FMCG Industry – Structure & Prospects

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Overview

FMCG is the 4th largest sector in the Indian economy and is valued at about USD 49 billion as of 2016 (*as per IBEF*). Household & Personal Care is the leading segment accounting for 50% of the overall market. This is followed by Healthcare at 31% and Food & Beverages comes next in terms of market share at 19%. Under Household & Personal Care, Hair care accounts for about 23% followed by Oral care at 15%, Home care at 6% and Skin care at 5%.

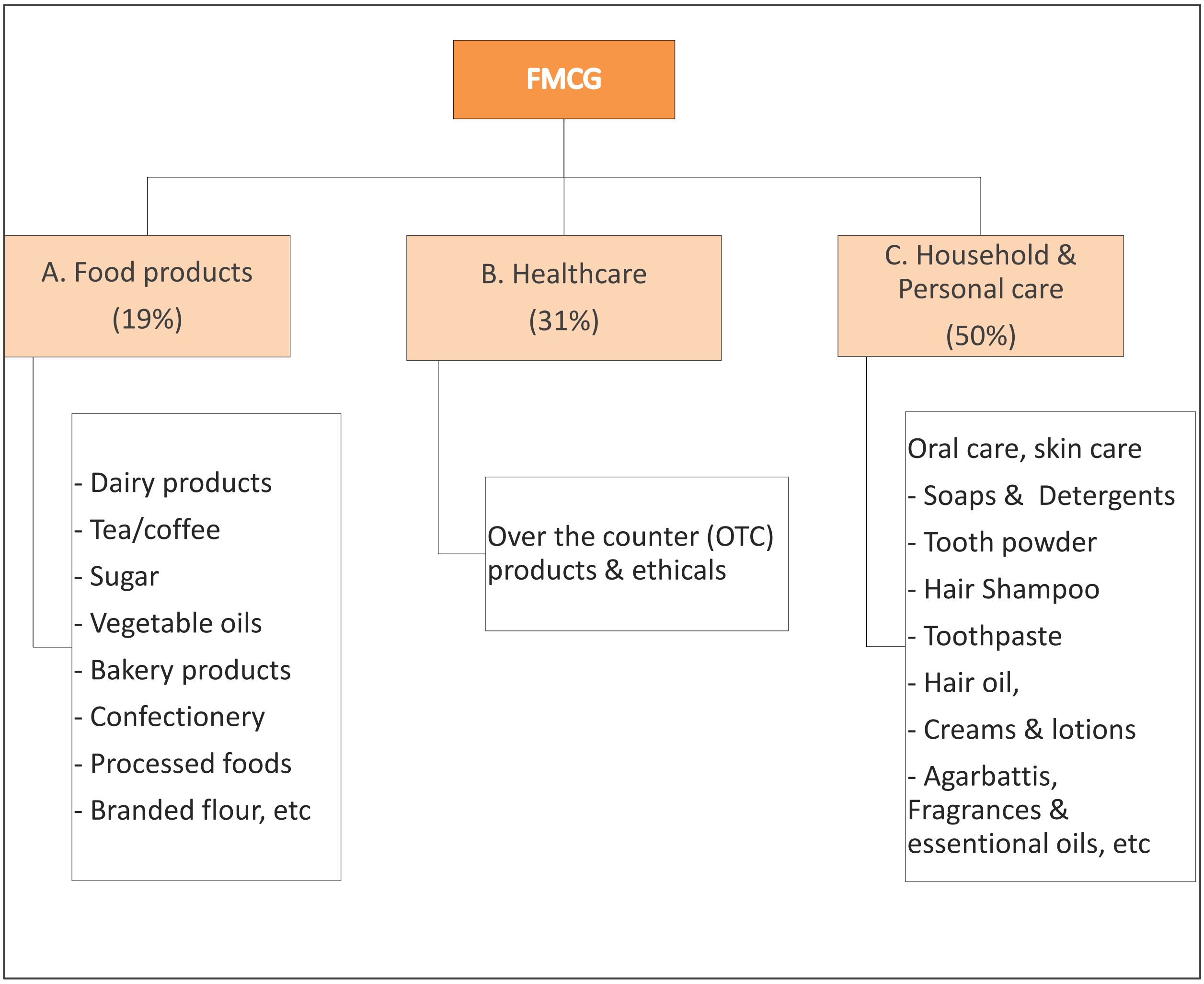
Fast-moving consumer goods (FMCG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods and soft drinks, toiletries, over-the-counter drugs, processed foods and other consumables.

In 2016, urban area was the largest contributor to the overall revenue generated by the FMCG sector in India with about 60% share while the rest came from semi-urban and rural areas.

Historically, growth in private final consumption expenditure (PFCE) relates well with growth on non-durable goods with a ratio of 0.8 times on an average. ***Therefore, going forward, with the nominal GDP expected to be at 11.5%, CARE expects the FMCG industry to grow by about 9-9.5% in FY18.***

Also, with Indian retail market being estimated to reach USD 1.15 trillion by 2020 from USD 672 billion in 2016 by CARE and modern trade projected to grow at about 20% per annum, it is expected to give an impetus to revenues of FMCG companies going forward.

Chart 1: Industry Structure



Production of various FMCG products:

Note: *For further analysis purpose, we have excluded 'Healthcare – (Over the counter medical & ethicals)' segment from the purview of the study.*

A. Food Products:

Food products under FMCG include dairy products, tea, coffee, sugar, vegetable oils, bakery products, chocolates & confectionery, processed foods, milling products, etc.

B. Consumer goods:

Consumer goods under FMCG include Cosmetics, toiletries, soaps and detergents, etc.

