CREDENCE CAPITAL

(Investment Club of IIM Lucknow)

FMCG Sector report

Table of Contents

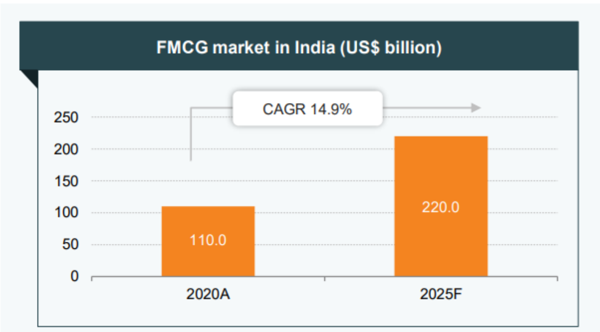
1. Introduction and Executive Summary

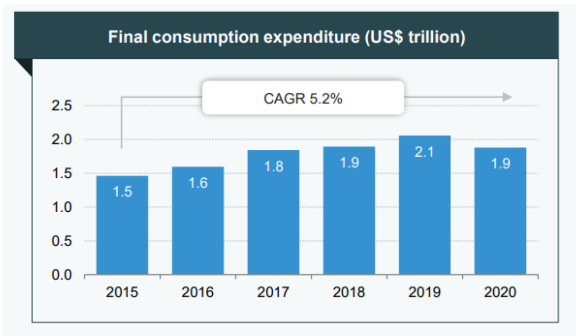
FMCG stands for Fast-moving consumer goods and can also be called consumer packaged goods. This industry covers products and goods that are generally priced at a **relatively low cost and are sold quickly**. Products under FMCG includes **non-durable household** goods such as packaged foods, beverages, toiletries, candies, cosmetics, over-the-counter drugs, dry goods, and other consumables.

Multiple players both in unorganised and organised segments operate in FMCG sector in India. With manifold products manufactured, each product category has several brands and varieties and low consumer switching cost which leads to intense competition among players operating in this sector. Therefore, FMCG companies operate on **low margin and sales volume** remains the key to survival.

Sector overview

- Favourable demographics and rise in income level will boost the FMCG market
- By 2025, India is likely to be the fifth-largest FMCG market globally
- FMCG sector is a vital contributor to India's GDP and 4th largest sector in India
- The industry grew by 16% in CY21, despite nationwide lockdowns, supported by consumption-led growth and value expansion from higher product prices
    - It's expected to grow at ~15% CAGR to reach US$ 220 billion by 2025, from US$ 110 billion in 2020
- Sector's revenue growth will double from 5-6% in FY21 to 10-12% in FY22
- Price increases across product categories will offset the impact of rising raw material prices, along with volume growth and resurgence in demand for discretionary items, are driving growth





Source: World Bank, Emami Reports, Dabur Reports, AC Nielsen, CRISIL, Nielsen Report, Kantar

Summary of COVID impact

FMCG faced structural changes due to Covid-19:

- **Stay-at-home demand for essentials**: people restricted to their homes coupled with limited access to foodservice, consumers are cooking more at home which has increased the demand for packaged food and home care products
- **Non-essential spend more cautious**: Discretionary categories saw biggest impact
- **Increased focus on hygiene and personal wellbeing**: heightened awareness of personal hygiene and health, due to fear of the virus, led to surge in sales of personal and home care products (hand wash and sanitisers, laundry and surface care)
- **Shift in channel preferences**: In the pre-Covid period of 2019-20, online sales used to account for a meagre 1-3% of total sales and penetration is expected to touch 9-10% in the next 5 years
- **Technology transformation:** Companies are using tech to improve efficiencies in production, inventory management, logistics and customer care including marketing strategies.

The pandemic asked serious questions of yesterday's supply chain philosophy which prioritised low-cost production and stretching supplier terms. Today, corporates are managing disruption risk through localising production whilst supporting liquidity needs of key suppliers.

Key growth drivers

Shift to organized markets
Growth in modern retail and increased level of brand consciousness to lead to organized sector growth.

Increase in branded products penetration
Low penetration levels of branded products in categories like instant foods indicating a scope for volume growth. Increase in food parks to 17, food processing capacity to 1.41 million and food labs to 42.

