With a population of over one billion, India is one of the largest economies in the world in terms of purchasing power and increasing consumer spending, next to China. The Indian FMCG industry, with an estimated market size of ~`2 trillion, accounts for the fourth largest sector in India. In the last decade, the FMCG sector has grown at an average of 11% a year; in the last five years, annual growth accelerated at compounded rate of ~17.3%. The sector is characterized by strong presence of global businesses, intense competition between organized and unorganized players, well established distribution network and low operational cost. Availability of key raw materials, cheaper labor costs and presence across the entire value chain gives India a competitive advantage. During 2012, the country witnessed high inflation, muted salary hikes and slowing economic growth, which affected the FMCG sector with companies posting deceleration in volume growth in their quarterly results. However, the trend seen in 2012 is likely to accelerate in 2013 as growth will come from rural dwellers that are expected to see a rise in their disposable incomes.

The Indian FMCG industry represents nearly 2.5% of the country’s GDP.

The industry has tripled in size in past 10 years and has grown at ~17%CAGR in the last 5 years driven by rising income levels, increasing urbanisation, strong rural demand and favourable demographic trends.

The sector accounted for 1.9% of the nation’s total FDI inflows in April 2000- September 2012. Cumulative FDI inflows into India from April 2000 to April 2013 in the food processing sector stood at `9,000.3 crore, accounting for 0.96% of overall FDI inflows while the soaps, cosmetics and toiletries, accounting for 0.32% of overall FDI at `3,115.5 crore.

Food products and personal care together make up two-third of the sector’s revenues.

Rural India accounts for more than 700 mn consumers or 70% of the Indian population and accounts for 50% of the total FMCG market.

With changing lifestyle and increasing consumer demand, the Indian FMCG market is expected to cross $80 bn by 2026 in towns with population of up to 10 lakh.

India's labor cost is amongst the lowest in the world, after China & Indonesia, giving it a competitive advantage over other countries.

Unilever Plc's $5.4 billion bid for a 23% stake in Hindustan Unilever is the largest Asia Pacific cross border inbound merger and acquisition (M&A) deal so far in FY’14 and is the fifth largest India Inbound M&A transaction on record till date.

Excise duty on cigarette has been increased in the Union Budget for 2013-14, which would hit major industrial conglomerates like ITC, VST Industries in the short term.

The fast-moving consumer goods (FMCG) sector is an important contributor to India’s GDP and it is the fourth largest sector of the Indian economy. Items in this category are meant for frequent consumption and they usually yield a high return. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and extends to certain electronic goods. The Indian FMCG sector, which is the fourth biggest sector in the Indian economy, has a market size of `2 trillion with rural India contributing to one third of the sector’s revenues.

The Indian FMCG sector is highly fragmented, volume driven and characterized by low margins. The sector has a strong MNC presence, well established distribution network and high competition between organized and unorganized players. FMCG products are branded while players incur heavy advertising, marketing, packaging and distribution costs. The pricing of the final product also depends on the costs of raw material used. The growth of the sector has been driven by both the rural and urban segments. India is becoming one of the most attractive markets for foreign FMCG players due to easy availability of imported raw materials and cheaper labour costs.

The fabric wash market size is estimated to be ~USD 1 billion, household cleaners to be USD 239 million, with the production of synthetic detergents at 2.6 million tonnes. The demand for detergents has been growing at an annual growth rate of 10 to 11% during the past five years. On account of convenience of usage, increased purchasing power, aggressive advertising and increased penetration of washing machines, the urban market prefers washing powder and detergents to bars. The regional and small unorganized players account for a major share of the total detergent market in volumes. Household Care category recorded robust volume and value growth during the year through focused innovation in the portfolio to provide greater consumer value. Vim bar continues to delight consumers by delivering superior performance and new offerings like the Anti-Germ Bar and the Monthly Tub Pack. Vim liquid continues to develop the liquid dish wash category driven by superior product quality and strong advertising. It has effectively accomplished the dual job of growing the liquids market by reaching out to more households, while increasing consumption in existing households. Domex continued to provide clean and germ free toilets to the consumers.

The personal care products (PCP) market in India is estimated to be worth ~USD 4 bn p.a. Personal hygiene products (including bath and shower products, deodorants etc.), hair care, skin care, colour cosmetics and fragrances are the key segments of the personal care market. Each of these segments exhibits its unique trends and growth patterns. For example, the largest segment of personal hygiene products, largely dominated by bar soaps, has grown at ~5% p.a. over the last five years. In comparison, the second largest segment, hair care products has seen a much higher growth of ~9-10% p.a. during the same period.

