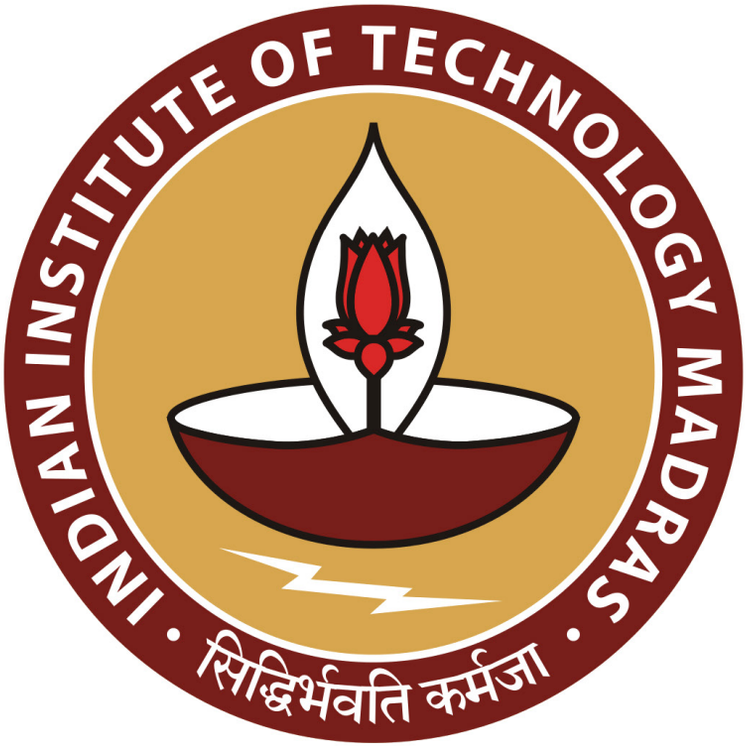
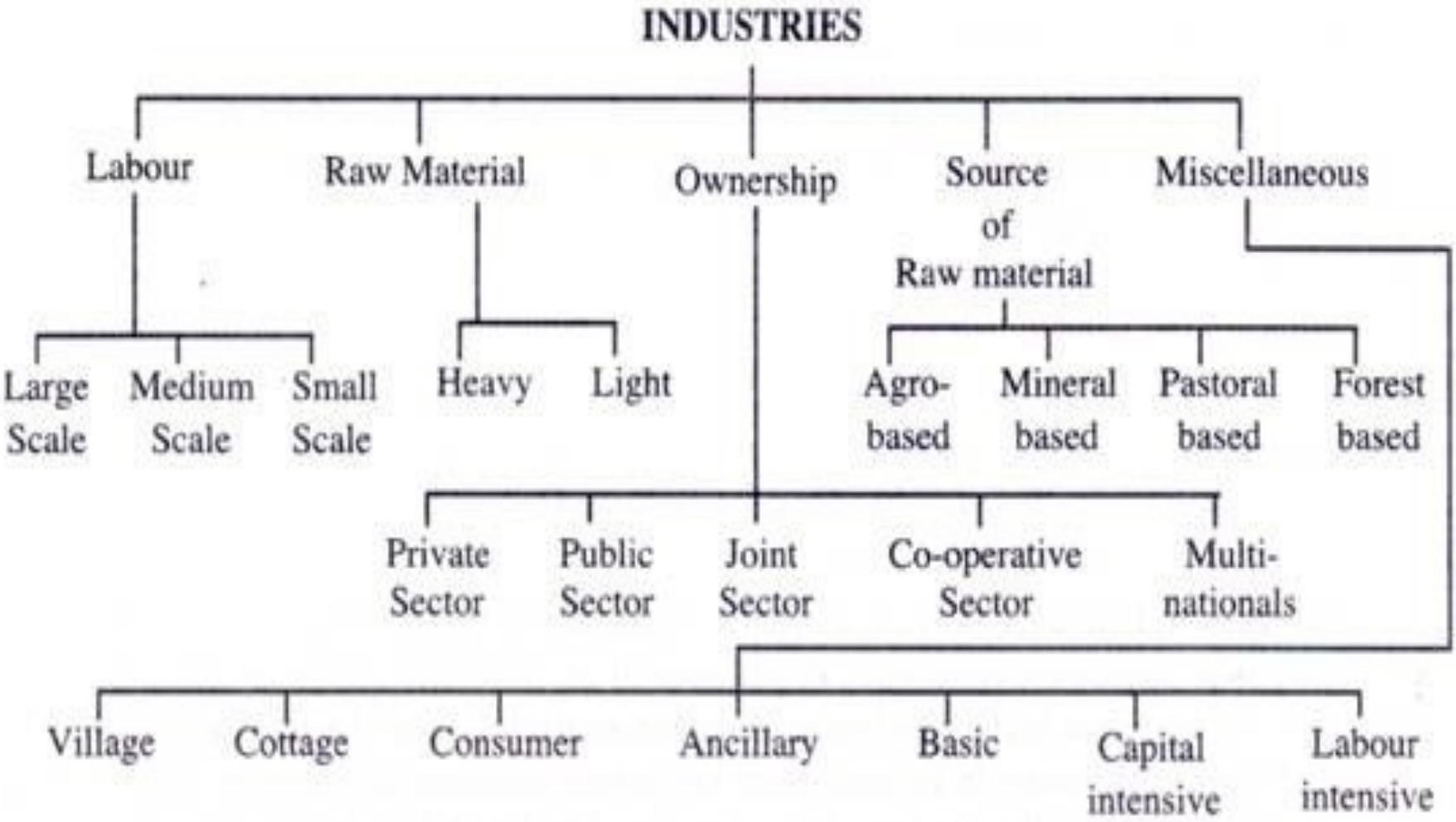


IIT Madras

ONLINE DEGREE

Classification of Industries

Industries can be classified into several groups. The following figure gives an understanding about them.



Large Scale Industry:

- Industries which employ a large number of labourers in each unit are called large-scale industries. Cotton or jute textile industries are large scale industries.

Medium Scale Industries:

- The industries which employ neither very large nor very small number of labourers are put in the category of medium scale industries. Cycle industry, radio and television industries are some examples of medium scale industries.

Small Scale Industries:

- Industries which are owned and run by individuals and which employ a small number of labourers are called small scale industries.

Heavy Industries:

- Industries which use heavy and bulky raw-materials and produce products of the same category are called heavy industries. Iron and steel industry presents a good example of heavy industries.

Light Industries:

- The light industries use light raw-materials and produce light finished products. Electric fans, sewing machines are light industries.

Private Sector Industries:

- Industries owned by individuals or firms such as Bajaj Auto or TISCO are called private sector industries.

Public Sector Industries:

- Industries owned by the state and its agencies like Bharat Heavy Electricals Ltd., or Bhilai Steel Plant or Durgapur Steel Plant are public sector industries.

Joint Sector Industries:

- Industries owned jointly by the private firms and the state or its agencies such as Gujarat Alkalies Ltd., or Oil India Ltd. fall in the group of joint sector industries.

Co-operative Sector Industries:

- Industries owned and run co-operatively by a group of people who are generally producers of raw materials of the given industry such as a sugar mill owned and run by farmers are called co-operative sector industries.

On the basis of source of raw materials, industries are classified as under:

1. Agro Based Industries:

Agro based industries are those industries which obtain raw-material from agriculture. Cotton textile, jute textile, sugar and vegetable oil are representative industries of agro-based group of industries

2. Mineral Based Industries:

The industries that receive raw materials primarily from minerals such as iron and steel, aluminium and cement industries fall in this category.

3. Pastoral-Based Industries:

These industries depend upon animals for their raw material. Hides, skins, bones, horns, shoes, dairy, etc. are some of the pastoral-based industries.

4. Forest Based Industries:

Paper card-board, lac, rayon, resin, tanning of leather, leave- utensils, basket industries are included in this type of industries.

Village Industries:

- Village industries are located in villages and primarily cater to the needs of the rural people. They usually employ local machinery such as oil extraction, grain grinding and agricultural implements.

Cottage Industries:

- Industries which artisans set up in their own houses, work with wood, cane, brass, stone, etc. are called cottage industries. Handloom, khadi and leather work at the artisans house fall in this category.

Consumer Goods Industries:

- Consumer industries convert raw materials or primary products into commodities directly used by the people. Textiles, bakeries, sugar, etc. are some of the consumer goods industries.

Ancillary Industries:

- The industries which manufacture parts and components to be used by big industries for manufacturing heavy articles like trucks, buses, railway engines, tractors, etc. are called ancillary industries.

Basic Industries:

- Industries on which depend many other industries for their manufacturing processes are called basic industries. Iron and steel industry and power generating industry are included in this category.

Capital-Intensive Industries:

- Industries requiring huge investments are called capital-intensive industries. Iron and steel, cement and aluminium are outstanding examples of capital-intensive industries.

Labour-Intensive Industries:

- Industries which require huge labour force for running them are called labour-intensive industries. In these industries, labour is more important than capital. Shoe- making and bidi-manufacturing, etc. are included in these industries.

- In India significant changes in the organisation and structure of the industries necessitated the revision of earlier classification.

- The revised classification called National Industrial Classification (NIC) was completed in 1970 taking into account the principles enunciated in the International Standard Industrial Classification 1968 Rev.2.

- The CSO finalized in 1987 the revision of the NIC 1970.

- At the one digit level there had not been any major changes in the NIC 1987 as compared to the NIC 1970 and the economy remained divided into 9 sections and the special section X “Activities not Adequately Defined”.

- At the two digit level there had been an expansion of 8 divisions bringing it to 72 divisions as against 64 in NIC 1970.

- National Industrial Classification 2008 (NIC-2008) is a revised version of NIC-2004.
- Repair and installation of machinery and equipment has been classified as a separate division (Division-33) in NIC-2008.
- Repair of Personal & Household goods (5260 of NIC-2004) has been removed from section-G (wholesale and retail trade; repair of motor vehicles and motor cycles) and now included in section-S (other service activities).
- Publishing activity which was included in division-22 of manufacturing section in NIC2004 is now included in division-58 (publishing activities) of NIC-2008 under section-J (information and communication).
- Activity ‘water supply’ under division-41 (Electricity, Gas and Water Supply) of NIC2004 is now included in Section-E (water supply; sewerage, waste management and remediation activities).

Section C	**Manufacturing**
Division 10	Manufacture of food products
Group 101	Processing and preserving of meat
Group 102	Processing and preserving of fish, crustaceans and molluscs
Group 103	Processing and preserving of fruit and vegetables
Group 104	Manufacture of vegetable and animal oils and fats
Group 105	Manufacture of dairy products
Group 106	Manufacture of grain mill products, starches and starch products
Group 107	Manufacture of other food products
Group 108	Manufacture of prepared animal feeds
Division 11	Manufacture of beverages
Group 110	Manufacture of beverages
Division 12	Manufacture of tobacco products
Group 120	Manufacture of tobacco products
Division 13	Manufacture of textiles
Group 131	Spinning, weaving and finishing of textiles
Group 139	Manufacture of other textiles
Division 14	Manufacture of wearing apparel

- The Annual Survey of Industries (ASI) has been the principal source for most of the basic statistics of the Industrial Sector.

- The frame of factories, which the ASI uses for conducting the survey, is based on the list of factories maintained by the Chief Inspectors of Factories (CIF).

- A large number of units, which are qualified for inclusion in the CIF's list, have not been included and at the same time many defunct units have not been removed.

- Estimates of the growth rates of industrial production based upon the Index of Industrial Production (IIP) are extensively used for policy-making at various levels in the Government and also for decision-making in the banking and Corporate Sectors.

- The importance of IIP is further increased due to the fact that it is the only indicator generated every month and disseminated on a wide scale.

2 Digit	20-21	22	23	24	25	26	27	28	29	30	31	32	33	34	35-36	37	38	Mining	Manufacturing	Electricity	General
Weight	90.83	23.82	55.18	22.58	5.90	25.37	27.01	26.52	11.39	140.02	57.28	43.97	74.53	28.10	95.65	39.84	25.59	104.73	793.58	101.69	1000.00
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Apr'94	106.6	103.2	98.0	113.7	95.7	93.5	98.9	102.7	86.9	100.2	98.3	111.2	105.8	114.9	89.3	93.3	95.1	92.7	100.5	102.5	99.9
May'94	100.3	107.2	97.4	110.5	77.0	93.0	103.9	102.8	85.5	98.3	104.6	103.5	110.1	100.6	97.7	101.7	104.6	97.9	101.1	107.1	101.4
Jun'94	98.6	106.9	95.7	109.1	75.5	91.2	94.5	105.9	88.9	107.8	108.4	103.5	105.7	88.2	103.9	104.7	101.5	97.3	102.4	100.2	101.6
Jul'94	107.2	103.8	100.3	119.8	85.2	101.4	88.0	106.0	84.0	102.1	113.1	104.0	107.1	85.2	104.6	109.2	102.6	102.2	103.8	102.0	103.4
Aug'94	85.2	110.8	97.6	117.5	87.9	98.5	93.2	104.0	82.1	105.1	114.6	104.1	111.7	93.5	106.9	109.1	118.5	104.9	103.4	105.5	103.8
Sep'94	100.5	98.3	97.8	107.1	89.8	98.7	92.1	103.3	82.2	102.3	111.2	97.7	109.6	118.9	107.5	107.5	97.4	104.5	103.4	104.7	103.6
Oct'94	90.6	87.8	98.3	104.0	96.6	99.9	95.7	104.5	85.0	108.7	110.1	103.3	113.3	87.0	111.3	108.3	99.8	112.6	103.3	109.8	104.9
Nov'94	127.7	102.9	96.2	107.5	106.2	97.6	90.9	113.3	91.9	109.4	102.2	102.1	114.8	100.3	120.0	104.4	108.2	113.5	109.4	107.1	109.6
Dec'94	161.4	98.5	105.4	121.5	110.7	107.7	103.4	106.7	94.0	102.5	109.5	110.4	118.9	124.8	126.9	120.2	116.3	121.9	117.7	117.8	118.2
Jan'95	159.2	107.7	100.1	125.2	106.9	99.5	132.0	119.9	92.3	112.2	107.3	111.9	123.6	112.6	132.0	122.4	120.2	122.2	121.0	115.6	120.6
Feb'95	156.4	103.4	98.5	114.2	101.8	97.8	100.9	111.4	95.7	105.0	106.6	115.6	114.0	100.3	132.4	115.6	114.3	115.8	115.8	109.9	115.2
Mar'95	165.2	105.0	103.5	123.9	108.2	103.2	98.3	122.2	70.1	110.0	106.4	132.2	123.0	140.6	157.5	158.7	123.9	132.6	127.2	119.6	127.0

INDEX OF INDUSTRIAL PRODUCTION

(Base : 2004-05=100)

Use-based indices

Period	Basic	Capital	Intermediate	Consumer goods			General
Month	goods	goods	goods	Total	Durables	Non-durables	Index
Weight	456.82	88.25	156.86	298.08	84.60	213.47	1000
Apr'05	100.3	85.3	97.9	101.9	107.2	99.8	99.1
May'05	103.5	99.6	102.5	103.8	119.4	97.7	103.1
Jun'05	101.5	105.8	102.6	108.0	115.0	105.2	104.0
Jul'05	100.6	106.6	106.8	101.7	111.7	97.8	102.4
Aug'05	101.8	113.2	105.8	104.0	117.7	98.6	104.1
Sep'05	99.9	125.1	105.0	104.9	122.0	98.1	104.4
Oct'05	106.8	118.4	104.7	106.2	122.9	99.6	107.3
Nov'05	105.5	111.3	99.6	103.9	105.7	103.2	104.6
Dec'05	112.1	127.7	114.7	122.0	102.7	129.7	116.8
Jan'06	114.2	125.9	113.3	125.6	118.3	128.5	118.5
Feb'06	107.0	128.2	106.9	119.0	117.5	119.6	112.4
Mar'06	120.3	169.6	119.8	127.5	133.8	125.1	126.7

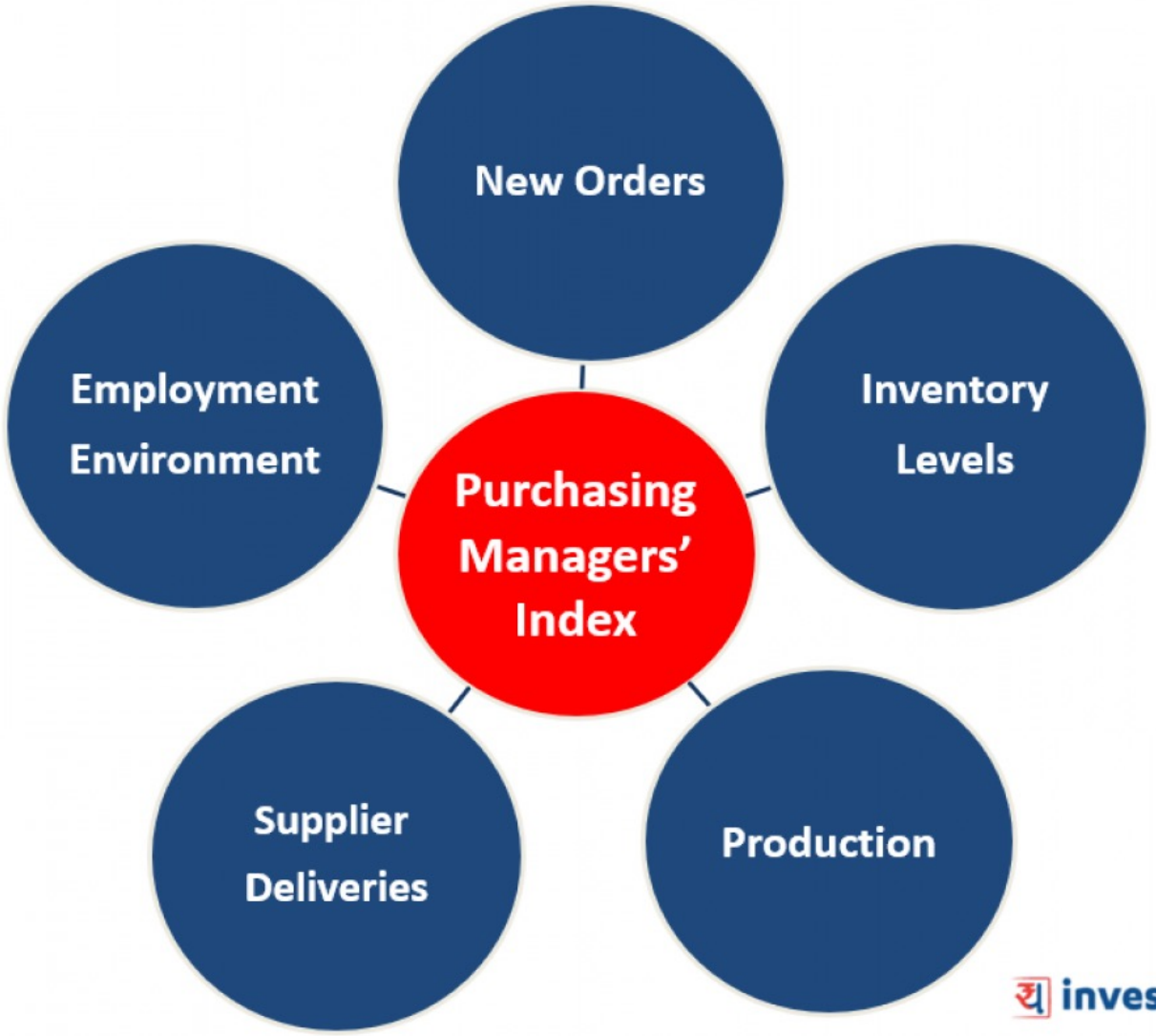
- The Purchasing Managers' Index (PMI) is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

- It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

- The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors.
- Investors can also use the PMI to their advantage because it is a leading indicator of economic conditions.
- The direction of the trend in the PMI tends to precede changes in the trend in major estimates of economic activity and output, such as the GDP, Industrial Production, and Employment.

- Paying attention to the value and movements in the PMI can yield profitable foresight into developing trends in the overall economy.

5 Key Indicators Under Purchasing Managers' Index (PMI)



Industry Concentration

How can you tell what market structure an industry has ?

(In other words, how do you know if a business in a monopolist, perfectly competitive, or something in between?)

Measuring an industry's concentration

1. Concentration ratio
2. Herfindahl Index

There are two ways to measure an industry's concentration. Interpreting that will allow you to see what market structure an industry is in!

