footprint

Companies are entering into partnerships that will help them to cater to the market, and improve their distribution networks and skills to deliver to the last mile. The domestic companies have been quite active in M&A activities in order to gain significantly from an inorganic growth route.

» Low Market Penetration

Most of the household and personal care products sold in India still have low market penetration in rural and semi-rural areas. This offers a wide opportunity for market players to tap these markets by offering low cost, small packaging products.

Market Challenges

» Counterfeiting:

In 2015, sales of counterfeit products stood at more than USD1 billion. Counterfeit products have an economy-wide effect on trade, investment, employment, innovation, environment, and most importantly on the health and safety of consumers.

Indian retail sector is heavily dependent upon the unorganised sector. While the growing retail landscape provides great shopping choices and experiences to Indian shoppers today, there has also been a growth in the availability of counterfeit goods in the marketplace as well. The counterfeiting issue certainly encompasses many facets of the economy, including intellectual property rights (IPR), security concerns, and global trade. Distribution centres, retail outlets, and third party logistics providers are the most vulnerable to infiltration of counterfeit products. Indian supply chains are not equipped in terms of their ability to protect and detect the penetration of counterfeit goods into legitimate and secured supply chains. Several leading online marketplaces were accused by many consumer brands and channel partners for undercutting prices and encouraging the sales of counterfeit goods by sellers of dubious origins on their sites. There has been an increase in the number of cases about the quality of products sold.

Some of the technologies used by FMCG players to tackle counterfeiting include usage of tamper evident packaging, barcodes with proper standards, barcodes & RFID, laser coding, and optically variable features.

Companies should focus on utilizing universally accepted global standards, and organizations should implement a comprehensive track and trace system.



» Poor Supply Chain Infrastructure:

Lack of storage and transport facilities coupled with rising costs of raw materials and energy has been a major challenge for the Indian FMCG market. Food items tend to have a significantly shorter shelf life and requires quick delivery systems, regular replenishment of products on the shelf, and vast different distribution and storage requirements.

In the F&B segment, shelf life can vary from seven days to three months on average, while in the HPC space the shelf life can be up to three years. Many small towns and villages in India lack adequate infrastructure, a major bottleneck in setting up supply

chain networks. It is easier to bring home and personal care products to consumers in rural areas of India, as the shelf life is comparatively longer compared to food & beverage products such as milk, chocolate, and ice-cream, which have a shorter shelf life and need investments in cold storage facilities.

» **Multiple Micro-markets:**

Multiple micro-markets across geographies have distinct needs, which triggers category preferences that vary from state to state and from one district to another. This poses a continuous challenge for players to balance out the market needs and the inefficiencies related to customization.

» **Fragmented Retail Landscape:**

The estimated 8 million retail outlets in India selling F&B are direct indicators of this fragmentation. Even the best in class companies are able to reach around 2 million outlets directly and approx. 6 million outlets totally.

» **Large Geographical Expanse:**

Large states in India such as Madhya Pradesh presents a problem of large distances between two adjacent markets. This has a crippling effect on viability of channel partners, which are serving the isolated markets.

» **Limited Cold Chain Infrastructure:**

Growth of many categories have been severely constrained by the lack of cold chain infrastructure in the Indian market landscape.

» **Multiple Layers of Taxation:**

Multiple and inconsistent taxes levied on FMCG products have made it difficult for the companies to offer their products at a proper/consistent prices. Implementation of GST would simplify taxation system in the country; thereby, reducing the burden of optimum product pricing amongst the companies.



7.

Case Study



Impact of GST on Indian FMCG Market

The Union Cabinet's approved the Constitution amendment Bill for implementing the goods and services tax (GST) in the monsoon budget session (8-August, 2016 in Lok Sabha). This system of taxation which is to be implemented in India proposes a comprehensive indirect tax imposed on manufacture, sales and consumption of goods and services at a national level. GST is currently used in more than 140 countries globally.

GST Rates and Model in selected Countries		
Canada	5%	Dual Structure
Australia	10%	Single Structure
Singapore	7%	Single Structure
New Zealand	15%	Single Structure
European Union	15%	Dual Structure
China	17%	Single Structure
Japan	5%	Single Structure
South Korea	10%	Single Structure
Malaysia	6%	Single Structure

Salient features of GST:

- GST would be applicable only on supply of goods and services as compared to the current concept of tax on sales of goods or on the manufacture of goods or on provision of services.
- It would be a dual GST where Centre and States would be simultaneously imposing Goods and Services Tax on a common base. The GST which is

to be levied by the States would be called State GST (SGST) and that to be imposed by the Centre would be called Central GST (CGST).