The hair care market can be segmented into hair oils, shampoos, hair colorants & conditioners, and hair gels. The coconut oil market accounts for 72% share in the hair oil market.

The skin care market is at a primary stage in India. With the change in life styles, increase in disposable incomes, greater product choice and availability, people are becoming more alert about personal grooming.

The oral care market can be segmented into toothpaste – 60%; toothpowder – 23%; toothbrushes – 17%.

Food processing industry is one of the largest industries in India, ranking fifth in terms of production, growth, consumption, and export. The total value of Indian food processing industry is expected to touch USD 194 billion by 2015 from a value of USD 121 billion in 2012, according to Indian Council of Agricultural Research (ICAR). The packaged food segment is expected to grow 9% annually to become a `6 lakh crore industry by 2030, dominated by milk, sweet and savoury snacks and processed poultry, among other products, according to the report by CII-McKinsey.

The ready-to-drink tea and coffee market in India is expected to touch `2,200 crore in next four years, according to estimates arrived at the World Tea and Coffee Expo 2013. Branding could drive the next growth wave in the country’s food processing sector. The total soft drink (carbonated beverages and juices) market is estimated at ~USD 1 billion. The market is highly seasonal in nature with consumption varying from 25 million crates per month during peak season to 15 million during offseason. The market is predominantly urban with more than 25% contribution from rural areas. Coca cola and Pepsi dominate the Indian soft drinks market.

The urban segment is the biggest contributor to the sector, accounting for two-thirds of total FMCG sector revenue. The semi-urban and rural segments which are growing at a brisk pace, currently account for 33.5% of revenues of the FMCG sector. FMCG products account for 53% of total rural spending. During FY 11, over 80% of FMCG products grew at a faster pace in rural markets as compared to urban ones with premium skin care brands growing twice as fast in rural areas than urban brands. Lower priced packs have increased the penetration of the FMCG sector in rural India. The sectors that are witnessing high growth include salty snacks, refined edible oil, healthcare products, iodised salt, etc. Hair oils, toothpastes and shampoos have quite high penetration in both urban and rural markets while the sales of instant noodles, floor cleaners and hair dyes is increasing in rural markets due to higher awareness. There are a total of 12-13 million retail outlets in India, with kirana stores being the majority of them. Some of the major FMCG players in India include ITC, HUL, Nestle, Dabur, Godrej Consumer, etc.

The rural market is currently worth approximately USD 9 billion in consumer spending in the FMCG space annually. Rural India accounts for 700 million consumers or 70% of the country’s population, accounting for one -third of the total FMCG market. According to a report by Nielsen, the Indian rural market is tipped to grow more than ten-fold to USD 100 billion by 2025, presenting a huge opportunity for leading FMCG brands. One of the key drivers of the rural FMCG market has been the unprecedented growth of smaller packaging options. Lower priced packs have improved accessibility and increased the pace of penetration of FMCG products in rural areas. According to Nielsen, FMCG growth in the rural sector for the quarter ended March 2012, stood at 17.2%, surpassing the urban segment at 16.5%. The purchasing power in rural areas has outpaced that of urban areas as non-farm incomes improve, bolstering consumer spending on FMCG products. Rural consumption growth has outpaced urban consumption with the percentage increase in monthly per capita expenditure in rural markets surpassing its urban counterparts during the period 2009-2012. Significant progress in literacy levels, higher government spending on welfare programs, growing support to agricultural sector, which is the major occupation of rural India and better infrastructure and DTH and mobile connections have also acted as a catalyst in bolstering rural demand for FMCG products. Several measures taken by the government to support the rural population including higher minimum support prices (MSPs), loan waivers, and disbursements through the National Rural Employment Guarantee Act (NREGA) programme have bolstered the purchasing power of this segment.

GST, which will replace the multiple indirect taxes levied on FMCG sector with a uniform, simplified and single-pint taxation system, is likely to be implemented soon (the benefits are likely to come in by the end of FY’14). The rate of GST on services is likely to be 16% and on goods is proposed to be 20%. A swift move to the proposed GST may reduce prices, bolstering consumption for FMCG products.

