OC&C FMCG
INDIA INDEX FY 08

RECALIBRATE TO WIN

FMCG strategies in a changing landscape

OC&C
Strategy Consultants

About OC&C

OC&C Strategy Consultants is a global consulting firm with extensive expertise in FMCG business especially personal care and foods and beverages sector.

Clients include leading manufacturers, primary producers, retailers and investment institutions. The firm advises on group-level and business unit strategy, profit improvement and mergers and acquisitions.

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HOW THE OC&C FMCG INDEX IS COMPILED

OC&C India continuously tracks top FMCG companies in India using data compiled from the company annual reports and other paid databases. The FMCG Index is a reflection of company's performance that is tracked through sales, profits and capital employed.

The Index strictly corresponds to the FMCG operations of the company in personal care, home care, foods and beverages sector. The subsidiaries and export income from FMCG operations in these sectors have been included in the study. Adjustments have been made to the company financial data to reflect income and expenses from the FMCG business only. Therefore, there might be differences in the company reported financial data and the figures reported in the Index. As per the perimeter definition, the study excludes income from any other engagements in retail, pharmaceutical, tobacco etc. The data is compiled from published sources and OC&C does not certify the accuracy of information.

Definitions

FMCG Sales = Sales from FMCG as per the parameters defined

FMCG EBIT = FMCG sales less FMCG costs

FMCG EBIT margin = FMCG EBIT / FMCG sales

FMCG Asset turnover ratio = FMCG sales / FMCG capital employed

FMCG ROCE % = FMCG EBIT margin* FMCG Asset turnover ratio = FMCG EBIT / FMCG capital employed

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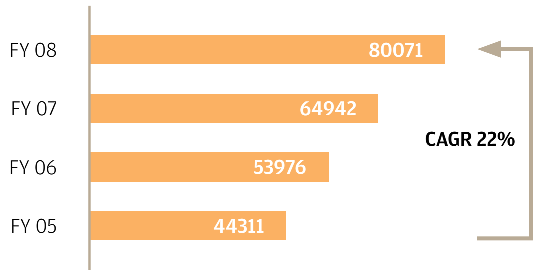
India had been on a dream run for the last 3 years, but the year 2008 came as a sudden jolt. The FMCG industry worldwide faced unprecedented swings in external factors that included food price inflation, crude price hikes and global economic downturn. All these threaten to take their toll in 2009. The key question is will FMCG companies in India remain insulated from the recession trends during the coming financial year? In wake of recent fears of downturn, how should companies react to the changing environment? Which strategies need to be retained in future? Which strategies need to be discarded or modified going ahead?

The year 2009 has poised itself as a year that is going to test the clarity in strategic thinking of the companies. At OC&C we look back in the rear view mirror to analyze the thrust of companies in 2008. We also analyze the changing business challenges and specific strategic priorities available to the companies in future – short term and long term. Most FMCG firms will need to recalibrate their strategies to win in the marketplace

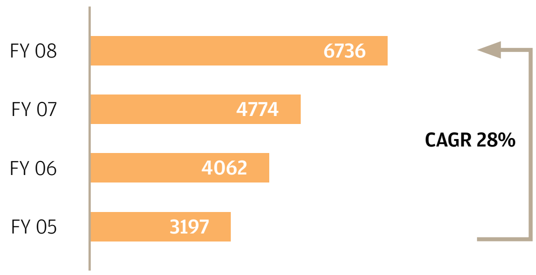
What has been the trend so far?

FMCG industry in India witnessed robust growth since FY 2005. The 40 top FMCG companies tracked by this study have grown at a CAGR of 22% in terms of sales in personal care, home care, foods and beverages. The EBIT (earnings before interest and tax) has increased by 28% (CAGR) over the base in FY 2005. However, 2008 saw unprecedented rise in the prices of commodities, followed by a correction and global slowdown – that will be reflected in the yet to be announced FY 2009 results. The quarterly results announced till December, 2008 indicate the same. An analysis of key FMCG companies financial statements show an increase in percentage of companies slipping on EBITs. While only 25% of the companies reported a decline in profits in FY 2008, more than 55% of the companies report slippage in profits in their Q3 results in FY 2009. The defaulters are largely companies with FMCG sales < Rs 1000 Cr.

