



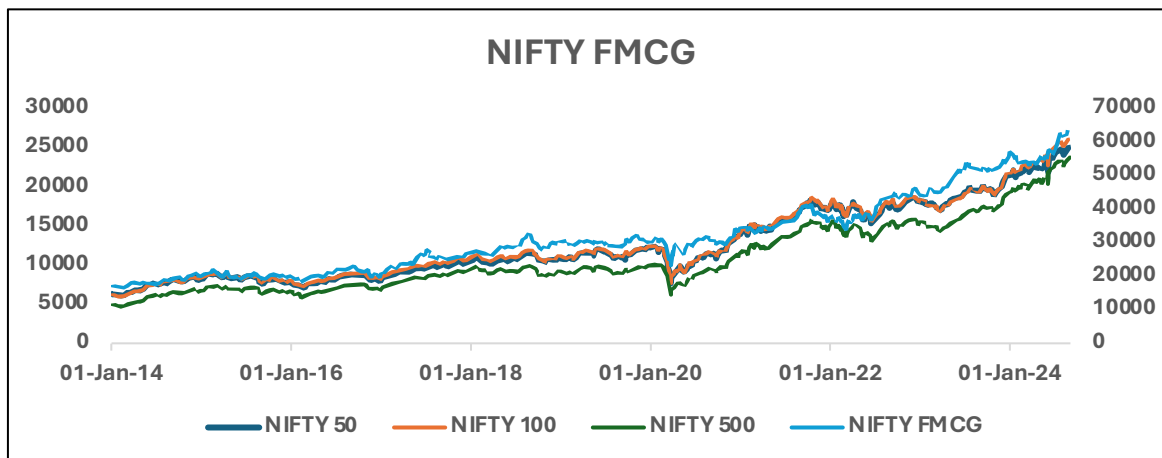
Sector Report – FMCG

SYLVA INVESTMENTS



Sector Overview

FMCG sector is the 4th largest sector in the economy and is expected to reach USD 220 billion by 2025, growing from around USD 110 billion in 2020. This sector is driven by rapid urbanization, rising disposable incomes, and increasing rural consumption, with rural areas accounting for over 36% of FMCG consumption. Key segments include food and beverages, personal care, household products, and health and hygiene. The growth of e-commerce and digital penetration has further expanded market reach, enabling brands to connect with a diverse and expanding consumer base.

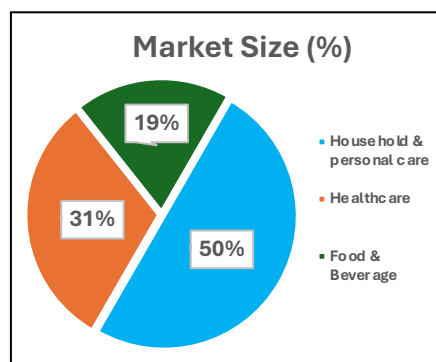


The sector is largely divided into **food & beverages**, **household & personal care**, and **healthcare** products. However, challenges include **rising input costs**, **increasing competition**, and **regulatory changes** like the implementation of GST and sustainability mandates. Despite these, the sector is poised for steady growth, driven by innovations in product lines, digital penetration in rural areas, and a rising focus on sustainability and eco-friendly products.

Market

The Indian FMCG sector, valued at **USD 176-193 billion** in **2024**, is projected to grow at a 13-18% CAGR, reaching USD 220 billion by 2025. Major players like HUL, P&G, ITC, Dabur, and Marico dominate the industry, which faces challenges from inflation, multi-channel distribution, and diverse consumer demands.

Emerging trends such as supply chain digitization, the growth of D2C brands like MamaEarth, and government policies like the PLI Scheme are reshaping the landscape. Rural demand, currently accounting for 45% of FMCG sales, is expected to grow faster, while consumer preferences shift towards branded products. Net profit margins typically range between 15-18% in this fragmented market.





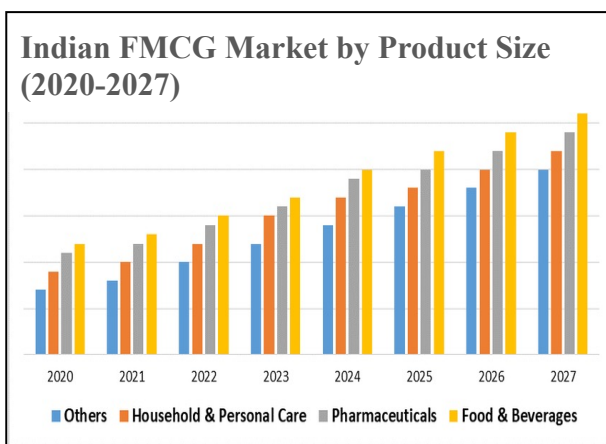
Sector Financials

The sector exhibits a very low P/E and P/B ratio compared to broader markets, indicating potentially undervalued opportunities. With a healthy debt-to-equity ratio of 0.04, the sector faces minimal debt repayment obligations, enabling substantial reinvestment capacity. While ROE and ROA are modest, the sector's growth outlook remains positive, supported by ongoing capital expenditure plans. Operating profit margins are higher than market average at 21.94%, reflecting consistent operational efficiency.

P/E Ratio	P/B Ratio	D/E Ratio	ROE (%)	ROA (%)	EV/EBITDA	OPM (%)
34.18	6.69	0.04	21.8	15.71	21.3	21.94

Prospects

- **Supply chain digitisation** – Companies bringing together inventory management, distributor management, suppliers and logistics within one ecosystem through digital capabilities.
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- **Emergence of D2C**- New brands and established FMCG brands capitalizing on the opportunity to sell directly to the end consumer. Brands with separate website witness 88% YoY increase in customer demand
- **Increase in e-commerce**: Deeper penetration of e-commerce to rural India and surge in digital marketplace across social media platforms. Online shopping 10.7% of retail sales (2021) v/s 4.7% in 2019.
- **Greater technological intervention**: Includes use of Big data solutions to provide a more personalized experience, use of AI & ML for consumer interaction (Chatbots) and IoT in distribution and retailing (digitization of Kiranas).





Key Drivers

Revenue Channel	Cost Segments	Growth Drivers	Challenges
Retailer	Raw material and processing cost	New products	Inflation
E-Commerce	Distribution	E-Commerce	Multi-channel
D2C Platform	Promotion	Rising per-capita incomes	Understanding customer demand

Investment Risks

- **Inflationary Pressure:** Companies are grappling with rising input costs due to inflation, leading to average price hikes of 8-10% and a 5-7% reduction in pack sizes (shrinkflation) across product lines to maintain margins.
- **Multi-Channel Distribution:** The industry operates through multiple layers, with 3-5 stakeholders between the manufacturer and the end consumer. Additionally, there's growing conflict between the 10-15% annual growth of online sales and traditional offline retail channels.
- **Demand Forecasting:** With India's diverse consumer base, companies need robust analytics to predict demand patterns, requiring 15-20% investment in data-driven solutions to transform products and cater to evolving consumer preferences.