The food security Bill has been passed recently by the Union Cabinet. As per the Bill, 5Kg of food grains per person per month will be provided at subsidized prices from State Governments under the targeted public distribution system. With additional demand, the agriculture sector would receive a boost and this could lead to more investments in improving agriculture productivity and making it more competitive.

The decision to allow 51% FDI in multi brand retail and 100% FDI in single brand retail augers well for the outlook for the FMCG sector. The move is expected to bolster employment, and supply chains, apart from providing high visibility for FMCG brands in organized retail markets, bolstering consumer spending, and encouraging more product launches. FDI of 100% under the automatic route is allowed in the food processing sector, which is considered as a priority sector. FMCG sector accounted for 1.9% of the nation’s total FDI inflows in April 2000- September 2012. Cumulative FDI inflows into India from April 2000 to April 2013 in the food processing sector stood at `9,000.33 crore, accounting for 0.96% of overall FDI inflows while that in the soaps, cosmetics and toiletries was `3,115.54 crore in, accounting for 0.32%. The food processing sector attracted FDI inflows of `6,198 crore during April 2009 to December 2012.

Industrial licenses are 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 manufacturing in the small-scale sector.

In the recent quarters, many of the foreign firms have increased their exposure in the FMCG companies like Hindustan Unilever, Godrej Consumer Products, Britannia Industries etc, motivated by their robust financial performance and attractive valuations. The reason is quite simple. Irrespective of how the economy is performing, the demand for consumer goods, daily necessities like food and toothpastes, remains stable. During difficult times, people will reduce spending on discretionary items such as cars and airconditioners but continue to buy basic essentials.

As per a report, Foreign Institutional Investors (FII), betting primarily on Large Caps, have increased their holding in more than 11 Indian companies during the middle of FY’13, while domestic institutional investors, being positive largely on Mid-Caps raised their holdings in a number of FMCG companies. The defensive appeal and attractive valuation of FMCG companies makes the FIIs to show interest in the sector.

Despite of global economic slowdown, it is expected that the Indian FMCG industry will continue to witness merger and acquisitions (M&A), as well as private equity investment. As the M&A deals provide the Indian FMCG players the platform to gain market share and footprint in other fast growing countries/regions through acquisitions and also access to an established and well invested distribution infrastructure capable of leveraging existing products that will be adaptable to the new geography, the Indian firms are keen on focusing on higher growth markets such as South-East Asia, Africa, Latin America. With Godrej and Wipro taking the lead, the domestic companies have been quite active in M&A activities in order to gain significantly from an inorganic growth route

The 2013 fiscal witnessed a number of M&A deals in India. The major player in the Indian FMCG market, with leading Household and Personal Care Products, Godrej Consumer products Ltd (GCPL) made a series of acquisitions across various geographies. The FMCG major has successfully completed the acquisition of 60% stake in CosmeticaNacional, a leading hair colorant and cosmetics Company in Chile, through its subsidiary Godrej Netherlands B.V and 51% stake in Darling Group operations in Kenya through its subsidiary Godrej East Africa Holdings Ltd. Further, Hindustan Unilever's (HUL) $5.4 billion deal, announced on May 1 2013, with parent, Unilever Plc was the largest Asia-Pacific cross border inbound merger and acquisition (M&A) deal so far in FY’14.

This Indian FMCG market is highly fragmented and a major part of the market constitutes of unorganized players selling unbranded and unpackaged products. FMCG goods are marketed by two primary sales channels - General Trade and Modern Trade. General Trade includes kirana stores, which are the largest sales channel forming 95% of overall retail sales. While, the Modern trade facilitates comfortable and modern store experience, availability of a wide variety of categories and brands under a single roof and compelling value-for-money deals, which attracts consumers to organized retail in a big way. However, modern trade is still an urban phenomenon with 17 key metros contributing to 73% of overall modern trade in India. FMCG product segments such as packaged rice, liquid toilet soaps, floor cleaners, breakfast cereals, air fresheners & mosquito repellent equipment have a higher penetration in modern trade channel.

The growing popularity of modern retail is expected further to bolster the growth of the FMCG sector by aiding distribution channels. Rural distribution network has improved through projects like Shakti Choupal Sagar, Aadhar and Hariyali Bazaar, increasing penetration of FMCG products into the segment. While the share of modern retail in India currently stands at only 6% of total retail industry; it is estimated to reach to reach 10.2% or `4.87 lakh crore by 2015 as private label products gain popularity while shoppers become aware of increased choices and various deals being offered. In urbanized distribution, organized retail boosts shelf space visibility.

