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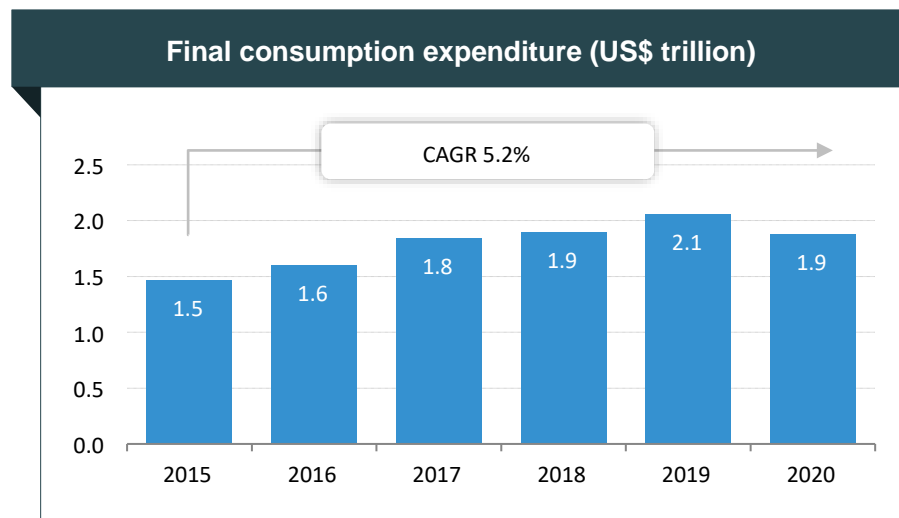
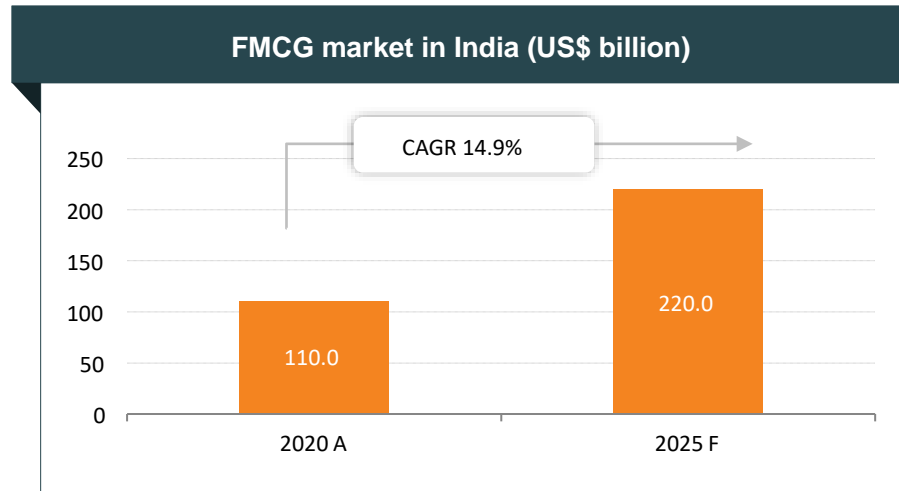
**FAST MOVING CONSUMER GOODS (FMCG)**

# Industry Analysis Report



# Executive summary

- ✦ Favourable demographics and rise in income level will boost the FMCG market.
- ✦ FMCG sector is the fourth-largest sector in the Indian economy.
- ✦ By 2025, India is likely to be the fifth-largest FMCG market.
- ✦ The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US\$ 220 billion by 2025, from US\$ 110 billion in 2020.
- ✦ The urban segment contributes to about 55% of the revenue share, while the rural segment accounts for 45%. Rise in rural consumption will drive the FMCG market.
- ✦ In September 2021, rural consumption of FMCG increased 58.2% YoY; this is 2x more than the urban consumption (27.7%).
- ✦ The Indian FMCG industry grew by 16% in CY21 a 9-year high, despite nationwide lockdowns.
- ✦ In June 2021, MoM growth in FMCG sales value in urban and rural markets was 63.6% and 32.8%, respectively. Tier-II cities led the way in urban growth, with a 23.7% MoM increase in monthly stocking per kirana, whereas stocking in rural kiranas only climbed by 2%.
- ✦ The FMCG sector's revenue growth will double from 5-6% in FY21 to 10-12% in FY22, according to CRISIL Ratings. Price increases across product categories will offset the impact of rising raw material prices, along with volume growth and resurgence in demand for discretionary items, are driving growth.