Table 1.A.: Production of Food products

	Unit	2014-15	2015-16	2016-17	Growth rate 2016	Growth rate 2017
A. Food Products						
1. Dairy Products						
Milk powder	000 tonnes	138.3	157.7	139.6	14.0	-11.5
Milk	Mn tonnes	146.3	155.5	*NA*	6.3	-
Malted food	000 tonnes	77.0	78.3	85.5	1.7	9.2
Ghee	000 tonnes	67.9	69.8	67.0	2.8	-4.1
Butter	000 tonnes	59.1	61.9	50.2	4.8	-19.0
Flavoured milk	Mn Litres	15.8	14.8	26.4	-6.6	79.1
Ice cream	Mn Litres	136.1	150.7	157.8	10.7	4.7
2. Tea	000 tonnes	1,208.7	1,240.6	178.5*	2.6	-
3. Coffee	000 tonnes	308.2	317.5	163.4*	3.0	-
4. Sugar	Mn tonnes	283.0	251.8	162.1	-11.0	-35.6
5. Vegetable oils & products	000 tonnes	6,996.0	6,539.5	*NA*	-6.5	-
6. Other food products						
a. Cocoa products & confectionery						
Chocolate & cocoa powder	000 tonnes	133.7	147.3	146.9	10.2	-0.3
Sweetmeat & sugar confectionary	000 tonnes	75.3	110.3	120.6	46.5	9.3
b. Bakery products						
Bread, buns & croissant	000 tonnes	265.5	279.0	262.7	5.1	-5.9
Cakes, pastries & muffins	000 tonnes	16.5	16.3	16.6	-1.1	1.9
Biscuits/ cookies	000 tonnes	588.4	600.3	623.7	2.0	3.9
c. Processed foods						
Honey, artificially preserved	000 tonnes	4.8	4.1	3.7	-14.3	-9.4
Bottled water	Lakh litres	10,579.4	10,345.9	9,347.8	-2.2	-9.6
Aerated drinks & soft drinks	Lakh litres	32,368.9	27,767.6	26,445.6	-14.2	-4.8
Fruit pulp & fruit juice	000 tonnes	150.8	143.8	151.3	-4.6	5.2
Pickles & sauces	000 tonnes	78.7	75.9	78.1	-3.6	3.0
Jams, jellies, marmalades and puree	000 tonnes	70.0	69.8	73.5	-0.3	5.2
Spices	000 tonnes	89.1	90.4	86.8	1.4	-4.0
Instant food (ready to eat)	000 tonnes	372.6	282.4	360.0	-24.2	27.5
Molasses	000 tonnes	5,594.0	5,490.6	4,158.5	-1.8	-24.3
d. Starch	000 tonnes	758.2	900.0	998.0	18.7	10.9
e. Poultry & meat products						
Meat & edible meat offal	000 tonnes	333.9	319.7	278.3	-4.3	-13.0
f. Milling products						
Maida	000 tonnes	1,834.5	1,873.5	1,832.5	2.1	-2.2
Wheat flour (Atta)	000 tonnes	1,738.1	1,618.7	1,531.3	-6.9	-5.4
Wheat bran	000 tonnes	881.4	956.7	926.7	8.5	-3.1
Milled dal	000 tonnes	253.4	233.4	208.8	-7.9	-10.5
Gram flour (Besan)	000 tonnes	345.7	302.0	263.1	-12.6	-12.9
Rawa (Sooji)	000 tonnes	272.0	291.3	310.9	7.1	6.7

Note: 1. Sugar - for 2016-17, Production data available from October – February and exports data available from October – May

2. Tea – for 2016-17, Production data available from January – April 2017
3. Coffee - for 2016-17, Production data available from October 2016 – Mar 2017

Table 1.B.: Production of Consumer goods

	Unit	2014-15	2015-16	2016-17	Growth rate 2016	Growth rate 2017
B. Consumer goods						
Toilet soap	000 tonnes	805	831	771	3.2	-7.2
Washing soap	000 tonnes	449	422	445	-6.0	5.5
Detergents	000 tonnes	1,609	1,604	1,580	-0.3	-1.5
Organic surface active agents	000 tonnes	12	6	5	-47.3	-13.4
Tooth paste	000 tonnes	251	251	217	0.1	-13.5
Hair dye	000 tonnes	9	6	8	-27.0	24.4
Hair oil	000 tonnes	114	137	146	19.8	6.6
Hair shampoo	000 tonnes	188	203	194	8.0	-4.3
Creams & lotions	000 tonnes	6	2	1	-72.5	-38.0
Agarbatti	Rs Million	7,140	7,447	7,582	4.3	1.8
Fragrances & oil essentials	Rs Million	61	85	91	39.7	6.3

Source: National diary development board, Tea Board, Tea Association, Coffee Board of India, ISMA, Solvent Extractors' Association (SEA), CMIE

Major players in the Industry

Some of the prominent players in the Food & Beverages and Household and personal care segment have been mentioned below.