Increasing its direct coverage, HUL doubled its products coverage to the remotest areas of the country through a combination of increasing HUL’s direct coverage through distributors and its flagship rural distribution programme, Project Shakti. A rural distribution initiative that targets small villages, Project Shakti benefits us by enhancing our direct rural reach and also creates employment opportunities for people in rural India. Through Project Shakti, it has 48,000 Shakti entrepreneurs (Shakti ammas) in 15 states. The Shakti ammas cover over 135,000 villages and serve 3.3 million households.

Dabur’s ambitious Project Double, which was aimed at enhancing direct coverage in rural India, has been successfully implemented across 10 key states that contribute to 72% of the rural FMCG potential. Within these states, 287 prosperous districts were targeted for this drive. Field resources were more than doubled as a part of the project. Rural salesmen were provided mobile devices through which they report sales and coverage data. Post the implementation of this project it has witnessed an increase in its product width in rural markets which has translated into higher and more profitable sales.

India’s per capita income, a measure of living standards, is projected to have increased 11.7 per cent to `5,729 per month in 2012-13 at current prices, up from `5,130 in the previous fiscal. The per capital income at current prices during 2012-13 is estimated to have stood at `68,747, up from `61,564 in FY 2011-12. Rising per capital incomes are likely to bolster discretionary spending, driving growth in the Indian FMCG sector. The per capita income in real terms (at 2004-05 constant prices) during 201213 is likely to attain a level of `39,143 as compared to the First Revised Estimate for the year 2011-12 of `38,037. According to the IMF, India’s per capital income is tipped to grow at a CAGR of 8.8 per cent to USD 2,228.5 over a period of 2012-17. In 201213, India’s per capita income stood at USD 1,535.6. Also, rising number of working women and the reducing popularity of the joint family system has increased the demand for processed and packaged food products. Further, rising awareness has also boosted demand for personal care and healthcare products. People in the rural areas have become more open to consuming modern packages food products and personal grooming products as satellite TV and internet powers awareness.

Also, the fast growing economy provides scope for growth in FMCG space. Despite the current slowdown, India remains one of the fastest growing global economies, giving huge opportunities for leading FMCG players to expand their brand presence, introduce new products and foray into untapped markets. Being a consumer-driven economy, India is one of the leading FMCG markets in the world.

This year, the early arrival of monsoon has brought liveliness to the Indian FMCG companies, as it has increased the expectations of growth in uptake in the rural market, which accounts for upto 50% of sales of the FMCG companies. The dependence of FMCG sector on agriculture is high, so good monsoon is a positive add-on for the rural economy. As the monsoon arrives, disposable income in rural India increases, as a consequence, there would be increased consumption of FMCG products. The early arrival and prospects of a good monsoon are making FMCG firms such as Emami, Dabur, Marico and GSK Consumer Healthcare quite optimistic as 50% of their sales come from rural demand.

It was reported that Emami which gets about 40-45% of total sales from rural India, expects increased consumption of FMCG products due to a good monsoon. Moreover, nearly 50% of Dabur's domestic sales are from rural India and the company has registered a total sale of `6,146 crore from the region. For Marico, the proportion of income from the rural area has increased over time and is currently around 30%.

So, with a good monsoon, it is expected that there will be an improvement in rural consumption sentiment.

India is one of the world's largest producers for a number of FMCG products but its exports are a very small proportion of the overall production. Total exports of food processing industry were US$ 2.9 billion in 2001-02 and marine products accounted for 40% of the total exports. In order enhance the global presence, Indian companies have started eying overseas markets like Bangladesh, Pakistan, Nepal, Middle East and the CIS countries because of the similar lifestyle and consumption habits between these countries and India. India's exports of processed food were `413.1 billion in 2012-13, accounting nearly 13% of the country’s total exports. India’s exports of cosmetics/ toiletries stood at `15.5 billion in April-May 2013, accounting for 0.59% of total exports. HUL, Godrej Consumer, Marico, Dabur and Vicco laboratories are amongst the top exporting companies.