- ✦ Number of households shopping on modern-trade channel grew 29.15% YoY in the September quarter and shopping volume on the channel went up by 19.2% YoY.

# Advantage For India



## 1. Growing demand

- ▶ The Indian processed food market is projected to expand to US\$ 470 billion by 2025, up from US\$ 263 billion in 2019-20.
- ▶ Rural India is witnessing increased demand for quality goods and services driven by upgraded distribution channels of FMCG companies.
- ▶ Rising digital connectivity in cities and rural areas is driving the demand for FMCG (through e-commerce portals).

## 2. Higher investments

- ▶ In September 2021, PepsiCo commissioned its Rs. 814 crore (US\$ 109.56 million) Kosi Kalan foods facility in Mathura, Uttar Pradesh; it is the company's largest greenfield manufacturing investment in India.
- ▶ In October 2021, Procter & Gamble announced an investment of Rs. 500 crore (US\$ 66.8 million) in rural India.

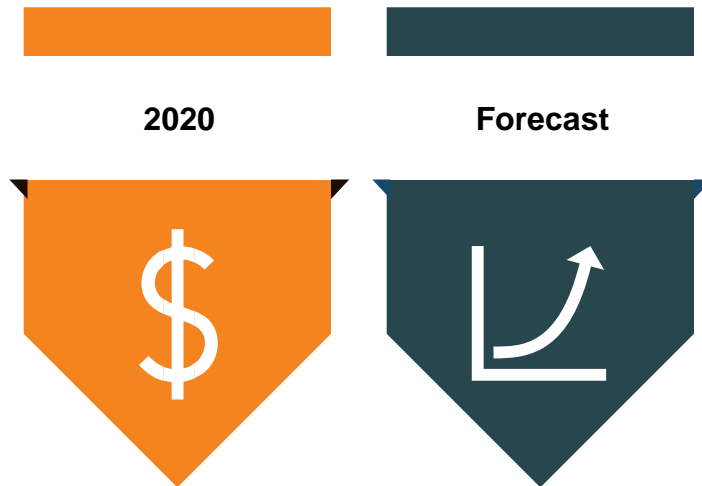
## 3. Policy support

- ▶ Investment approval of up to 100% foreign equity in single brand retail and 51 % in multi-brand retail.
- ▶ The union government's production-linked incentive (PLI) scheme gives companies a major opportunity to boost exports with an outlay of US\$ 1.42 billion.
- ▶ The minimum capitalisation for foreign FMCG companies to invest in India is US\$ 100 million.

## 4. Attractive opportunities

- ▶ Low penetration levels in rural market offers room for growth.
- ▶ Dabur stepping-up product launches to sell only on E-commerce platforms.
- ▶ Disposable income in rural India has increased because of the direct cash transfer scheme.
- ▶ Exports is another growing segment.
- ▶ E-commerce segment is forecast to contribute 11% to the overall FMCG sales by 2030.