Table 2: Major players in the industry

Hair oil	- **Marico - 30%** - Dabur - 19%
Shampoo	- **HUL - 47%** - P&G - 27%
Oral care	- **Colgate - 54.9%** - HUL - 30% - Dabur - 14%
Skin care	- **HUL - 54%** - CavinKare - 12% - Godrej - 3%
Fruit juice	- **Dabur - 60%** - Pepsico - 30%

Note: Companies marked in bold represent the market leaders in the segment
Source: IBEF

Demand drivers

1. *Demographic advantage*
   - The growing Indian population has also led to increase in the 'earning population' (age group 15-60) of the country. The proportion of Indian populace in the age group of 15-64 years increased from 55.4% in 1991 to 66.2% in 2016.
   - Considering the large size of the Indian population, the lower median age implies a higher number of working people thereby clearly outlining the immense earning as well as spending potential of the Indian populace.
   - Taking into account the age group below 25 years being one of the highest spending age group, the current demographic dynamics are expected to boost the retail sales in India. The median age of India is 26.7 years, one of the lowest globally in comparison to 37.2 years in the US, 45.8 years in Japan and 36.3 years in China.

Chart 2: Age distribution of Indian population

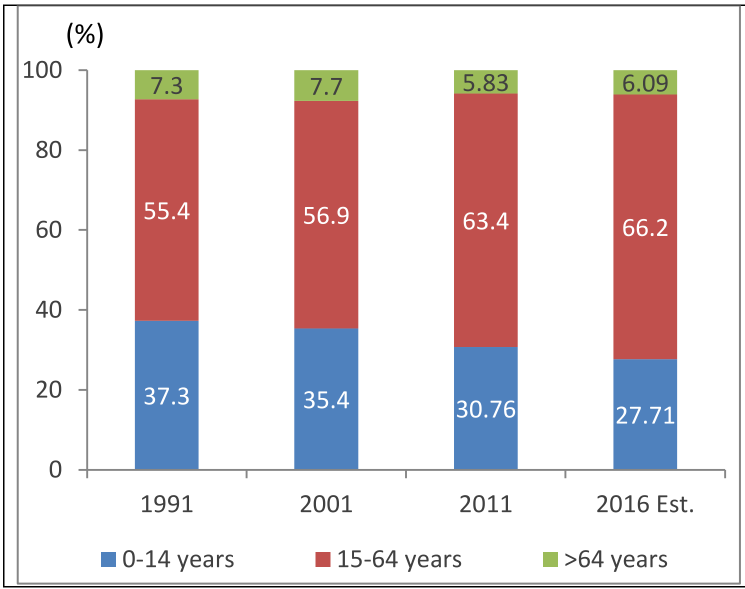
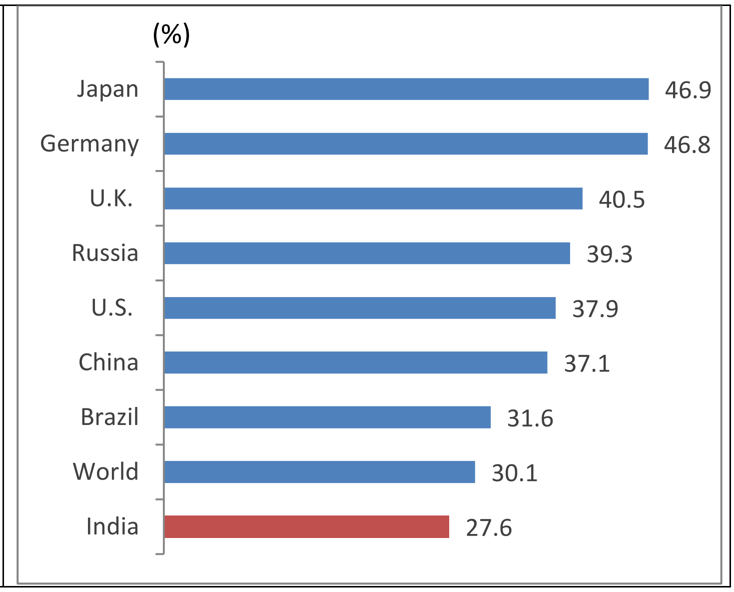


Chart 3: Median age of population – 2016E



Source: CIA – The World Factbook

2. *Rapid urbanization*
   - A majority of India still lives in 'villages'. This statement no doubt holds true but the figures suggest that there has been a paradigm shift of the Indian populace in terms of rural–urban divide. The aspirations of higher income, higher standard of living etc. has drawn more and more people from villages to settle in towns and cities.
   - This transition from rural to urban areas has led to an increase in the demand for goods (owing to higher income and ever-expanding needs). The retailers, especially in the organised segment are therefore targeting the 'middle class' populace by ensuring the availability of varied products at various price ranges to match the needs of a 'common man'.
   - Usually, most FMCG companies focus on urban markets for value and rural markets for volumes.
   - Rural India accounted for about one third of the total consumption pie in 2008, while the rest was held by urban areas. However, as of 2016, the share contributed by semi-urban and rural segments has increased to about 40% with the urban segment still being the largest contributor to the overall revenue generated by the FMCG sector in India accounting for a revenue share of around 60%. In the past few years, the performance of FMCG sector in rural areas has outpaced its performance in urban areas.
   - FMCG products account for almost about 50% of the total rural spending