Despite higher interest rates and elevated inflation, the Indian FMCG sector grew at a healthy 15-20 per cent rate last year driven by robust rural and urban demand. The sector is generally considered resilient to harsh economic conditions as need for some FMCG goods such as home cleaning equipments, soaps, etc. will always be there. But the recent volatility in commodity prices and weakness in Indian rupee makes it difficult for companies to finalize raw material prices, which affect the final price of the product. With the Indian consumer known to be value conscious, FMCG players face a tough decision whether to pass on the price hike to consumers. At the same time, higher input costs may force a reduction in advertising and promotional budgets. Further, the record depreciation of the Indian rupee in recent weeks as negative for companies who import raw materials such as Marico, Godrej Consumer Products, Colgate, Dabur, as it may crimp margins unless they raise prices. The power shortage in the economy, coupled with adequate transportation and agricultural infrastructure remain the major obstacles for the growth of the Indian FMCG industry as many untapped regions remain inaccessible.

New launches, innovation and product augmentation are many of the few motivational factors for a FMCG company that has the potential to increase their profitability to a greater extent. As Indian customers are becoming more global in their aspirations and desires, their appetite to consume products is also increasing. Robust demand for existing FMCG products are encouraging more FMCG players to extend their existing brand and expand their product portfolio as well, bolstering the Indian FMCG space. Moreover, in a bid to garner higher market share and sustain long-term growth, most of the FMCG companies are going for brand extension strategy. Various big industrial players launched new and innovative products and ideas during FY’13. For instance,

HUL’s one of the largest brands, Lifebuoy aims to change hand washing behavior of people by educating them about health and hygiene. At the Mahakumbh Mela, Lifebuoy partnered with over 100 restaurants to raise awareness about hand hygiene. Over 2.5 million Rotis (carried the stamp “Lifebuoy se haath dhoye kya? and reminded people to wash their hands before eating.

HUL’s Kissan strengthened its ‘natural’ advantage by re- positioning itself on “Goodness of 100% real”. The idea was to give consumers a “real” experience – in the products they buy and through participation in activities that help them connect to nature. This inspired the launch of ‘Kissanpur’.

Marico entered the breakfast category by launching Saffola oats in various flavors. It also launched new products in the hair care and skin care segments. The acquisition of Paras Healthcare last year helped it extend into the male personal care business where it gained some traction.

For Godrej, the growth came in from new channels, product innovation, and pollination across regions and expansion of the distribution network. New launches such as creme-based hair colour and extension of Cinthol into categories such as face wash and moisturizers gave an added impetus to the overall business. HUL also went in for extensions in brands such as Lux, Pepsodent and Pureit.

For Dabur, the year 2012 undertook a mega initiative to substantially expand its distribution footprint and drive profitable growth. This initiative was aimed at doubling the direct distribution reach in rural markets, customizing trade promotions and providing focused servicing through a dedicated sales team in these markets.

The rural middle-class constitutes a potential market lying to be tapped by the corporates in the business of fast-moving consumer goods (FMCG). It has been observed that rural India accounts for more than 700 mn consumers or 70% of the Indian population and 50% of the total FMCG market. The working rural population is approximately 400 mn. Average citizens in rural India have less than half the purchasing power of their urban counterparts. Still, this market has immense potential, enticing FMCG companies to take different steps to capture it.

The Indian middle class population is the most promising market for FMCG and give brand makers the opportunity to convert them to branded products. As per McKinsey Global Institute (MGI), middle class population in India is going to increase by about 12 times during 2005-2025; as a result, spending is expected to increase by about 2025, fuelling consumption demand.

Per capita disposable income determines an individual's ability to purchase goods or services. As per the BRICs report, India is likely to witness a rise in disposable income to USD 1,150 by 2015, from the current USD 556 per annum, on account of growth in industrial and services sector. As a result, spending will increase which will consequently boost the FMCG sector growth.

The overall impact of budget 2013-14 has been neutral on FMCG sector. The budget turned out to be dampener for the cigarette industry particularly for ITC with 18% rise in excise duty this year following last year’s 21% rise. However, rise in allocation for Ministry of Rural Development augers well for FMCG companies. Besides, there was no major announcement for the sector.

The finance minister's decision to increase allocation for Ministry of Rural Development announced in the latest budget by 46% bodes well for FMCG companies, as rural region contributes one-third of FMCG sales. However, a large part of the increase shall involve capital stock building, while expenditures on flagship MNREGA has been raised modestly (12% growth under the head of rural employment). Further, the exemption limit has been raised modestly for the lowest income slab to `220,000.

