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FMCG Industry Performance Review & Outlook - FY19

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Overview

Fast moving consumer goods (FMCG) industry stood at USD 57.4 billion in 2017 vis-à-vis USD 49 billion in 2016, registering a sharp growth of over 17% during the year *(as per IBEF)*. Household and personal care continue to be the leading segment –accounting for 50% of the overall market followed by Healthcare and Food & beverages segment that account for 31% and 19% respectively.

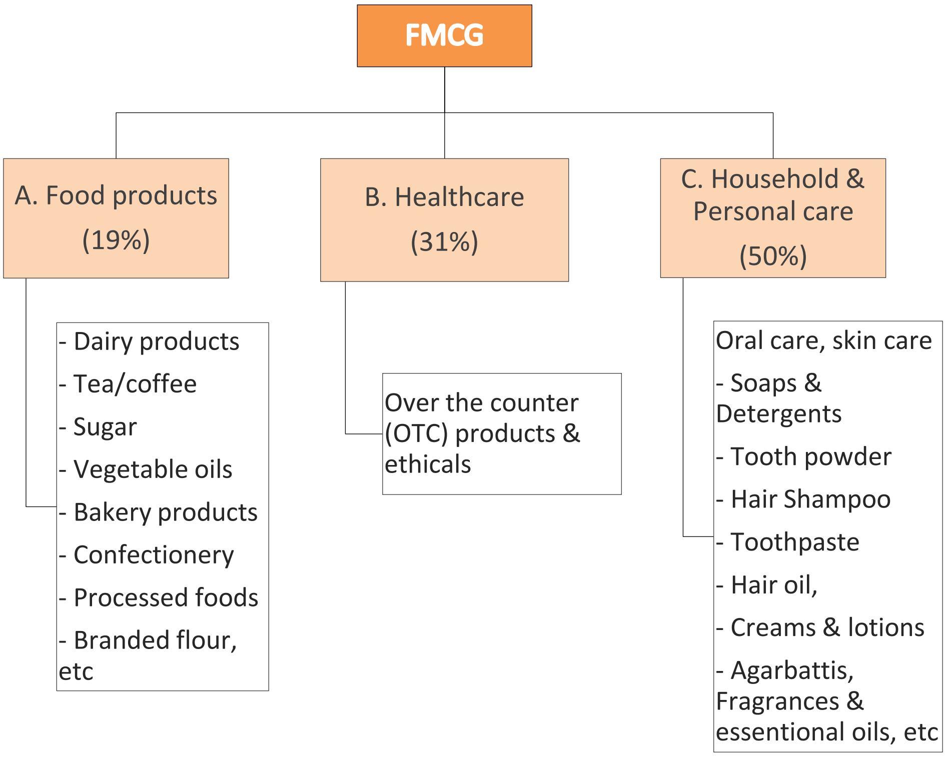
Fast-moving consumer goods (FMCG) are products that are sold quickly and at relatively low cost. Examples include non-durable goods and soft drinks, toiletries, over-the-counter drugs, processed foods and other consumables.

In 2017, urban area was the largest contributor to the overall revenue generated by the FMCG sector in India with about 55% share while the rest came from semi-urban and rural areas. The share of rural segment in the overall revenue contribution has been consistently growing over the past few years.

Historically, growth in private final consumption expenditure (PFCE) relates well with growth in non-durable goods with a ratio of about 1-1.2 times on an average. ***Therefore, going forward, with the nominal GDP expected to be at 12.5%, and private final consumption expenditure expected to be at ~12-13%, CARE Ratings expects the FMCG industry to register a growth of about 14-16% in FY19.***