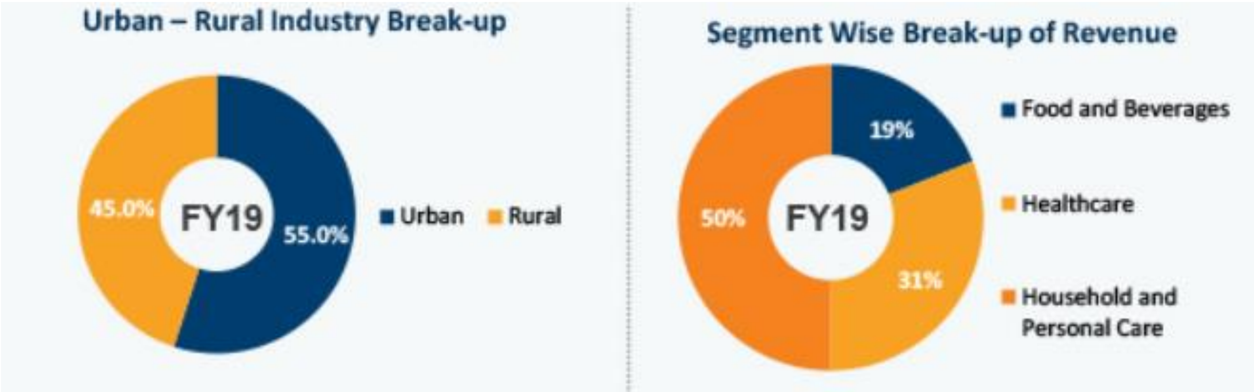
Rural consumption
Untapped market potential and increased income and aspiration levels and demand for branded products to drive growth.

Easy access
Different sales channels have made the accessibility of desired product to customers more convenient - online grocery and retail stores like Grofers, Flipkart, and Amazon are making FMCG products easy to avail.

Source: IBEF, Standard Chartered report

2. Segmentation and Value chain

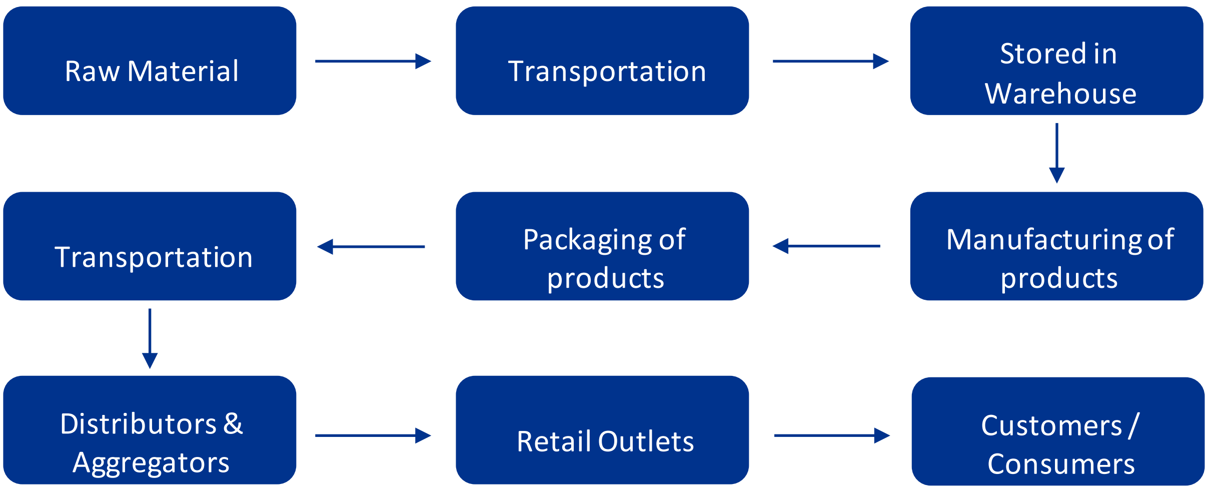
Market Segmentation (revenue FY19)



