OC&C FMCG INDIA INDEX FY 09

BIG PIE BIGGER BITE

Seizing growth on the rebound

OC&C Strategy Consultants

ABOUT OC&C

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

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 the company's performance, 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. 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.

BIG PIE BIGGER BITE

A bigger bite is what every FMCG company should attempt to get of the growing pie of demand this year. But not all firms will achieve that. Only those which managed to ride out the stormy FY09 met the slow down with the right responses, and have a consistent game plan going ahead will take advantage of the expected surge in demand.

To decide the way ahead, it is necessary to learn from the last year, examine strategies of the winners, tactical responses to the slowdown and enumerate steps necessary to succeed. Lets start with a quick look in the rear view mirror.

FY 09: A YEAR OF UPS AND DOWNS

FY09 saw a great start with the industry demonstrating dramatic growth in H1, only for the charge to be halted by the forces of the slowdown towards the latter half of the year.

Premiumisation and Innovation initiatives which targeted niches created through micro segmentation during H1 were replaced with judicious combination of pricing, cost reduction and efficiency enhancement measures in H2.

Strategy themes for FY 09

The initiatives bear testimony to the high growth trajectory witnessed in the beginning of FY09.

Focus on Health and Naturals

Companies latched on to the growing popularity of the 'Health and Naturals' platform. The year witnessed a myriad of new launches such as Amul's Slim & Trim milk & curd, and Nestle's diet Kit-Kat Lite targeted at the weight conscious, a protein health drink N'rich by Ruchi Soya, Nesvita Pro Heart by Nestle, Sundrop Zero-Cholesterol Peanut Butter by Agrotech Foods and Dabur's Natural Odomos with skin friendly ingredients.

Optimising the supply chain using IT

Having identified supply chain excellence as a key competitive advantage, and having ramped up technology in the inbound supply chain, larger FMCG companies are focusing on doing so in their outward supply chain. Mid sized and smaller companies are presently focusing on Wave 1 - getting the inbound supply chain in order.

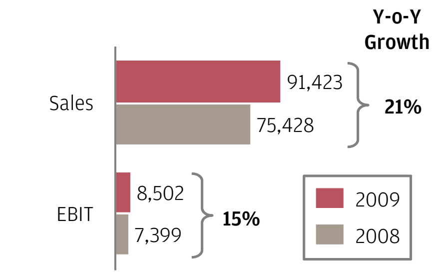
Mass Premiumisation

To serve the discerning Indian customer, a flurry of activity was seen in the premium segment across product categories. Prominent new launches included Pond's Age Miracle and Axe Special Edition in Personal Care, Wheel Gold in Fabric Care, Tropicana 100% by Pepsico, TiON and Qua by Tata Tea, Saint Juices by Parle Agro in beverages, Kingfisher Blue by UB and Jura Island Single Malt in alcohol and Gelato in ice creams .

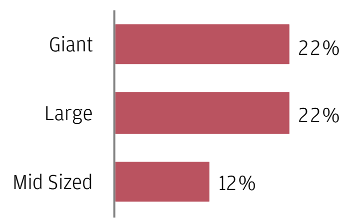
Acquisitions

Armed with an acquisition war chest, Indian FMCG companies went global, scouting for value buys. M&A activities were driven towards portfolio enhancement (Dabur - Fem), acquiring complementary brands (Emami - Zandu), accessing newer markets (Marico acquiring brands in South Africa and Egypt), backward (KS Oils acquired plantations in Malaysia) and forward integration (LT Foods acquired a distribution company in USA).

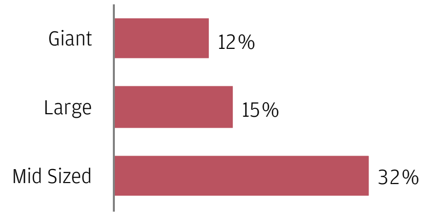
Performance of Index 40 Companies FMCG Sales & EBIT (Rs. Crores)



FMCG Sales Growth of Index 40 Companies: FY09 vs FY08



FMCG EBIT Growth of Index 40 Companies: FY09 vs FY08



Size clusters: Giants with FMCG sales > Rs. 3000 Cr., Large between Rs. 1000-3000 Cr., Midsized between Rs. 250-1000 Cr.