- An Integrated GST (IGST) would be levied on inter-State supply of goods or services including stock transfers. In order to maintain the credit chain from being disrupted, the Centre would be collecting this tax.
- Import of goods or services is expected to be considered as inter-State supplies and therefore, would be subjected to IGST along with the applicable custom duties.
- CGST, SGST & IGST would be imposed at rates upon which Centre and the States have mutually agreed under the guidance of Goods & Services Tax Council (GSTC).

Impact on FMCG Sector : If the GST rate is less than or equal to 18%, then it should be positive for most consumer goods companies. Indian FMCG sector contributes around USD6 billion in direct and indirect taxation. A shift from the current indirect tax system to the GST regime would have a positive impact on pricing of the products.

Many FMCG companies that have manufacturing units in excise free zones enjoy excise holidays. Currently, no decision has been taken on the treatment of excise free zone units under the GST regime, and there is a possibility that the excise exemption schemes could be converted in to refund schemes.

Supply Chain Revamp: GST would lead to a revamping of procurement and distribution arrangements. The resulting removal of excise duty on products would result in cash flow improvements. The proposed rate of GST on services is likely to be 16% and on goods to be 20%.



Changes in System and transition management: Changes would be made to accounting and IT systems to record transactions, which have to be in line with GST requirements, appropriate measures need to be taken in order to ensure smooth transition to the GST. Implementation of GST will reduce the transactions cost of conducting business and bringing down prices.

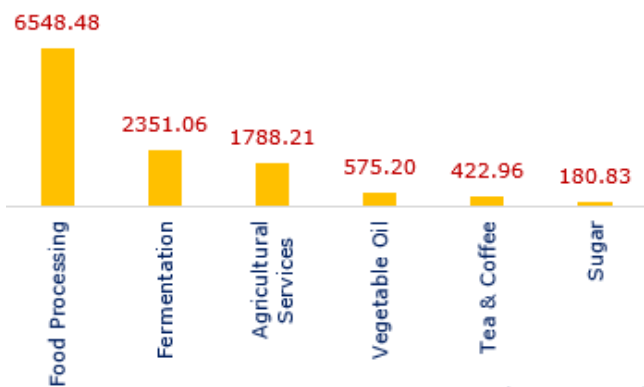
Pricing and Profitability: Elimination of multiple indirect tax system would result in lower input costs and improved profitability. Application of tax at all points of supply chain is likely to require adjustments to profit margins, especially for distributors and retailers.

Cash flow: Distributors shall receive cash flow from collection of GST in their sales, before returning it to the government during the tax-filing period.

FDI in Food Sector

Food processing industry of India is one of the biggest in terms of production, consumption, export and growth prospects. This sector has become an attractive FDI destination. Demand, growth, and supply advantages, have been instrumental in attracting FDI in food sector.

India Cumulative FDI inflow in Food & Agriculture (April 2000 to September 2015), (USD Billion),



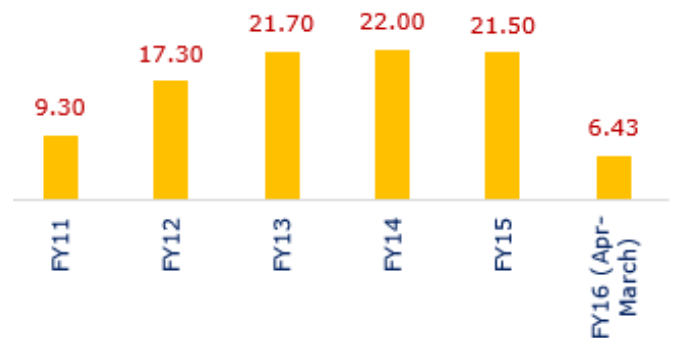
Source: DIPP, TechSci Research

The government has allowed 100% FDI in trading of food products, including through digital marketing. The move was made in a bid to strengthen the sector, provided these items are produced, processed or manufactured in India. This will allow multi-brand retail giants to focus on increasing their food business in India. Also, it will help Indian hyperlocal grocery start-ups, like Grofers and Big Basket, etc., to raise funds easily. Moreover, implementation of

100% FDI in food sector will consequently result in strengthening of the back-end infrastructure such as logistics and warehousing and lead to direct purchase by the retailers.

FDI also enables the inculcation of global best practices within the food sector industry. The move is also expected to bolster employment and supply chains, apart from providing high visibility for FMCG food companies in organised retail markets, which in turn would boost consumer spending and encourage more product launches.

