

Business Data Management
Professor G Venkatesh
Professor M Suresh Babu
Department of Humanities and Social Sciences
Indian Institute of Technology Madras
Lecture 6
FMCG industry

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FMCG Industry

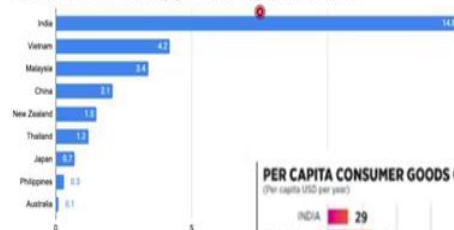


Professor G Venkatesh: Now let us look at FMCG.

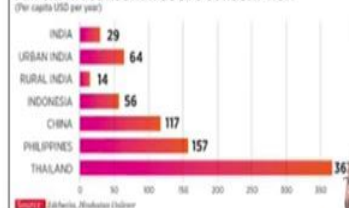
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Asia-Pacific: FMCG market avg. growth percentage (Q3 & Q4 - 2018)



PER CAPITA CONSUMER GOODS CONSUMPTION
(Per capita USD per year)



Professor G Venkatesh: Here I want to look at the key drivers or drive set. So, you see the FMCG growth percentage for India is expected to be around 15 percent. We saw that Nestle is historically showing around 15 percent annual growth rate...

Professor M Suresh Babu: Yeah, just to expand fast moving consumer goods.

Professor G Venkatesh: That is basically our day to day, staples, whatever we, which we consume. Growing at about 15 percent annually. But if you look at the other countries, they are not growing much because population is stable, or sometimes even declining.

Professor M Suresh Babu: Even China it is only 2.1 percentage.

Professor G Venkatesh: Saturated, they are spending on other things, fashion and all. There is not much scope for buying a soap in China, but in India it is still 15. So, for FMCG, India is the place.

Professor M Suresh Babu: That is the place.

Professor G Venkatesh: Which is why you will see people investing in Indian FMCG companies in spite of the fact that there is a temporary growth dip, but long term there is a potential to grow. And again, this can be explained by looking at the chart of, per capita consumption in US dollars per year. For India it is 29. Urban India is 64 and Rural India is 14.

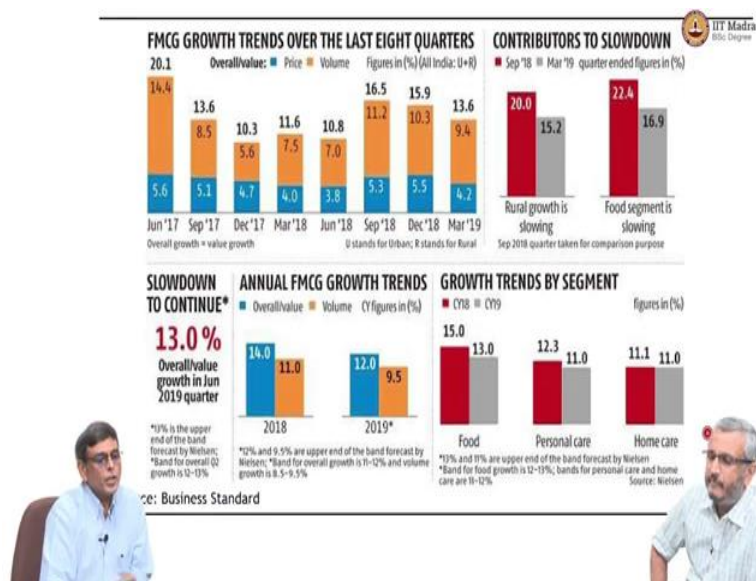
So, there is a huge possibility for rural India. All these FMCG companies are focused on Rural India, and they keep watching what is happening to monsoon because, monsoon is good. Rural consumption becomes good. And this number is good. They are all related.

Professor M Suresh Babu: There is a fortune at the bottom of the pyramid.

Professor G Venkatesh: Indonesia is at 56. And China is 117. So, from 29 to 117 they have a fourfold possibility to increase to catch up with China. Philippines 157. Thailand at 367. So, our per capita consumption has plenty of consumption for FMCG.