1. Concentration ratio

The concentration measures an industry's concentration by examining the share of output controlled by the largest four firms in that industry

- This could be measured in terms of sales, value added, or other metric
- Data are published every 5 years by the Census Bureau in the *Economic Census in the US*

Hypothetical Examples: Concentration Ratios

The Dog Food Industry

Firm	Sales in 2006	Percent of Output as Measured by Sales	Cumulative Percentage
Joe's Dog Food	$1,000,000,000	34.0%	34.0%
Jim's Kibbles	$750,000,000	25.5%	59.5%
Sue's Biscuit House	$650,000,000	22.1%	81.6%
IHOD (Internation House of Dogfood)	$320,000,000	10.9%	92.5%
All Other Firms	$220,000,000	7.5%	na
Total	$2,940,000,000	100.0%	na

For this industry, the Concentration Ratio would be 92.5%.
Production is heavily concentrated in the four largest firms.

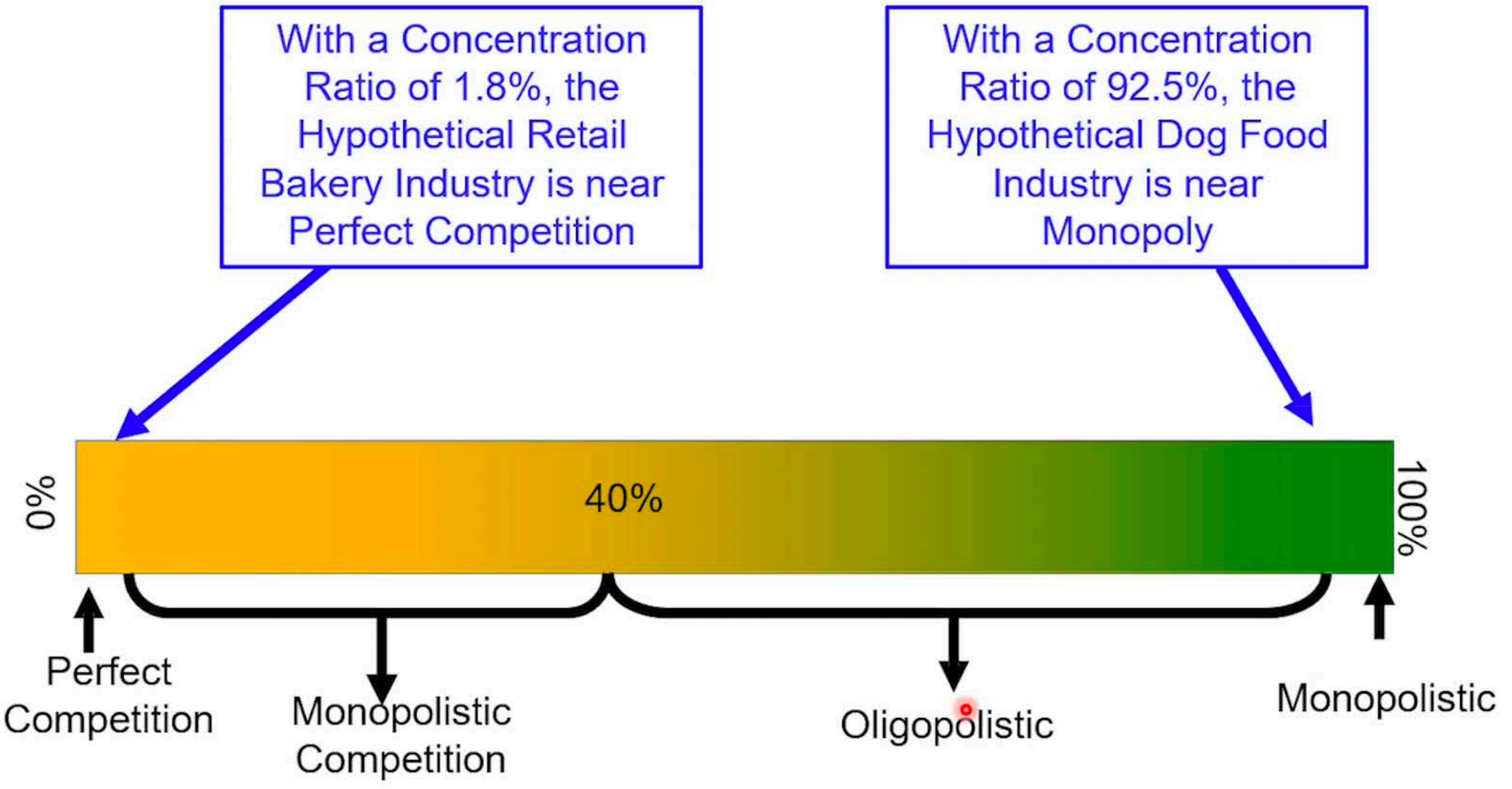
Hypothetical Examples: Concentration Ratios

The Retail Bakery Industry

Firm	Sales in 2006	Percent of Output as Measured by Sales	Cumulative Percentage
Tim's Cakes & Strudels	$100,000	0.7%	0.7%
Mary's Bakery	$75,000	0.5%	1.1%
Anna's Muffins	$65,000	0.4%	1.6%
Flour Power	$32,000	0.2%	1.8%
All Other Firms	$15,000,000	98.2%	na
Total	$15,272,000	100.0%	na

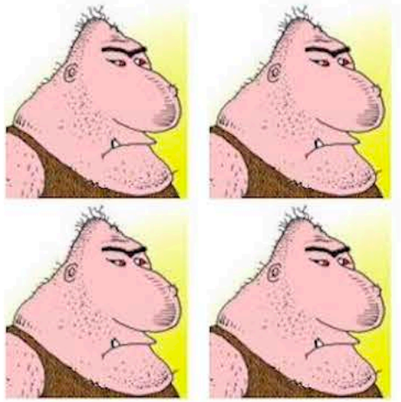
For this industry, the Concentration Ratio would be 1.8%.
Production is ***NOT*** heavily concentrated in the four largest firms.

Interpreting the Concentration Ratio

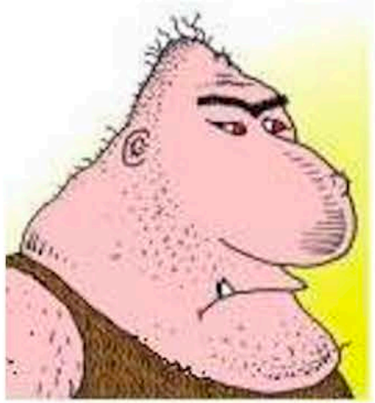


There is a problem with the Concentration Ratio

- If four firms share all output, their Concentration Ratio is equal to 100% but they are not a monopoly



- But if one firm is the sole producer, its Concentration Ratio is equal to 100% and it is a monopolist



The Herfindahl Index solves this problem

The Herfindahl Index is calculated in three steps:

1. Determine the percent of output produced by each of the largest four firms
2. Square each of those share
3. Add all the squared numbers

Hypothetical Example: Herfindahl Index

The Dog Food Industry

Firm	Sales in 2006	Percent of Output as Measured by Sales	Share of Output Squared
Joe's Dog Food	$1,000,000,000	34.0	1,157
Jim's Kibbles	$750,000,000	25.5	651
Sue's Biscuit House	$650,000,000	22.1	489
IHOD (Internation House of Dogfood)	$320,000,000	10.9	118
All Other Firms	$220,000,000	7.5	na
Total	$2,940,000,000	100.0	na
Herindahl Index	na	na	2,415

For this industry, the Herfindahl Index is 2,415. We will interpret that figure soon.

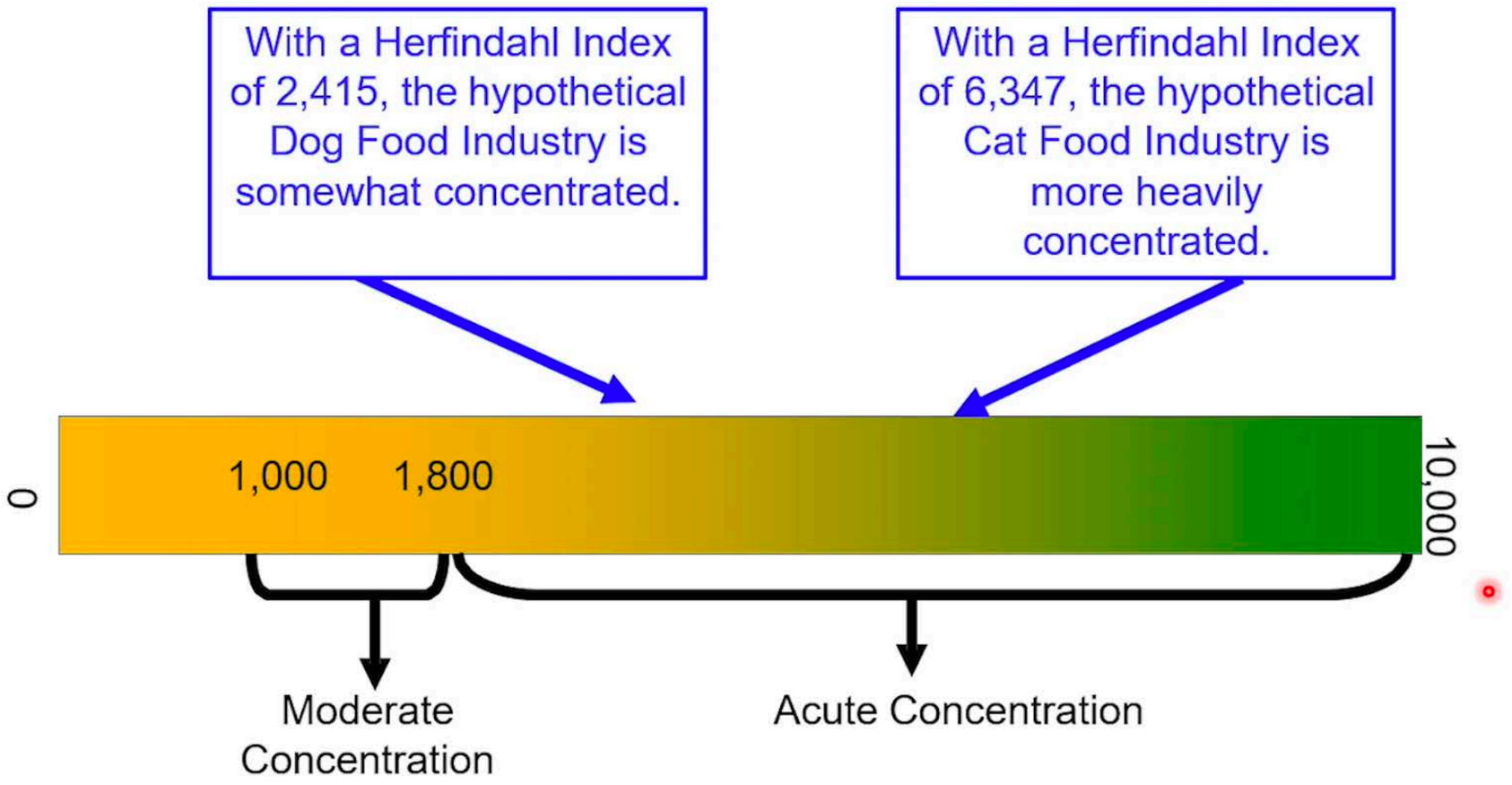
Hypothetical Example: Herfindahl Index

The Cat Food Industry

Firm	Sales in 2006	Percent of Output as Measured by Sales	Share of Output Squared
Joe's Cat Food	$1,000,000	79.2	6,279
Jim's Catbles	$75,000	5.9	35
Sue's Meow House	$65,000	5.2	27
IHOC (Internation House of Catfood)	$32,000	2.5	6
All Other Firms	$90,000	7.1	na
Total	$1,262,000	100.0	na
Herindahl Index	na	na	6,347

For this industry, the Herfindahl Index is 6,347. We will interpret that figure soon.

Interpreting the Concentration Index



Hypothetical Example: Herfindahl Index

The Concentration Ratio would look the same for these two industries, but the Herfindahl Index really shows differences in market concentration

The Dog Food Industry

Firm	Sales in 2006	Percent of Output as Measured by Sales	Share of Output Squared
Joe's Dog Food	$1,000,000,000	34.0	1,157
Jim's Kibbles	$750,000,000	25.5	651
Sue's Biscuit House	$650,000,000	22.1	489
IHOD (Internation House of Dogfood)	$320,000,000	10.9	118
All Other Firms	$220,000,000	7.5	na
Total	$2,940,000,000	100.0	na
Herindahl Index	na	na	2,415

Notice that the top four industries each comprise about 92% of the industry…

But for cat food, the largest is really dominant

The Cat Food Industry

Firm	Sales in 2006	Percent of Output as Measured by Sales	Share of Output Squared
Joe's Cat Food	$1,000,000	79.2	6,279
Jim's Catbles	$75,000	5.9	35
Sue's Meow House	$65,000	5.2	27
IHOC (Internation House of Catfood)	$32,000	2.5	6
All Other Firms	$90,000	7.1	na
Total	$1,262,000	100.0	na
Herindahl Index	na	na	6,347

Why is this important?

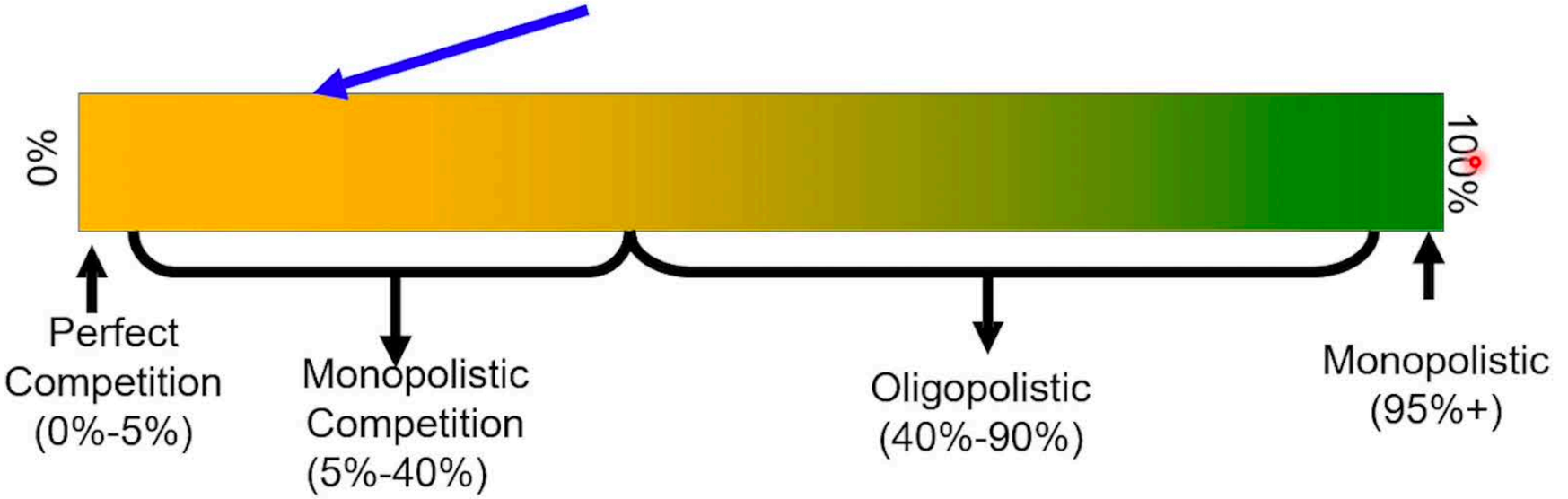
- **For self employed/ entrepreneurs:**
  - It is a good idea to understand an industry prior to entering competition within that industry

- **For others:**
  - It is a good idea to understand the industry in which you are employed

- The US Anti-Trust Department uses the changes in the Herfindahl Index to decide if a merger between two companies is anti-competitive or not.
  - An increase in Herfindahl Index value by 100 or level of over 1,000 is taken seriously.

Interpret the Concentration Index

Once you have obtained the concentration ratio, use the spectrum below to interpret your business' market structure



Note that these percentages are estimates and subject to interpretation.

Reflect on market's characteristics

Should I advertise a lot? And if so…do I product differentiate?

Do I have pricing power or am I a price taker?

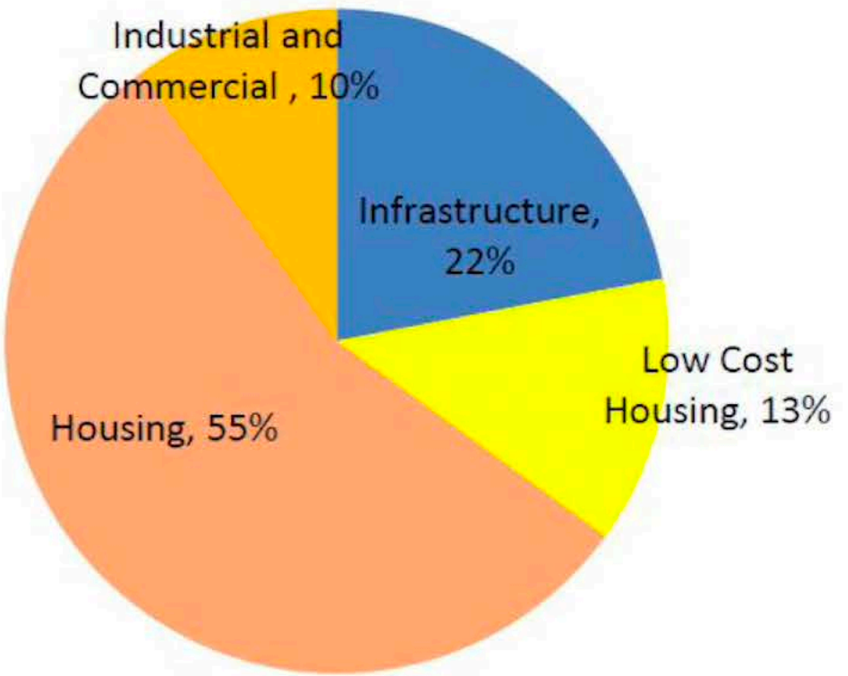
Are my price changes dependent on other firms?

Can I expect tough barriers to entry?