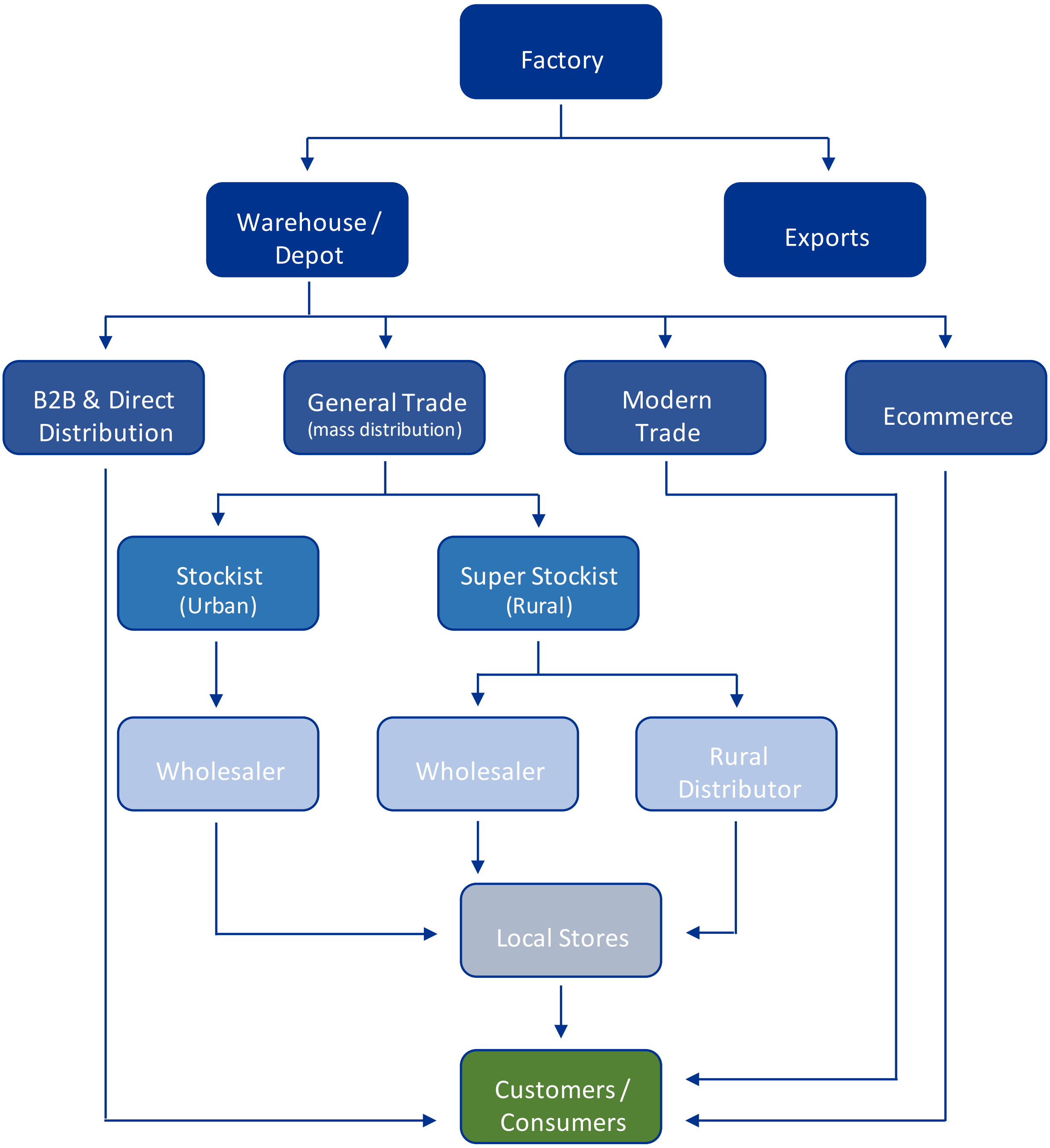
Source: CARE Research, Industry

- Urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India accounting for a revenue share of around 55%.
- Rural segment is growing at a rapid pace and accounted for a revenue share of 45% in the overall revenues recorded by FMCG sector in India.
- In the last 5 years, the FMCG market has grown at a faster pace in rural India compared to urban India. The rural segment is estimated to reach $220 billion by 2025, with modern trade expected to grow at 20-25% per annum
- Improved distribution channels of manufacturing and FMCG companies have increased the demand for quality goods and services in rural areas. Low penetration levels in the rural market offer room for growth