## Evolution of FMCG in India

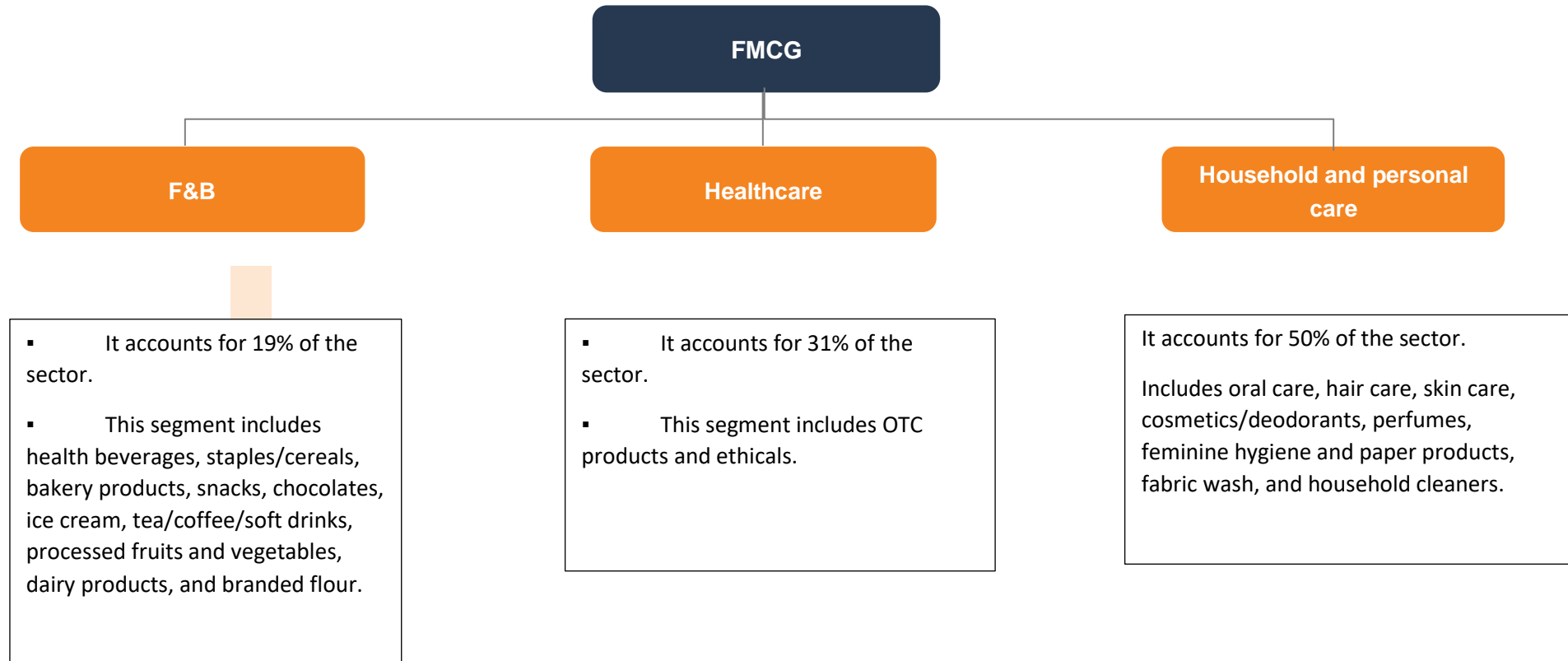


- ✦ FMCG market reached US\$ 110 billion in 2020.
- ✦ FMCG sales at India's organised retail stores rose 22 % y-o-y in 2018.

- ✦ The market is expected reach US\$ 220 billion by 2025.
- ✦ E-commerce share of total FMCG sales is expected to increase by 11% by 2030.

- ✦ FMCG is the fourth-largest sector in the Indian economy.
- ✦ India's household and personal care is the leading segment, accounting for 50% of the overall market. Healthcare (31%) and food and beverages (F&B) (19%) comes next in terms of market share.
- ✦ Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector.
- ✦ The number of internet users in India is likely to reach 1 billion by 2025.