Characteristic	Perfect Competition	Monopolistic Competition	Oligopoly	Pure Monopoly
Number of firms	Many	Large number	Few	One
Relationship with industry	Each firm is an insignificant part of industry	Each firm is a small share of industry	Large firms that dominate the industry	Monopoly is the Industry
Pricing power	None (Firms are price takers)	Limited	Control, with mutual interdependence	Monopolist is a price maker
Product characteristic	Standard or Homogenous	Differentiated (typically by heavy advertising)	Either Homogenous (steel) or Differentiated (Autos)	Product has no substitutes
Barriers to entry	Virtually none	Relatively easy	Relatively hard	Substantial (often insurmountable) barriers to entry
Demand curve	Perfectly Elastic (Horizontal)	Highly Elastic	"Kinked"	Downward sloping

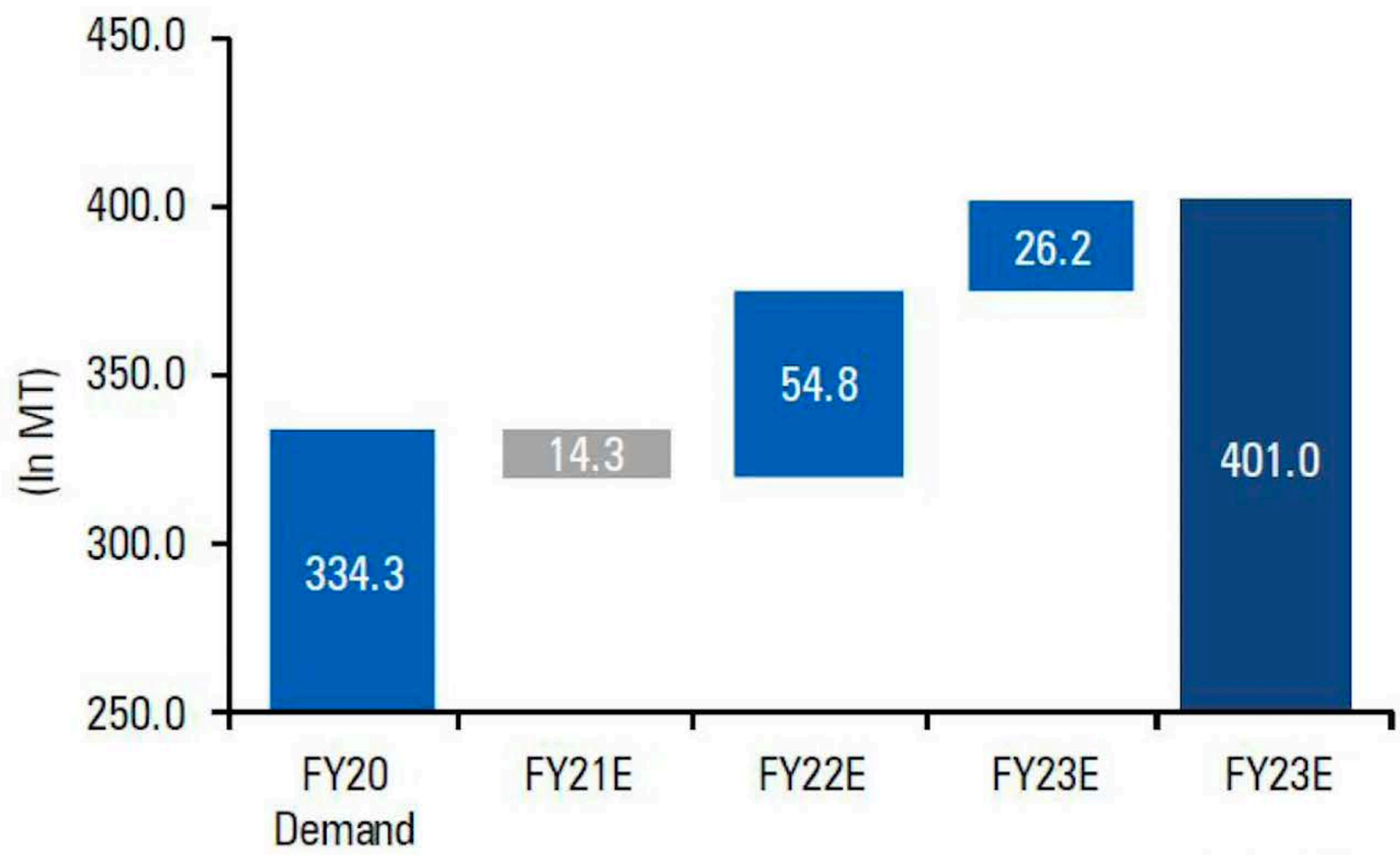
Cement Industry

Key growth drivers for the cement industry



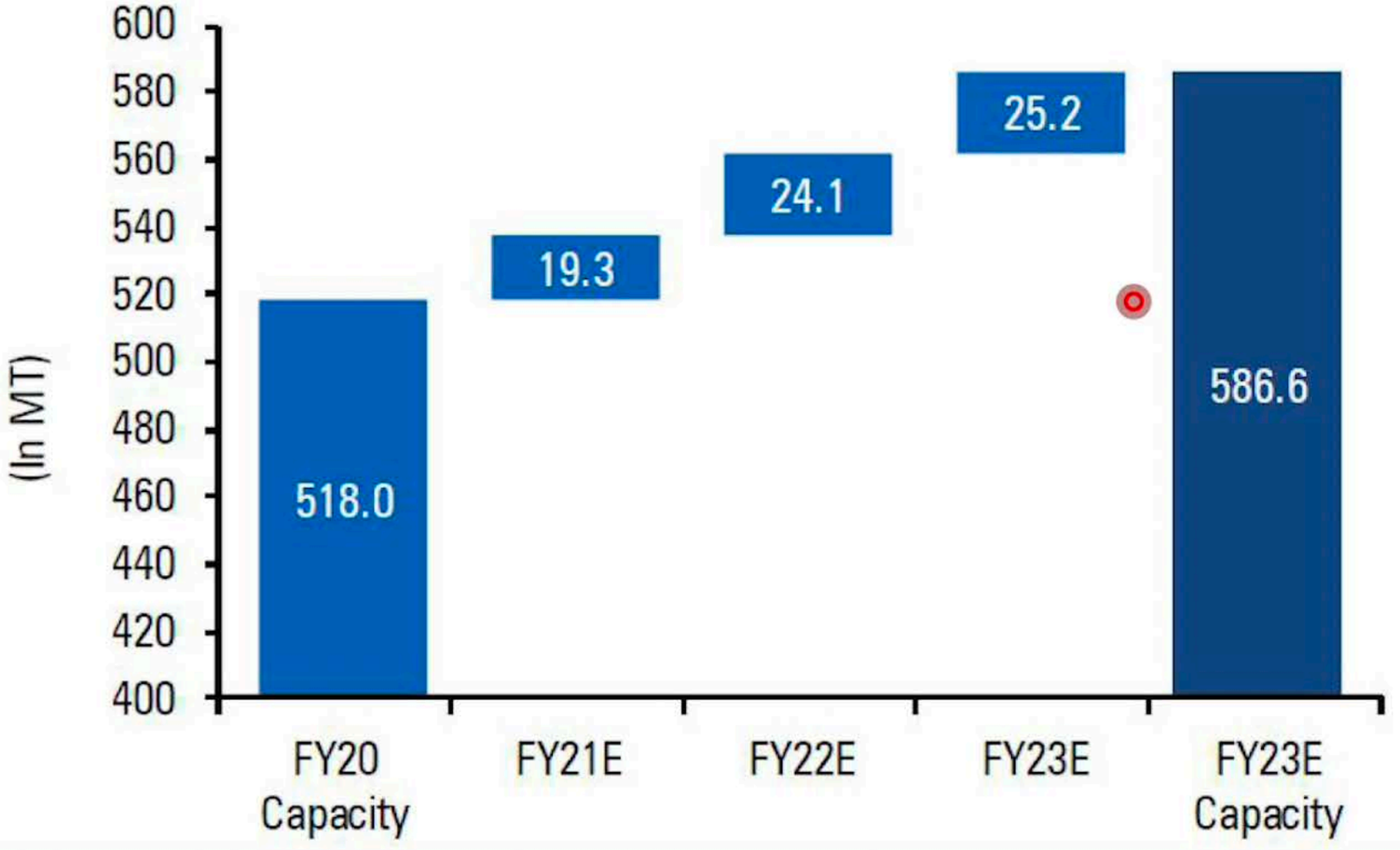
Reference: CARE Ratings, Company Filings

Exhibit 1: Demand to grow at 6.3% CAGR during FY20-23E



Source: Company, ICICI Direct Research

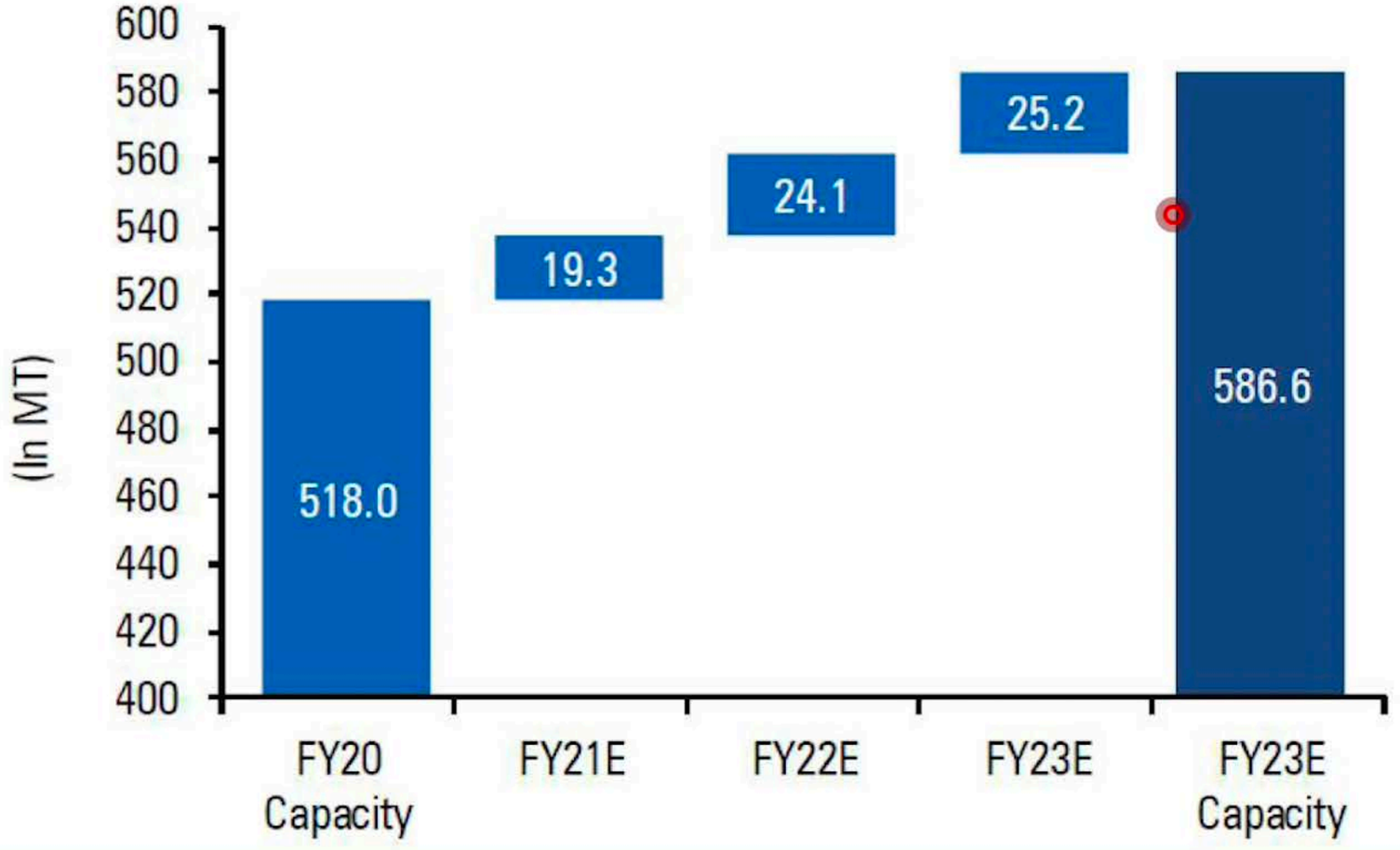
Exhibit 2: Cement capacity to grow at CAGR of 4.2%



Source: Company, ICICI Direct Research

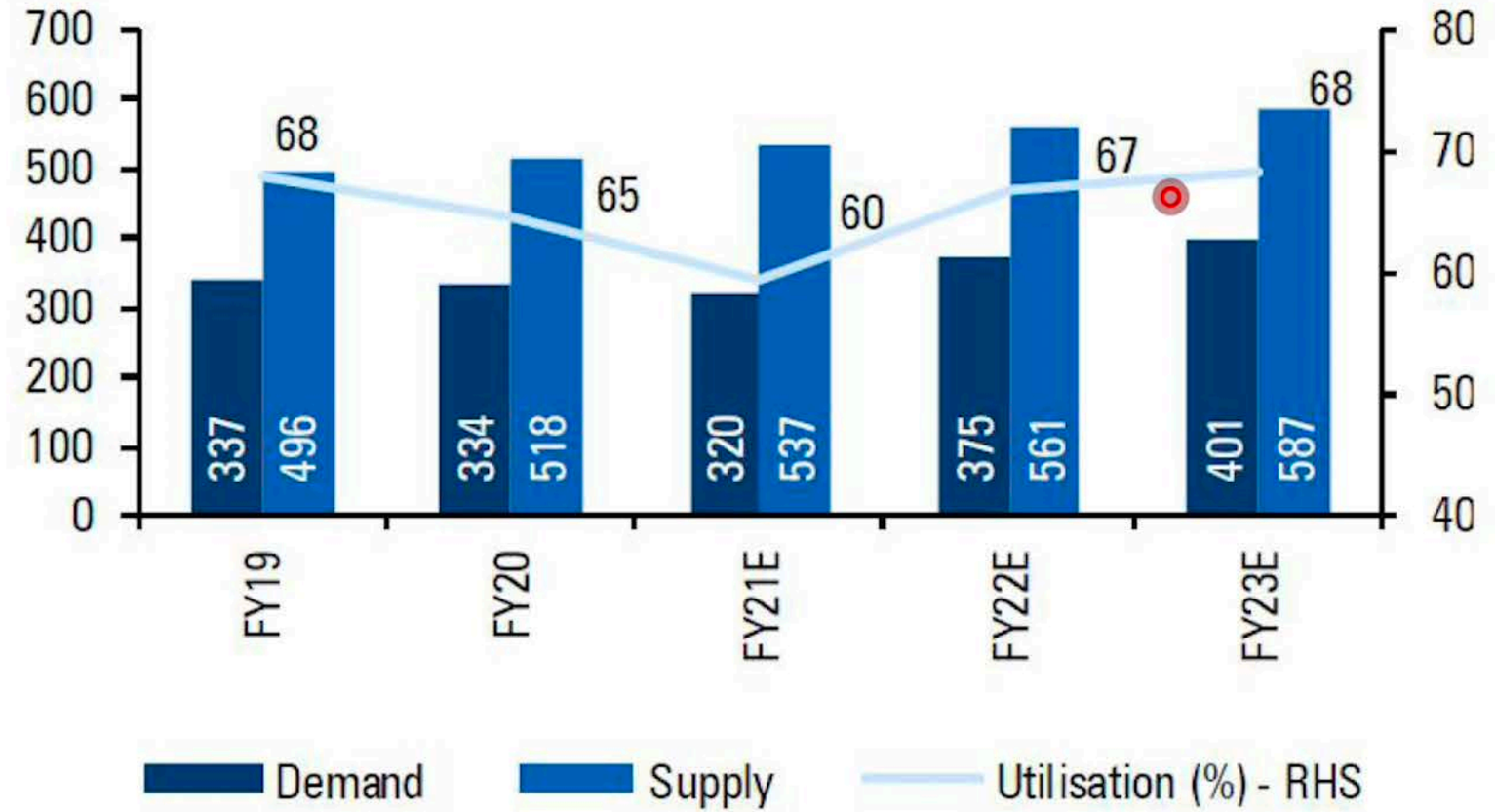
Exhibit 3: All-India utilisation set to improve from FY22E

Exhibit 2: Cement capacity to grow at CAGR of 4.2%



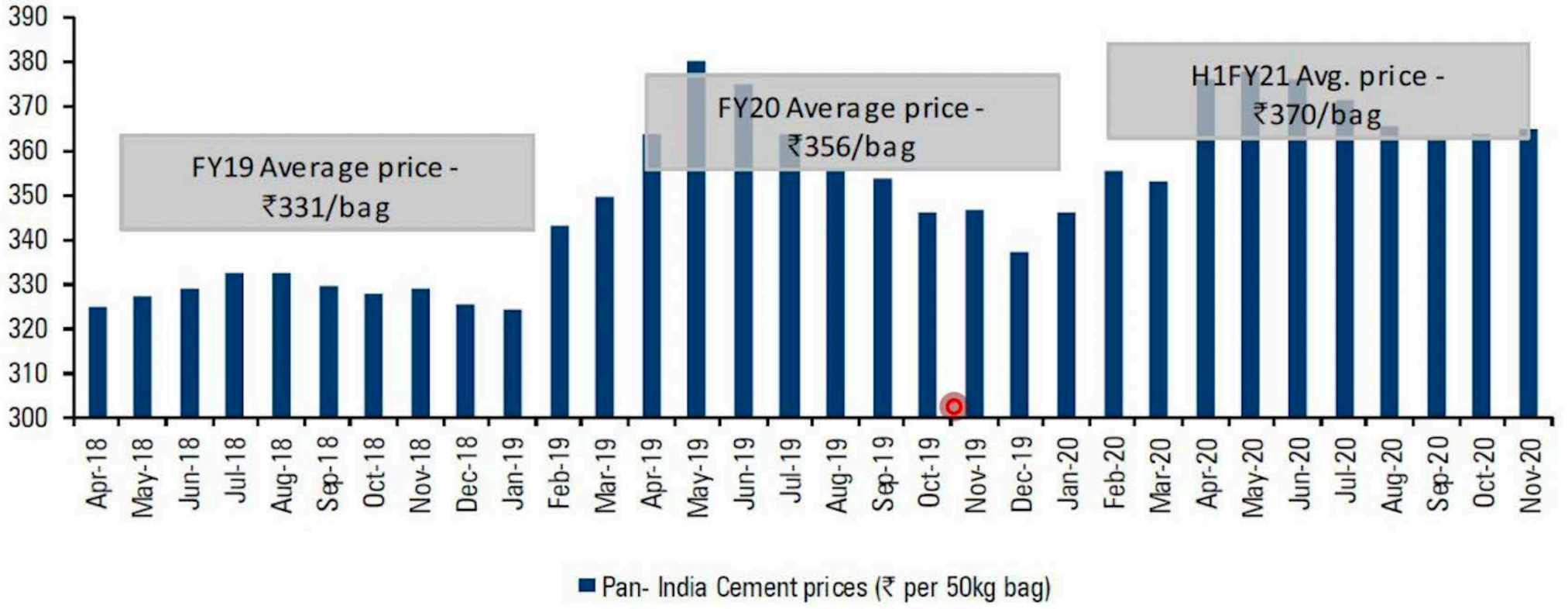
Source: Company, ICICI Direct Research

Exhibit 3: All-India utilisation set to improve from FY22E



Source: Company, ICICI Direct Research

Exhibit 10: Past three years cement price trend across all-India level



Source: Crisil Research, ICICI Direct Research

Exhibit 11: Average cost of production (Coverage universe)

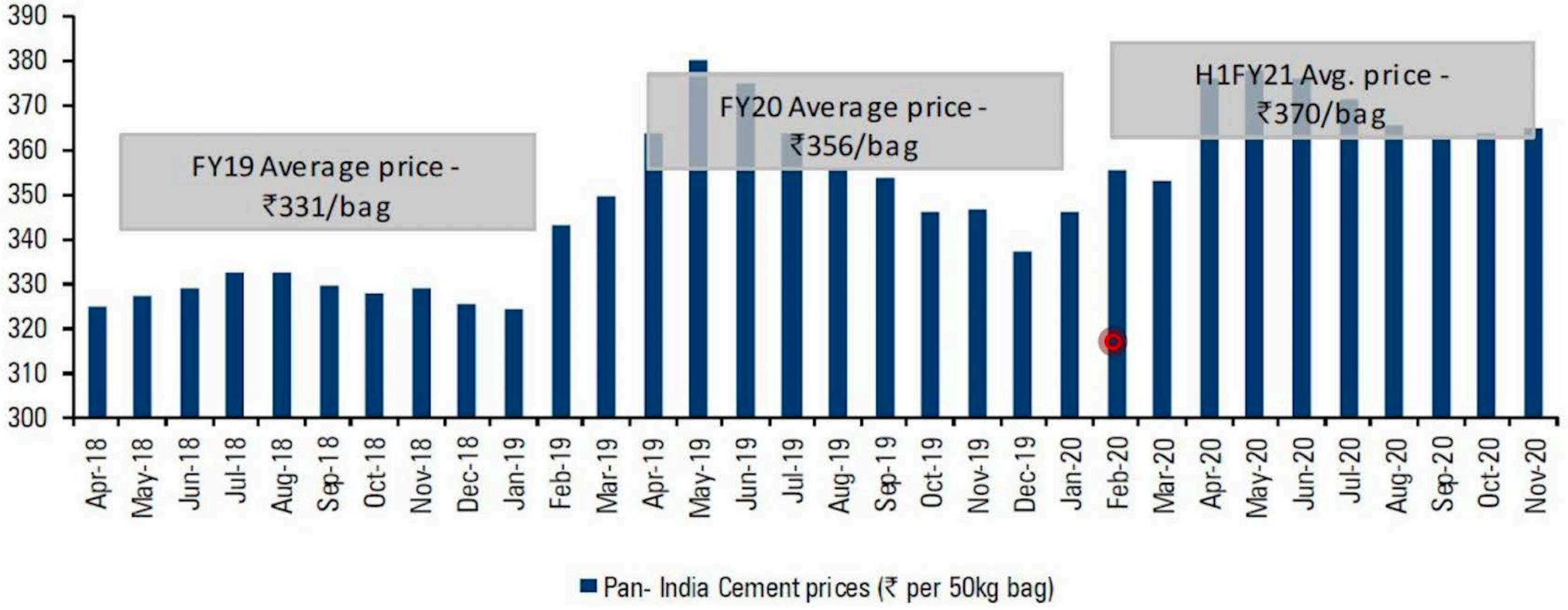
Exhibit 9: East, central region has higher potential to grow followed by north based on per capita consumption

Macro Economic- Potential	North	Central	East*	West	South	India
Rural Population (FY 20E)	67%	75%	77%	53%	54%	67%
PCC (Kg) – FY 20LE	231	173	203	273	263	227
Housing Shortage (FY20E) (Mn) ^	10	8	9	7	12	50
Road Density (kms/ per lac people) #	294	244	307	469	401	358
Power Density (kWh/Capita)	1233	700	800	1758	1461	1181