Value Chain & its Components



Sales & Distribution Process



3.The India Story

Growing demand

- The Indian processed food market is projected to expand to US $ 470 billion by 2025, up from US $ 263 billion in 2019 -20 at a CAGR of ~15%
- Rural India is witnessing increased demand for quality goods and services driven by upgraded distribution channels of FMCG companies
- Rising digital connectivity in cities and rural areas is driving the demand for FMCG (through e -commerce portals)

Higher investments

- In October 2021, Procter & Gamble announced an investment of Rs. 500 crore in rural India
- In June 2022, PepsiCo India announced its expansion plans for its largest greenfield foods manufacturing plant in Uttar Pradesh with an investment of Rs. 186 crore
- In July 2022, HUL's announced set-up of ultra-modern factory in Rajasthan with a total investment of Rs. 700 crore planned by 2025

Policy support

- Investment approval of up to 100 % foreign equity in single brand retail and 51 % in multi -brand retail
- The union government's production - linked incentive (PLI) scheme gives companies a major opportunity to boost exports with an outlay of Rs. 10,900 crore (US$ 1.42 billion)
- As per the Union Budget 2022 -23:
    - Rs. 1,725 crore (US$ 222.19 million) has been allocated to the Department of Consumer Affairs
    - Rs. 215,960 crore (US $ 27.82 billion) has been allocated to the Department of Food and Public Distribution

Attractive opportunities

- Low penetration levels in rural market offers room for growth
- Disposable income in rural India has increased because of the direct cash transfer scheme
- Exports is another growing segment
- E-commerce segment is forecast to contribute 10 % to the overall FMCG sales by 2027.

Source: IBEF, Standard Chartered report

4. Major Indian Players

Trading and operating comparables

Stock	Price (Rs/sh)	Mcap (US$ bn)	ADTV (6M) US$mn	Target (Rs/sh)	Reco	P/E (x) FY23E	P/E (x) FY24E	P/E (x) FY25E	EPS Cagr FY22-25	EPS Cagr FY23-25	Div yld FY23 (%)	EV/Ebitda (x) FY23E	EV/Ebitda (x) FY24E	EV/Ebitda (x) FY25E
Consumer Staples														
HUL	2,558	72.8	55	3,150	Buy	61.5	53.0	47.3	13	14	1.6	42.6	37.1	34.1
ITC	333	49.5	55	415	Buy	23.3	21.3	19.5	12	9	3.8	16.7	15.2	13.8
Nestle*	19,599	22.9	16	18,300	Hold	78.7	66.4	58.9	11	16	1.0	50.3	42.8	37.9
Britannia	4,307	12.5	15	5,000	Buy	58.1	50.3	43.7	16	15	1.6	39.7	34.2	29.9
Dabur	562	12.0	13	660	Buy	52.6	45.2	40.5	10	14	1.2	39.4	33.6	29.8
GCPL	893	11.1	18	1,090	Buy	52.9	41.2	35.6	11	22	0.8	35.4	28.5	24.7
Varun Bev. *	1,333	10.5	26	1,540	Buy	56.6	46.4	39.8	44	19	0.2	31.5	26.5	23.2
Tata Consumer	762	8.6	18	890	Buy	61.1	49.9	44.4	17	17	0.8	36.6	30.5	27.1
Marico	507	7.9	10	560	Hold	51.8	43.6	38.7	11	16	1.9	35.4	29.8	26.5
Colgate	1,523	5.0	6	1,850	Buy	39.4	34.6	31.6	7	12	2.6	26.2	23.2	21.1
Emami	430	2.3	2	560	Buy	27.4	23.7	21.2	6	14	1.9	20.1	17.1	14.9
Average**		**215**				**60.5**	**51.3**	**45.5**	**14.7**	**15.4**		**40.6**	**34.8**	**31.3**
Consumer discretionary/ retail														
Asian Paints	3,047	35.4	49	2,570	UNPF	73.6	63.3	58.1	17	13	0.7	49.2	42.8	39.0
Dmart	4,073	31.9	21	4,100	Hold	103.6	81.4	66.2	38	25	-	65.1	51.4	42.1
Titan	2,566	27.7	43	2,550	Hold	68.2	59.6	51.0	26	16	0.4	46.9	41.2	35.5
Trent	1,338	5.8	13	1,400	Hold	115.6	93.3	77.4	131	22	0.1	49.8	40.8	34.3
Jubilant	505	4.0	26	550	Hold	63.6	52.7	44.6	19	19	0.3	27.1	23.0	20.1
Devyani Intl.	180	2.6	13	210	Buy	82.8	71.7	56.5	30	21	-	32.2	25.4	20.9
Average		**107**				**83.3**	**69.1**	**59.2**	**32.2**	**18.0**		**52.1**	**43.7**	**37.6**