Also, the government has made promising statements over the GST implementation, which may be implemented by the end of FY’14. Further, the budget has made an extra provision of `100 bn on account of the Food Subsidy Bill, which is also a positive trigger for the FMCG sector.

Excise duty on cigarette has been increased in the Union Budget for 2013-14, which would hit major industrial conglomerates like ITC, VST Industries in the short term as volumes are likely to get impacted. The Union Budget has raised excise duties on cigarettes, roughly by 18%, across cigarette lengths except the new slab (<65mm) that was introduced in the previous budget. Last year, the government had levied a 10% retail price-based excise on cigarettes longer than 65mm. The companies have always been able to pass on the duty hikes to customers and so there is unlikely to much impact in the medium-to-long term.

With steep Excise Duty hikes, discriminatory VAT taxes by various states, rising illegal trade and heightened competitive intensity, the year ahead will be quite challenging.

To determine industry attractiveness and long-run industry profitability of the Indian FMCG Industry, we chose to apply the Porter’s five forces in our analysis. Porter’s five forces are: (1) Barriers to Entry and exit, (2) Threat of substitutes, (3) Buyer bargaining power, (4) supplier bargaining power, and (5) Industry Competition.

The Indian FMCG Industry is characterized with modest entry and exit barriers. Integrated business model and increasing capital requirement in the industry restrict new entrants. Huge investments in setting up distribution networks and promoting brands and competition from established companies.

Being an essential commodity the demand for consumer products is elastic. Multiple brands positioned with narrow product differentiation. Companies entering a category /trying to gain market share compete on pricing which increases products substitution. Hence, threat of substitute is high in the industry.

High brand loyalty for some products, thereby discouraging customers’ product shift. But low switching cost and aggressive marketing strategies under intense competition within the FMCG companies, induce Customers to switch between products, thereby driving value for money deals for consumers.

Prices are generally governed by international commodity markets, making most FMCG companies price takers. Due to the long term relationships with suppliers etc., FMCG companies negotiate better rates during times of high input cost inflation

Competitiveness among the Indian FMCG players is high. With more MNCs entering the country, the industry is highly fragmented. Advertising spends continue to grow and marketing budgets as well as strategies are becoming more aggressive. Private labels offered by retailers at a discount to mainframe brands act as competition to undifferentiated and weak brands.

The outlook for Indian FMCG industry looks bright amid higher income levels and the expansion of the model retail format. Moreover, expectation of rise in disposable incomes of rural dwellers due to the direct cash transfer scheme may bolster the sector’s performance in 2013. Overall, FMCG sector has a great opportunity for growth in the country, with the rising disposable incomes, increasing rural consumption, the growing population, education, urbanization, rising modern retail, and a consumptiondriven society. Low cost labor and low per capita consumption of almost all products in India, gives the country a competitive advantage as many MNC's have established their plants in India to outsource for domestic and export markets. Meanwhile, there exists huge untapped opportunities for the sector. Indian companies have their presence across the value chain of FMCG sector, right from the supply of raw materials to packaged goods in the food-processing sector. This brings India a more cost competitive advantage.

However, the sharp depreciation in the value of rupee, new norms of standard-size packaging, increase in raw material costs due to upward spiraling interest rates and inflation together might dent the performance of the FMCG sector which ruled the bourses in the current CY13. Increasing urbanization and higher disposable incomes are encouraging many consumers to move from unbranded to branded products, bolstering growth in the FMCG market. Despite the current slowdown, demand for premium products in the health and wellness space is rising, encouraging companies to launch more premium products. Moreover, demand for sophisticated personal care products is also on the rise as people become beauty and health conscious. Hence, we observe a positive outlook to FMCG companies for 2013 following strong consumption demand of the country.

HUL, a 52% subsidiary of Unilever, is India's largest Fast Moving Consumer Goods Company. With over 35 brands spanning 20 distinct categories, the Company is a part of the everyday life of millions of consumers across India. HUL, with its iconic brands, has maintained its growth which is impressive given the recent price hikes across product categories and a strong competitive scenario, indicating a revival in consumer demand and higher growth in the mid/premium market segment. Besides, Unilever PLC’s voluntary offer to increase stake in HUL to 75% at `600 per share is a fresh trigger for the stock.