India Exports of Processed Food, 2011-2015, (USD Billion)



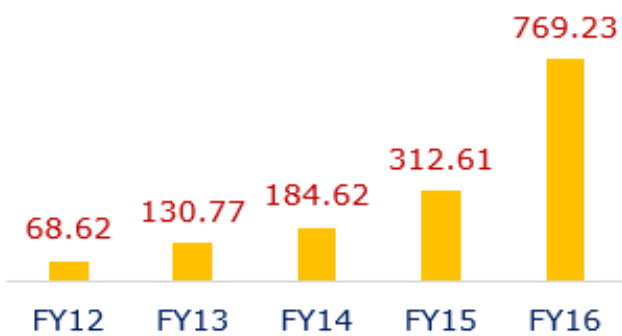
Source: Agricultural & Processed Food Products Export Development Authority

Automatic approvals are provided for foreign investments and technology transfer in most cases. Units based on agri-products that are 100% export-oriented are allowed to sell up to 50% in the domestic market. Government of India is promoting the concept of Mega Food Parks (MFPs) and is expected to set up 30 such parks across the country to attract FDI.

Success Story: Patanjali Ayurved Limited (PAL)

Headquartered at Haridwar, Uttarakhand, Patanjali Ayurved Limited is the fastest growing FMCG company in India. The company was established on 13th January, 2006. The company is involved in manufacturing as well as distribution of products ranging from food, beverages to cosmetics and fabric care.

Patanjali Revenue, FY12-FY16 (USD Million)



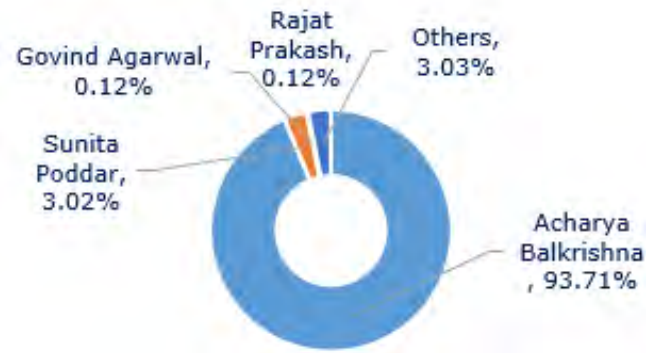
Source: News Articles, MCA

Patanjali Ayurved has turned out to be the most disruptive force in the fast moving consumer goods market. Initially, the company focused only on the development of Ayurvedic medicines and gradually started manufacturing food items and cosmetics.

The company's products are available in 15,000 exclusive retail outlets, 3,000 Patanjali Chikitsalaya Kendra and retail chains such as Big Bazar, Reliance

Fresh, etc. In product development, the company mainly focuses on factors such as competitive pricing, innovation and good quality with natural ingredients. The company has been able to maintain its brand image over the years and has significantly increased its brand awareness initially through word of mouth, gradually moving towards televised marketing.

Patanjali Ownership Structure (%), 2015



Source: TechSci Research

With around 500 products many of them in FMCG category the company has significantly increased its market share in many FMCG categories. Many of the company's product launches have impacted the share of other FMCG companies in that product category. For example, PAL's products such as Dant Kanti, Atta Noodles, and Kesh Kanti have impacted the sales as well as market share of Colgate, Nestle's Maggi, and hair care range of HUL, P&G and Marico. Moving forward, the company is focusing on improving its supply chain to increase its volume sales in India and abroad.

8.

Conclusion



Indian FMCG market is expected to exhibit a positive growth trend in the coming years. Positive economic environment, low inflation rates and development initiatives led by the new government mainly are instrumental in the uptick of the market.

The FMCG industry fared well in India in the recent years with consumer food services, soft drinks, household and personal care segments experiencing a tremendous growth with the increasing disposable income and the growing economy. The alcoholic drinks, tobacco had witnessed low growth given the stricter government policies and the increasing health awareness among the consumers.

Ready to eat food segment such as instant noodles and pasta would be experiencing enormous growth given the new FSSAI guidelines with clearly designed rules, along with the relaunch of the most preferred brand of noodles in the country and with Patanjali starting its own ready to eat food range. The personal care products are anticipated to witness huge advancements especially among the haircare segment.

Local Players such as Patanjali, with their aggressive marketing and expansion strategies and ever

diversifying product portfolio would dominate the market in the forthcoming period.