Source: Factset, Jefferies Report, Priced as on 2/1/2023

5. Current scenario and trends

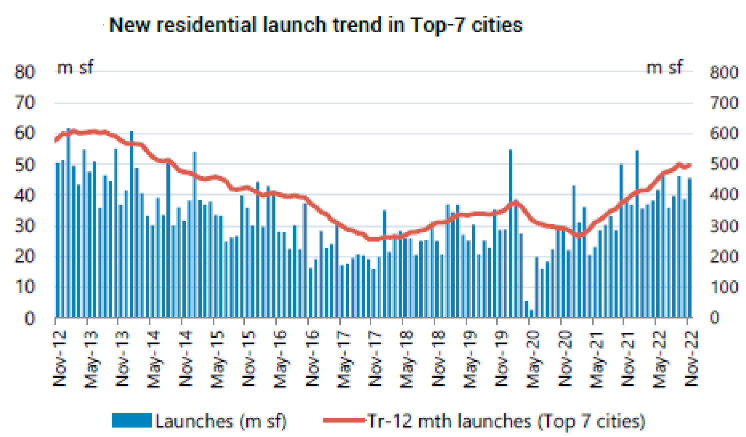
Rural indicators appear to be bottoming out – weakness in rural economy in 2022 expected to reverse in 2023:

Improved agri outlook

The winter crop sown area is +6% YoY, which along with higher water storage levels YoY, improves the outlook for winter harvest (done in 2QCY23). Agri production has seen two consecutive weak seasons in 2022 and, hence, the base is low. Meanwhile, prices are also higher YoY, particularly for key winter crops of wheat, which is positive for crop margins. While the government has given low (2-5%) price hikes for the last 4-years for the wheat and rice crop procurements, the same could see a spike in 2023, ahead of the 2024 elections.

Construction activity rising

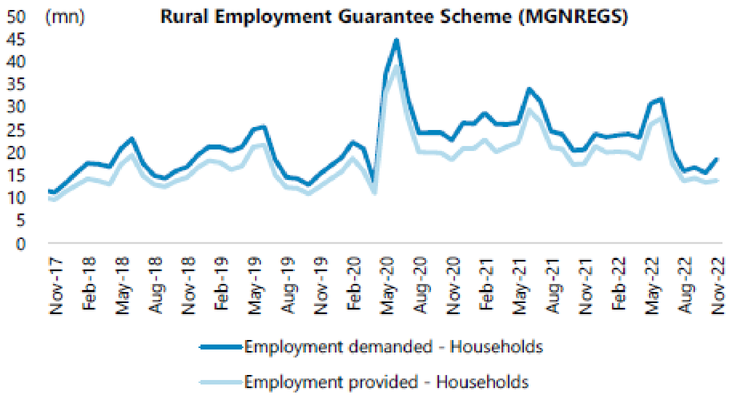
Construction sector is the 2nd largest employer after agriculture of unskilled / low-skilled labor and thus a major driver of the rural economy. The activity here is now rising as evident in strong growth in steel consumption (+11% YoY in Oct'22) and cement demand (~20% YoY in Nov'22). Moreover, the central government's commitment to expenditure and a probable uptick in private corporate capex both raise the construction activity outlook.