## Three main segments of FMCG

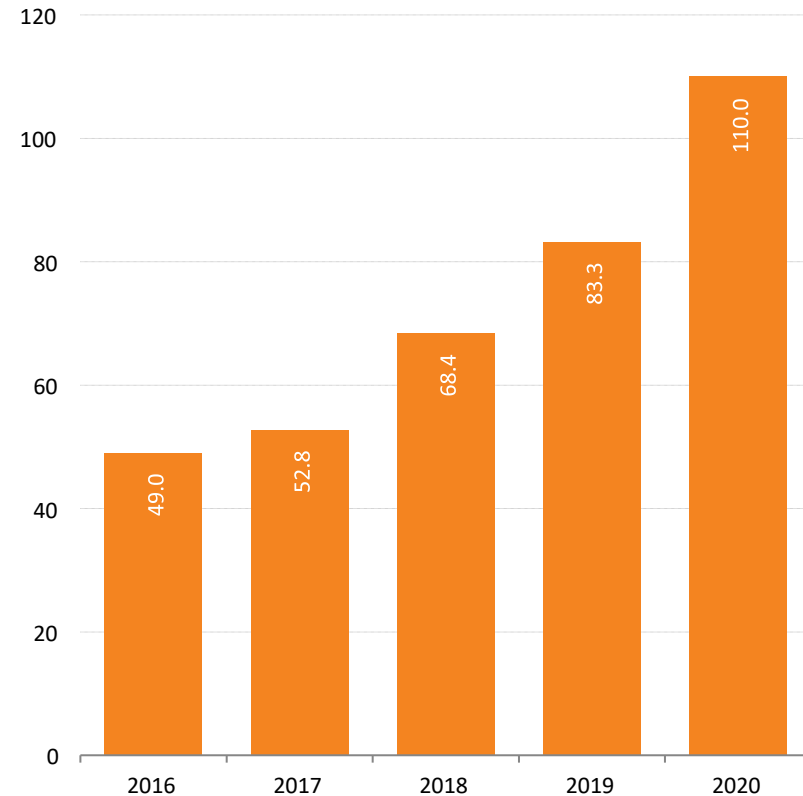


## Strong growth in Indian FMCG sector

- ✦ The FMCG sector's revenue reached US\$ 110 billion in 2020.
- ✦ FMCG sector will gain support for growth from Inland Waterways Authority of India (IWAI) multi-modal transportation project of freight village at Varanasi, which will bring together retailers, warehouse operators and logistics service providers, and investment worth Rs. 1.7 billion (US\$ 25.35 million).
- ✦ In September 2021, rural consumption of FMCG increased 58.2% YoY; this is 2x more than the urban consumption (27.7%).
- ✦ In September 2021, FMCG major Godrej Consumer Products, announced that it is looking at clocking a double-digit growth in FY22 with expansion across various segments.
- ✦ The Indian FMCG business rose by 16% in CY21, a 9-year high.
- ✦ In June 2021, MoM growth in FMCG sales in urban and rural markets was 63.6% and 32.8%, respectively. Tier-II cities led the way in urban growth, with a 23.7% MoM increase in monthly stocking per kirana, whereas stocking in rural kiranas only climbed by 2%.

The FMCG sector's revenue growth will double from 5-6% in FY21 to 10-12% in FY22. Price increases across product categories will offset the price of raw materials, along with volume growth and a resurgence in demand for discretionary items, will drive growth.

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

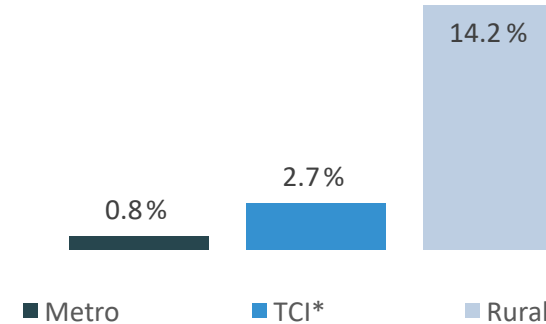


## Urban market accounts for major chunk of revenues

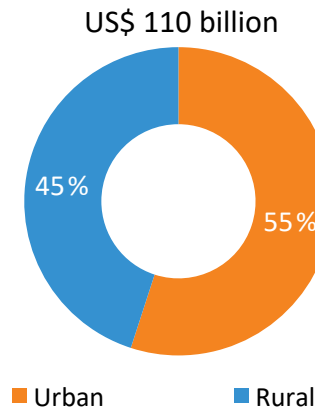
- ✦ Accounting for a revenue share of around 55%, urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India.
- ✦ Rural segment is growing at a rapid pace and accounted for a revenue share of 45% in the overall revenues recorded by FMCG sector in India. FMCG products account for 50% of total rural spending.
- ✦ In the last few years, the FMCG market has grown at a faster pace in rural India compared to urban India.
- ✦ Demand for quality goods and services is on an upward trajectory in rural areas on the back of improved distribution channels of manufacturing and FMCG companies.
- ✦ The rural market registered an increase of 14.6% in the same quarter and metro markets recorded positive growth after two quarters.