Also, with Indian retail market being estimated to reach USD 1.15 trillion by 2020 from USD 840 billion in 2017 by CARE Ratings and modern trade projected to grow at about 20-22% 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	FY16	FY17	FY18	Growth rate (%) FY17	Growth rate (%) FY18
A. Food Products						
1. Dairy Products						
Milk powder	000 tonnes	229	207	246	-9.6	18.6
Milk	Mn litres	5,241	5,592	6,560	6.7	17.3
Ghee	000 tonnes	185	187	171	1.1	-8.5
Butter	000 tonnes	128	107	130	-16.3	21.8
Icecream	Mn Litres	165	170	185	3.6	8.3
Tea Season (January - December)		**CY16 (Jan-Apr)**	**CY17 (Jan-Apr)**	**CY18 (Jan-Apr)**		
2. Tea	000 tonnes	174	181	178	4.0	-1.9
Coffee Season (October - September)		**CS16 (Oct-Apr)**	**CS17 (Oct-Apr)**	**CS18 (Oct-Apr)**		
3. Coffee						
Coffee	000 tonnes	150	163	NA	9.0	NA
Instant Coffee	000 tonnes	26	27	30	5.5	9.8
Sugar Season (October - September)		**SS16 (Oct-Feb)**	**SS17 (Oct-Feb)**	**SS18 (Oct-Feb)**		
4. Sugar	Mn tonnes	20	16	23	-18.8	42.3
Oil Season (November - October)		**OS16**	**OS17**	**OS18**		
5. Edible oils & products	000 tonnes	6,610	7,615	NA	15.2	-
6. Non-Edible oils & products	000 tonnes	738	619	NA	-16.2	-
	Unit	**FY16**	**FY17**	**FY18**	**Growth rate FY17**	**Growth rate FY18**
6. Other food products						
a. Cocoa products & confectionery						
Chocolate & cocoa powder	000 tonnes	147	147	150	-0.3	1.9
Sweetmeat & sugar confectionary	000 tonnes	110	121	118	9.3	-2.0
b. Bakery products						
Bread, buns & croissant	000 tonnes	279	262	275	-5.9	4.8
Cakes, pastries & muffins	000 tonnes	16	15	10	-5.0	-37.1
Biscuits/ cookies	000 tonnes	600	624	630	3.9	1.1
c. Processed foods						
Honey, artificially preserved	000 tonnes	4	4	4	-9.1	-5.9
Bottled water	Lakh litres	10,346	9,344	8,458	-9.7	-9.5
Aerated drinks & soft drinks	Lakh litres	27,768	26,446	26,595	-4.8	0.6
Fruit pulp & fruit juice	000 tonnes	144	151	158	5.2	4.4
Pickles & sauces	000 tonnes	76	79	61	3.6	-21.9
	Unit	**FY16**	**FY17**	**FY18**	**Growth rate FY17**	**Growth rate FY18**
Jams, jellies, marmalades and	000 tonnes	70	73	53	5.0	-28.3

puree						
Spices	000 tonnes	90	87	85	-4.0	-2.5
Instant food (ready to eat)	000 tonnes	282	360	416	27.5	15.6
Molasses	000 tonnes	5,491	4,156	4,674	-24.3	12.5
d. Starch	000 tonnes	557	619	689	11.1	11.3
e. Poultry & meat products						
Meat & edible meat offal	000 tonnes	320	285	308	-11.0	8.2
f. Milling products						
Maida	000 tonnes	1,874	1,836	1,829	-2.0	-0.4
Wheat flour (Atta)	000 tonnes	1,619	1,531	1,502	-5.4	-1.9
Wheat bran	000 tonnes	957	921	796	-3.7	-13.6
Milled dal	000 tonnes	233	213	258	-8.7	21.1
Gram flour (Besan)	000 tonnes	302	263	255	-12.9	-3.0
Rawa (Sooji)	000 tonnes	291	310	324	6.4	4.6
7. Rice	000 tonnes	2,255	1,723	1,656	-23.6	-3.9
8. Cashew Kernels	000 tonnes	25	17	9	-33.2	-44.1

Table 1.B.: Production of Consumer goods

	Unit	FY16	FY17	FY18	Growth rate	
					FY17	FY18
B. Consumer goods						
Toilet soap	000 tonnes	831	774	759	-6.8	-2.0
Washing soap	000 tonnes	422	444	421	5.2	-5.2
Detergents	000 tonnes	1,604	1,580	1,484	-1.5	-6.1
Organic surface active agents	000 tonnes	6	5	4	-13.9	-22.2
Tooth paste	000 tonnes	251	217	160	-13.5	-26.3
Hair dye	000 tonnes	6	8	7	24.4	-7.1
Hair oil	000 tonnes	137	146	145	6.6	-0.5
Hair shampoo	000 tonnes	203	194	212	-4.3	9.4
Creams & lotions	000 tonnes	2	1	1	-38.0	-29.0
Agarbatti	Rs Million	7	8	7	2.1	-13.0
Fragrances & oil essentials	Rs Million	85	90	97	5.5	8.0