Chart 4: Population Division – 2015E

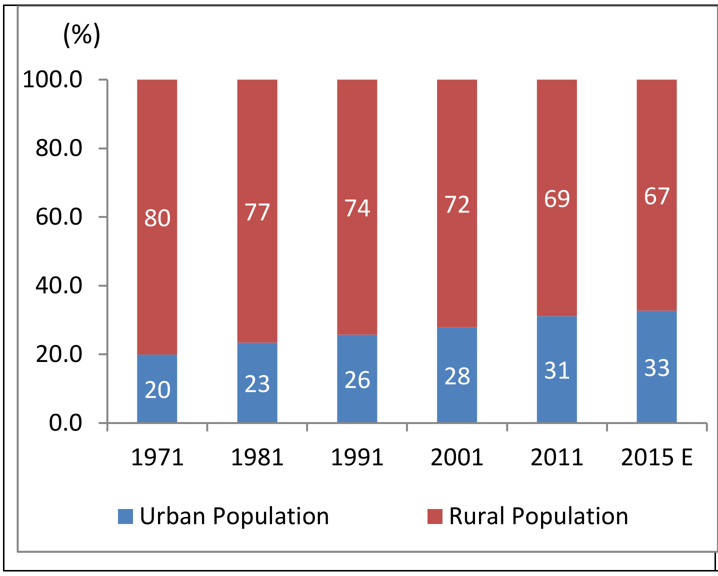
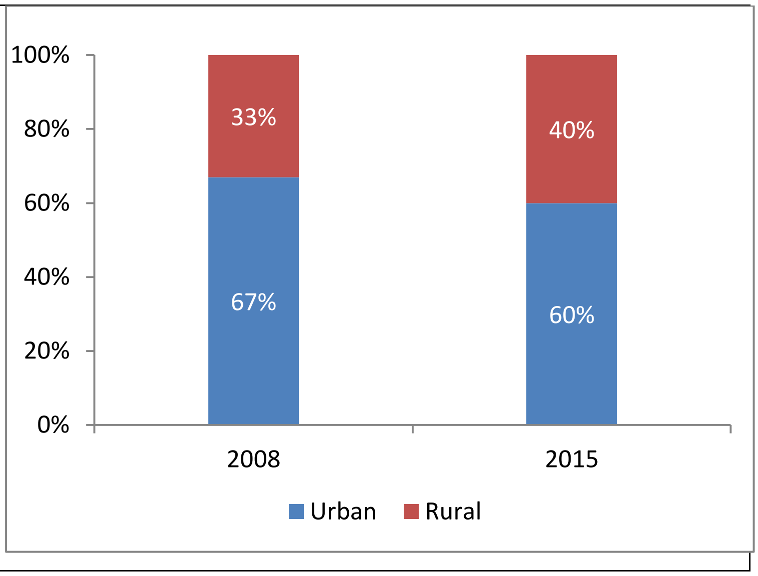


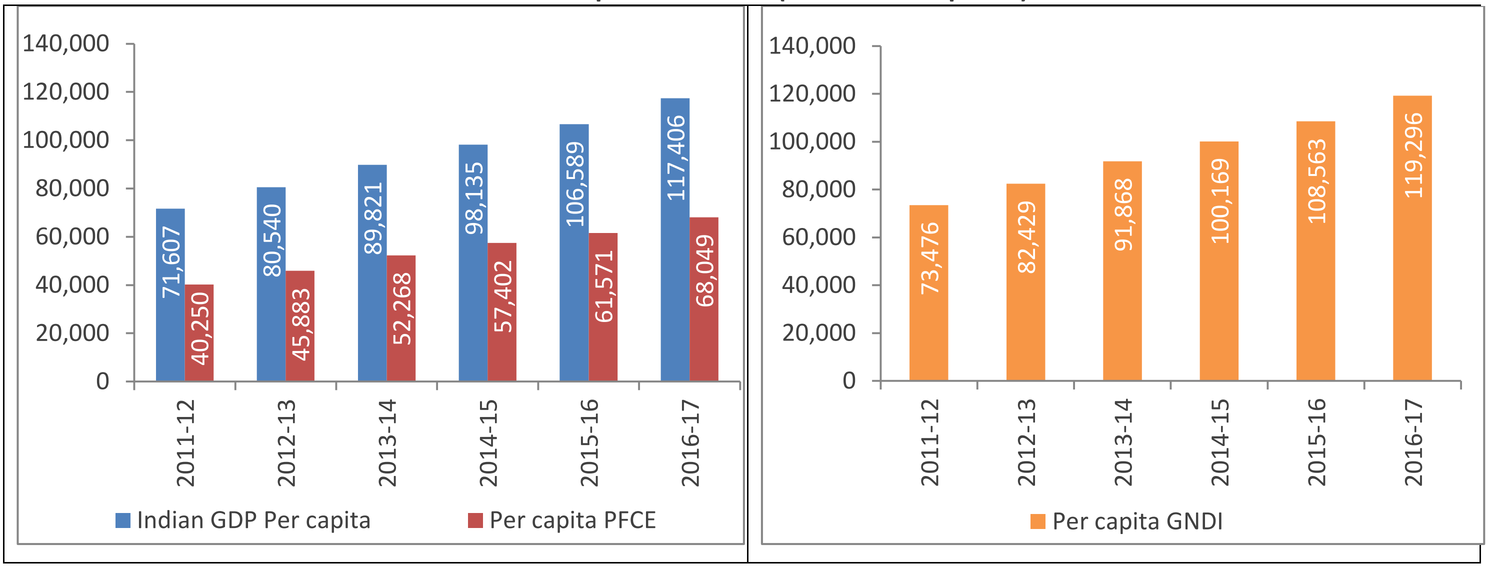
Chart 5: Urban –Rural Industry break-up (2015)



Source: Census, CIA - The World Factbook, IBEF

3. *Rising income levels & growing per capita expenditure*
    - In the last decade, Indian economy has progressed rapidly. Correspondingly, India's per capita GDP has gone up from Rs 71,607 in FY12 to Rs. 117,406 in FY17 at a CAGR of 10.4% fuelling a consumption boom in the country.
    - Correspondingly, the per capita personal disposable income surged from Rs 73,476 in FY12 to Rs 119,296 in FY17 at a CAGR of 10.2%. Also, the per capita private final consumption expenditure too rose from Rs 40,250 in FY12 to Rs.68,049 in FY17 at a CAGR of 11.1%. The growth in country's per capita GDP in turn has increased the disposable income of the populace ultimately driving the country's consumption.