The largest FMCG player in the country posted another year of spectacular performance with 41% and 15% growth in bottom-line growth and revenue at `37.97 billion and `270.03 billion, respectively on the back of 16% growth in its domestic Consumer business, driven by volume growth of 7%. Earnings before interest and tax (EBIT) grew by 23%, with EBIT margin improving 80 bps on account of double digit growth across all segments.

During FY13, the company achieved the strong growth across all segments as strong pipeline of innovations helped it to further strengthen its portfolio and brands. The Soaps and Detergents segment, contributing ~47% to the revenues, grew by 18.8% YoY, on the back of strong underlying volume growth and pricing actions. The high margin Personal Products segment, contributing ~28% to the revenues rose by 12.7% YoY, driven by robust double digit growth in Skin Care Hair & Oral Care category while the Beverages and Packaged Foods segment grew 14.3%YoY and 11% YoY, respectively.

HUL has been very actively re-launching products from its existing brands and has increased the pace of new launches, targeting the mid/premium market segment. This, in our view, is positive, considering that the company will have a better control on pricing. Moreover, constant innovations have helped HUL stabilize its market share loss. Some of the key launches this year included, TRESemmé, a premium range of hair care products, Dove Elixir hair oil, Lakmé’s advanced skincare range, Perfect Radiance and Pepsodent Expert Care toothpaste.

HUL has delivered broad based competitive growth and margin improvement. Being the largest FMCG player in the country, HUL is well positioned to take advantage of its strong brands by investing in brand equity, finding and strengthening the connections between consumers and the products through innovation and driven in-market execution and operational efficiencies. Despite near term concern around slowing market growth and inflationary pressures on consumers, the company remains confident of the medium to long term growth prospects. Beside, with the company’s business model to achieve sustained growth, lower environmental impact and positive social impact, we believe the stock could see meaningful upside. At the price of `625.8, the stock is trading at P/E multiple of 35.4x of its FY13 EPS of `17.7.

ITC has posted 22% growth in consolidated net profit at `76.1 bn in FY’13, mainly on account of strong performance across all financial parameters, leveraging its corporate strategy of creating multiple drivers of growth. Better revenue mix, higher operational efficiency and significant rise in cigarette price enabled ITC to expand EBITDA margin by 50 bps YoY to 35.7% in FY’13. Going forward, we expect margin to grow at ~37% in FY14E.

ITC’s non-cigarette FMCG business, which contributes ~25% to the revenues grew by 26% YoY in FY’13, surpassing the industry growth, a sign that ITC is fast gaining market share in the Indian FMCG industry, which is still dominated by HUL, with a 15% market share. In a short span of time, ITC has penetrated successfully in segments like food & confectionery and personal care products. The company plans to enter into dairy products soon. Its foods division already has positive cash flows; the personal care division would take at least another six months to turn positive. Consequently we expect non-cigarette businesses to add to the earnings in FY’15 in a better way.

ITC has gained competitive advantage in the packaged food business with Sunfest now the market leader in the highly competitive premium cream biscuits segment with a 27% market share and Aashirvaad’ atta is the leader in the atta brand with a 70% market share. In the bakery, the company augmented its product range with the launch of several 'first-to-market' variants including ‘Dark Fantasy Choco Fills – Coffee’, ‘Dark Fantasy Choco Meltz’, ‘Butterscotch Zing’, ‘Kaju Badam Cookies’. In the staples, ready to eat and the snack food segment, Aashirvaad ‘Multi-grain’ atta and ‘Sunfeast Yippee!’ continues to hold its leadership position in the market.

ITC has strengthened its market share in FMCG sector via the launch of new products with innovative ideas, penetration into new segments and enhancing distribution channels. ITC’s entry into the deodorant market with the launch of ‘Aqua Pulse Deodorant Spray’ under the ‘Fiama Di Wills Men’ franchise and the launch of 'Vivel Cell Renew' Body Lotion, Hand Crème/Moisturiser and ‘Vivel Perfect Glow’ Skin Toner in target markets sets the tone for a pick-up in momentum in the company’s personal care business.

Over the years, ITC has utilized solid cash flows from the cigarette business to expand its FMCG- other segment. Given the above industry growth in the non-cigarette FMCG business, which turned profitable for the first time in Q4’FY’13 and an aggressive investment in the new businesses, ITC would demand premium valuations over its peers to become a well-diversified growth company. At the price of `350.5, the stock is trading at P/E multiple of 36.5x of its FY13 EPS of `9.6.

