CONSUMER GOODS/SERVICES INDUSTRY

A. FAST MOVING CONSUMER GOODS (FMCG)

INTRODUCTION

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. FMCG sector is the 4th largest sector in the Indian economy with Household and Personal Care accounting for 50 per cent of FMCG sales in India.

However, in the last few years, the FMCG market has grown at a faster pace in rural India compared with urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50 per cent of total rural spending.

In 2017, the overall fast-moving consumer goods (FMCG) market grew 9% by volume, up from 5-7% growth in 2011-2016. Volume is regarded as a clearer indication of actual demand.

The urban segment (accounts for a revenue share of around 55 per cent) is the largest contributor to the overall revenue generated by the FMCG sector in India

SEGMENTS IN FMCG SECTOR

There are three main segments in the sector:

- Food and beverages which accounts for 18 per cent of the sector
- Healthcare which accounts for 32 per cent and household
- Personal care which accounts for the remaining 50 per cent

As India's biggest consumer goods company, HUL's performance is often seen as setting the tone for India's packaged goods sector. ITC too saw revenue growth at 11% for its FMCG segment (excluding cigarettes) during the December 2018 quarter.

The other top Indian FMCG companies included such as Dabur, Godrej, Marico, Nestle, Procter & Gamble, GSK Consumer and Patanjali.

INDUSTRY DRIVERS

Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector.

INDUSTRY PERFORMANCE

Revenue and profit structure of the organised FMCG industry in India:

- 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.*

INVESTMENTS AND RECENT DEVELOPMENTS

The government has allowed 100 per cent Foreign Direct Investment (FDI) in food processing and single-brand retail and 51 per cent in multi-brand retail. This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organised retail markets, bolstering consumer spending and encouraging more product launches. The sector witnessed healthy FDI inflows of US$ 14.67 billion, during April 2000 to March 2019. Some of the recent developments in the FMCG sector are as follows:

- Patanjali will spend US$743.72 million in various food parks in Maharashtra, Madhya Pradesh, Assam, Andhra Pradesh and Uttar Pradesh.
- Dabur is planning to invest Rs 250-300 crore (US$ 38.79-46.55 million) in FY19 for capacity expansion and is also planning to make acquisitions in the domestic market.
- In May 2018, RP-Sanjiv Goenka Group created an Rs 1 billion (US$ 14.92 million) venture capital fund to invest in FMCG start-ups.
- In August 2018, Fonterra announced a joint venture with Future Consumer Ltd which will produce a range of consumer and foodservice dairy products.
- Future Retail acquires Hyper City, which is owned by Shoppers Stop for Rs 911 crore (US$ 139.7 million) to further consolidate its business and have a better footing in the hypermarket segment.
- Indian biscuits giant, Britannia Industries Ltd (BIL), is setting up its largest plant ever, in Ranjangaon, Maharashtra, with an investment of Rs 1,000 crore (US$ 156.89 million). The plant will have an annual capacity of 120,000 tonne and will be completed within the next two years.
- ITC Ltd has forayed into the frozen food market with the launch of frozen prawns and further plans to launch frozen vegetables and fruits, in a move towards reaching Rs 1 trillion (US$ 15.54 billion) in revenue by 2030.

- Indian FMCG major, Patanjali Ayurved, is targeting a 10- fold growth in sales and is set to achieve a turnover of Rs 1 lakh crore (US$ 15.52 billion) over the next five years.
- Dabur India Ltd set up its largest manufacturing plant globally, spread over 30 acres, at a cost of Rs 250 crore (US$ 38.56 million) in Tezpur, Assam, which will produce Dabur's complete range of Ayurvedic medicines, health supplements, and personal care products among others.
- Hatsun Agro Product Ltd, the fifth-largest ice cream maker in India, plans to expand its business in Maharashtra, and might acquire a Greenfield project or farm in the state for the same

GOVERNMENT INITIATIVES

Some of the major initiatives taken by the government to promote the FMCG sector in India are as follows:

- In the Union Budget 2017-18, the Government of India has proposed to spend more on the rural side with an aim to double the farmer's income in five years; as well as the cut in income tax rate targeting mainly the small tax payers, focus on affordable housing and infrastructure development will provide multiple growth drivers for the consumer market industry.
- The Government of India's decision to allow 100 per cent Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route has provided clarity on the existing businesses of e-commerce companies operating in India.
- With the demand for skilled labour growing among Indian industries, the government plans to train 500 million people by 2022 and is also encouraging private players and entrepreneurs to invest in the venture. Many governments, corporate and educational organisations are working towards providing training and education to create a skilled workforce.
- The Government of India has drafted a new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come under 18 per cent tax bracket against the previous 23-24 per cent rate.