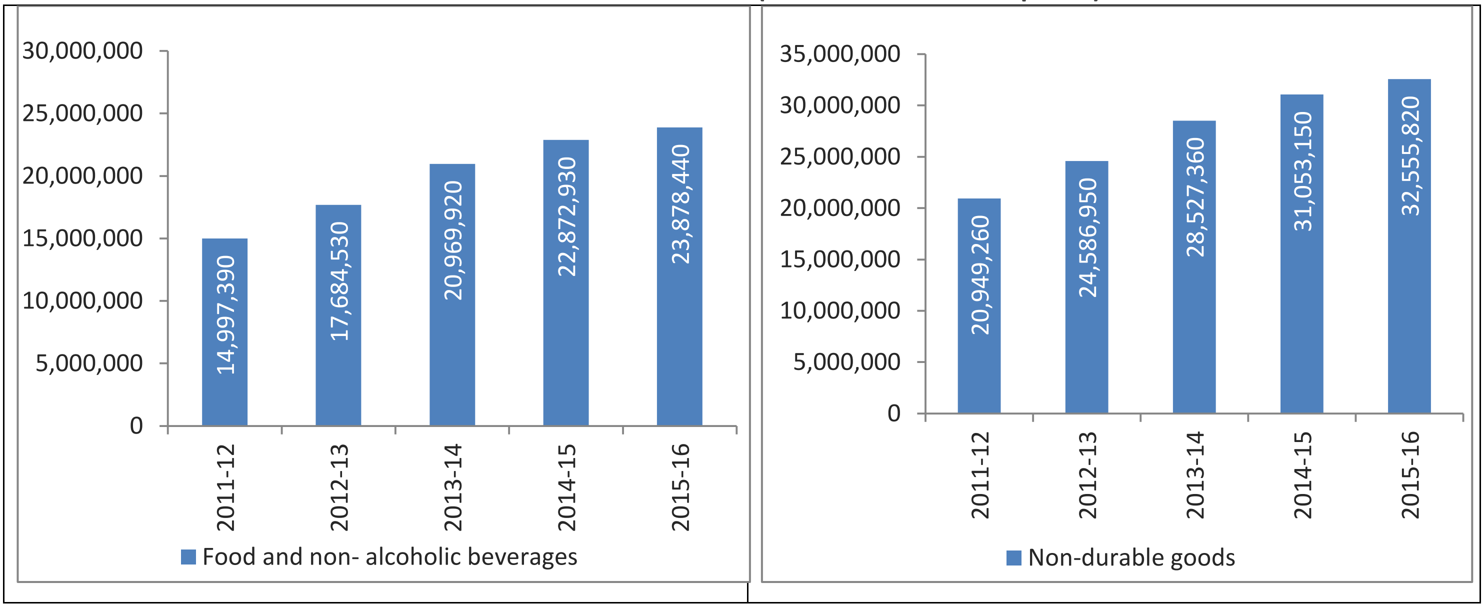
Chart 6: Per capita indicators (Rs at current prices)



Source: Central Statistics Office (CSO)

- PFCE on food & non-alcoholic beverages increased to Rs 23,878,440 million in FY16 registering a CAGR of 12.3% between FY12 and FY16. Also, PFCE on non-durable goods increased to Rs 32,555,820 million in FY16 from Rs 20,949,260 million in FY12, registering a CAGR of about 11.7%.

Chart 7: PFCE in domestic market (Rs Million at current prices)



Source: CMIE

4. *Rising growth in number of nuclear families*

- The rapid growth of population, increased urbanisation and the unavailability of large real estate spaces have led to the growth of nuclear families in the country. The average number of person per household has reduced from 5.6 in FY81 to 4.9 in FY11.
- The growing number of households has not only pushed the demand for necessities but the combined mix of greater purchasing power and willingness to spend has resulted in the nuclear family's shifting focus towards luxury/semi-luxury products. This has thus led to the emergence of modern retail formats such as specialty retail, luxury retail etc.

Chart 8: Trends in family size

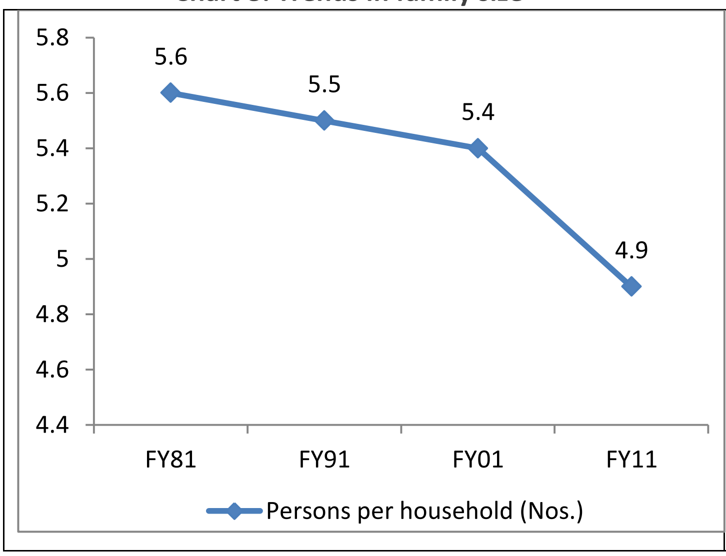
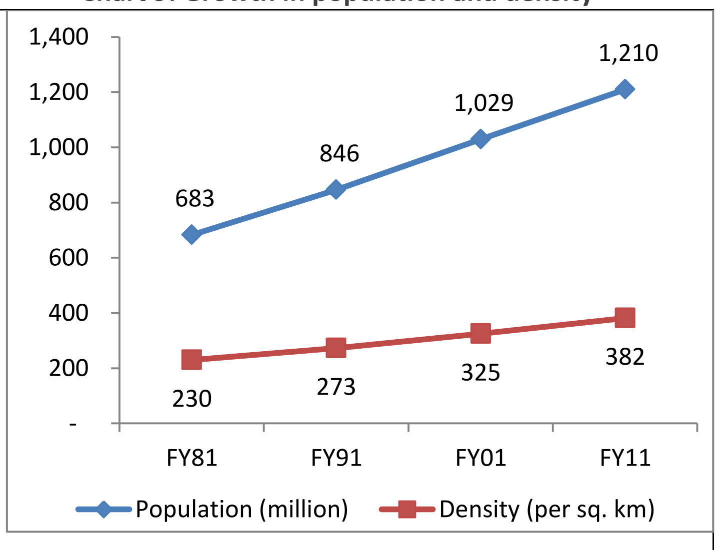