* Excl. North-East

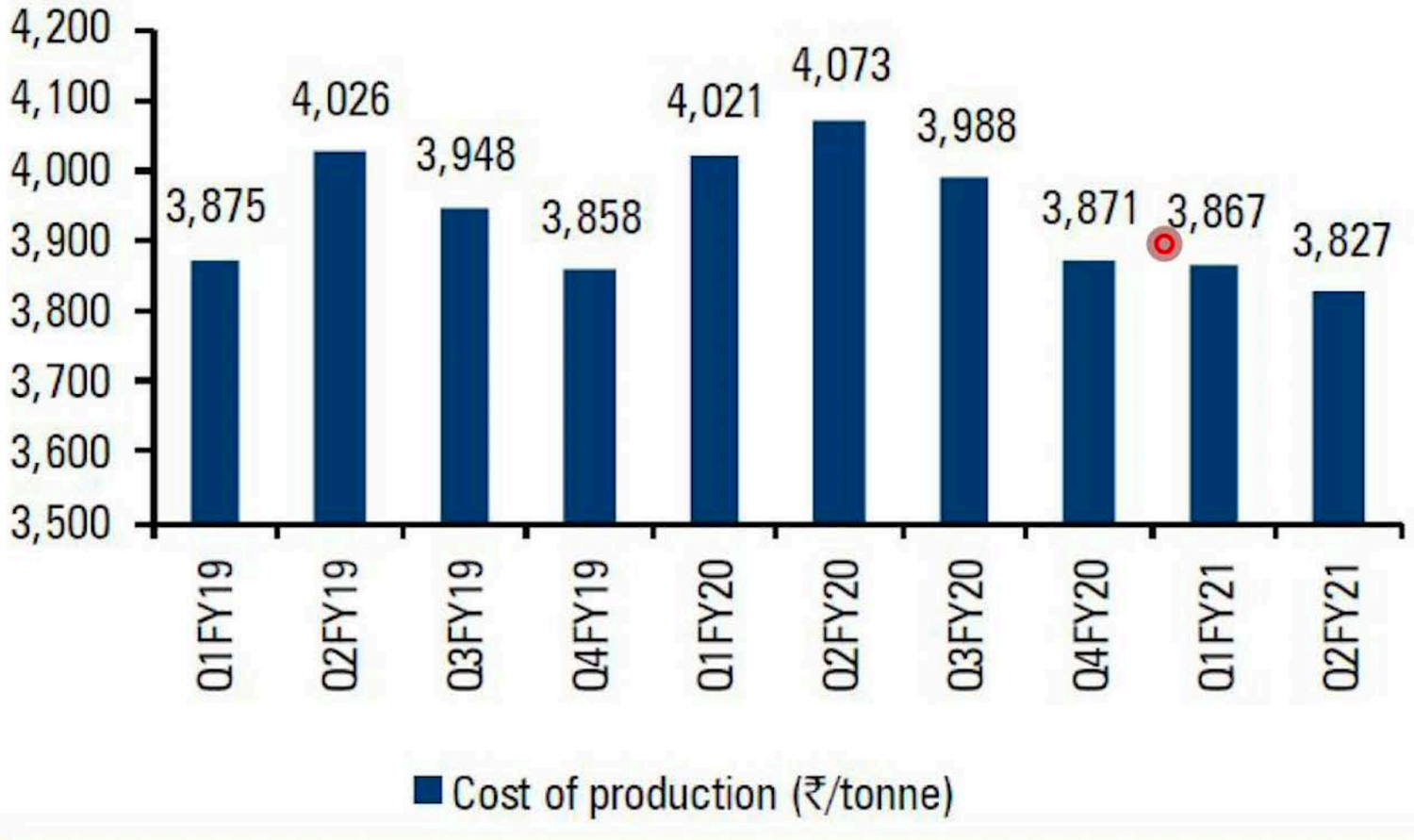
Source: Company presentation, ICICI Direct Research

Exhibit 10: Past three years cement price trend across all-India level



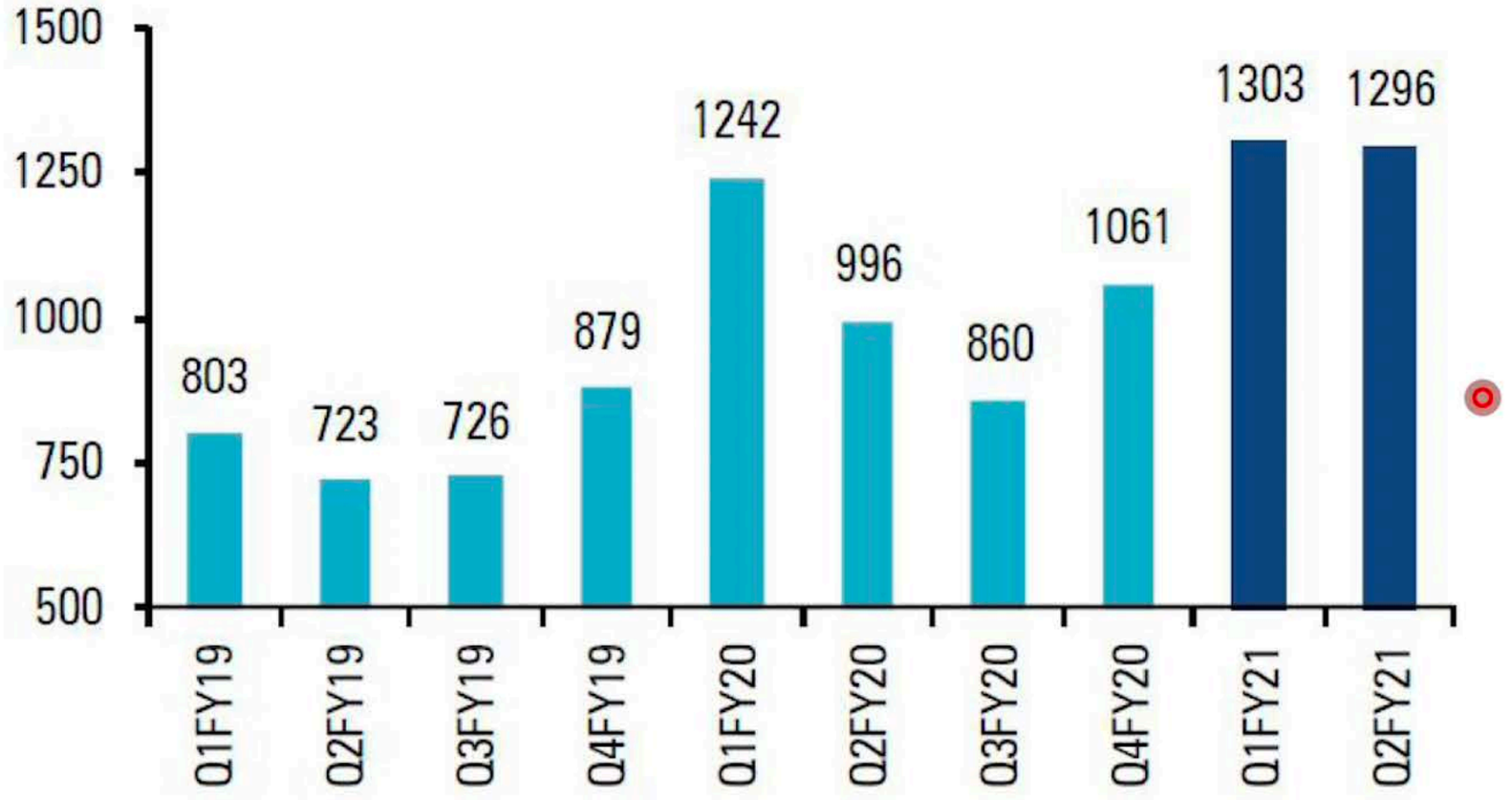
Source: Crisil Research, ICICI Direct Research

Exhibit 11: Average cost of production (Coverage universe)



Source: Company, ICICI Direct Research

Exhibit 12: Average EBITDA/tonne (₹) – (Coverage universe)

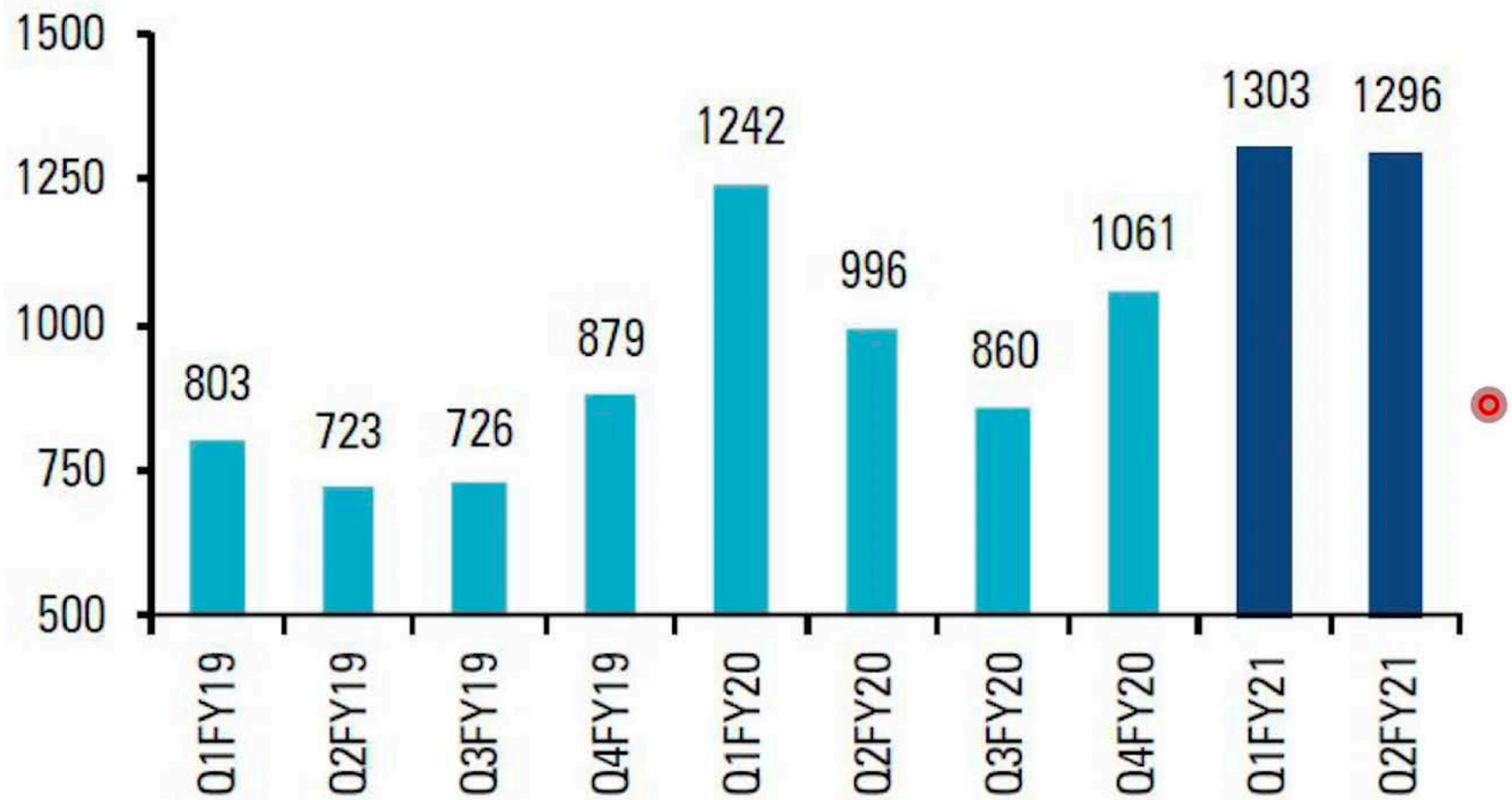


Source: Company, ICICI Direct Research

Exhibit 13: Coverage universe volume CAGR expected at 6.2%

Exhibit 14: More headroom for improvement in capacity utilisation (%)

Exhibit 12: Average EBITDA/tonne (₹) – (Coverage universe)



Source: Company, ICICI Direct Research

Exhibit 13: Coverage universe volume CAGR expected at 6.2%

Exhibit 14: More headroom for improvement in capacity utilisation (%)

Exhibit 13: Coverage universe volume CAGR expected at 6.2%

Source: Company, ICICI Direct Research

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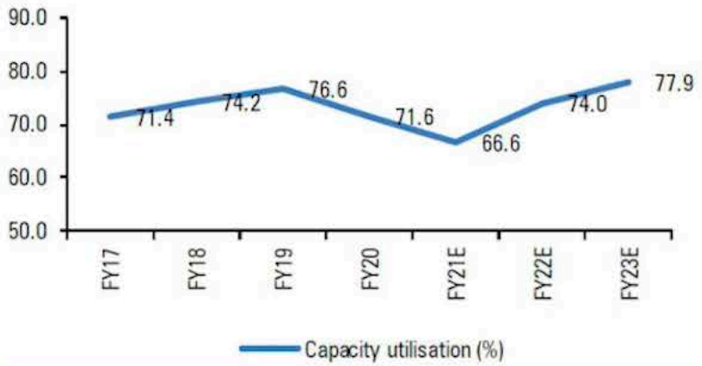
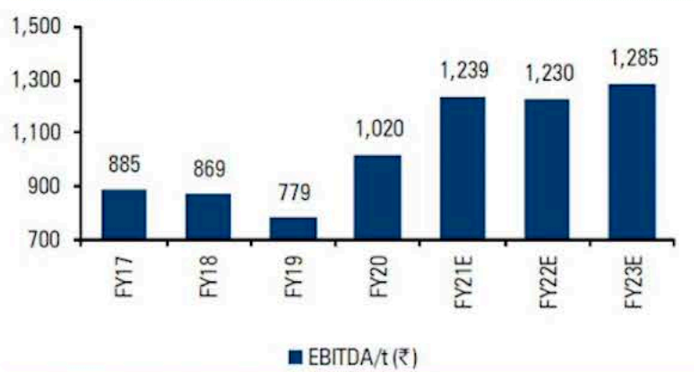


Source: Company, ICICI Direct Research

Exhibit 15: Scope for margin expansion limited, going ahead…



Source: Company, ICICI Direct Research

Exhibit 16: …but volume led growth to push coverage universe RoCE to over 17% by FY23E

Source: Company, ICICI Direct Research

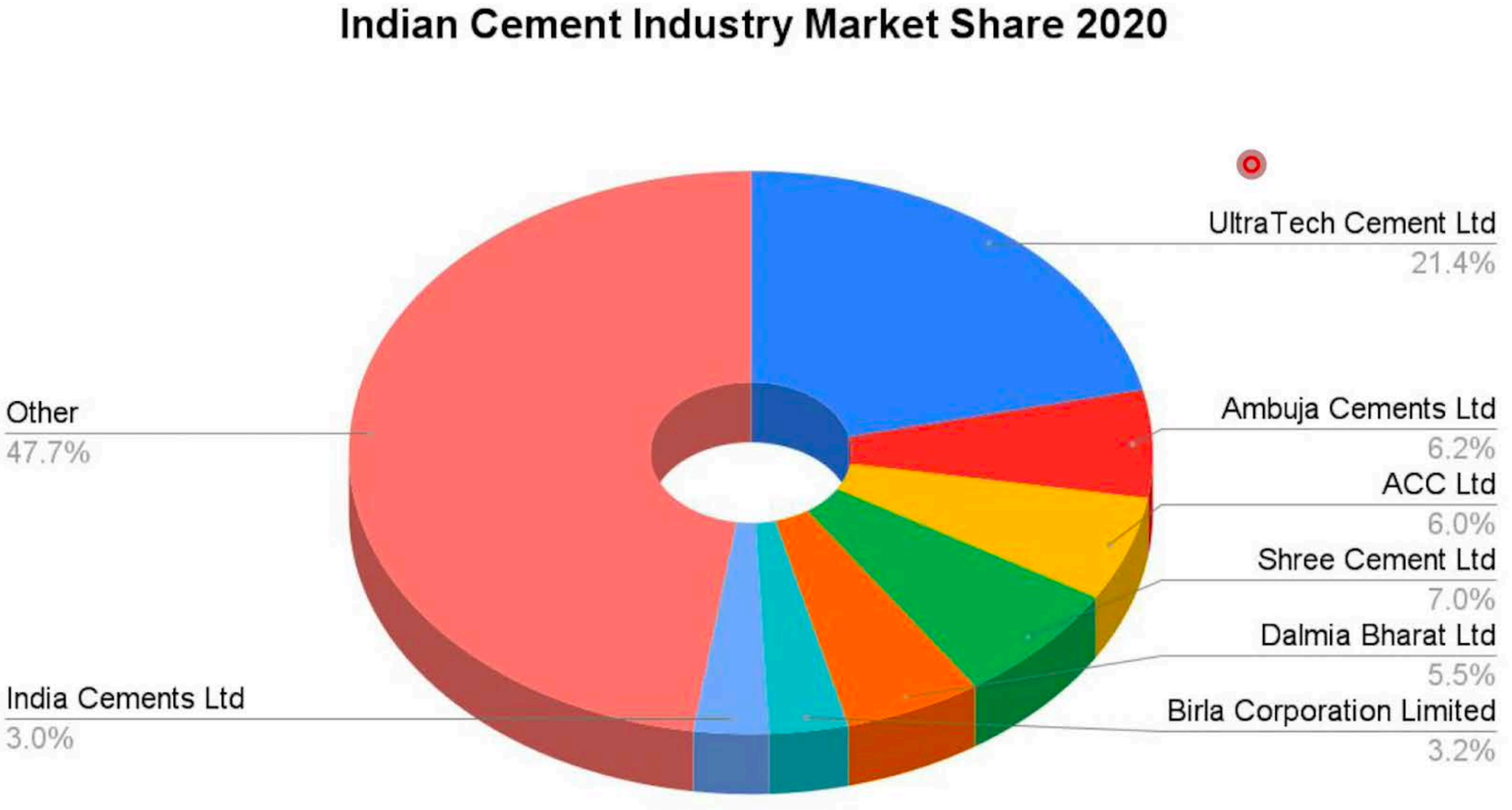


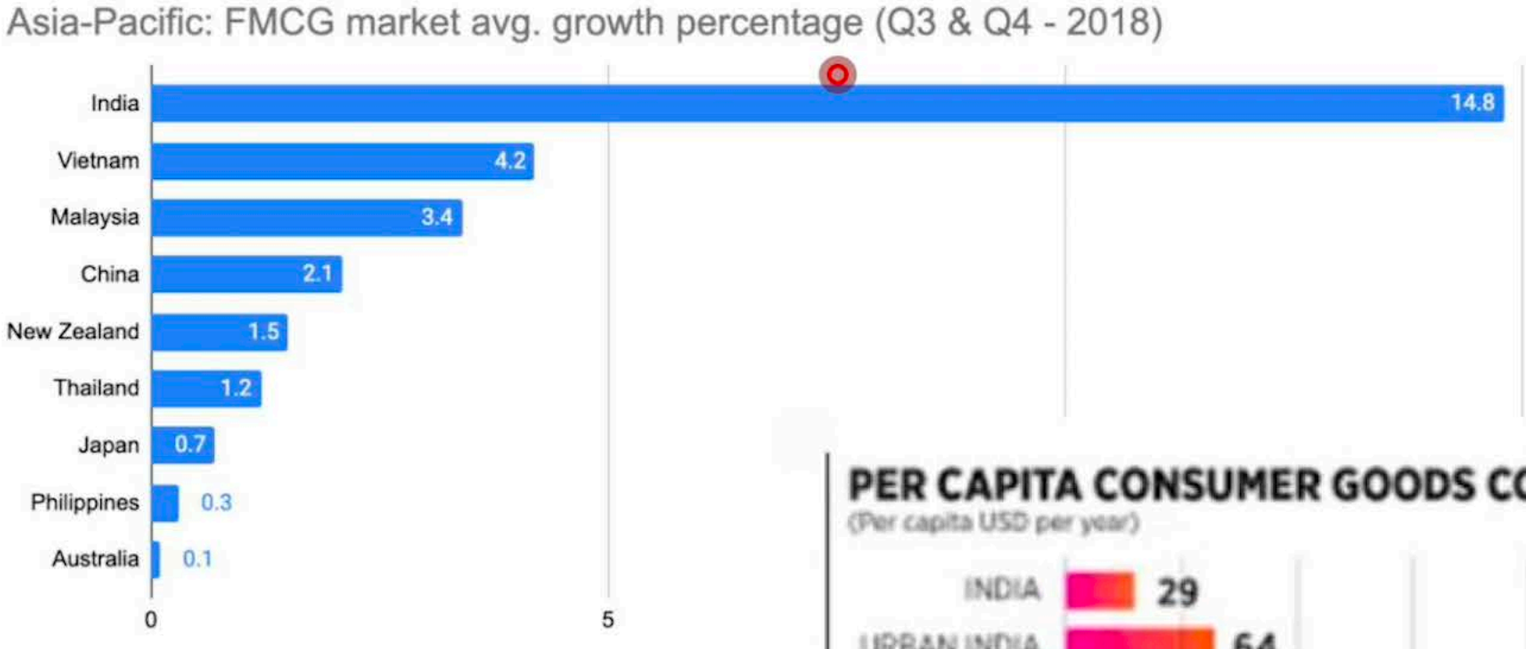
Exhibit 5: New capacity to broadly grow at similar pace during FY20-23E as witnessed in past five years