Professor M Suresh Babu: So, that is the reason perhaps these countries are not growing very, very high. Already they are at a very high level. And their growth is only limited, Thailand growth is only 1.2 percentage because they are spending on other things.

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Professor G Venkatesh: here you can see the growth rate over the last few quarters. So, we can see that it is trending in that 14, 15 percent. But recently slowing down, because of the last 2 years it has been going slowing down. And because rural growth is slowing primarily...

Professor M Suresh Babu: That is a kind of a demand contraction.

Professor G Venkatesh: Food segment is slowing because of demand contraction. So, all the segments like food is going down, personal care is going down, homecare is going down.

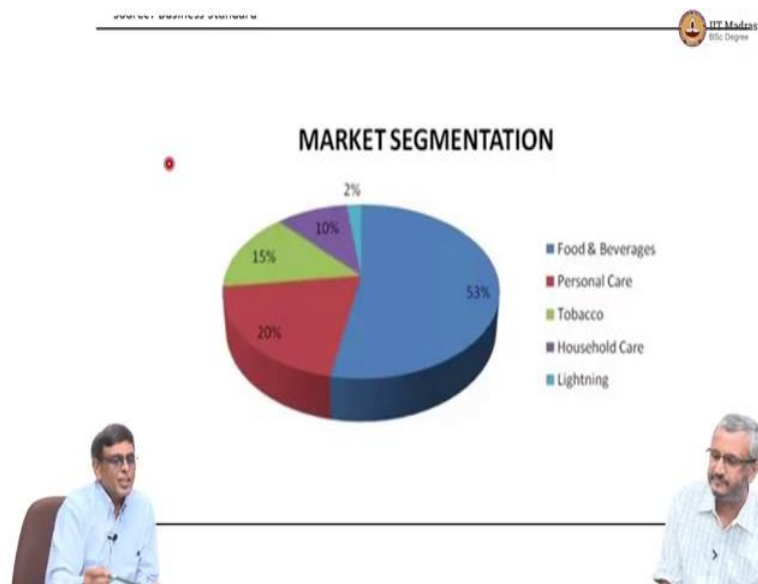
Professor M Suresh Babu: And this is in terms of both overall value that is price and volume.

Professor G Venkatesh: Yeah, this is broken down as price and volume.

Professor M Suresh Babu: A lot of data.

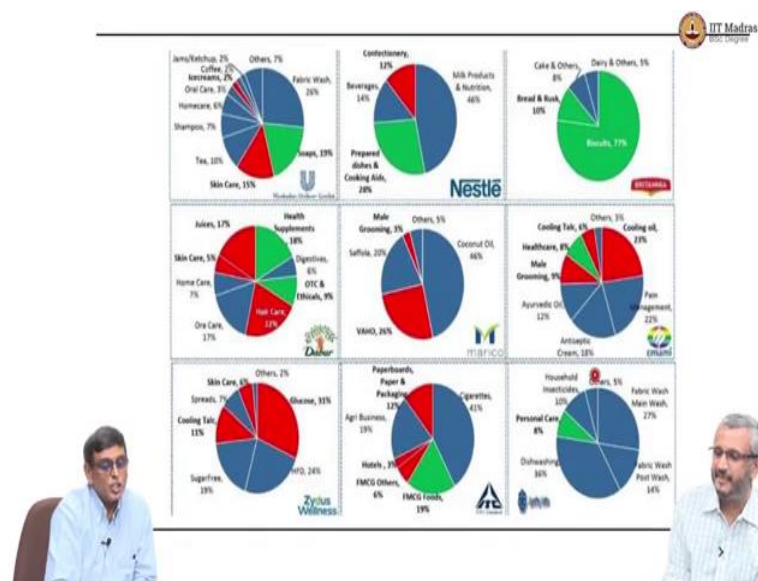
Professor G Venkatesh: Temporarily see how nice these charts are, how well they are presented. Our students have to learn how to present this, in this kind of way.

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Professor G Venkatesh: Now, typically, the FMCG is segmented like this. So, you have food and beverages, personal care, like shampoo. Then tobacco.

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Professor G Venkatesh: Now, this is interesting. So, this is just to show different segments. I have not written what the segment is because it is hard to write what the segment is, in different segments, different people are leaders.