Chart 9: Growth in population and density



Source: Census of India

5. *Growing female working population*

- On the backdrop of growing Indian economy during the recent years, the participation of female workforce in the country's economic activities has increased considerably. The proportion of the female workforce which accounted for 26% of the country's workforce in FY71 has scaled to 31% during FY11.
- Notably, the percentage of working women involved in the organised industrial activities too has increased from 27% in FY81 to 47% in FY11.
- The higher purchasing power in the hands of 'working-women class' compared to the housewives enhances the ability of the former to spend much more comparatively increasing the demand for cosmetics, toiletries among others.

Chart 10: Share in total working population (%)

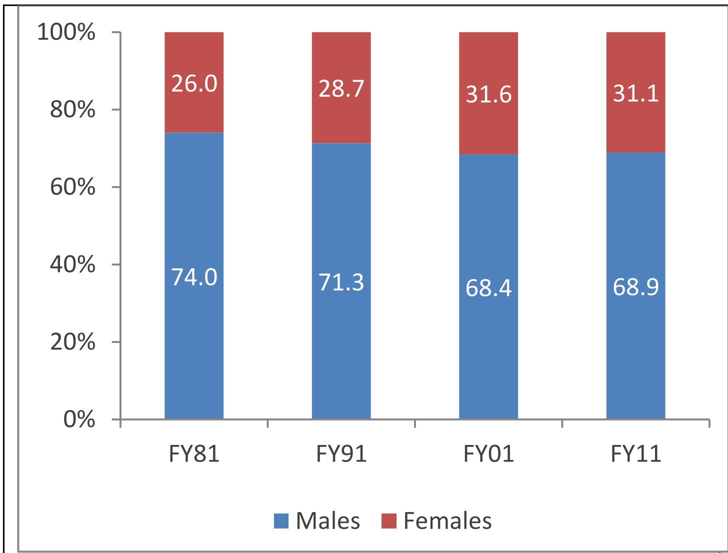
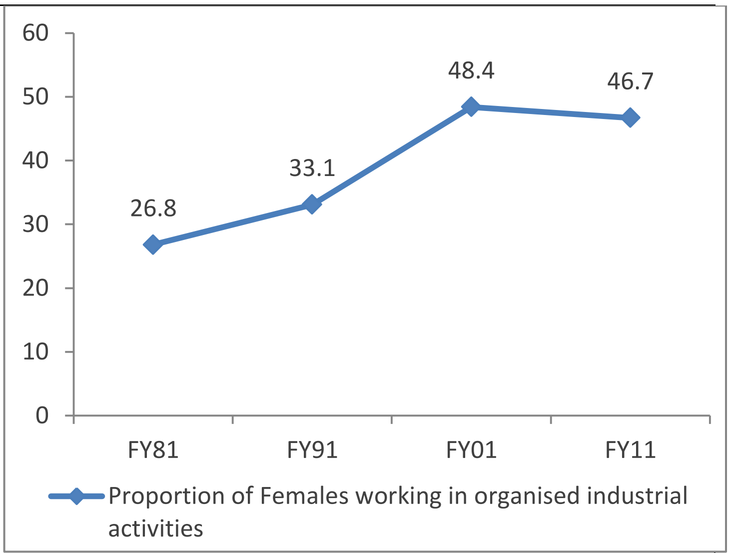


Chart 11: Proportion of females working in organised industrial activities (%)



Source: Census of India, Socio-Economic Statistics – 2011, CMIE

Other factors driving the demand for Indian FMCG sector are as follows:

6. Desire to experiment with brands
   - Demand has picked up with new brands coming in regularly with new product launches
7. Evolving consumer lifestyle
   - Growing aspirations and higher standard of living has led to the bandwagon effect increasing demand for FMCG products
8. Growing rural market
   - Good rainfall, higher farm incomes has led to growth in rural demand
9. Growth of modern trade
   - On back of organised retail and commerce
10. Strong distribution channels –
    - FMCG companies have established strong distribution channels to reach out to smaller cities and towns (tier II & tier III cities). Also, customization of products is done for lower income groups. For eg: Making FMCG products available in smaller quantities (Sachets)
11. Emergence of online grocery stores – Grofers, BigBasket, etc
12. Greater awareness of availability of various products, brands
13. Government reforms to encourage FDI and market sentiments

Financial Performance

CARE has analysed the revenue and profit structure of the organised FMCG industry in India.