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

Demand drivers for Indian FMCG sector are as follows:

1. Favourable demographics
2. Rising income levels & growing per capita expenditure
3. Rapid urbanization
4. Increasing number of nuclear families
5. Growing female working population
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 and expansion of online grocery stores – Grofers, BigBasket, etc. Amazon has also recently started its grocery segment – 'Amazon Pantry'
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)

203 companies	Rs crore			Growth (%)	
	FY16	FY17	FY18	FY17	FY18
Net sales	200,898	201,800	205,547	0.4	1.9
Net profits	9,722	13,794	5,003	41.9	-63.7
Net profit margin				6.8	2.4

Source: AceEquity

– Net sales in FY18 increased marginally by about 1.9% after registering a wafer thin negligible growth rate in the previous year dragged down by lower sales in the consumer foods and sugar segment while the detergents, household and personal products, edible oils and tea/coffee industry, witnessed a growth in net sales during the year.
– With GST implementation in Q2 FY18 (July 1, 2018), the demand for some of consumer goods and household and personal products industry witnessed positive growth in the sales during the year. This was on account of release of pent up demand post the cash crunch in the market led by demonetisation in Q3 and Q4 FY17 due to which purchases took a hit. Also, tax rates on various FMCG products were lower post GST implementation. Producers passed on the cost benefit to the consumers further pushing the demand.
– However, net profits witnessed a sharp decline of over 60% during the year. This decline was contributed by the consumer foods industry, detergents & soaps and sugar industry. Edible oil industry (solvent extractor's) also, registered a y-o-y decline in profits.
– For sugar industry, in H2 FY18, the sugar production surged to 31 million tonnes leading to a price decline of about 3.3% y-o-y in FY18. High sugarcane prices during the year also impacted the industry's during the year.
– Net profit margins of FMCG companies improved to 3.6% in FY17 registering an expansion of about 250 basis points.

– In FY18, net profit margin registered by 203 companies witnessed a slower growth of 2.4%, over 400 basis points lower compared with corresponding period last year. With increased raw material prices and many companies actively destocking goods prior to GST implementation, discounts offered on final products, the margins were impacted.

Interest cover (ratio of PBDIT/interest) has been calculated for the set of 203 companies. The interest cover was lower at 4.5 times in FY18 vis-à-vis 5.2 times in FY17.

Strategies adopted by FMCG players

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 improving their game with bringing innovative products in the market.
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
   – Introduction of various combinations of products at different price points so as to cover as many market segments as possible
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 before going to the stores
5. Joint Ventures (JV)
   – In January 2018, Eveready Industries India entered into a JV with the Wings Group, an Indonesian large conglomerate and one of the major FMCG companies, Universal Wellbeing. Through this JV, Eveready has plans to market and distribute a large basket of FMCG products in India
6. Product Innovation - Expansion
   – In January 2018, Nestle, Switzerland based FMCG major, has entered into India's pet care segment by introducing arrange of premium dog food called 'Purina Supercoat' under its subsidiary Nestle Purina.

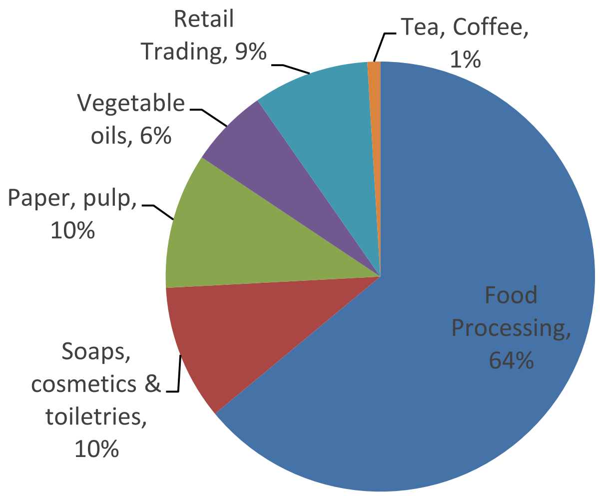
Investments

– FMCG sector witnessed healthy FDI inflows of USD 13.07 billion, during April 2000 to December 2017.
– Within FMCG, food processing was the largest recipient having a share of 64%
– Between January and April 2018, investment intentions of Rs 9,144 crore from various FMCG companies were announced from sugar, fermentation, food processing, vegetable oils and vanaspathi, soaps, cosmetics and toiletries industries. *(As per Department of Industrial Policy and Promotion - DIPP statistics)*