Following are the achievements of the government in the past four years:

- Number of mega food parks ready increased from 2 during 2008-14 to 13 during 2014-18.
- Preservation and processing capacity increased from 308,000 during 2008-14 to 1.41 million during 2014-18.
- The number of food labs increased from 31 during 2008-14 to 42 during 2014-18.

CHALLENGES IN FMCG SECTOR

India's FMCG market is highly fragmented which is a contrast to that in U.S where it is dominated by a few big players. Therefore, launching and growing market share around a product poses tremendous challenges. Initially a huge amount of money is invested for promotion and advertising and image building. This is very important for a market like in India where there are many players for the same product.

Also the Indian population wants a better return value for their investment. So the game really lies in setting up a price point. Setting up logistics and distribution chains also possesses difficult challenges which are being tackled by constructing and increasing the existing network of railways and roadways and other modes of transportation for easy transportation for goods throughout the country.

ROAD AHEAD

Rural consumption has increased, led by a combination of increasing incomes and higher aspiration levels; there is an increased demand for branded products in rural India. The rural FMCG market in India is expected to grow to US$ 220 billion by 2025 from US$ 23.6 billion in FY18. In FY18, FMCG's rural segment contributed an estimated 10 per cent of the total income and it is forecasted to contribute 15-16 per cent in FY 19. FMCG sector is forecasted to grow at 12-13 per cent between April–June 2019.

On the other hand, with the share of unorganised market in the FMCG sector falling, the organised sector growth is expected to rise with increased level of brand consciousness, also augmented by the growth in modern retail.

Another major factor propelling the demand for food services in India is the growing youth population, primarily in the country's urban regions. India has a large base of young consumers who form the majority of the workforce and, due to time constraints, barely get time for cooking.

Online portals like are expected to play a key role for companies trying to enter the hinterlands. The Internet has contributed in a big way, facilitating a cheaper and more convenient means to increase a company's reach. It is estimated that 40 per cent of all FMCG consumption in India will be online by 2020. The online FMCG market is forecasted to reach US$ 45 billion in 2020 from US$ 20 billion in 2017.

It is estimated that India will gain US$ 15 billion a year by implementing the Goods and Services Tax. GST and demonetisation are expected to drive demand, both in the rural and urban areas, and economic growth in a structured manner in the long term and improve performance of companies within the sector.

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B. CONSUMER DURABLES

INTRODUCTION

Consumer durables are a category of consumer products that do not have to be purchased frequently because they are made to last for an extended period of time (typically more than three years). They are also called durable goods or durables.

Indian consumer durables market is broadly segregated into urban and rural markets, and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favorable population composition and increasing disposable incomes.

Indian appliance and consumer electronics (ACE) market is expected to increase at a 9 per cent CAGR to reach Rs 3.15 trillion (US$ 48.37 billion) in 2022.

Per capita GDP of India is expected to reach US$ 3,273.85 in 2023 from US$ 1,983 in 2012. The maximum consumer spending is likely to occur in food, housing, consumer durables, and transport and communication sectors.

INDUSTRY STRUCTURE

The consumer durables industry can be categorized into two segments:

1. **Consumer Appliances**

   Under consumer appliances/domestic appliances, the industry is further classified under 'White goods' and 'Brown goods'. White goods are large household appliances that mainly include Air Conditioners, Washing machines and Refrigerators and other kitchen appliances while the brown goods have mostly kitchen appliances and other cooking range products.

2. **Consumer Electronics**

   Consumer Electronics are equipment intended for routine use, most often in entertainment, communications and workplace productivity.