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.

(All figures in RS. Crores)

		FY2009			FY2008		
FY09 Rank	Company	Sales	EBIT	Capital employed	Sales	EBIT	Capital employed
1	Hindustan Unilever	16,191	1,576	4,012	13,675	1,163	2,801
2	Nestle India	-4,324	774	1,151	3,504	629	919
3	Britannia	3,112	269	997	2,584	234	963
4	Dabur	2,396	432	1,192	2,083	371	811
5	Adani Wilmar	5,756	186	756	3,378	152	341
6	Reckitt Benckiser	1,497	322	183	1,313	282	483
7	Marico	1,760	243	649	1,565	186	628
8	Colgate Palmolive	1,695	309	382	1,473	293	354
9	Cadbury India	1,589	207	527	1,293	145	433
10	GSK (Cons. Healthcare)	1,543	291	823	1,278	250	677
11	K S Oils	3.127	261	1,933	2,044	220	1,050
12	Parle Biscuits	2,093	143	886	1,532	194	801
13	Tata Tea	4,848	552	4,525	4,309	617	3,169
14	Godrej Consumer Products	1,084	195	633	887	180	316
15	United Spirits	3,748	655	5,069	2,844	614	3,217
16	Wipro (Consumer)	659	220	231	533	176	151
17	Gokul Refoils	2,726	79	606	2,052	124	456
18	REI Agro	2,446	429	3,617	1,732	301	2,892
19	KRBL	1,304	159	984	1,007	130	1,141
20	Temptation Foods	867	72	357	327	28	187
21	Hatsun Agro Products	1,009	41	290	860	43	188
22	Agrotech Foods	774	22	135	1,006	20	124
23	United Breweries	1,594	191	1,716	1,282	136	1,159
24	Heritage Foods	593	40	195	588	23	270
25	Nirma	2,637	373	3,905	2,332	265	4,110
26	Tata Coffee	1,079	138	1,284	888	44	1,226
27	L T Foods	694	95	661	576	64	581
28	Goodricke	294	28	116	237	14	107
29	JayShree Tea	354	42	263	296	5	329
30	Ruchi Soya	12,463	205	3,128	11,535	364	3,231
31	Jyothy Laboraties	469	68	378	375	63	351
32	Vimal Oil and Foods	618	12	111	634	16	96
33	ITC	2,980	-483	3,031	2,510	-264	2,695
34	McLeod Russell	828	181	1,736	655	89	1,705
35	Anik	276	36	104	242	53	411
36	Radico Khaitan	696	57	980	809	73	828
37	Rasoya Proteins	288	16	150	281	14	91
38	Henkel India	466	36	544	392	35	519
39	Mohan Meakin	283	9	116	270	8	107
40	CCL Products	264	39	376	244	44	364

Notes:

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. 250Cr. 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 2009. Performance figures have been annualised for HUL and Jyothy Laboratories

RESPONSE TO THE SLOWDOWN

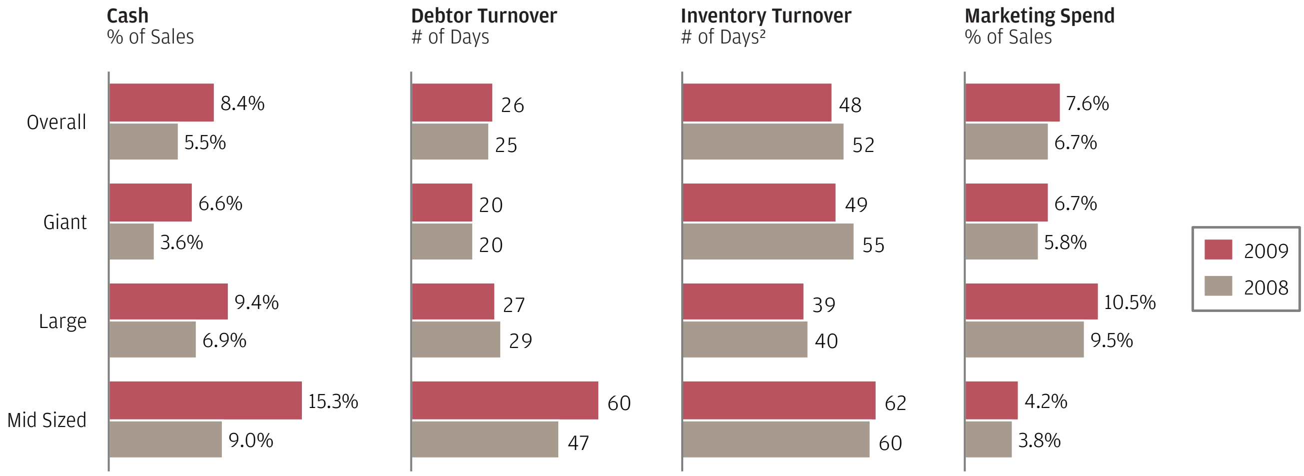
With falling demand & rising input prices in H2 of FY09, companies organised their efforts towards sustenance of demand and margins.