Performance of Index 40 companies
FMCG Sales (Rs. Crores)



Performance of Index 40 companies
FMCG EBIT (Rs. Crores)



Performance of Index 40 companies

All financial figures correspond to the FMCG operations as per the perimeter definition

	FMCG Sales	Sales Growth	FMCG EBIT	EBIT Margins	EBIT Growth
Index 40 Companies	80071	23%	6736	8.4%	41%
Giant	41794	24%	3961	9.5%	43%
Large	29001	23%	2214	7.6%	45%
Midsized	9275	21%	561	6.0%	15%

Size Matters

The impact of the external factors is not same across different categories of firms. At OC&C Strategy Consultants, we studied three distinct size clusters - Giants with FMCG sales greater than Rs. 3000 Cr., Large with FMCG sales between Rs. 1000-3000 Cr. and Midsized with FMCG sales between Rs. 200-1000 Cr.

While cost-line was challenged, FY 2008 witnessed a buoyant consumer demand. Hence, all companies reported comparable growth. However, the analysis confirms that the larger companies were able to leverage their scale and achieve a greater increase in EBIT compared to the relatively smaller (Midsized) companies. This was achieved by riding on launch of newer products, stronger brands, distribution strength and limiting the increase in costs through better buying power.

For more insights and specific analysis on these segments, please write to insights@occstrategy.in

Leading FMCG Companies

Companies have been ranked in order of a combined score on sales, EBIT and capital employed. All companies are independently scored on their relative standing on the mentioned financial parameters. The scores, thus obtained, are multiplied to arrive at the final Index.

Rank FY 08	Company Name	Sales	EBIT	EBIT Margins	Capital Employed	Sales	EBIT	EBIT Margins	Capital Employed
		FY 08				FY 07			
1	Hindustan Unilever Ltd.	13963	1687	12%	1616	12445	1245	10%	2721
2	Nestle India Ltd.	3572	545	15%	421	2833	450	16%	405
3	Colgate Palmolive India Ltd.	1478	230	16%	176	1301	131	10%	283
4	Adani Wilmar Ltd.	3497	81	2%	340	2487	6	0%	313
5	Dabur India Ltd.	2115	327	15%	642	1811	270	15%	563
6	Reckitt & Benckiser (India)	1322	211	16%	114	1108	135	12%	170
7	K S Oils Ltd.	2084	209	10%	930	1074	90	8%	267
8	Marico Ltd.	1832	204	11%	638	1537	141	9%	425
9	Britannia Industries Ltd.	2700	124	5%	975	2276	55	2%	761
10	United Spirits Ltd.	4839	1009	21%	9664	3106	385	12%	3548
11	Parle Biscuits Pvt. Ltd.	1549	151	10%	800	1354	75	6%	655
12	Cadbury India Ltd.	1311	123	9%	415	1056	92	9%	402
13	GlaxoSmithKline (Cons. Healthcare)	1301	181	14%	646	1110	136	12%	543
14	Godrej Consumer Products Ltd.	1127	198	18%	359	977	165	17%	296
15	REI Agro Ltd.	1765	270	15%	2595	964	176	18%	1694
16	Ruchi Soya Industries Ltd.	11914	225	2%	3105	9098	167	2%	2522
17	Tata Tea Ltd.	4009	413	10%	5733	3807	508	13%	5908
18	Agro Tech Foods Ltd.	1025	20	2%	123	1047	19	2%	108
19	Hatsun Agro Product Ltd.	882	37	4%	177	590	15	3%	125
20	Gillette India Ltd.	555	140	25%	402	457	86	19%	227
21	KRBL Ltd.	1142	119	10%	1133	969	97	10%	798
22	Tata Coffee Ltd.	971	142	15%	1340	729	97	13%	1431
23	United Breweries Ltd.	1470	106	7%	1214	1151	97	8%	1101
24	Emami Ltd.	607	85	14%	394	518	61	12%	268
25	Vimal Oil and Foods Ltd.	637	14	2%	94	498	9	2%	62
26	Bajaj Hindustan Ltd.	2148	-126	-6%	5227	1918	-93	-5%	5000
27	Nirma Ltd.	2123	132	6%	3044	2163	142	7%	2564
28	L T Foods Ltd.	758	61	8%	718	554	42	8%	413
29	Radico Khaitan Ltd.	807	44	5%	780	591	55	9%	842
30	Jyothy Laboratories Ltd.	454	55	12%	329	436	48	11%	294
31	ITC Ltd.	2510	-264	-11%	1827	1689	-202	-12%	962
32	AVT and Co Ltd.	276	15	5%	42	239	10	4%	38
33	McLeod Russel Ltd.	649	42	6%	1602	571	20	4%	1549
34	CCL Products (India) Ltd.	422	33	8%	395	399	46	12%	370
35	Milkfood Ltd.	325	9	3%	103	306	10	3%	99
36	Goodricke Group Ltd.	237	10	4%	103	220	4	2%	101
37	Heritage Foods (India) Ltd.	489	-18	-4%	181	347	4	1%	168
38	EID Parry (India) Ltd.	482	-86	-18%	861	612	11	2%	779
39	Henkel India Ltd.	481	-27	-6%	385	414	-34	-8%	371
40	Anik Industries Ltd.	242	6	2%	123	180	6	3%	121