MAJOR PLAYERS IN THE CONSUMER DURABLES INDUSTRY

BlueStar, Daikin, Godrej, Hitachi, LG, Onida, Philips, Samsung, Sony, Videocon and Whirlpool

MARKET SIZE

- The growing purchasing power and rising influence of the social media have enabled Indian consumers to splurge on good things. Import of electronic goods reached US$ 53 billion in FY18.
- India is one of the largest growing electronics market in the world. Indian electronics market is expected to grow at 41 per cent CAGR during 2017-2020 to reach US$ 400 billion.
- As of FY18, washing machine, refrigerator and air conditioner market in India were estimated around Rs 7,000 crore (US$ 1.09 billion), Rs 19,500 crore (US$ 3.03 billion) and Rs 20,000 crore (US$ 3.1 billion), respectively.
- India's air conditioners market is expected to reach 7.2 million units in FY 20 on the back of rising penetration, urbanisation and higher disposable incomes, according to estimates by brokerage firm Motilal Oswal.
- India's smartphone market in 2018 grew by 14.5 per cent with a shipment of 142.3 million units. India is expected to have 829 million smartphone users by 2022.

1. **Consumer Appliances**

   a. Refrigerators

      - Refrigerators makes up 27% of the consumer appliances market

- Direct cool category constitutes 75% while frost free segment stands at about 25% of the total market share
- The estimated market size of Refrigerators in volume terms is over 10 million units as of FY17 while in value terms, it is Rs 195 billion (US$ 3.02 billion) as of 2017.

b. Air Conditioners (ACs)

- During FY17, market size for air conditioning in India was valued at Rs 18,500 crore (US$ 2.76 billion), while the market for room air conditioners was valued at around Rs 12,000 crore (US$ 1.79 billion).
- ACs are perceived as premium products

d. Washing Appliances

- As of FY17 the market size is close to 6 million units

e. Electric Fans

- Domestic electric fan market in India has continued to register marginal y-o-y growth in terms of volumes.
- However, production of fans registered a CAGR growth of about 1.3% during FY12 and FY17 period indicating a slow growth. In FY18 (Apr-Feb), production of fans registered a decline of about 5.4% on a y-o-y basis.

f. Electric Cooking appliances & water heater

- Electric cooking appliances registered a growth of about 19% after a sharp decline of over 60% y-o-y in FY17 while the electric water heater segment has been in the negative territory since FY15. Lack of support infrastructure in the rural areas and absence of new households being electrified are the major reasons for this decline. Also, monsoon and farm incomes have a bearing on the demand for cooking appliances and water heaters.

2. Consumer Electronics:

a. Direct-To-Home (DTH)

- With expansion of the DTH (Direct-to-Home) and introduction of the Conditional Access System (CAS) in metros, the Set-Top Box (STB) market is growing at a rapid pace
- As per TRAI, DTH net active subscriber base in India reached 67.56 million as of December 2017, registering a y-o-y growth of about 7.8% thereby making India one of the world's largest DTH market

b. Colour TVs (CTVs)

- CTVs are the largest contributors to the consumer electronics segment
- India's television industry stood at US$ 9.23 billion in 2016, exhibiting a y-o-y growth of 11.5% in 2016 over US$ 8.28 billion in 2015
- The production of LCD/LED TVs rose to 12 million valued at US$ 3.3 billion in FY16 from 8.8 million valued at US$ 2.5 billion in FY15. India's first LCD manufacturing unit is set to start in 2018
- Currently all the displays used are imported to India

- The market for flat panel displays in India was estimated at 261 million units in 2016.
- The price decline on account of relatively low import duty on LCD panels, high penetration and the introduction of smaller entry-size models have been key growth drivers in the segment