Number of households shopping on modern-trade channel grew 29.15% YoY in the September quarter and shopping volume on the channel went up by 19.2% YoY.

Rural areas drive FMCG in Q4 2020 (% Growth)



Urban - Rural industry Breakup in 2020



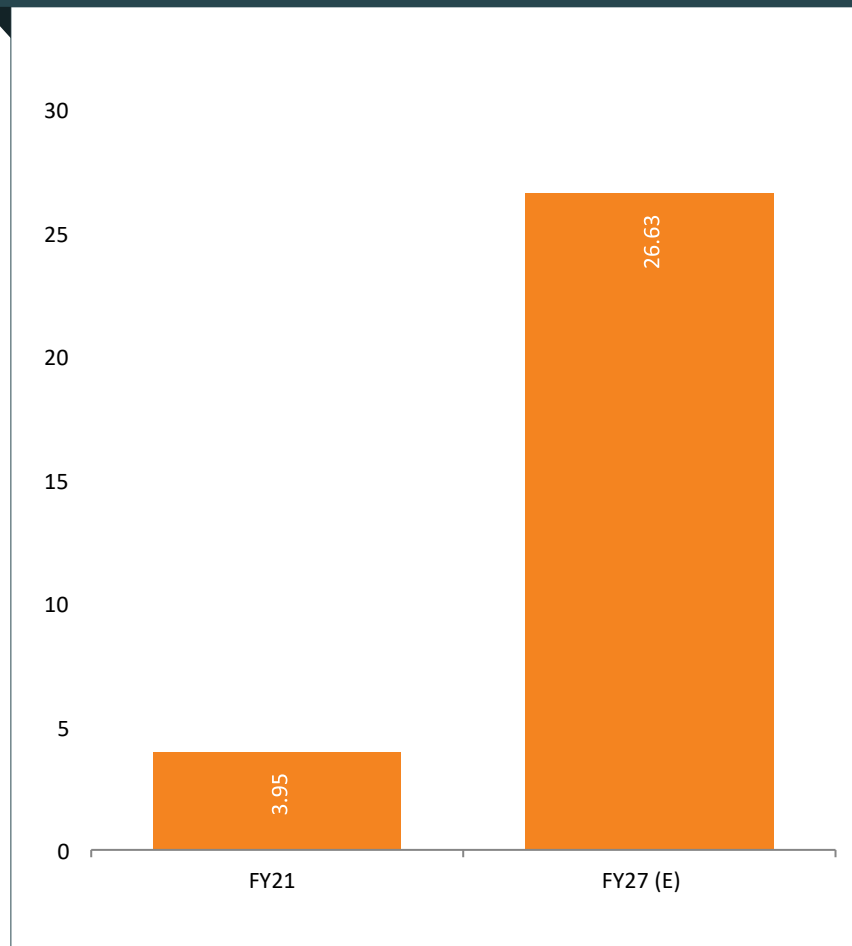


## Increasing online users boost online FMCG sales

- ✦ India's increasing internet penetration and rising digital maturity along with developing infrastructure has helped boost online transactions.
- ✦ E-commerce share of total FMCG sales is expected to increase by 11% by 2030.
- ✦ The E-commerce market is estimated to reach US\$ 200 billion in 2026 from US\$ 38.5 billion in 2017, backed by growth in online users from 622 million in 2017 to 900 million in 2025.
- ✦ Around 72% Indian consumers are most likely to shop online locally for premium products.
- ✦ The Indian online grocery market is estimated to exceed sales of about Rs. 1,310.93 billion (US\$ 17.12 billion) by 2026, at a CAGR of 28.99%.
- ✦ Many FMCG brands partner with e-commerce platforms such as Dunzo, Flipkart, Grofers and BigBasket to deliver products at the doorstep of consumers during the COVID-19 pandemic.
- ✦ In the fourth quarter of FY21, e-commerce sales of Marico Ltd., Hindustan Unilever Ltd., Dabur India, ITC and Godrej Consumer Products Ltd. were 8%, 6%, 5%, 5%, and 4%, respectively, of the total FMCG sales.
- ✦ As of June 2021, e-commerce share has already touched 7-8% for some of the largest FMCG companies in the country, according to Accenture India.

The gross merchandise value (GMV) of the online grocery segment in India is expected to increase 18 times over the next five years to reach US\$ 37 billion by FY25.