Driving Affordability: To prevent downtrading, companies introduced lower price points, lower priced SKU's and smaller packs (P&G, Henkel, Amul).

The Importance of 'Bharat': Buoyed by four years of steady rainfall, rural demand remained strong and outgrew growth in urban demand. Rural focus manifested in the form of new product launches (Raag by Adani Wilmar), beefing up rural distribution through innovative methods (use of the postal dept. by Emami, usage of super distributors by Marico), designing rural specific promotional campaigns (Lifebuoy's Swasthya Chetna) and media mix (GCPL).

Trimming Operational Costs: Overheads built on assumptions of high growth were the first to face the axe followed by rationalisation of distribution channel, consolidation of sales force, and outsourcing of non core activities, accompanied with improvements in sourcing.

Efforts to Sustain Demand and Margins[1]



Cash is King - Companies followed a cautious approach holding on to cash

The Mid-sized companies felt the heat, having to offer additional credit to push sales

Tightening of the belt through better inventory management

Rise in marketing spend across categories indicative of the thrust on demand generation

1. The above analysis is for 37 companies
2. REI Agro and KRBL Limited, both large rice trading companies have been excluded from the Inventory Turnover Analysis on account of the high inventory held by them. Including these two companies skews the average Inventory Days of 'Large' to 87 and 86 days and 'Overall' to 61 and 64 days respectively in 2009 and 2008 respectively

WHAT NEXT?

The economy has responded very well to the stimulus package and restored consumer confidence. In the first two quarters of FY10, the Indian FMCG industry has grown by c.15% . This growth has been largely volume led, with lower price points being exploited heavily. Rural demand continued to be strong, with volume growth of c.20% compared to a 6-7% growth in the Metros. The impact of poor monsoons on rural consumption will be muted primarily on account of friendly government policies

Most companies have managed healthy margins with the **'Large'** faring better than the **'Giants'**. However rise in prices of key inputs such as sugar, milk etc. and raised ad spends are likely to result in margin pressures. Crude prices are back to $ 80+ per barrel leading to inflationary pressures as well.

The slowdown last year forced companies to trim excess flab and get into the best shape possible. Being at their fittest, now is the perfect time for companies to step on the gas and zoom ahead. Companies should now set ambitious and long term goals, setting the stage for an endgame play!

Prepare to Win, Think Endgame!

Companies need to think Endgame and not incremental planning... a giant leap versus baby steps!

HOW? : Imagine the future and work back from there!

WHY? : Endgame delivers superior financial results as well as coveted goals

WHAT? : **Endgame 'is NOT':** 10 to 15% Better

Endgame 'IS': Typical endgame goals -

- Increase your market share at least 10 percentage points
- Achieve a Relative Market Share - RMS[1] of 2
- Grow at twice the rate of the competitors
- Recover all share loss of the last 4 years

1. Your size relative to the market leader or, if you are the leader, the next largest company

TAKE THE FIRST STEP TOWARDS YOUR ENDGAME...

Grab Market Share

Seize the opportunity to take market share (specifically Relative Market Share) through innovative offerings backed by a solid marketing budget

1

Outsource

De-resource the business – evaluate outsourcing non-core functions to reduce overheads and improve efficiency

2

Improve Realisation

Decommoditise!!

Move from volume-led to value-led growth

3

Widen Reach

Strengthen traditional trade to offer a better consumer experience – enjoy increased reach, bargaining power and stability

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