For example, nestle is the leader in milk, milk products and nutrition. Here for example, this Britannia is the leader of biscuits. Here if you look at antiseptic cream, pain management, cooling talc - Emami.

Professor G Venkatesh: Then there is this health supplements, Dabur.

Professor G Venkatesh: Vazir is also there. Then there is Jyoti Labs for the fabric wash

Professor M Suresh Babu: That is a very interesting kind of thing because Jyoti Labs started as a very small company and then scaled up very fast because they got into a lot of international collaborations

Professor G Venkatesh: you can see that there are many FMCG companies. Even though some companies dominate. Still some FMCG companies do well. Like, Kevin Care local guy, he has done business. So, you pick the segment and try to be a leader in that segment. That seems to be the thing.

Professor M Suresh Babu: That is how the market works. for example, if you look at Hindustan Unilever's thing, so many products they are making, fabric wash to soaps to skincare, tea, shampoo, homecare, ice creams. Very interesting, coffee, jams, and ketchup, everything...

Professor G Venkatesh: Kissan, they have brand for everything. Nestle is more focused.

Professor M Suresh Babu: And Nestle is 46 percent which comes from milk products and nutrition.

Professor G Venkatesh: Child food basically, children's food.

Professor M Suresh Babu: And dishwashing is trending

Professor G Venkatesh: Big thing, due to COVID especially.

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Nestle's competitive position



Leading With Strong Market Shares			
Category	Brand	Market Share (Value)	Nestlé India Position
Infant Cereals	CERELAC	96.5	1
Infant Formula	LACTOGEN NAN	66.6	1
Tea Creamer	EMMENTAL	44.1	1
Instant Noodles	MAA	59.2	1
Ketchups & Sauces	MAA	20.5	2
Instant Pasta	MAA	73.7	1
White & Wafers	MAA	63.4	1
Instant Coffee	NESTLE	50.5	1



Professor G Venkatesh: I will try to put where Nestle stands. So, they are number 1 in many categories.

Professor G Venkatesh: This is the reason why they are able to get those kinds of ROCs.

Professor M Suresh Babu: Yes. And continuous cash flows. But I think visualizing this data is a very important area, where I think our students should have to focus...

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Exhibit 1: Estimates for Q1FY22E: (FMCG)								(₹ crore)	
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Colgate Palmolive	1,198.3	15.2	-6.8	368.3	19.6	-10.0	242.1	22.2	-11.7
Dabur India Ltd	2,491.2	25.8	-1.0	495.8	19.0	-12.9	413.3	21.1	-14.4
HUL	12,807.6	21.3	11.9	2,984.5	12.9	4.0	2,093.4	11.3	4.2
ITC	12,284.9	29.3	2.6	3,858.3	45.8	-5.0	3,125.0	33.4	-3.3
Marico Ltd	2,474.2	28.5	24.4	450.3	-3.5	15.8	335.7	-12.9	23.0
Nestle India	3,707.4	21.5	4.7	883.5	18.2	0.0	583.4	19.9	-0.6
Tata Consumer	3,282.0	20.9	18.0	381.6	-20.9	-4.5	238.3	-31.0	-12.8
VST Industries	284.8	16.0	-5.2	105.6	6.3	-6.6	79.7	5.3	-10.0
Zydus Wellness	635.2	18.2	85.7	149.6	22.2	451.5	137.5	64.1	LP
Total	39,166.7	24.1	3.4	9,677.5	22.0	-2.9	7,248.4	17.9	1.9