DIL is one of India's leading FMCG companies having significant presence in the global market through its products across 60 countries. The company's overseas revenue accounts for over 30% of the total turnover. DIL is doing well on international front as the acquisitions of Hobi Group and Namaste Laboratories, LLC by the company, during FY’12, has given access to new and complimentary products, thereby increasing the growth potential for the company.

DIL is expanding its rural distribution to grow ahead of the industry rate. Rural India accounts for 45-50% of DIL’s domestic sales and is a very strong driver for growth for the company. DIL has undertaken Project Double aimed at doubling the direct distribution reach in rural markets, customized trade promotions and has provided focused servicing through a dedicated sales team in these markets. The efforts in increasing rural reach have resulted in greater penetration in rural availability across categories.

In a move to strengthen its footprints in the global market, the company has expanded its portfolio in the Middle East region. Currently, more than 65% of DIL’s revenue base comes from the Gulf Cooperation Council (GCC), Egypt, Yemen, Jordan, Syria, Lebanon, Morocco, Algeria, Libya, Sudan and Iraq. Further, DIL is looking forward for setting up manufacturing facilities in North Africa for catering to Maghreb countries. Its international's business division contributes to around a third of its total turnover. Within the international business, Middle East and North Africa (MENA) account for 40% of its business. Therefore, the MENA region is a very important revenue generator for the company.

The company has invested $16 mn on a manufacturing facility for packaged fruit-based beverage in Sri Lanka recently. The opening of this new facility would mark a new mile stone as this would be the company’s largest overseas venture to date. The new facility, located in Mirigama, Gampaha, has a total capacity to produce 280,000 cases of fruit-based beverages every month.

DIL has a unique mix of seven diverse growth engines in the FMCG space, which have a potential of delivering strong revenue growth. Its international business is expected to record 15% YoY growth in FY’14 led by Hobi and Namaste business. With business restructuring at Namaste now complete, the management expects it to record ~15% (YoY) growth in FY’14 against 10% decline in FY’13. DIL is also likely to benefit from stable input prices and lower advertisement spending in FY’14. The management expects ~100-150bps expansion in gross margins in the next fiscal. At the price of `165.1, the stock is trading at P/E multiple of 37.68x of its FY13 EPS of `4.4.

GCPL’s management is confident of achieving ~26% revenue CAGR over the next 10 years. Around 10% growth is envisaged through the inorganic route, which translates into a 10x jump in revenues by 2021. GCPL’s successful acquisition integration in the past makes it confident of its ability to derive synergy benefits. GCPL expects revenue and earnings CAGR of ~27 and 35% respectively over FY’12-14.

GCPL’s 3x3 strategy that focuses on international markets through its three core categories is delivering desired results. The company aims to penetrate deeper into Asia, Africa and South America, with three product segments - personal wash, hair care and insecticides. Its focus has always been on developing countries as these places have higher population and consumption of its products is high consequently. GCPL has acquired market-leading brands in emerging-markets, most of which operate in categories that do not face tough competition from global players. We expect GCPL to use its expanded distribution footprint to introduce other key products in its portfolio in these geographies.

The company aims to grow 10 fold over the next 10 years and for that it requires a compounded annual growth rate (CAGR) of about 26%. The company believes that it can achieve it, as it already has achieved 26% growth rate over the past three years, when India was facing a slowdown. The company is expecting about 15-20% of that growth of 26% CAGR, to come from organic growth and the balance from inorganic growth.

GCPL has continued to leverage innovation as a differentiator and has strong pipeline in place to introduce exciting and disruptive new products in the near future. It has launched a number of products during FY’13 like HIT Anti-Roach gel. Moreover, it has successfully launched other products like latest soap variants Godrej no. 1 Aloe Vera and white lily and Rosewater and almond soaps, Godrej Expert rich crème hair colour, range of Cinthol shower gels etc. With wider distribution network of over 4.1 mn outlets, the company is well positioned to lead market penetration efforts in a country.

Being a market leader in hair colour, home insecticides and liquid detergent and the number two player in toilet soaps in the Indian market, GCPL will continue to leverage innovation as a differentiator. The company has launched several products in FY’13 and has a strong innovation pipeline in place to introduce exciting and disruptive new products. Traction in Asian, African and Latin American business will further enhance the profitability. At the price of `822.5, the stock is trading at P/E multiple of 42.0x of its FY13 EPS of `19.6.