- A US chocolate major plans to invest US$ 50 million over the next five years in India, its fastest growing core market outside of US.
- As a part of its Rs 25,000 crore (US$ 3.9 billion) investment package, an Indian conglomerate will invest Rs 10,000 crore (US$ 1.6 billion) to expand its food processing segment.
- The bottling arm of a major soft drink brand is planning to increase its retail reach by one million new outlets and is targeting revenue of US$ 2.5 billion by 2020.
- Another emerging FMCG player is planning to spend ~US$ 744 million in various food parks in Maharashtra, Madhya Pradesh, Assam, Andhra Pradesh and Uttar Pradesh.

Source: IBEF and CARE Ratings

Chart 2: Share of FDI inflows (April 2000 – December 2017)



Source: IBEF

Taxes & regulations

Post GST implementation, prices of various commodities in the FMCG sector, like shampoos, soaps, detergents, biscuits, other snacks etc. decreased, leading to about 3-8% decrease in prices of goods at modern retail stores. Some of the major FMCG companies like Dabur, PepsiCo, HUL, Marico, etc. have already aligned their supply chains, IT infrastructure and warehousing systems for the unified GST regime, so as to facilitate seamless interstate movement of goods.

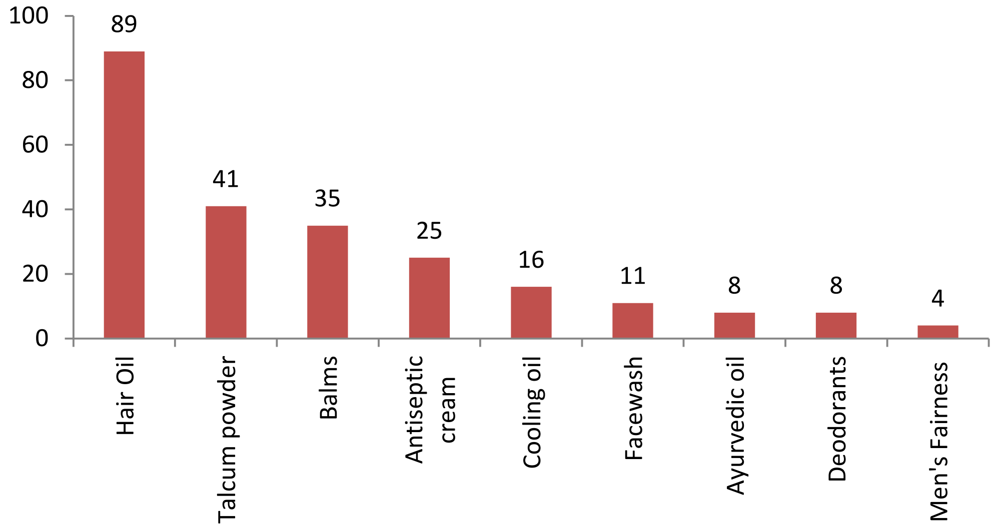
Outlook

- Historically, growth in private final consumption expenditure (PFCE) relates well with growth in non-durable goods with a ratio of about 1-1.2 times on an average. ***Therefore, going forward, with the nominal GDP expected to be at 12.5%, and private final consumption expenditure expected to be at ~12-13%, CARE Ratings expects the FMCG industry to register a growth of about 14-16% in FY19.***
- Also, CARE Ratings 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 12-13% 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 FY19, 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 3: Category penetration in India (FY16) (%)



Source: IBEF

- With more job opportunities in the rural areas on back of Central government spending, growing agricultural economy along with prediction of normal to good monsoon in FY19, demand for FMCG products is expected to only gain momentum going forward.