Growth in the Indian Online Grocery Market (US\$ billion)



## Growth drivers for India's FMCG sector

### 1. SHIFT TO ORGANISED MARKET

- Organised sector is expected to grow as the share of unorganised FMCG market has seen a fall with increased level of brand consciousness.
- Growth in modern retail will augment the growth of organised FMCG sector.

### 2. INCREASE IN PENETRATION

- Low penetration levels of branded products in categories like instant foods indicating a scope for volume growth.
- Investment in this sector attracts investors as FMCG products have demand throughout the year.
- Increase in food parks to 17, food processing capacity to 1.41 million and food labs to 42.
- ITC to invest Rs. 700 crore (US\$ 100 million) in food parks in Madhya Pradesh.
- As of February 2021, out of 39 Mega Food Park projects, 22 are operational, 15 are under implementation and 2 are in-principle approval.

### 3. RURAL CONSUMPTION

- Rural consumption has increased, led by a combination of increase in income and higher aspiration levels. There is an increased demand for branded products in rural India.
- Huge untapped rural market.

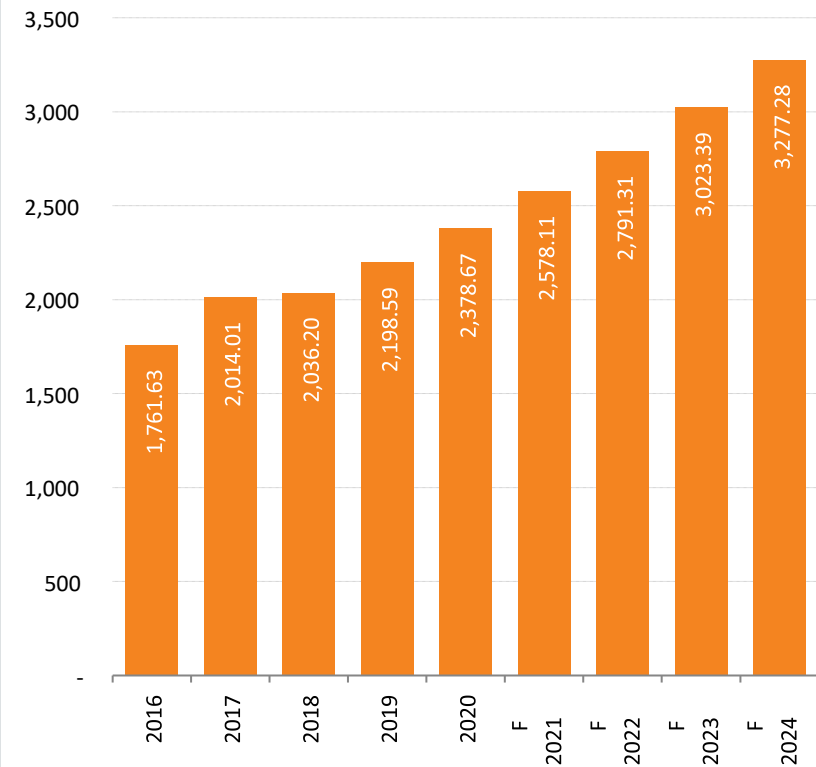
### 4. EASY ACCESS

- Availability of products has become way easier as internet and different channels of sales has made the accessibility of desired product to customers more convenient at required time and place.
- Online grocery stores and online retail stores like Grofers, Flipkart, and Amazon are making FMCG products more readily available.