1. All financial figures viz .sales, EBIT, capital employed correspond to the FMCG operations as per the perimeter definition. Therefore, mentioned figures would not include operations of companies in sectors like tobacco, pharmaceuticals, retail etc. For example, tobacco sales are excluded for ITC Ltd.
2. The current list of 40 companies are estimated to contribute to 80% of personal care, home care, foods and beverages industry that is catered to by companies with FMCG sales over Rs. 200Cr. The study has excluded companies whose financial data was not available in public domain or could not be sourced for analysis. The excluded companies are Procter & Gamble India, Coca-Cola India, PepsiCo India, Frito-Lay India, Kellogg's India, Diageo India, Perfetti Van Melle India, Johnson & Johnson India, CavinKare, Amway India, Heinz India, Amul (GCMMF), Parle Agro etc.
3. The financial data has been sourced from published annual reports and paid databases and corresponds to FY 2008

REAR VIEW MIRROR: STRATEGY THEMES FOR 2008

FMCG companies in India benefitted from focus on organic growth and geographical expansion which has been supported by productivity improvements.

Companies undertook a range of initiatives in FY 08 (see adjoining charts). These can be broadly classified into the following Strategic Themes.

1. **Benefits of a consolidated portfolio**
2. **Innovation steering the growth**
3. **Upgrading to affluence**
4. **Stretching the boundaries of sale**
5. **Driving back-end efficiencies**

Benefits of a consolidated portfolio: Companies reaped benefits of focus by investing greater marketing support on a concentrated set of brands. Several companies restructured their business verticals to maximize impact. Dabur India Ltd. merged Dabur Foods, its wholly owned subsidiary back into the parent company in order to derive benefits in synergy in operations and marketing, Agrotech Foods Ltd. strategically focused on the branded sales division. Therefore, the company curtailed its trading operations in oils and exited the poultry feed ingredients business as this was inconsistent with their strategic direction.

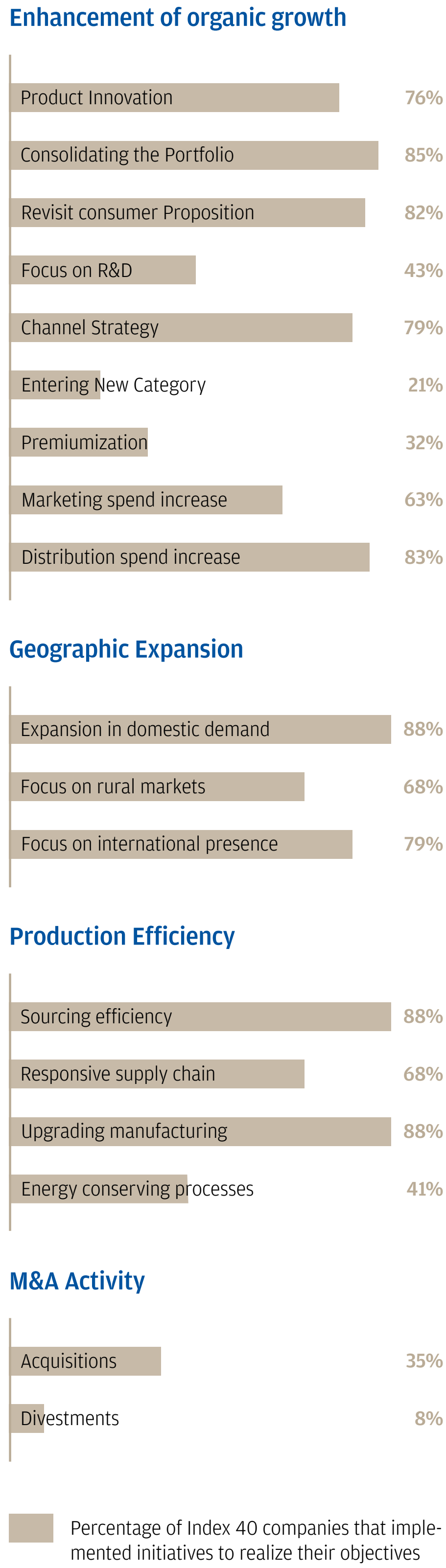
Innovation steering the growth: Market witnessed a spurt of innovative product-pack-price combinations geared towards achieving incremental topline growth. Several players micro segmented the market to launch niche products and augment sales. For example, Junior Horlicks, Colgate for Kids, Parachute Starz and Dabur Chyawan Junior targeted children as key consuming class. The focus on male grooming has led to a new category of products. HUL's Menz Active, Emami Ltd's Fair and Handsome and Nivea whitening cream for men are some of the products launched in 2008. The Health bandwagon was one of the key trends of great interest (Refer to the "Health-ism is the new mantra" on the next page). Companies focused on innovation at each level of the product portfolio. Britannia for instance launched new products at various levels of their portfolio e.g. Tiger, Nutrichoice and Good-Day and as a result clocked over 20% growth in these brands.