Potential rise in government's social spend

2023 will be a 'pre-election' year on a national election basis and the trend over the last 3 election cycles suggests the government's focus is on launching large new social schemes in such years. Given the greater presence of the economically weaker sections in rural areas, these schemes tend to benefit the rural economy disproportionately. E.g. ahead of the 2019 elections, the Modi govt had launched the Rs800bn minimum basic income scheme for small farmers. Prior to that, the election cycle of 2014 had seen the national food-subsidy scheme, and the 2009 election cycle was done around a large national farm loan waiver program and national expansion of the rural employment guarantee scheme (NREGS).

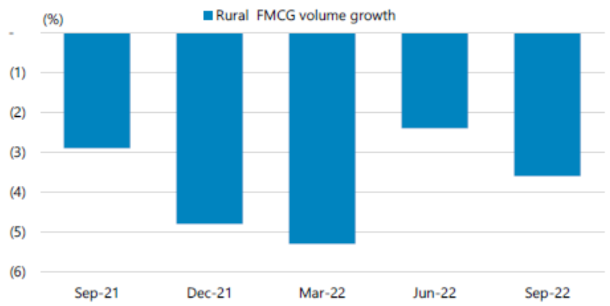
Monthly employment demanded and provided under the MGNREGS



Rural FMCG volumes have now declined for five straight quarters, implying a favorable base for most of 2023. Also, **inflation has plateaued in the last few months**, and has even moderated slightly from the peak.

Trend in rural FMCG volume growth

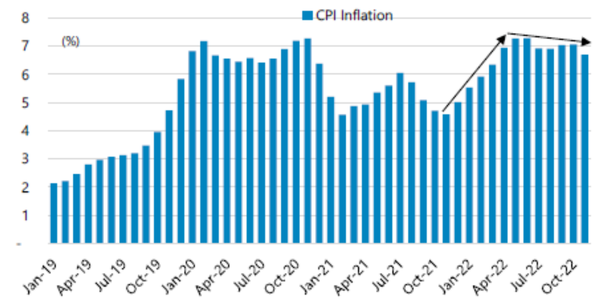
Rural FMCG volume have now declined for five consecutive quarters; 2023 should see the base turning soft



Source: Nielsen, Jefferies

Trend in CPI inflation

Retail inflation has stabilised over the last few months, with some decline also seen recently



Source: CMIE, Jefferies

While traction at the urban end could lose steam in 2023

Urban demand, especially at the premium end, has benefited from several tailwinds including:

- strong hiring trends in several sectors (notably IT services and start-ups)
- the accumulation of savings due to COVID-19 restrictions on mobility
- pent-up demand in a few categories, which offset inflationary headwinds

Going forward, the demand outlook is cautious as the above-mentioned tailwinds wane. In fact, net hiring by IT companies has cooled off and is now lower than even pre-pandemic quarters. Active job openings in IT services have fallen by 53% from the peak to a 22-month low. A slowdown in start-up funding has driven job cuts in several cases, even as an increase in interest rates would lead to higher EMI outgo for households.

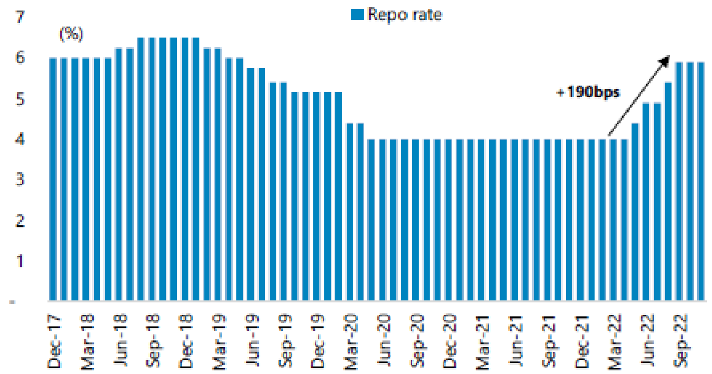
Recent layoffs in start-up ecosystem

Company	Laid off	Company	Laid off
Meesho	650	Cars24	600
Paytm	500	Whitehat Jr	2100
PaisaBazar	1500	Unacademy	1000
Swiggy	1900	Vedantu	724
Zomato	520	Toppr	350
Ola	2600	Byjus	2500
Uber	600	Oyo	600