## Higher incomes aid growth in urban and rural markets

- ✦ Incomes have risen at a brisk pace in India and will continue rising given the country's strong economic growth prospects.
- ✦ India's GDP per capita at current prices is expected to increase from US\$ 1,761.63 in 2016 to US\$ 3,277.28 in 2024.
- ✦ An important consequence of rising incomes is growing appetite for premium products, primarily in the urban segment.
- ✦ As the proportion of 'working age population' in total population increases, per capita income and GDP are expected to surge.

GDP per capita at current prices (US\$)



## **Policy & Regulatory Framework**

### Relaxation of license rules

- Industrial license is not required for almost all food and agro-processing industries, barring certain items such as beer, potable alcohol and wines, cane sugar and hydrogenated animal fats and oils as well as items reserved for exclusive manufacture in the small-scale sector.

### FDI in organised retail

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

### SETU scheme

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

## Boosts in FDI inflows and investments

✦ 100% FDI is allowed in food processing and single-brand retail and 51% in multi-brand retail.

✦ This would bolster employment and supply chains and provide high visibility for FMCG brands in organised retail markets, bolstering consumer spending and encouraging more product launches.

✦ The sector recorded an FDI of US\$ 20.01 billion between April 2000-December 2021.

✦ In August 2021, Apnaklub, a Bengaluru-based B2B wholesale marketplace for consumer goods, raised US\$ 3.5 million in a seed round from Sequoia Capital India's Surge, increasing the total funds to US\$ 5 million.

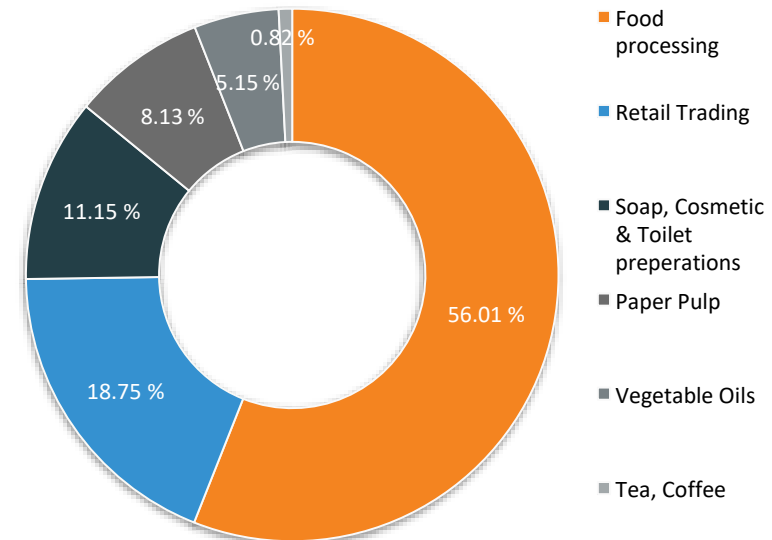
✦ In August 2021, Soothe Healthcare, an Indian personal hygiene products brand, raised Rs. 130 crore (US\$ 17.54 million) in a Series C round of funding from A91 Partner Partners.

✦ In August 2021, Adani Wilmar, a 50/50 joint venture between Adani Group and Singapore-based Wilmar, filed for initial public offering (IPO) to raise up to Rs. 4,500 crore (US\$ 607.13 million) for expansion.

✦ In September 2021, PepsiCo commissioned its Rs. 814 crore (US\$ 109.56 million) Kosi Kalan foods facility in Mathura, Uttar Pradesh; it is the company's largest greenfield manufacturing investment in India.

In September 2021, Vahdam India, an Indian tea brand, raised Rs. 174 crore (US\$ 24 million) as part of its Series D round led by IIFL AMC's Private Equity Fund.

Cumulative FDI Inflow Share – from April 2000-December 2021  
(US\$ million)



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