Most of the consumer goods products are moving to Online platforms and most of the major super markets have their own online ordering portals and mobile apps making it convenient for the consumers to order online with just a click of a button during their busy schedules. Owing to lack of awareness and security issues Cash on Delivery (CoD) remains the most preferred method of payment among the Indian consumers.

An increasing demand from the rural and tier-2 population can be witnessed given the increasing annual income and the awareness for the products and the increasing digitization making them one of the major influencers of the FMCG sector. Given the fact that more than 66% of the population in India is rural it widens the scope for the FMCG segment digitally.



9.

Recommendations



The emerging trends in new product launch (FMCG), has seen a wide range of innovations in India. Companies can benefit by adopting certain strategies.

» **Capturing the Digital Consumer:**

Growing internet connectivity, new business models and increasing digital media has provided many companies an opportunity to create their product awareness. This can be done by creating effective supply chain, engaging in online retail partnerships. Nowadays, companies are spending around 8-10% of their marketing spend in digital marketing. Creating a personalised E-commerce portal, associating with horizontal E-commerce players or engaging with vertical E-commerce specialists are the three commonly used approaches in E-commerce these days.

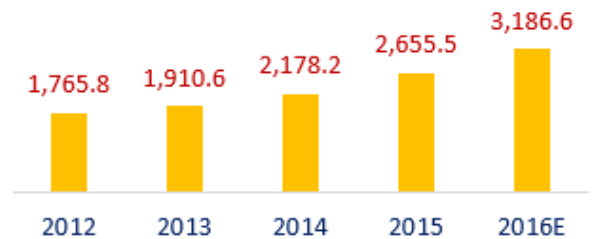
» **Understanding the Right Nerve of the Consumer:**

In order to create a loyal consumer base for a particular product, it is imperative for the FMCG companies to understand the nature and target of their proposed product. In order to create an effective customer loyalty, the segmentation, target and positioning of a particular product must be emulated. Factors such as geography, income segment, consumption demand, etc., must be looked after.

» **Increased Focus on TVC for Aggressive Advertising:**

Advertisement is the main source for FMCG companies to increase their product awareness. FMCG sector was the most dominant sector with 28% share of the total Indian advertising industry in 2015.

Indian Television Advertising Market, 2012-2016 (USD Million)



Source: PMAR

Six out of top ten advertising companies in India are FMCG companies.

Television advertising holds the maximum market share of 40% in Indian advertising market wherein FMCG contributes a significant 52% of the revenue share. This shows the significance of Indian TV advertising market. Small as well as growing companies must focus on advertising through TVC to create maximum awareness.

» **Analysing the most Efficient Sales Channel:**

In order to maximise their volume sales and product penetration the companies need to identify the most feasible sales channel route. Both national or multinational companies, give importance to supply chain management system to enhance their business especially in rural areas.

Ineffective supply chain can lead to significant losses for the companies, many offers and schemes launched by the companies are unable to cause a significant impact on the market as most of these schemes are unable to reach the end consumer due to inefficiency in supply chain. To prevent such losses, FMCG companies in India have to ensure that they exercise greater control over their distribution channel and not just leave it to the market forces.

» Prevention of Counterfeiting:

In Indian FMCG sector, counterfeiting has been a major issue which has a potential to significantly affect the market in a negative way. Since India is an attractive prospect due to low-cost of manufacturing, it also becomes an attractive base for the production of counterfeit goods both for domestic sale and export. Counterfeiting leads to brand dilution and losses to companies.

One of the key reason for the growth of counterfeiting in India is the inability of current supply chain systems to counter this activity. It is imperative of Indian FMCG companies to collaborate with the retail industry to offer greater visibility, traceability. Measures such as, regular spot checks, proper monitoring system, collaboration with local and national law enforcement agencies can be taken to curb counterfeiting.

» FDI and its Implications:

Implementation of FDI in various sectors such as food processing, retail, etc. has been largely beneficial for the sector. Various multinational companies have now entered India's retail and FMCG sector thereby increasing the competitiveness of the sector. Companies in order to remain profitable in this competitive environment need to focus on innovation and untapped markets.

» Focus on innovation & Volume Sales

Rising income levels, continuously growing demands has led to the development of new FMCG products. This continuous demand for new innovative products has led to growth in breakthrough innovation of FMCG products. To meet this demand, FMCG companies need to focus on R&D and innovation as a means to grow the business. Strategies such as innovation in packaging, rebranding of products, product innovation etc. are some of the innovation strategies adopted by the companies to cater the demand market.



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