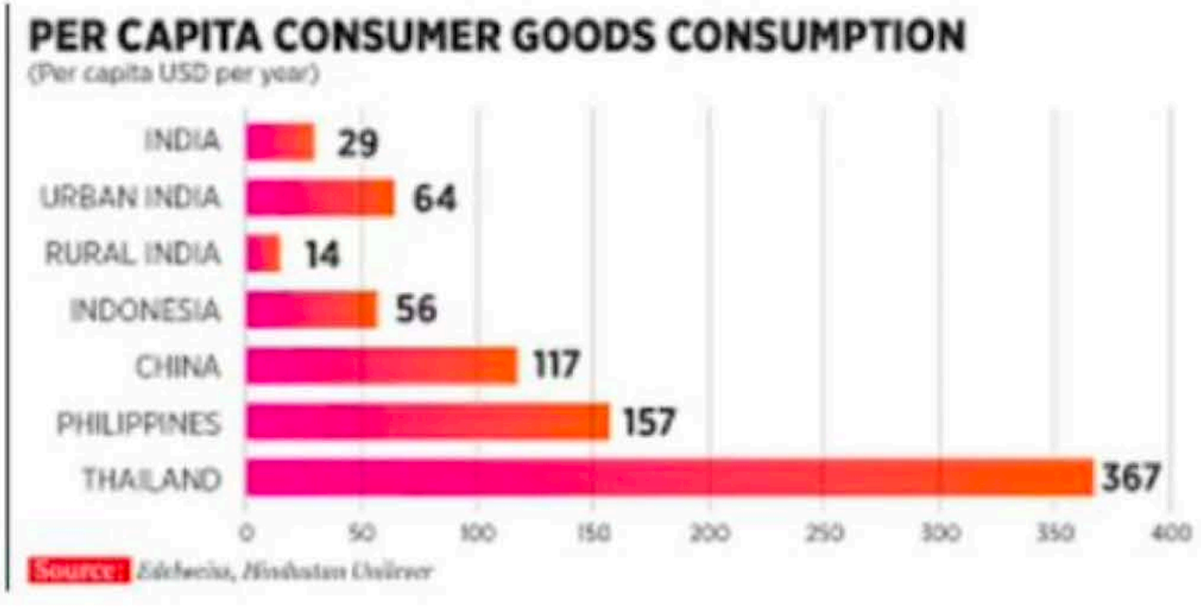
Exhibit 5: New capacity to broadly grow at similar pace during FY20-23E as witnessed in past five years

Sr no	Company	FY15	FY16	FY17	FY18	FY19	CAGR (%)	FY20	FY21E	FY22E	FY23E	CAGR (%)	Yearwise additions FY21E	FY22E	FY23E
1	Ultratech	59.3	63.2	66.3	80.6	109.4	16.6	111.4	113.4	118.1	130.9	5.5	2.0	4.7	12.8
2	Shree	22.1	25.6	29.3	34.9	37.9	14.4	40.4	46.4	46.4	46.4	4.7	6.0	0.0	0.0
3	ACC	31.0	31.0	31.0	33.4	33.4	1.9	33.4	33.4	34.5	39.3	5.6	0.0	1.1	4.8
4	Ambuja	28.8	29.7	29.7	29.7	29.7	0.8	29.7	29.7	31.5	31.5	2.0	0.0	1.8	0.0
5	Birla Corp	9.8	9.8	15.4	15.4	15.4	12.0	15.4	15.4	19.3	20.7	10.4	0.0	3.9	1.4
6	Ramco	15.5	16.5	16.5	16.5	16.7	1.8	18.6	19.5	20.5	20.5	3.3	0.9	1.0	0.0
7	India Cements	15.6	15.6	15.6	15.6	15.6	0.0	15.6	15.6	15.6	15.6	0.0	0.0	0.0	0.0
8	JK Cement	10.5	10.5	10.5	10.5	10.5	0.0	14.0	14.7	14.7	14.7	1.6	0.7	0.0	0.0
9	JK Lakshmi	8.2	8.6	10.9	10.9	12.5	11.1	13.3	13.3	13.9	13.9	1.5	0.0	0.6	0.0
10	Sagar	2.7	2.9	4.0	4.3	5.8	20.8	5.8	5.8	8.3	8.3	12.8	0.0	2.5	0.0
11	Orient	8.0	8.0	8.0	8.0	8.0	0.0	8.0	8.0	8.0	8.0	0.0	0.0	0.0	0.0
12	Heidelberg	5.4	5.4	5.4	5.4	5.4	0.0	5.4	6.3	6.3	6.3	5.3	0.9	0.0	0.0
13	Mangalam	3.3	3.3	4.0	4.0	4.0	5.3	4.0	4.0	4.4	4.4	3.2	0.0	0.4	0.0
14	NCL	2.0	2.0	2.0	2.7	2.7	7.8	2.7	2.7	2.7	3.4	8.0	0.0	0.0	0.7
	Total	222	232	248	272	307	7.4	318	328	344	364	4.6	10.5	16.0	19.7
	Others	195	204	212	202	189	0.5	200	209	217	223	3.6	8.8	8.1	5.5
	All India	**417**	**436**	**460**	**474**	**496**	**4.4**	**518**	**537**	**561**	**587**	**4.2**	**19.3**	**24.1**	**25.2**

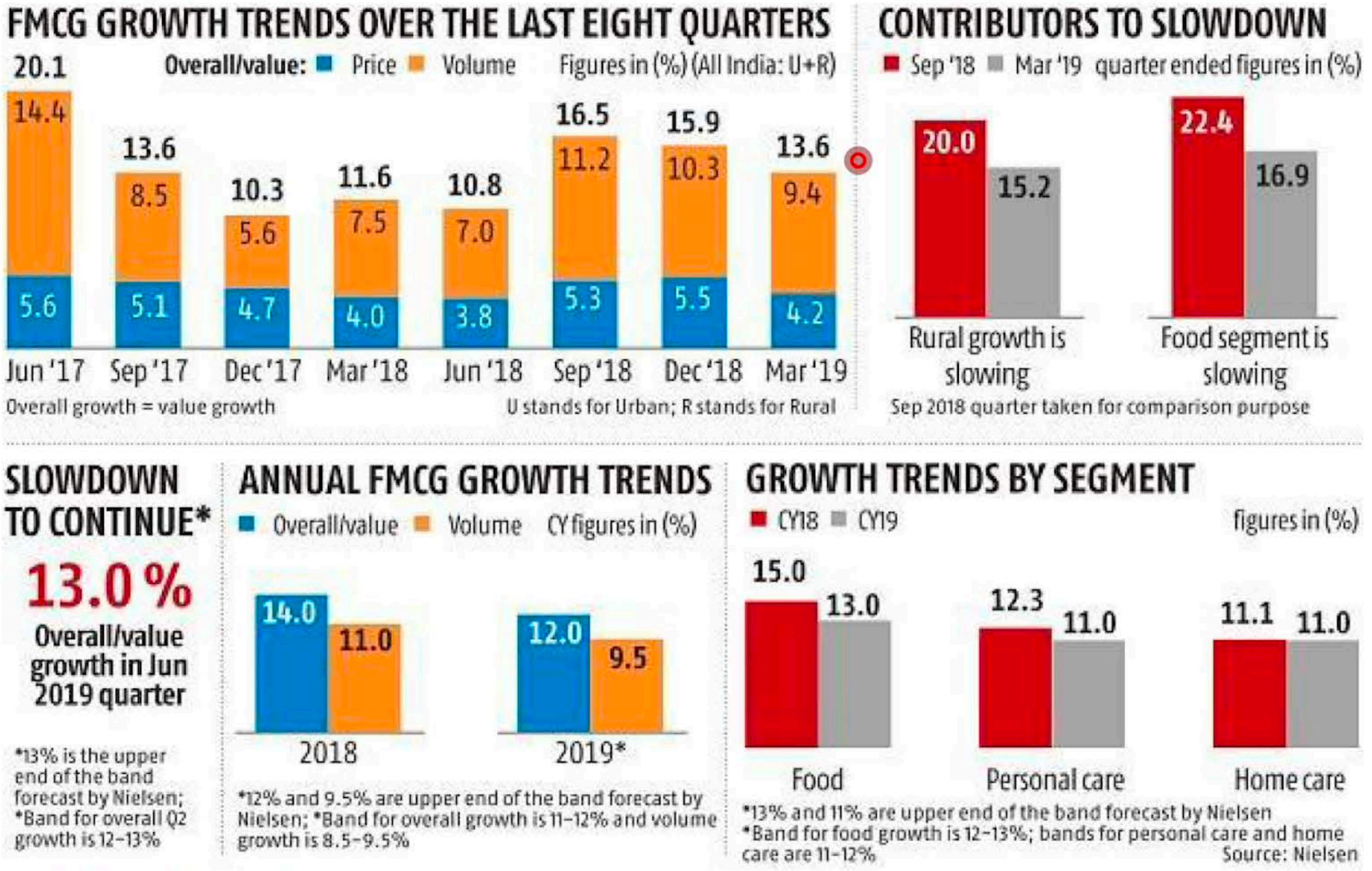
Source: Company, ICICI Direct Research

FMCG Industry



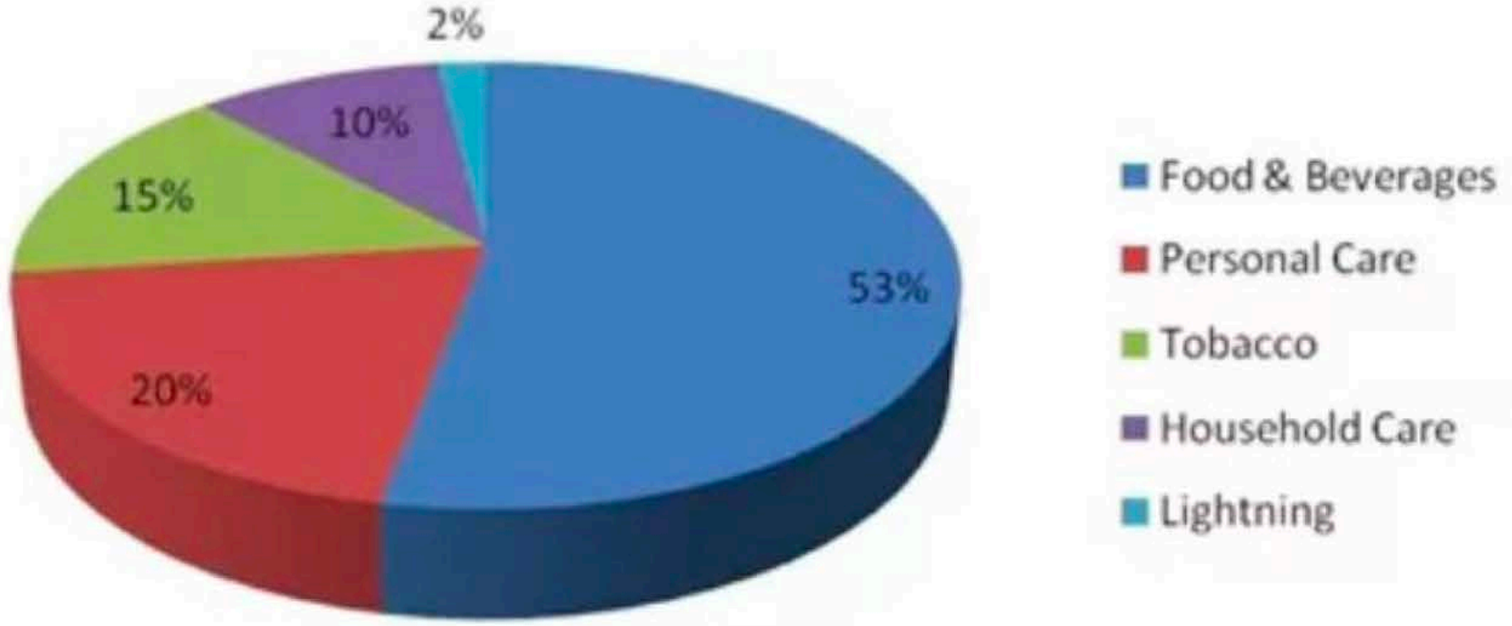


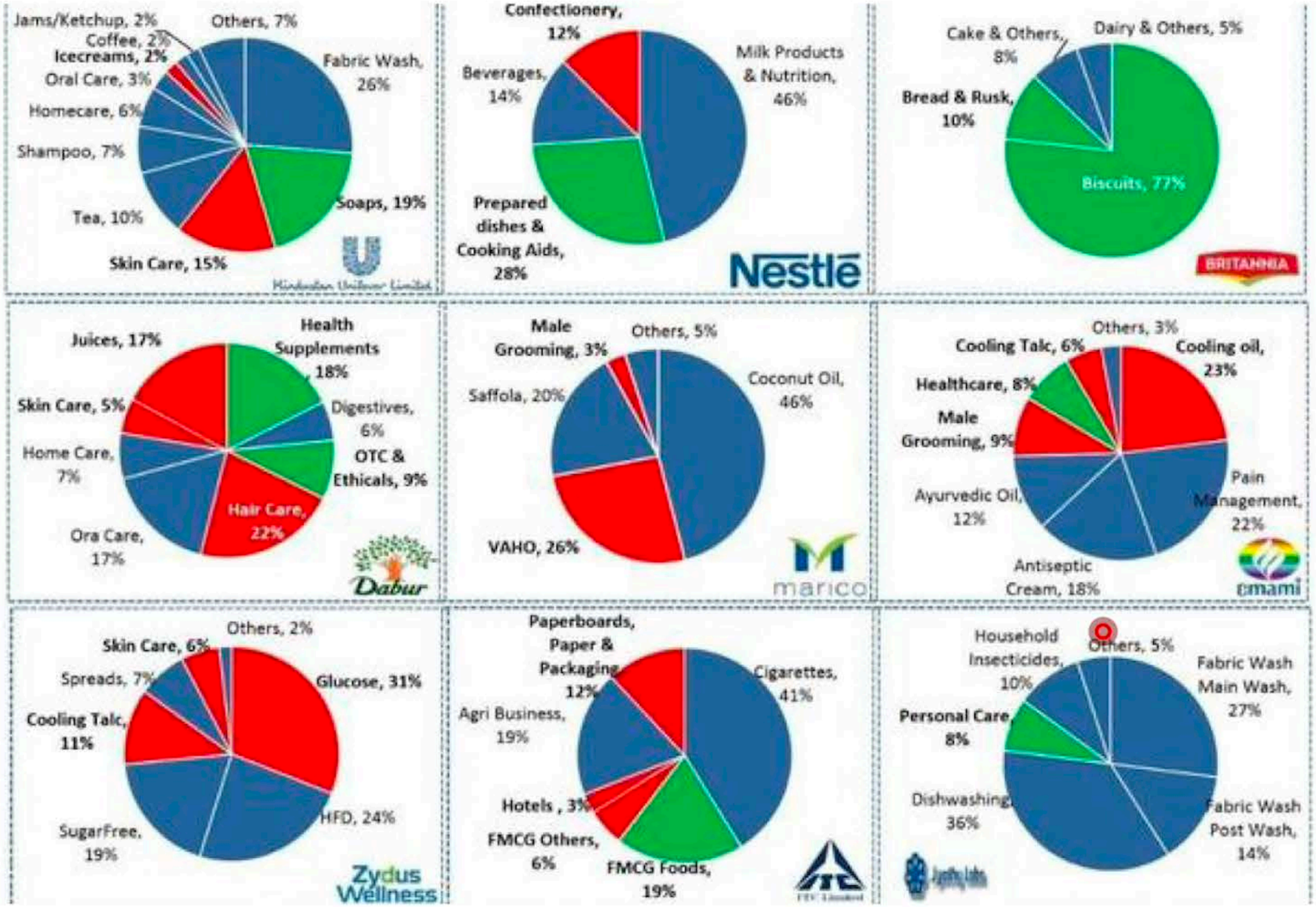
FMCG GROWTH TRENDS OVER THE LAST EIGHT QUARTERS | CONTRIBUTORS TO SLOWDOWN



Source: Business Standard

MARKET SEGMENTATION




Jams/Ketchup, 2%
Coffee, 2%
Icecreams, 2%
Oral Care, 3%
Homecare, 6%
Shampoo, 7%
Tea, 10%
Skin Care, 15%
Others, 7%
Fabric Wash, 26%
Soaps, 19%
Hindustan Unilever Limited
Confectionery, 12%
Beverages, 14%
Prepared dishes & Cooking Aids, 28%
Milk Products & Nutrition, 46%
Nestlé
Cake & Others, 8%
Dairy & Others, 5%
Bread & Rusk, 10%
Biscuits, 77%
BRITANNIA
Juices, 17%
Health Supplements, 18%
Skin Care, 5%
Digestives, 6%
Home Care, 7%
OTC & Ethicals, 9%
Hair Care, 22%
Ora Care, 17%
Dabur
Male Grooming, 3%
Others, 5%
Saffola, 20%
Coconut Oil, 46%
VAHO, 26%
marico
Others, 3%
Cooling Talc, 6%
Cooling oil, 23%
Healthcare, 8%
Male Grooming, 9%
Pain Management, 22%
Ayurvedic Oil, 12%
Antiseptic Cream, 18%
emami
Others, 2%
Skin Care, 6%
Spreads, 7%
Glucose, 31%
Cooling Talc, 11%
HFD, 24%
SugarFree, 19%
Zydus Wellness
Paperboards, Paper & Packaging 12%
Cigarettes, 41%
Agri Business, 19%
Hotels , 3%
FMCG Others, 6%
FMCG Foods, 19%
Household Insecticides, 10%
Others, 5%
Fabric Wash Main Wash, 27%
Personal Care, 8%
Dishwashing, 36%
Fabric Wash Post Wash, 14%

Nestle’s competitive position

Leading With Strong Market Shares

Category	Brand	Market Share (Value)	Nestlé India Position
Infant Cereals	Nestlé Cerelac	96.5	1
Infant Formula	LACTOGEN NAN	66.6	1
Tea Creamer	Nestlé Everyday	44.1	1
Instant Noodles		59.2	1
Ketchups & Sauces		20.5	2
Instant Pasta		73.7	1
White & Wafers	KitKat Milkybar Munch	63.4	1
Instant Coffee	NESCAFÉ	50.5	1

Exhibit 1: Estimates for Q1FY22E: (FMCG) (₹ crore)

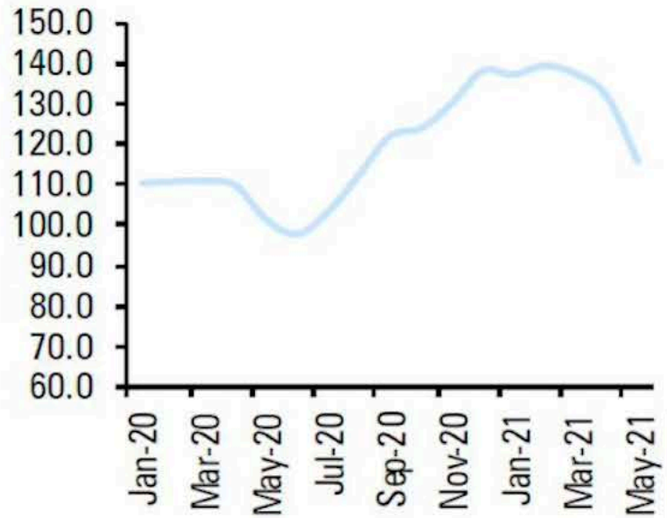
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Colgate Palmolive	1,198.3	15.2	-6.8	368.3	19.6	-10.0	242.1	22.2	-11.7
Dabur India Ltd	2,491.2	25.8	-1.0	495.8	19.0	-12.9	413.3	21.1	-14.4
HUL	12,807.6	21.3	11.9	2,984.5	12.9	4.0	2,093.4	11.3	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	54.1	LP
Total	**39,165.7**	**24.1**	**3.4**	**9,677.5**	**22.0**	**-2.9**	**7,248.4**	**17.9**	**1.9**