Source: Company, ICICI Direct Research

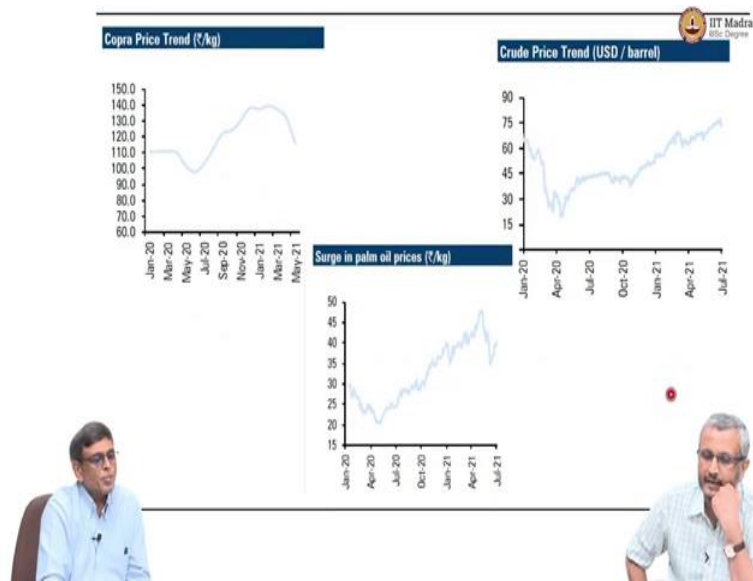


Here these are some selected companies. ICICI direct basically covers these companies. So, you can see their revenue, the revenue change, EBITDA and PAT change for these companies.

Professor G Venkatesh: Sector wise, it is pretty good.

Professor M Suresh Babu: And profit after tax, we find year on year close to 18 percent increase, which is very good.

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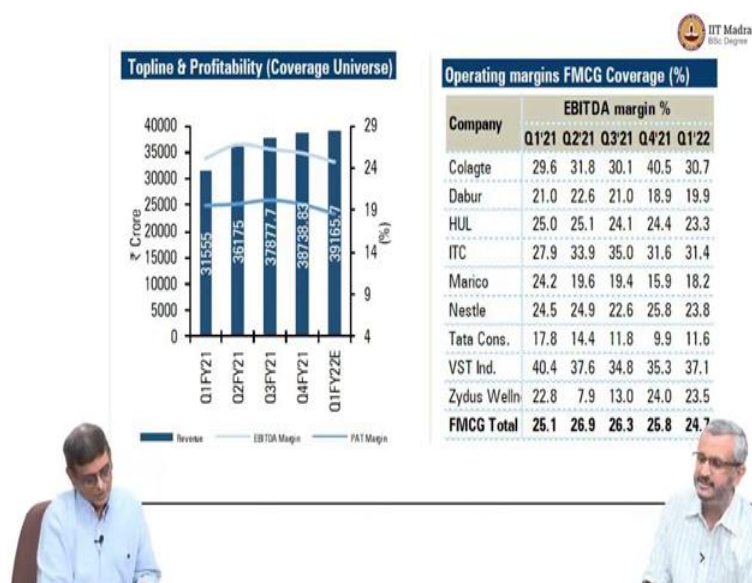
Professor G Venkatesh: So, here, I have tried to put some of the cost drivers. Only picked 3. But there are similar things. So, Copra price like Marico for example coconut oil. Crude price because transportation is a big cost for FMCG. Palm oil price, palm oil is an ingredient for almost everything, soap for example.

So, all these are showing crazy trends. commodity price is generally are on the upward. And that is going to put pressure on the margins for these companies. So, there is some general margin squeeze that is happening FMCG, they are not able to pass on this. Price increases to customers, because as it is the demand environment is weak.

Professor M Suresh Babu: And this is basically to show that the raw material costs might put pressure in the overall variable costs. And also selling costs might increase because logistics and transportation are part of the selling cost.

Professor G Venkatesh: So, generally, there is going to be a margin compression, squeeze and also demand compression. So, short term industry is not looking good. But long term, we saw that, it is a good industry.

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Professor M Suresh Babu: Operating margins, basically, again.

Professor G Venkatesh: You can see EBITDA margins are...

Professor M Suresh Babu: Percentage in terms of EBITDA margins.

Professor G Venkatesh: Of course, here what is to be observed is if you look at Vazir Sultan Tobacco, these three is a tobacco company, see their margins. And ITC is partly tobacco. I think it is more than 50 percent of the profit is tobacco here. So, you can see that. So, tobacco in spite of all assessors, taxes, is that everything that the governor puts, still the phenomenal margins.

Professor M Suresh Babu: It could also be because the raw material cost might not be increasing much in tobacco.

Professor G Venkatesh: Again, it is very labor intensive, because they have to...

Professor M Suresh Babu: Yeah, the operations are highly labor intensive.