Table 3: Aggregate performance of FMCG companies (excluding dairy & OTC pharma)

174 companies	Rs crore			Growth (%)	
	FY15	FY16	FY17	FY16	FY17
Net sales	141,362	141,410	139,222	0.03	-1.5
Net profits	759	1,546	4,977	103.7	221.9
Net profit margin (%)		1.1	3.6		

Source: AceEquity

- Net sales in FY17 declined marginally by about 1.5% after registering thin negligible growth rate in the previous year dragged down by lower sales in the consumer foods and edible oils segment while the sugar industry witnessed a double digit growth in net sales during the year.
- The demand for some of consumer goods being non-discretionary, the industry witnessed positive growth in the sales during the year, though at a slower rate. This was on account of the cash crunch in the market post demonetisation in Q3 and Q4 due to which purchases took a hit.
- However, net profits witnessed a sharp growth of over 200% during the year. This growth was contributed by the edible oil industry (solvent extractor's) along with improvement in net margins of sugar industry in FY17 mainly led by higher sugar prices during the year.
- Net profit margins of FMCG companies improved to 3.6% in FY17 registering an expansion of about 250 basis points.
- However, the net profit margins registered by 2,892 companies (all companies excluding banks, IT, oil/refinery and finance) for FY17 is 4.7%, that is higher than the FMCG companies margins. On the other hand, the expansion for all companies was only about 20 basis points.

Interest cover (ratio of PBDIT/interest) has been calculated for the set of 174 companies. The interest cover was higher at 2.88 times in FY17 from 2.06 times in FY16.

FMCG companies are adopting various strategies to increase revenues and expand their customer base. Following are some of the commonly adopted strategies by players in the industry.

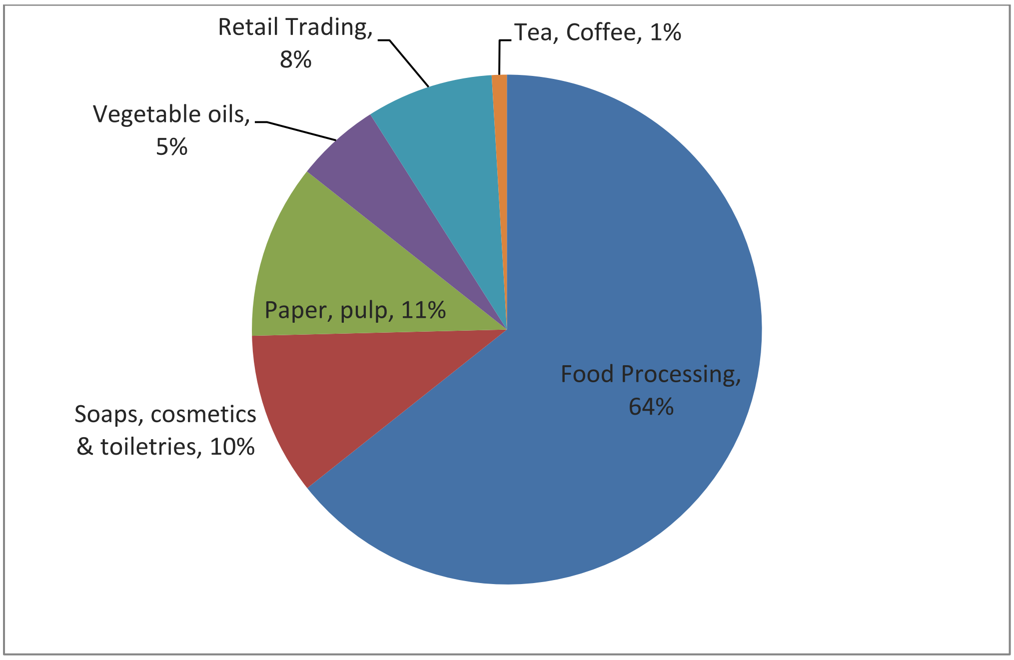
1. Promotions and offers
   - Many players offer combo deals, for eg: in case of soaps and cosmetics, 4 soap bars are offered in the price of 3 (helps in increasing sales while generating profits), selling cosmetics, shampoo and conditioners as a combo pack at a discounted price.
2. Product innovation
   - With a wide range of choice, Indian consumers have become choosy when it comes to loyalty to a brand
   - Therefore, many prominent players are upping their game with bringing innovative products in the market. For eg: Colgate-Palmolive has launched a toothpaste for inflammatory gum problem of pyorrhoea, ITC has plans to launch multigrain variant of its brand 'Bingo', Dabur launched a sugar free variant of its Chyawanprash in India. Also, as of March 2017, ITC that ventured into coffee and chocolate segment under Fabelle and Sunbean brands, has plans to launch another premium range of products.