Source: Company, ICICI Direct Research

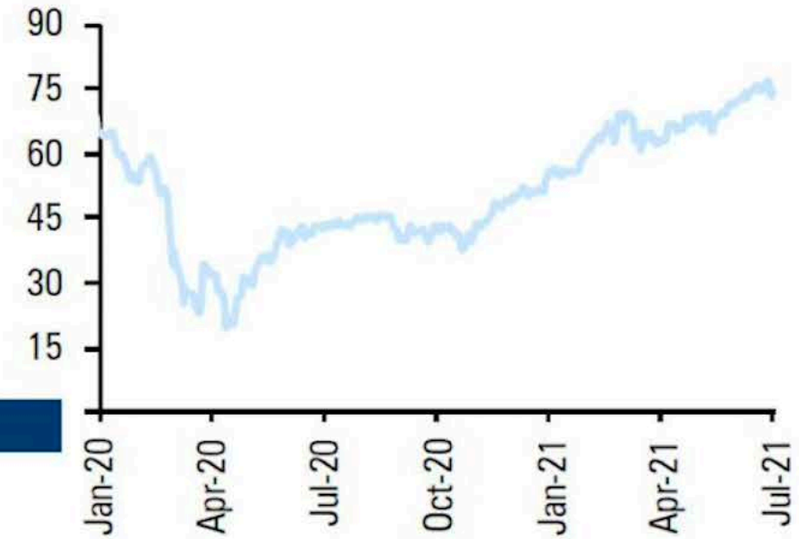
Copra Price Trend (₹/kg)

Crude Price Trend (USD / barrel)

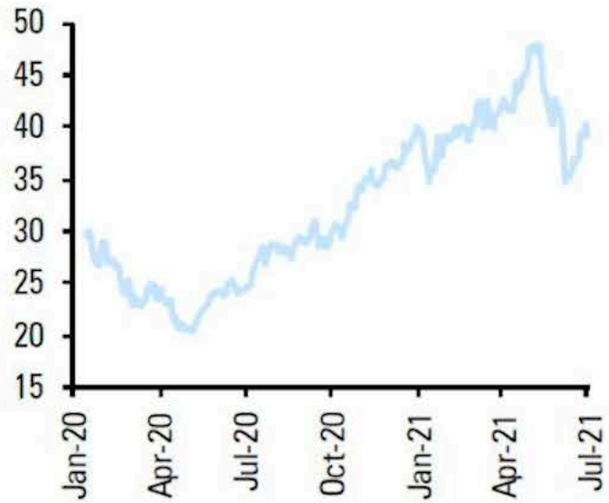
Copra Price Trend (₹/kg)



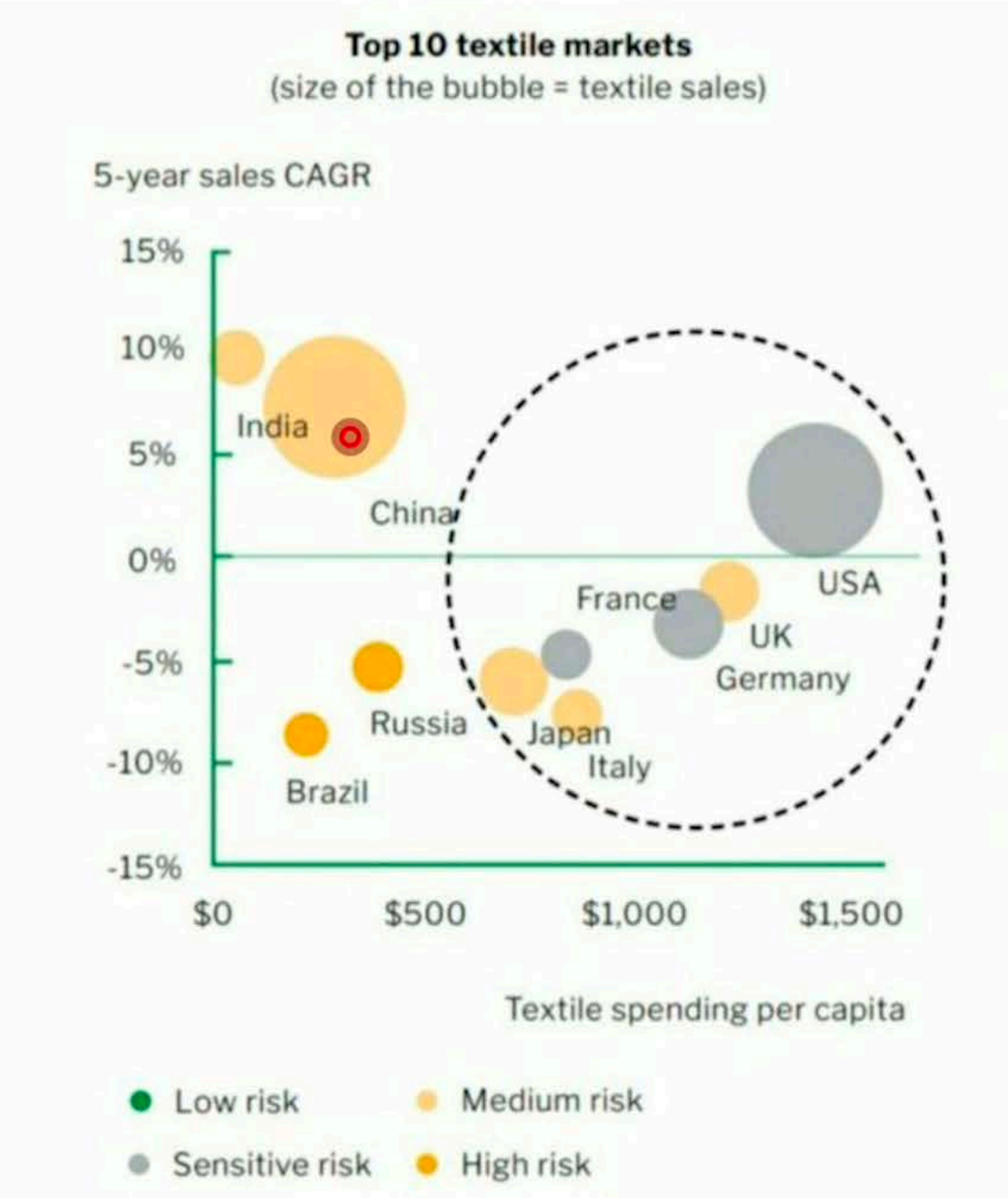
Crude Price Trend (USD / barrel)



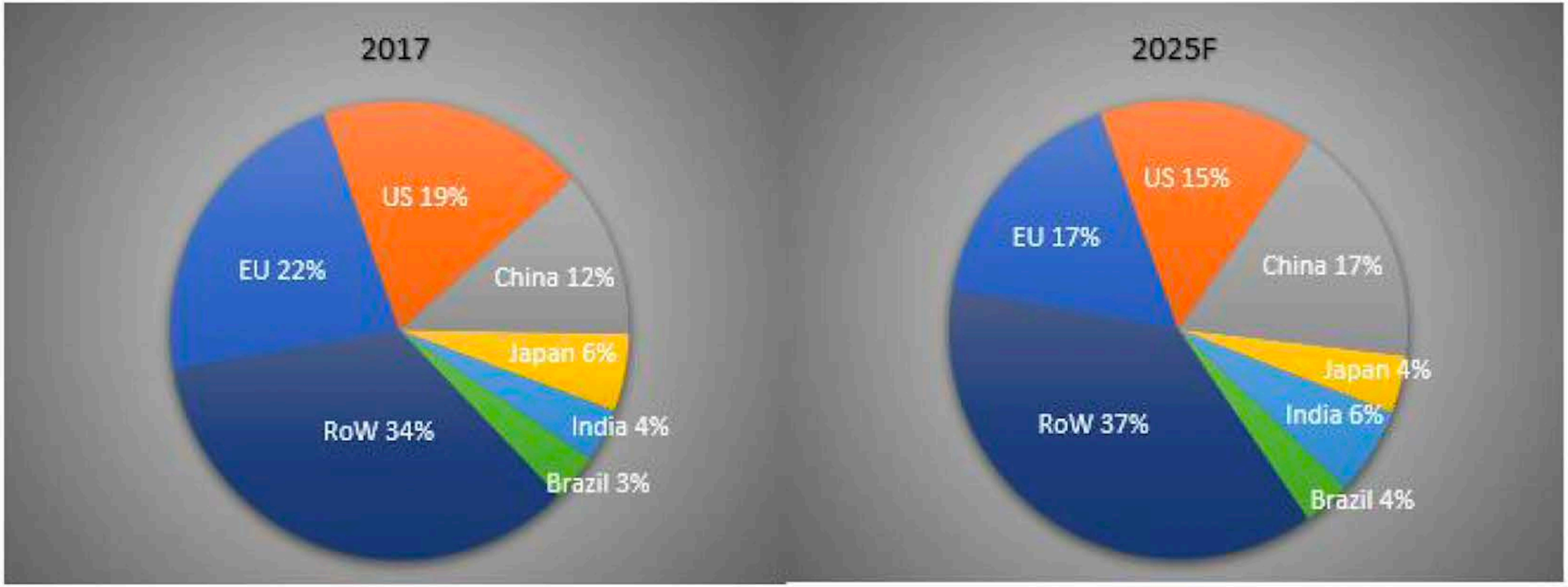
Surge in palm oil prices (₹/kg)



Apparel & Textile Industry


Top 10 textile markets
(size of the bubble = textile sales)
5-year sales CAGR
15%
10%
5%
0%
-5%
-10%
-15%
India
China
USA
France
UK
Germany
Russia
Japan
Italy
Brazil
$0
$500
$1,000
$1,500
Textile spending per capita
Low risk
Medium risk
Sensitive risk
High risk

Global Apparel Consumption – Country wise share



Source: UN Comtrade, Wazir Analysis, Televisory's Analysis

Source: UN Comtrade, Wazir Analysis, Televisory's Analysis

Leading Textile and Apparel Exporters (2019)

Leading Textile and Apparel Exporters (2019)

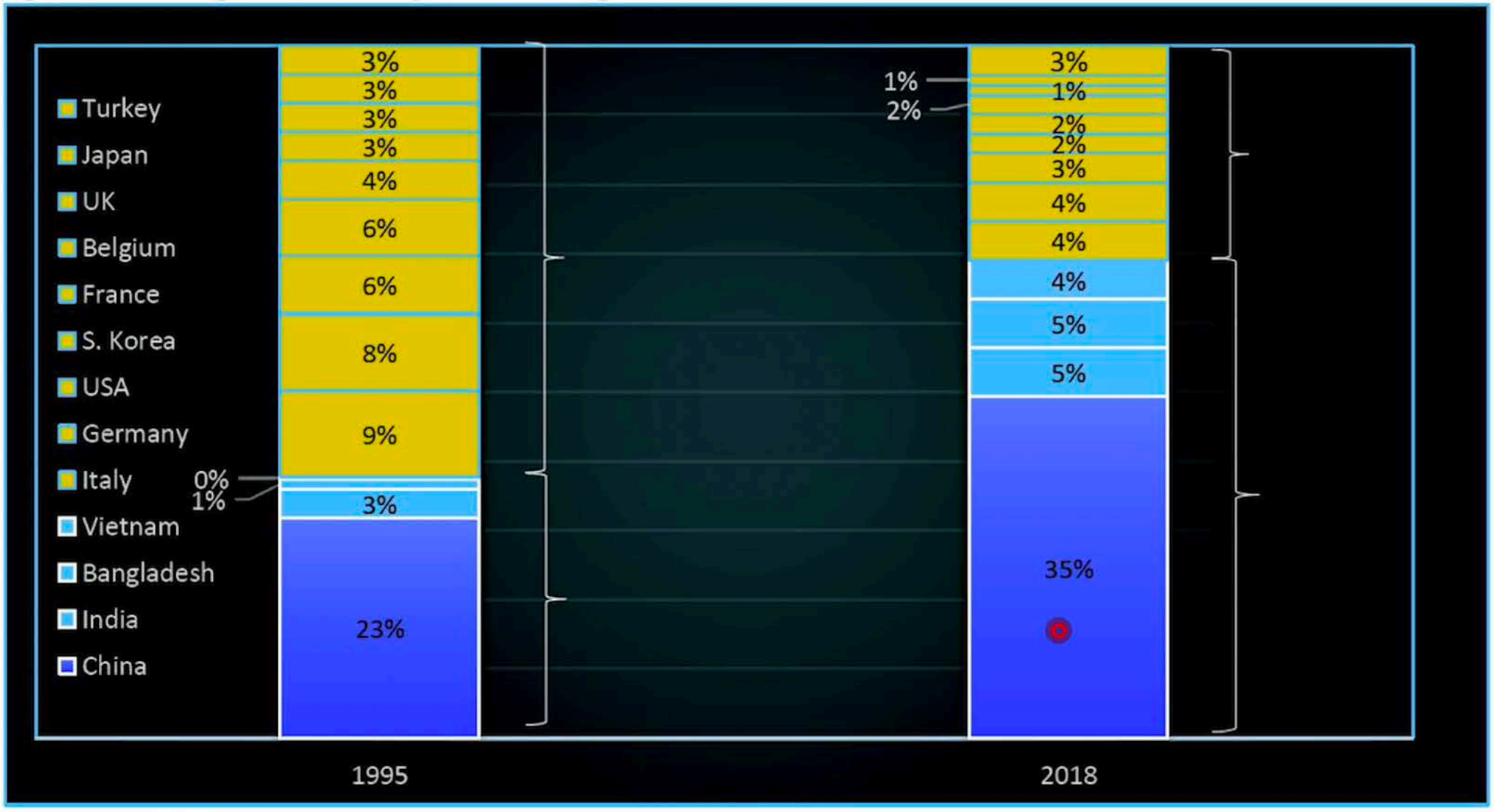
Value US$ billion

Country	Exports			Share (%)
	Textile	Apparel	Total	
China	134.6	149.9	284.5	34
Vietnam	10.2	33.7	43.9	5
Bangladesh	1.8	40.9	42.7	5
Germany	15.5	23.8	39.3	5
India	20.2	16.2	36.4	4
Italy	12.8	23.6	36.4	4
Turkey	12.2	16.1	28.2	3
USA	21.7	5.2	26.9	3
Spain	5	14.3	19.3	2
France	5.6	12	17.6	2
ROW	117.2	146.3	263.5	31
Total	**356.8**	**481.9**	**838.7**	

Source: US Comtrade and Wazir Analysis

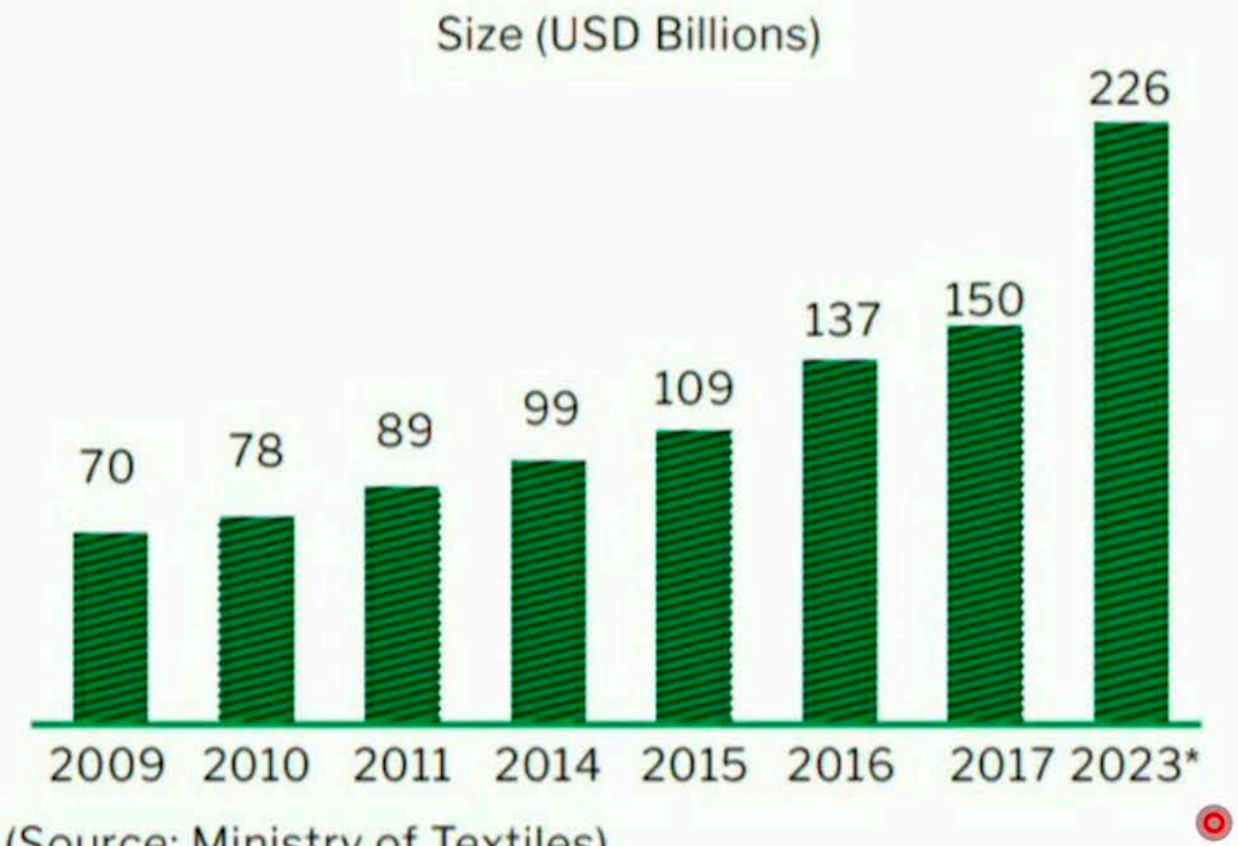
Figure 3: Increasing Consolidation of Global Sourcing

Figure 3: Increasing Consolidation of Global Sourcing



Source: Ficci, 2018

Textile and apparel industry in India



(Source: Ministry of Textiles)

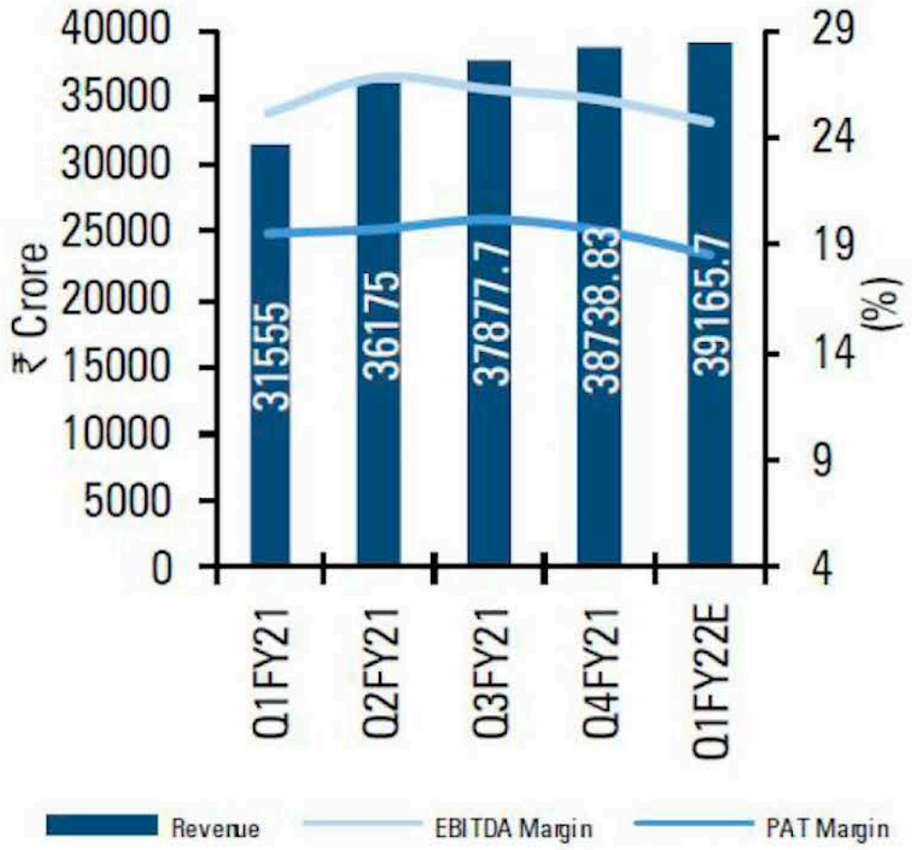
* Estimated

Table 8: Top 10 Traded Commodities in the World & India's Share (US$ Bn.)