RECENT DEVELOPMENTS/INVESTMENTS

- According to the Department for Promotion of Industry and Internal Trade, during April 2000 – March 2019, FDI inflows into the electronics sector stood at US$ 2.36 billion. The S&P BSE Consumer Durables Index has grown at 20 per cent CAGR between 2010-17.
- India is now the world's second largest mobile phone manufacturer with presence of 120 factories as of July 2018.
- In July 2018, Samsung announced an investment of Rs 5,000 crore (US$ 745.82 million) for expansion of manufacturing capacity to 120 million from 68 million devices at its Noida plant in India.
- Intex Technologies will invest around Rs 60 crore (US$ 9.27 million) in 2018 in technology software and Internet of Things (IoT) startups in India in order to create an ecosystem for its consumer appliances and mobile devices.
- Micromax plans to invest US$ 89.25 million by 2020 for transforming itself into a consumer electronics company.
- Haier announced an investment of Rs 3,000 crore (US$ 415.80 million) as it aims a two fold increase in its revenue by 2020.
- In January 2018, Panasonic started its first refrigerator plant in India with an annual production capacity of 500,000 units with an investment of Rs 115 crore (US$ 17.76 million).
- In August 2017, V-Guard acquired 49.43 per cent stake in GUTS Electro-Mech.
- In October 2017, Flipkart launched its private label 'Marq' for selling large appliances in India.
- In May 2017 Havells completed acquisition of Lloyd consumer durables business for an enterprise value of Rs 1,600 crore (US$ 248.2 million)
- In May, 2017, Hindustan Unilever announced the launch of its skincare brand Citra in India. The company already sells skincare products under Citra brand, targets women consumers aging between 15 and 35 years, in various countries such as Thailand, Indonesia and the Middle East.
- Voltas, a leading India based air conditioner manufacturer, announced plans in May 2017 to establish a joint venture with Turkey based Ardutch. The JV, with an equity capital of US$100 million, would mark the entry of Voltas into the country's consumer durables market

GOVERNMENT INITIATIVES

- National Policy on Electronics Policy was passed by the Ministry of Electronics & Information Technology in February 2019 as a consequences of which generation of electronics in India has risen to an expected Rs 4.58 lakh crore (US$ 63.62 billion) in FY19, developing at a compound annual growth rate (CAGR) of around 25 per cent over the most recent four years, compared with a rate of 5.5 percent in 2014-2015.

- The National Policy on Electronics 2019 plans to advance local assembling and fare in the whole worth chain of Electronics System Design and Manufacturing (ESDM) to accomplish a turnover of Rs 26 lakh crore (USD 400 billion) by 2025.
- A new Consumer Protection Bill has been approved by the Union Cabinet, Government of India that will make the existing laws more effective with a broader scope.
- The mobile phone industry in India expects that the Government of India’s boost to production of battery chargers will result in setting up of 365 factories, thereby generating 800,000 jobs by 2025.
- The Union Cabinet has approved incentives up to Rs 10,000 crore (US$ 1.47 billion) for investors by amending the M-SIPS scheme, in order to further incentivise investments in electronics sector, create employment opportunities and reduce dependence on imports by 2020.
- The Government of India has allowed 100 per cent Foreign Direct Investment (FDI) under the automatic route in Electronics Systems Design & Manufacturing sector.
- FDI into single brand retail has been increased from 51 per cent to 100 per cent; the government is planning to hike FDI limit in multi-brand retail to 51 per cent.

ROAD AHEAD

- In India 63% of consumer durable sales would be impacted digitally by 2023
- More consumer durable firms are adding smart electronics to their portfolio as they look to target urban households that are upgrading to such devices. Smart TVs, for instance, that connect to various streaming apps and mobile devices have seen a surge in demand with companies such as Samsung, Sony, LG, MI among others offering such devices.
- Digitally influenced shoppers looking into, shopping, and auditing large appliances online are set to spur the interest for such merchandise utilizing the internet as a medium over the next five years, according to a report by Google and Boston Consulting Group (BCG).
- Less expensive data rates, and access to online shopping has pushed the digital influence on the sale of large appliances, for example, TVs, air conditioners, and washing machines to 28 per cent of the overall consumer durables showcase. Such "digitally influenced" deals estimated by the report as the utilization of internet by customers during the entire purchase cycle—from researching to buying—will affect 63 per cent of all total consumer durables sold in India by 2023. which means US$23 billion in sales over the next five years.
- Even though pure play online sales for durables i.e. items researched for and bought online stood at 10 per cent of the overall consumer durables markets estimated by BCG and Google in 2017, the number is set to rise sharply going ahead. 28 per cent of absolute sales of durables are digitally influenced. "over the next five years and estimated that that number will come to over 60 per cent, that is a pretty significant number”, said by Nimisha Jain, partner and manging director of BCG.
- Companies also plan to increase the use of environment-friendly components and reduce e-waste by promoting product recycling. India has made it mandatory for manufacturing companies to control emissions from climate-damaging refrigerants.
    - In January 2016, LG electronics announced that the company will focus on premium inverter split air-conditioners that are more energy efficient and would discontinue its regular split air-conditioners, which account for almost 80 per cent of the Indian market.
    - In February 2017, Panasonic launched Sky Series air conditioners with the radiant technology