Upgrading to affluence: Premium brands and product segments captured the interest of India Inc. Companies responded by bringing in international luxury ranges to India e.g. Dove Hair Therapy, Ponds Age Miracle, Olay etc. Consumers were also offered luxury dessert teas by HUL and premium wines by the UB group. Companies like KS Oils, Heritage Food and EID Parry, who used to focus on commodities, increased their branded sales enabling higher realizations.

Stretching the boundaries of sale: Companies sought incremental growth from foreign territories as well as from underpenetrated local geographies, especially rural. The past couple of years saw food companies like Hatsun Agro and LT Foods expanding their geographic presence. Several companies like Godrej Consumer Products and Tata Tea made overseas acquisitions to get a foothold in new markets

Driving back-end efficiencies: Strategic initiatives related to input price hedging and better control on supply were direct responses to escalation of input prices. Companies have realized the importance of managing input prices and its effect on the bottom-line. While companies like Emami Ltd. and Dabur India Ltd. engaged in price hedging effectively, many companies like KS Oils and Nirma focused on better management of supply of inputs e.g. KS Oils acquired plantations abroad and Nirma acquired a soda-ash company.

For more understanding on strategic themes, please write to insights@occstrategy.in



Source: Annual Reports, Press Releases, OC&C Knowledge Base

INNOVATION STEERING THE GROWTH

India Inc. has joined the Health bandwagon with several new launches

HEALTH-ISM IS THE NEW MANTRA!

Active Health improvement

Companies have introduced several products and brands that promote the health of the consuming class. Nestle India Ltd. and Amul (GCMMF) launched pro-biotic products by providing active ingredients in regular consumable products e.g. dahi and ice-creams. Ruchi Soya Industries Ltd. launched a (protein) health drink called Nrich and also entered into a partnership with NutriJoy (USA) for its patented foods technology. Oat Meal by Quakers was positioned to help and manage cholesterol. Horlicks embarked on its mission to clinically prove that the product portfolio is formulated to make kids "taller, stronger and sharper". Marico Ltd. launched the Saffola portfolio of functional foods and devoted high R&D resources for pipeline of new products.

Weight Control

FMCG companies focusing on the health platform launched several products to address calorie care and weight control. Kellogg's launched Special K Protein cornflakes which claim to help maintain weight. Nestle's Slim Dahi which is 98% fat free, is being sold on a similar platform. Low calorie sweeteners and Dabur India's sugar free Chyawanprash were all launched to provide weight control benefits