HS Code	Description	Global Exports	India's Exports	India's Share in Global Exports
610910	Cotton T-shirts	30.02	1.78	6%
620342	Mens Trousers of Cotton	26.97	0.20	1%
611030	Jerseys of MMF	25.58	0.07	0.2%
520100	Cotton Fibre	14.33	2.20	15%
610443	Dresses of MMF	13.00	0.66	5%
620520	Mens Shirts of Cotton	11.67	0.79	7%
621210	Brassieres	11.21	0.11	1%
540752	Dyed Woven Fabric of Polyester	8.23	0.12	2%
620640	Blouses & shirts of MMF	7.73	0.58	7%
620343	Mens Trousers of MMF	7.68	0.09	1%

Data Source: UN Comtrade

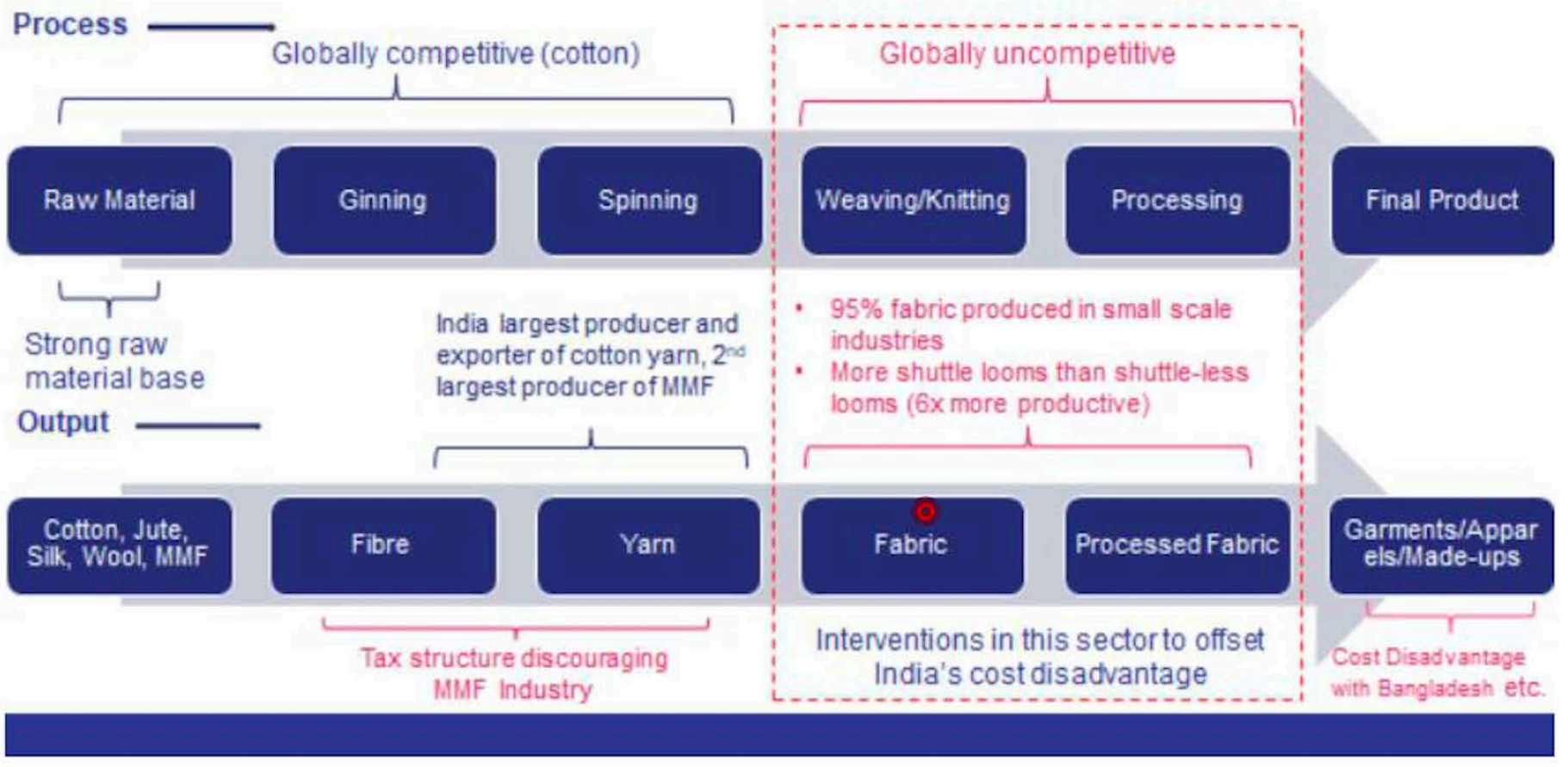
Topline & Profitability (Coverage Universe)



Operating margins FMCG Coverage (%)

Company	EBITDA margin %				
	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22
Colagte	29.6	31.8	30.1	40.5	30.7
Dabur	21.0	22.6	21.0	18.9	19.9
HUL	25.0	25.1	24.1	24.4	23.3
ITC	27.9	33.9	35.0	31.6	31.4
Marico	24.2	19.6	19.4	15.9	18.2
Nestle	24.5	24.9	22.6	25.8	23.8
Tata Cons.	17.8	14.4	11.8	9.9	11.6
VST Ind.	40.4	37.6	34.8	35.3	37.1
Zydus Welln	22.8	7.9	13.0	24.0	23.5
FMCG Total	**25.1**	**26.9**	**26.3**	**25.8**	**24.7**

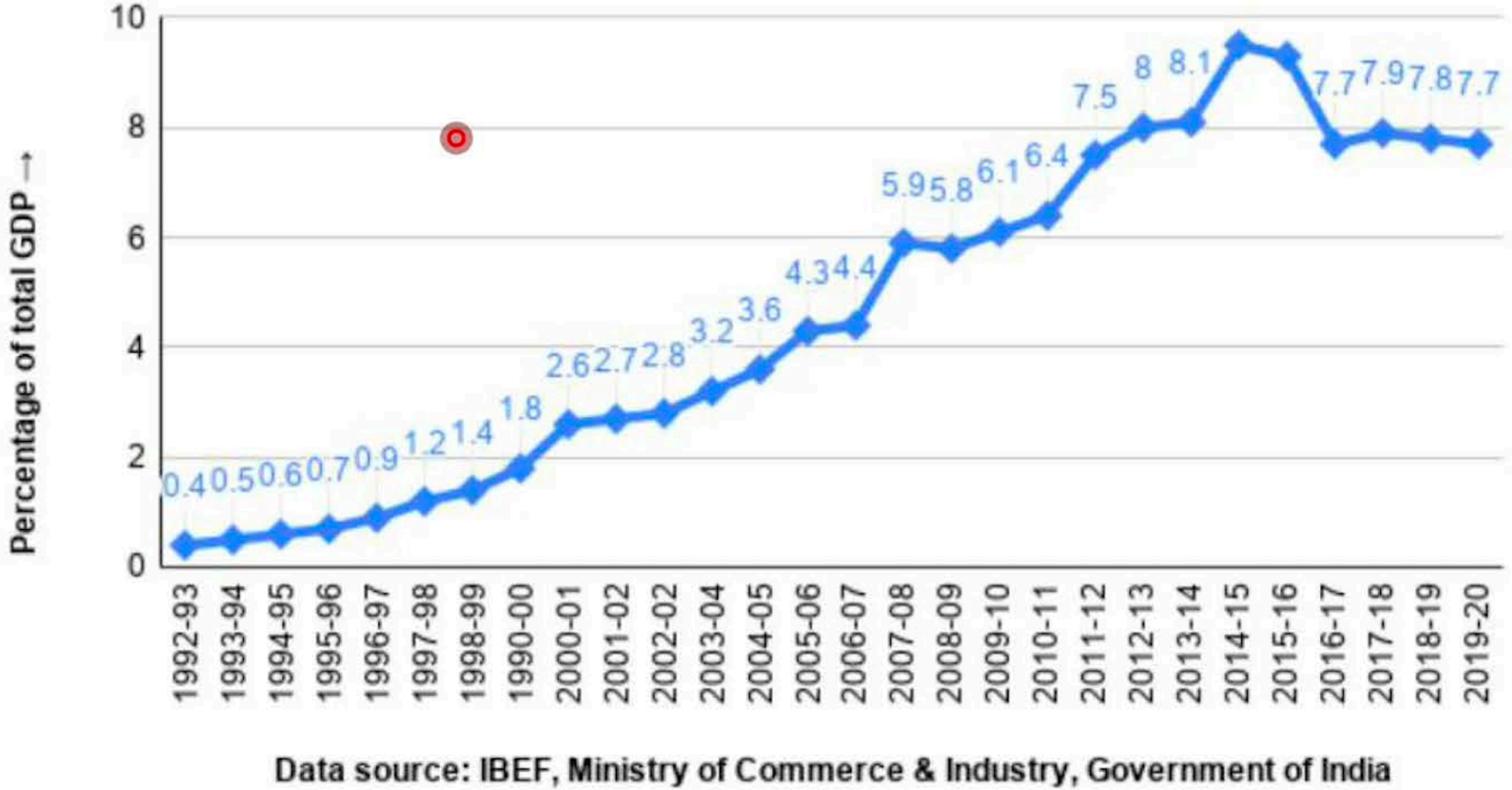
Uncompetitive Global Value Chain



Source: Niti Aayog

IT Industry

Graph 2. IT industry's share in GDP (in %)

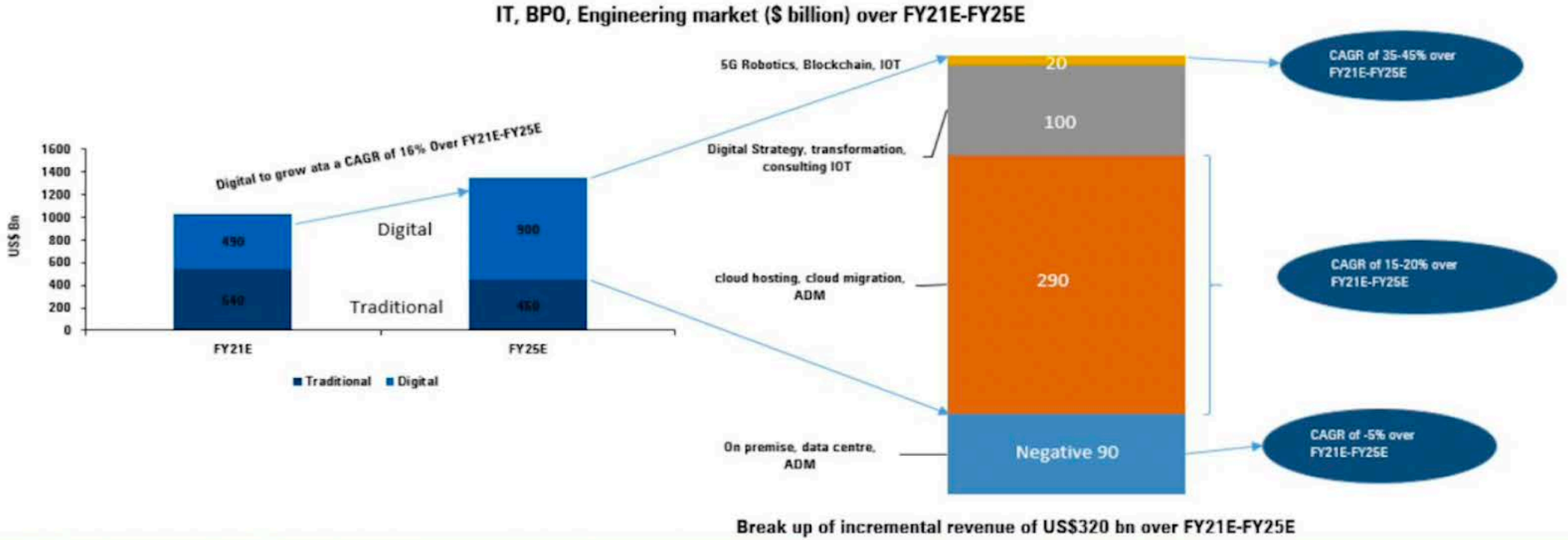


Data source: IBEF, Ministry of Commerce & Industry, Government of India

2019 Global Software Outsourcing Rates

Title of Full Time Employee (FTE)	United States	Latin America	Eastern Europe	Asia
Business Analyst	$110 - $205	$45 - $55	$40 - $63	$30 - $42
Architect	$198 - $292	$60 - $72	$50 - $77	$35 - $48
Project Manager	$133 - $233	$55 - $66	$45 - $70	$35 - $48
Jr. Developer	$105 - $111	$35 - $44	$25 - $42	$18 - $24
Mid-level Developer	$132 - $140	$30 - $52	$35 - $56	$24 - $35
Lead Developer	$176 - $187	$50 - $61	$45 - $70	$30 - $42
Sr. Developer	$154 - $163	$45 - $55	$45 - $70	$30 - $42
Junior QA	$77 - $81	$30 - $39	$25 - $42	$15 - $24
Mid-level QA	$99 - $105	$35 - $44	$30 - $49	$20 - $30
Senior QA	$143 - $169	$40 - $50	$40 - $63	$25 - $36
Graphic Designer	$79 - $163	$40 - $50	$35 - $56	$25 - $36

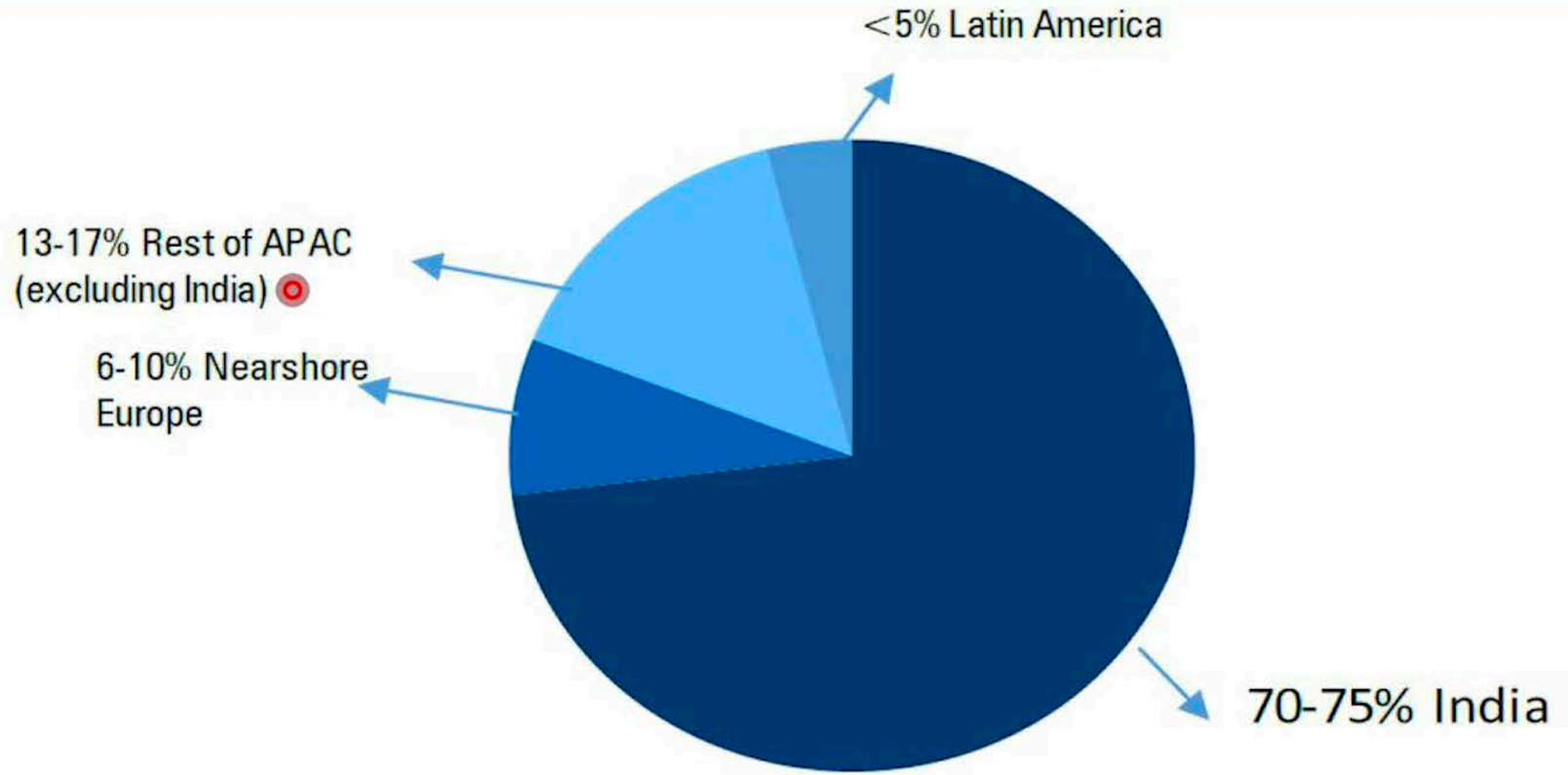
Exhibit 1: Digital technology to drive multi-year growth



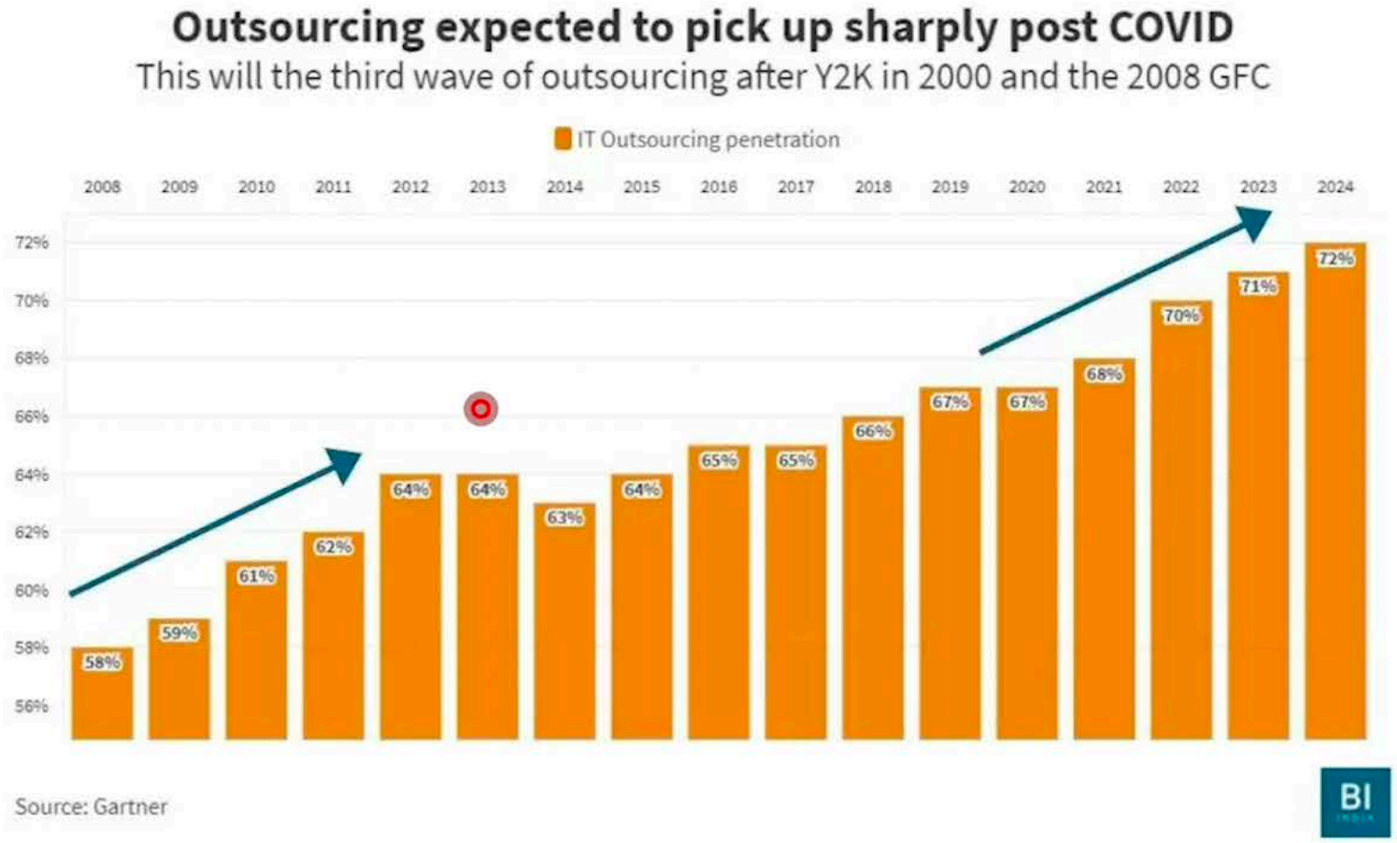
Source: Wipro Analyst Meet, ICICI Direct Research;