3. Customisation
   - Introduction of various types of same product for different user groups, for eg: Calcium Sandoz and Calcium Sandoz for women, Horlicks for older women and Junior Horlicks
4. Research Online Purchase Offline (ROPO)
   - The internet assists consumers to carry out their own research on the kinds of products they want to purchase and the available choice of brands for the particular product
   - 1 in 3 FMCG shopper goes online 1st and then to the stores

Investments

- FMCG sector witnessed healthy FDI inflows of USD 11,628.76 million, during April 2000 to December 2016.
- Within FMCG, food processing was the largest recipient having a share of 64.36%
- US based dairy giant - Schreiber Dynamix Dairies, opened its 1st fully-automated infant nutrition plant, at Baramati, Maharashtra, with an investment of USD 37.18 million.
- Britannia signed a MoU with a Greek baker – Chipita, to produce bakery items such as croissants, rolls & various dough products. The venture is worth an investment of USD 11 million, where Britannia will be looking after functions like logistics costs, supply-chain & distribution network

Chart 12: Share of FDI inflows (April 2000 – December 2016)



Source: IBEF

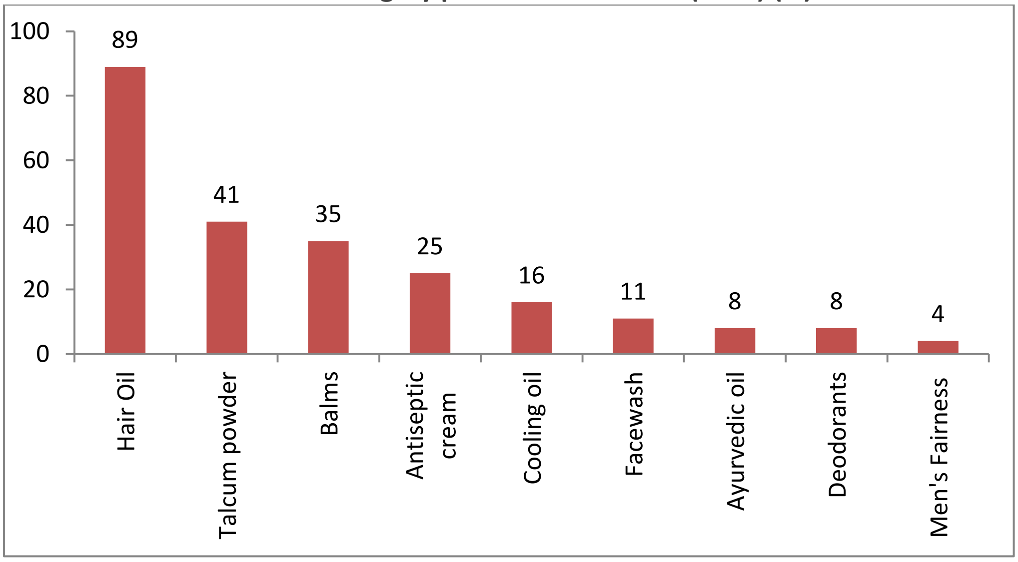
Outlook

- Historically, growth in private final consumption expenditure (PFCE) relates well with growth on non-durable goods with a ratio of 0.8 times on an average. ***Therefore, going forward CARE expects the FMCG industry to grow by about 9-9.5% in FY18.***
- Also, CARE expects the retail industry to register a growth rate of about 12-14% over the next 4 years and reach about USD 1,150 billion by 2020, with the Private Final Consumption Expenditure (PFCE) expected to grow by

about 12.5% y-o-y till 2020 (has grown at about 10-12% historically) and real GDP expected to go up to ~8.5-9% during the same period. This growth in Retail industry is likely to benefit the FMCG sector with higher sales revenues to the players.

– With factors such as higher demand from consumers with higher incomes, job creations, improved standard of living, higher participation of producers/retailers in the organised retail market, discounted and promotional pricing, increased number of products and more private labels with retailers among others, the industry is expected to register growth going forward.
– The Government of India has also been supporting the rural population with higher minimum support prices (MSPs), loan waivers to farmers and disbursements through the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA) programme. These arrangements have empowered the rural masses and increased their purchasing power, thus boosting FMCG consumption.
– Also, under the Union Budget FY18, the government retained its focus on rural economy by continuing the pro-poor and pro-farmer schemes.
– Many leading FMCG players have also expanded their network and increased product penetration to rural areas.
– Penetration of many product categories is still low in India. Even among those where the penetration is higher, per capita consumption is comparatively low, thereby offering scope for high growth in future. Penetration for products such as hair oil and talcum powder is higher than some other major products like deodorants and men's fairness creams that recorded penetration of just 8% and 4% respectively in FY16. This can be an opportunity for the FMCG industry in India.

Chart 13: Category penetration in India (FY16) (%)



Source: IBEF

– With more job opportunities in the rural areas on back of Central government spending announcement of USD 9.16 billion, growing agricultural economy along with prediction of normal to good monsoon in FY18, demand for FMCG products is expected to gain momentum going forward.

GST implications on FMCG industry

- GST is set to reduce the supply chain constraints and improve the competitiveness of organised FMCG companies against the unorganised players
- Leading consumer goods manufacturers have already aligned their supply chains, IT Infrastructure & warehousing facilities so as to facilitate smooth interstate movement of goods
- Also, tax rates on many products such as hair oil, soaps, sugar confectionery, toothpaste, etc. have been reduced under the GST tax regime and many of important raw materials required in food processing industry are exempted from tax. This will be beneficial for the FMCG industry as the prices of many products will be brought down thereby benefitting the consumers and increasing revenues of the industry.

Table 4: GST rates (applicable from July 1, 2017)

Product	Pre GST incidence*	Post GST
Soaps	27%	18%
Hair oil	27%	18%
Sugar Confectionery	21%	18%
Toothpaste	27%	18%
Toothpowder	17%	12%
Wheat	2.5%	0%
Rice	2.75%	0%
Unbranded Flour	3.5%	0%
Mineral Water	27%	18%
Vegetable oils	6%	5%
Milk Powder	6%	5%
Sugar	6%	5%
Tea (other than unprocessed green leaves of tea)	6%	5%

Note: *- CST, Octroi, entry tax has not been considered in the pre-GST rate

- Therefore, post the initial interruptions, CARE believes the GST would benefit the overall FMCG industry.

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