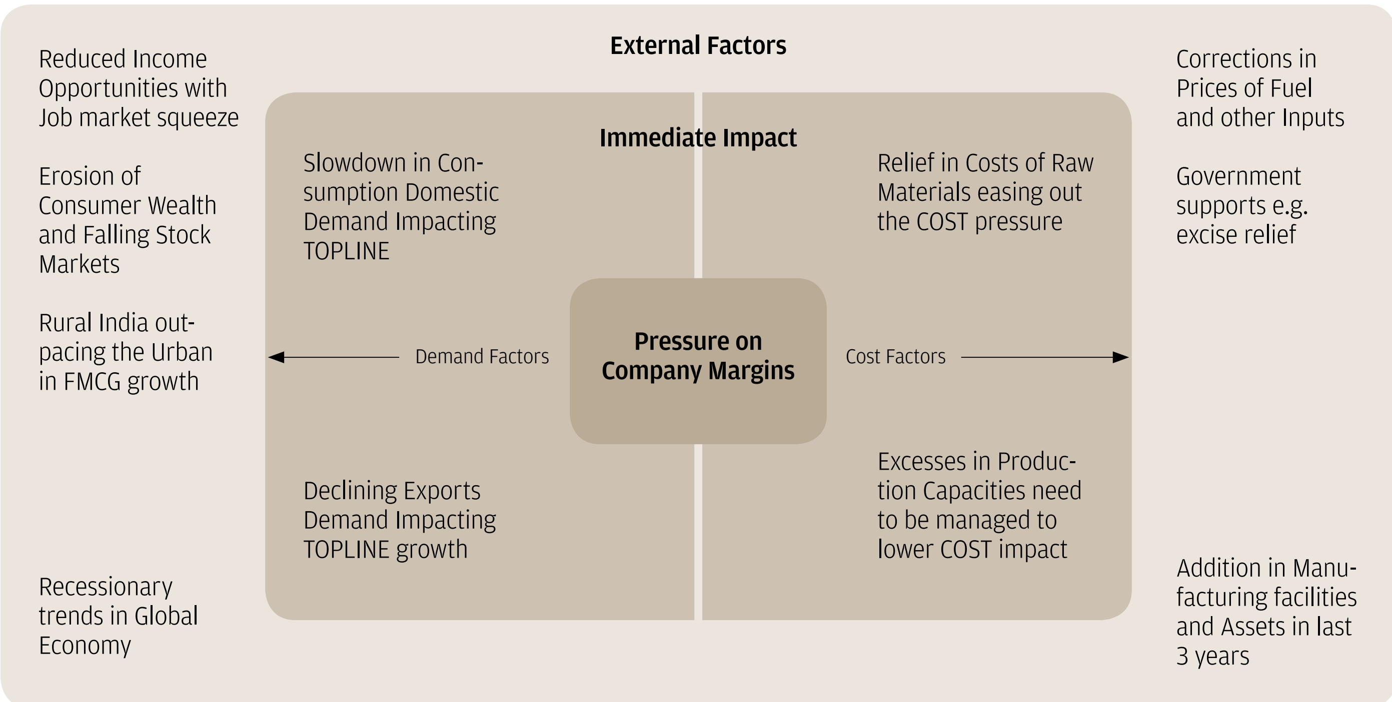
Fun and Health

FMCG companies also tried to merge the fun and health platforms by launching products that could be consumed as a fun snack along with providing a health benefit. Nestle India's Maggi atta and rice noodles as well as Healthy Soups are pertinent examples. Other examples include Lay's smart snack with 40% less oil, ITC's multigrain pastas, Britannia's Nutrichoice and Parle Digestive Marie biscuits which are high in fibre and have power of multi-grains.

WHAT LIES AHEAD?

At OC&C, we believe FMCG companies will still continue to face pressure on margins in 2009, but for reasons which are not the same as last year.

While companies will be spared the vagaries of inflated input costs and crude shocks, topline growth will be a challenge. A loss of current incomes, erosion of wealth and increased retrenchments has led to tightened purse strings. This is evident from the fact that the discretionary spends like paints, deodorants and health supplements reported lower volume growth in Dec 2008[1]. High penetration categories like soaps and detergents reported flat volumes due to sharp price increases and weight reduction. The consumers are likely become more price conscious and therefore trade down to value-brands. Export incomes have already started dwindling away. Margins will face pressure not because of inflated business costs, but on account of dampened consumer demand. Therefore, we believe that while the FMCG sector in India will continue to grow, the companies will struggle to maintain the 2008 sales growth rate, profitably.



1. As reported by Quarterly reports of Top 40 FMCG companies released till Dec '08 and AC Nielsen releases

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Slackened consumer demand is likely to threaten topline growth, impact sales mix and gross margin realizations. Unlike 2008, the coming year will challenge the double digit topline growth. Companies need to offer the relevant sales mix to consumers while being able to protect the gross margins of the portfolio, and adhere to the long term company vision. Clearly, Companies will need to recalibrate their strategies to win in the changed atmosphere. Companies will need to adopt a combination of the following strategic initiatives.

1.

Lowering the barrier of consumption by innovating on product, price and packaging

2.

Stretching the boundaries of sales to generate incremental revenues, especially rural

3.

Consolidating the business verticals, distribution and marketing efforts to reap benefits of focus

4.

Optimizing costs to drive high efficiency to ease the pressure on margins in wake of dampened revenue growth

For more insights and specific analysis write to insights@occstrategy.in

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