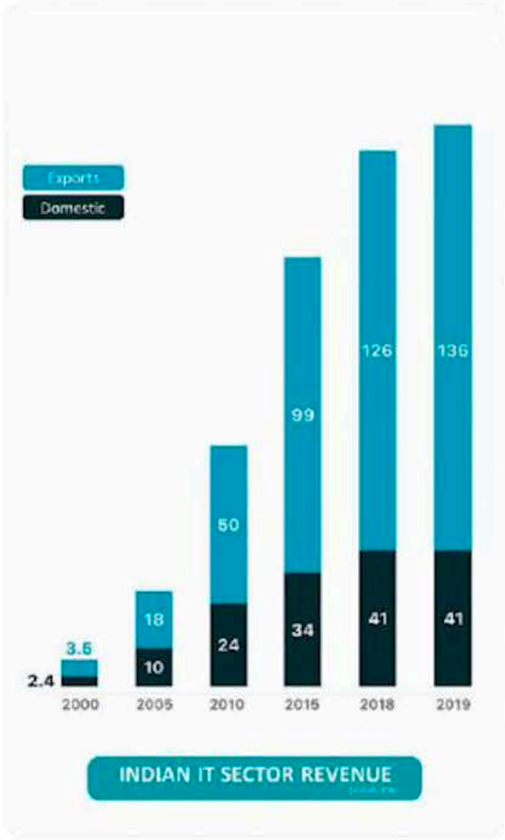
Exhibit 2: India has high supply of digitally skilled employee (digital FTE as of FY18)

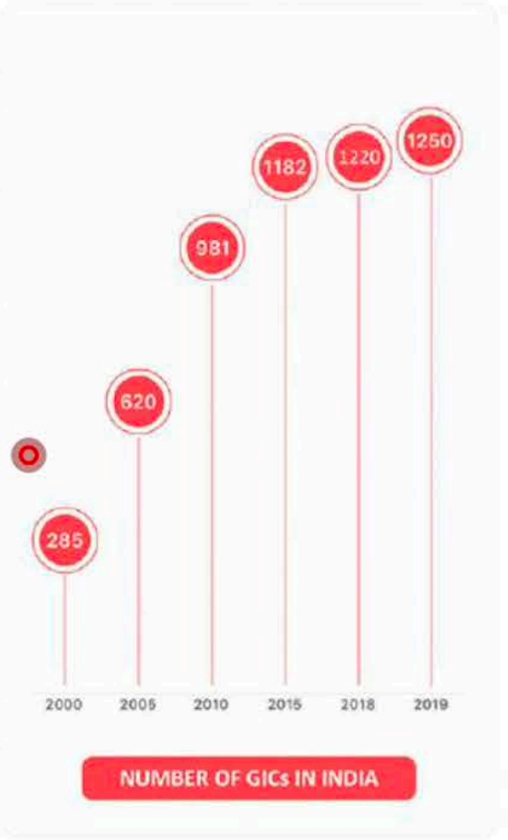
Exhibit 2: India has high supply of digitally skilled employee (digital FTE as of FY18)

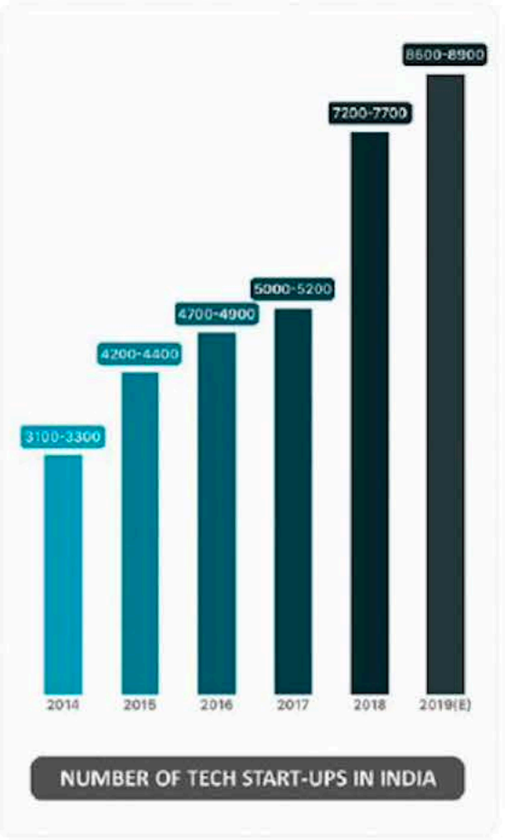


Source: Nasscom, ICICI Direct Research


Outsourcing expected to pick up sharply post COVID
This will the third wave of outsourcing after Y2K in 2000 and the 2008 GFC
IT Outsourcing penetration
2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024
72% 70% 68% 66% 64% 62% 60% 58% 56%
58% 59% 61% 62% 64% 64% 63% 64% 65% 65% 66% 67% 67% 68% 70% 71% 72%
Source: Gartner
BI



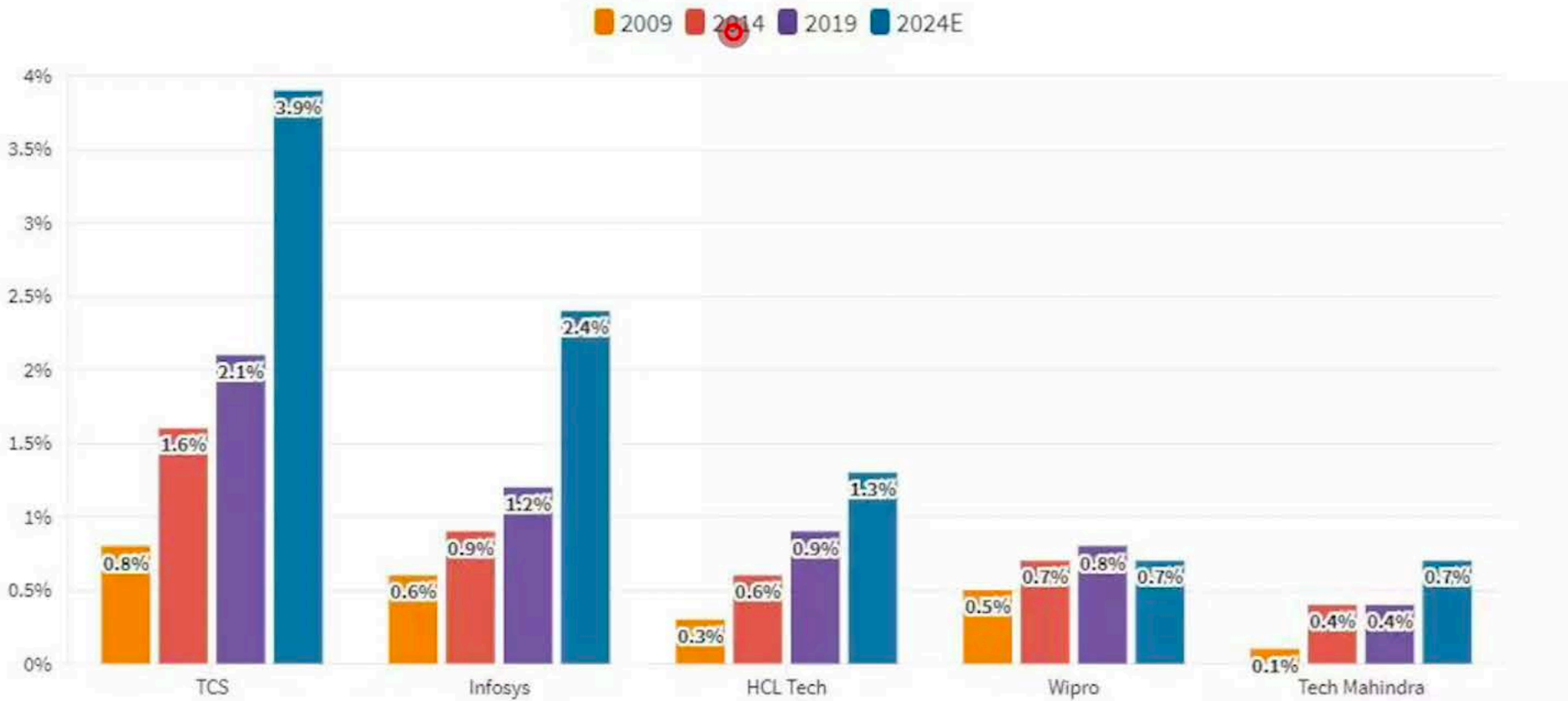




Source: CACM 2019

Indian IT companies expected to gain market share by 2024

Wipro being the only exception

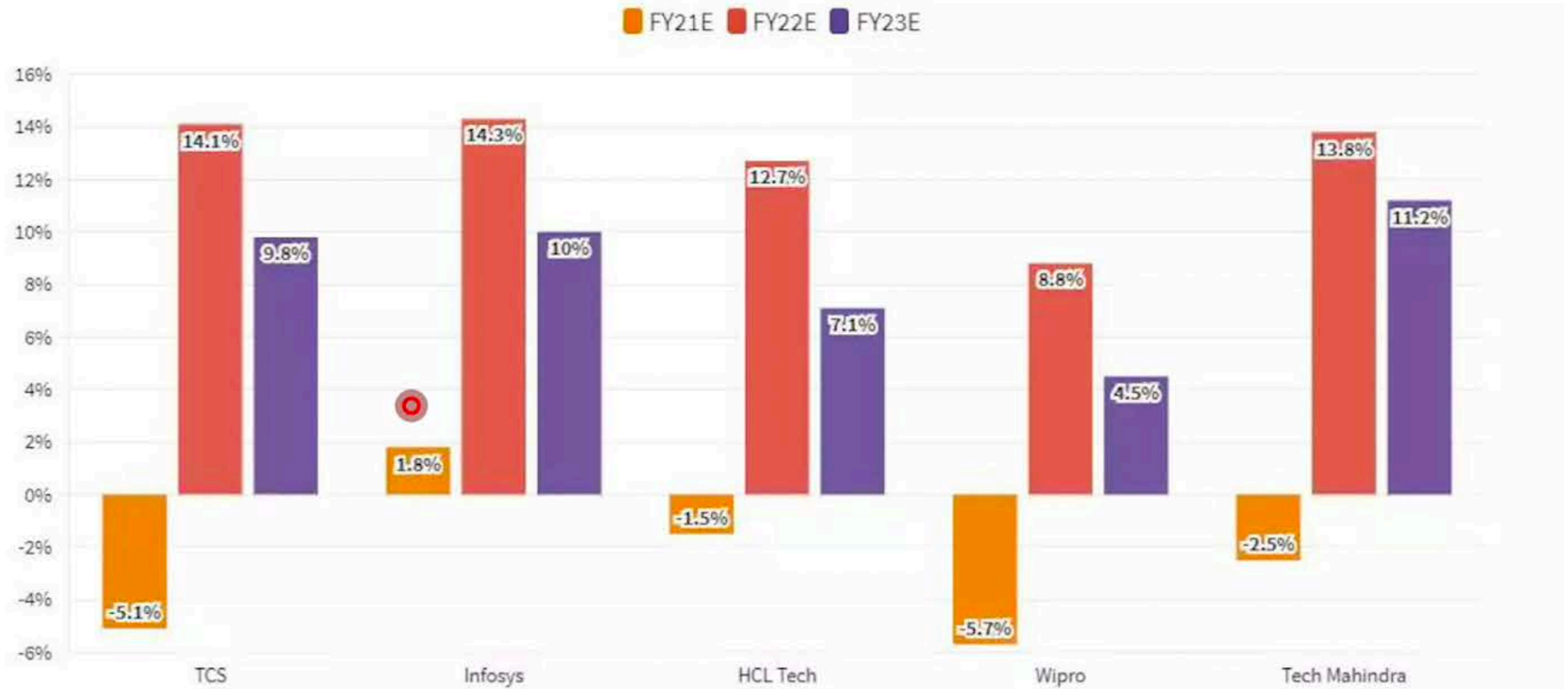


Source: Gartner, Company data, Goldman Sachs Global Investment Research

BI INDIA

Double-digit revenue growth projected over the next three years

TCS and Infosys have the most to gain with growth crossing 14%



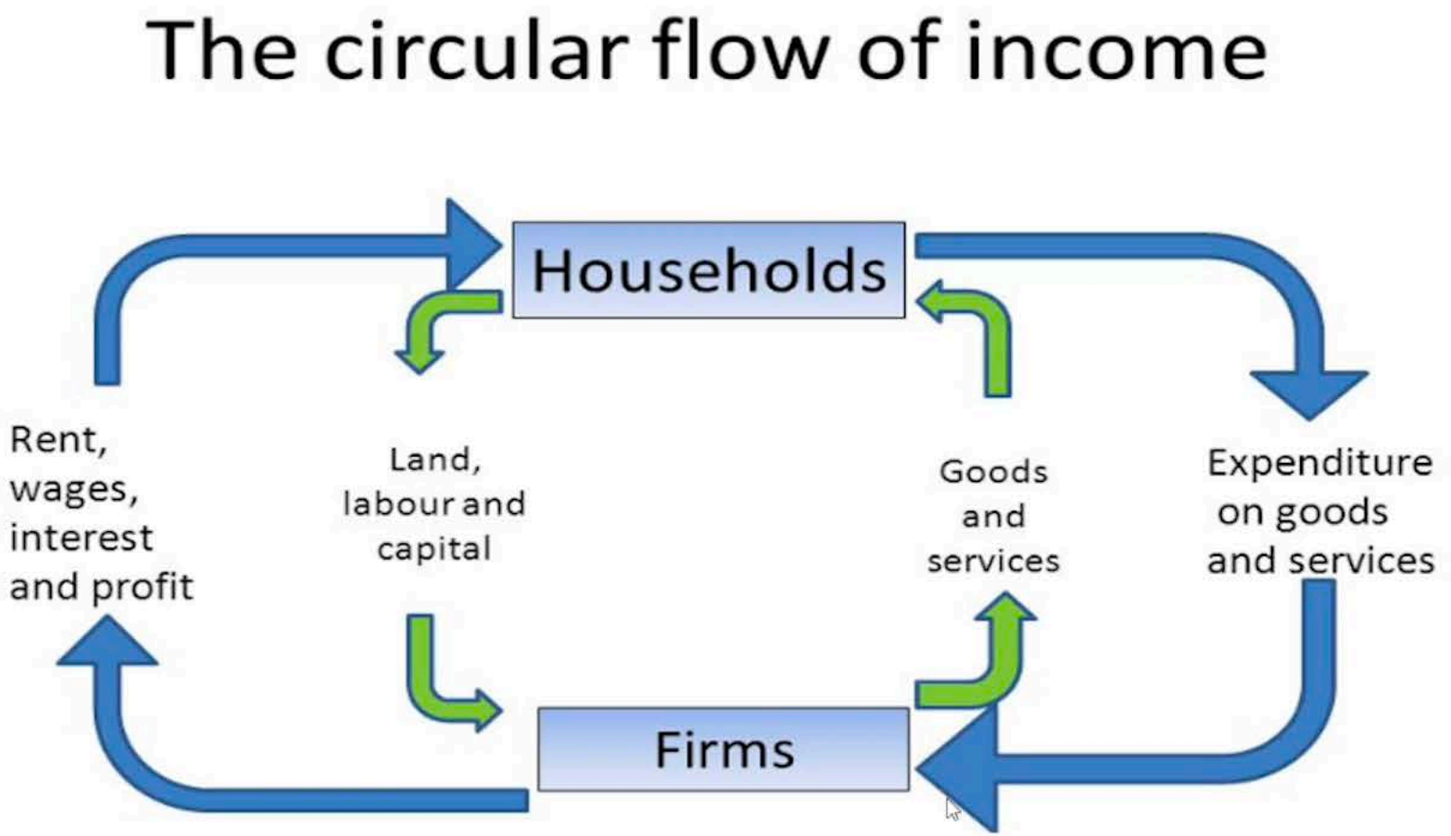
Source: Gartner, Company data, Goldman Sachs Global Investment Research

BI INDIA

Summary
Weeks 1-4

Producers, consumers and exchange

- The unit of consumption is a household
- Households consume goods and services
- Firms produce the goods and services that households consume
- Households provide capital and labour to firms
- Money flows in the opposite direction to resource flow
- The objective is to optimise the flow of resources (and hence the flow of money)
- Price mechanism plays a role in the efficient allocation of resources



Consumption data

- Household consumption data patterns:
  - varies with income
  - varies with demographics - rural/urban, age, region, ...
  - varies with time - short term (seasonality) and long term

- Sources of household consumption data
  - primary surveys
  - National statistics: NSSO data - low frequency, universal and extensive
  - CMIE: consumer household pyramid survey - high frequency, targeted, longitudinal
  - Consulting agencies and analysts - occasional, different aspects captured, or different slices of the dataset

Utility

- Cardinal Utility: measures satisfaction of a consumer
  - total utility
  - marginal utility (measures incremental change in satisfaction level with a small increase in consumption)
  - Diminishing marginal utility
  - Consumer maximises utility by choosing goods given a fixed income and the prices of the goods

- Ordinal utility: satisfaction due to choice cannot be measured, but choices can be ranked
  - Indifference curves: on one curve all choices have the same rank
  - Pick the curve with the highest rank

Understanding Demand

- Quantity demanded: amount of goods that buyers are willing and able to purchase
- Demand schedule (table) and Demand curve (graph)
- Individual and aggregated demand (sum of individual demands)
- Demand varies with price - movement along the demand curve
- Other (non-price) factors move the demand curve to the right or the left
  - Income - **Normal** good: demand increases with higher income, **Inferior** good: demand decreases
  - Price of related goods
    - **Substitutes**: increase in price of one leads to increase in demand of the other
    - **Complements**: increase in price of one leads to decrese in demand of the other
  - Tastes
  - Expectations: income is going to rise in future, demand increases now
  - Number of buyers
- **Equilibrium price**: the price at which supply and demand are matched

Changes in demand and elasticity

- Elastic demand: Quantity demanded responds substantially to changes in price
  - Goods with close substitutes are more elastic
  - Luxury goods are elastic
- Inelastic demand: Quantity demanded responds only slightly to changes in price
  - Essential goods (necessities) are inelastic
- Cross price elasticity of demand:
  - substitutes (positive cross price elasticity)
  - complements (negative cross price elasticity)
- The above goods are all normal goods
- Negative income elasticity: Inferior goods

Cost of production

- Types of costs:
  - Accounting vs Economic profit: opportunity cost
  - Fixed vs Variable cost
  - Direct vs Indirect cost
  - Total, average and marginal cost
  - Sunk costs

- Average total cost calculation
- Cost curves and determination of production quantity
- Short term and long term cost curves

Production quantity decisions

- Production function relates inputs to outputs
  - Short run and long run production functions
- Marginal and average product
- Using the production function curves to determine returns to scale
  - Increasing, constant and diminishing returns to scale
- Capacity planning
- Competitive market: price cannot be controlled, quantity needs to be optimised

Pricing decisions

- Market skimming
- Value pricing
- Loss leader pricing
- Psychological pricing
- Price leadership (going rate)
- Tender pricing
- Price discrimination
- Penetration pricing
- Cost plus pricing

Firm data analysis

- Analysis of firm performance - key ratios obtained from financial statements
- Sources of data:
  - Profit and Loss statement
  - Balance sheet
  - Cash flow statement
  - Others ...
- Liquidity (ability to meet its obligation to debtors): current ratio, quick ratio
- Return to shareholders: EPS, P/E, EV/EBITDA
- Profitability: Gross margin, operating margin, net margin, ROCE
- Inventory (stock) turnover
- Debtor days

Analysis of four firms

- Ultratech
  - Capital intensive, low profit margin, low ROCE,
  - Material and energy costs
  - Ability to control price, volume is sensitive to a number of factors
  - High debt to equity, high interest costs, using cash to retire debt
- Page Industries
  - Higher ROCE due to low capital assets, Low debt, good cash flow
  - Raw material and employment costs
- Nestle
  - Differentiation is key. Low debt, very high ROCE, dividend paying
  - Revenue highly dependent on consumption patterns
- TCS
  - Employment cost is the only main cost, high profit margin, high ROCE

Industry data analysis

- Methods of classification:
  - Labour, material, ownership etc
- NIC codes for industries
- Sources of data:
  - ASI (Annual survey of industries) uses factory data: infrequent
  - Index of Industrial Production (IIP) is available monthly
  - Purchasing Managers Index (PMI) is a sentiment based survey
- Market structure:
  - concentration ratio and Herfindahl index
  - perfect competition, monopolistic competition, oligopoly, monopoly
- Porter's five forces
  - rivalry
  - bargaining power of suppliers and customers
  - threat of new entrants and substitutes

Analysis of four industries

- Cement industry
  - per capita consumption is low in east and central regions
  - ROCE will increase with volumes
  - Ultratech has 21% marketshare and 33% share of incremental capacity
- FMCG industry
  - Per capita consumption of India very low compared to other countries
  - Several segments: different companies are leaders in their main segments
  - raw material costs on the increase leading to margin compression
- Textile industry
  - mix of domestic and exports: both have high potential
  - not competitive in finished products, competitive in cotton products and yarn
- IT industry
  - cost advantage and digital transformation are the main drivers of growth
  - Indian companies are still at a low share of market and have potential to grow

Assignment

Prepare report on the sales and profit trends of a company
(and its competitive position)

Each student will be assigned a company for the purpose of this assignment