- Growing number of HNI’s and women in workforce is boosting demand for luxury products
  - Luxury brands like Porsche, Jimmy Choo are increasing their store presence
  - Luxury brands are launching their own websites to cater to Indian luxury brand market

CHALLENGES

Heavy taxation in the country is one of the challenges for the players. At its present structure the total tax incidence in India even now stands at around 25-30 per cent, whereas the corresponding tariffs in other Asian countries are between 7 and 17 per cent.

About 65 per cent of Indian population that lives in its villages still remains relevant for some consumer durables companies. This India, at least a large proportion of its constituents, still buys black and white TVs and doesn’t know what flat screens are. The rural market has a considerable cost component attached to it.

Companies not only have to set up the basic infrastructure in terms of office space, manpower, but also spend on transportation for moving inventory. Even LG and Samsung, which are having the largest distribution network in the country, have a direct presence only in 15,000 to 18,000 of the around 40,000 retail outlets (for consumer durables) in the country.

Poor infrastructure is another reason that seems to have held back the industry. Regular power supply is imperative for any consumer electronics product. But that remains a major hiccup in India.

OPPORTUNITIES

The rising rate of growth of GDP, rising purchasing power of people with higher propensity to consume with preference for sophisticated brands would provide constant impetus to growth of white goods industry segment.

Penetration of consumer durables would be deeper in rural India if banks and financial institutions come out with liberal incentive schemes for the white goods industry segment, growth in disposable income, improving lifestyles, power availability, low running cost, and rise in temperatures.

While the consumer durables market is facing a slowdown due to saturation in the urban market, rural consumers should be provided with easily payable consumer finance schemes and basic services, after sales services to suit the infrastructure and the existing amenities like electricity, voltage etc.

Currently, rural consumers purchase their durables from the nearest towns, leading to increased expenses due to transportation. Purchase necessarily done only during the harvest, festive and wedding seasons – April to June and October to November in North India and October to February in the South, believed to be months `good for buying‟, should be converted to routine regular feature from the seasonal character.

Rural India that accounts for nearly 70% of the total number of households, has a 2% penetration in case of refrigerators and 0.5% for washing machines, offers plenty of scope and opportunities for the white goods industry. The urban consumer durable market for products including TV is growing annually by 7 to 10 % whereas the rural market is zooming ahead at around 25 % annually. According to survey made by industry, the rural market is growing faster than the urban India now. The urban market is a replacement and up gradation market now.

The increasing popularity of easily available consumer loans and the expansion of hire purchase schemes will give a moral boost to the price-sensitive consumers. The attractive schemes of financial institutions and commercial banks are increasingly becoming suitable for the consumer. Consumer goods companies are themselves coming out with attractive financing schemes to consumers through their extensive dealer network. This has a direct bearing on future demand.

The other factor for surging demand for consumer goods is the phenomenal growth of media in India. The flurry of television channels and the rising penetration of cinemas will continue to spread awareness of products in the remotest of markets.

The vigorous marketing efforts being made by the domestic majors will help the industry. The Internet now used by the market functionaries that will lead to intelligence sales of the products. It will help to sustain the demand boom witnessed recently in this sector. The ability of imports to compete is set to rise. However, the effective duty protection is still quite high at about 35-40 per cent. So, a flood of imports is unlikely and would be rather need based.

Reduction in import duties may significantly lower prices of products such as microwave ovens, whose market size is quite small in India. Otherwise, local manufacturing will continue to stay competitive. At the same time, there will be some positive benefits in the form of reduction in input costs. Washing machines and refrigerators will also benefit from lower input costs.

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