Source: Inc42, Layoffs.fyi, Jefferies

RBI Repo rate

Interest rates have jumped ~190bps in India, which would entail a 15% increase in loan EMI, assuming no change in tenure



Source: CMIE, Jefferies

Source: Jefferies Report

6. Strategies adopted by top players

Strengthen rural network:

- In February 2021, Nestle India announced plans to reach ~1.2 lakh villages (with each having population of over 5,000) over the next 2-3 years.
- In April 2021, rural distribution company StoreKing announced that it will launch modern retail stores in rural India.
- Other players such as Marico is introducing bottom-of-the-pyramid products to its portfolio of value-added hair oil, helping the business reach rural markets. Rural penetration will continue to be important for Godrej Consumer Goods Ltd. Over the next three years, the organisation plans to extend its presence to 80,000 villages in key states

Direct-to-consumer channels

- Businesses such as Dabur India and Marico Ltd. have introduced retail telephone services and rolled out a dedicated app that enables orders to be placed by kiranas.
- In January 2021, Tata Consumer Products announced that it is looking for ways to add more of its beverages' portfolio onto a direct-to- consumer platform to capture the urban online market.

New market entry

- In January 2021, FMCG businesses in India are planning to expand their oral care portfolio by entering new and niche categories such as mouth sprays, ayurvedic mouth cleansers and mouthwashes to meet the rising consumer demand for **hygiene products.**
- For example, Pulling oil, an **ayurvedic concoction** used as a morning oral cleansing ritual based on centuries-old Ayurvedic regimen, was launched by companies such as Colgate Palmolive (India) Ltd. and Dabur India.
- In December 2020, Godrej Consumer Products Limited (GCPL), under its Godrej ProClean brand, has ventured into home **cleaning products** to meet the rising demand for cleaning and hygiene products among Indian consumers. The home cleaning products segment, which includes branded floor, toilet and bathroom cleaners, is estimated to be ~ Rs. 2,600 crore (US$ 354.05 million)

E-commerce

- FMCG companies are focusing on strengthening their e-commerce engagement. An Ayurveda baby care range has been introduced by Dabur, which will be sold only on e-commerce platforms. With its contribution expanding from 1.5% to 5.6%, the e-commerce division of the group has more than doubled over the previous year. Similarly, in the first quarter of FY21, Marico's e-commerce sector has grown 37% YoY, while Emami's e-commerce business doubled to >100%.
  Why?

- The rapid increase in the number of internet users
- Companies are creating an omni-channel presence, blending online shopping and offline retail to overcome trust issues of customers
- Availability of numerous choices in terms of brands, discount offers, reduced delivery time, personalization, cash on delivery, digital payment infrastructure and easy returns have been major factors for development of the B2C e-commerce
- These companies are forming innovative product bundles aligned with the needs of customers and thus ensuring greater customer engagement

Green initiatives

- FMCG companies are looking to invest in energy efficient plants to benefit the society and lower costs in the long term.
- Procter & Gamble (P&G) India has set up a Rs. 200 crore (US$ 28 million) environmental sustainability fund in the country to offer sustainable solutions, such as plastic-free packaging and environment-friendly logistics services, in partnership with Indian businesses.
- In November 2020, NIVEA, by launching the first ever e-commerce ready-to-ship kit,' NIVEA CARE BOX', in collaboration with Amazon India, has taken a step towards being more sustainable through its packaging.

Analytics

- HUL implemented a transformational programme called Connected 4 Growth (C4G) to help drive business growth by increased speed to market, faster decision making, localised and swifter innovation.
- Patanjali uses Oracle and SAP for Enterprise Resource Planning (ERP). It will further standardise the application on SAP. It plans to use machine learning for quality control and product enhancement and are also in talks with Net App for big data solution

7. Recent M&A

- Reliance Retail Ventures subsidiary acquires majority stake in Lotus Chocolate Company (29/12/2022) Link
- Tata Consumer products UK arm buys 23.3% stake in Joekels Tea Packers (28/12/2022) Link
- Wipro Consumer Care and Lighting to buy KKR Group-owned Kerala based Nirapara brand (20/12/2022) Link
- Hindustan Foods buys Reckitt Benckiser's Baddi plant for Rs 156 cr (16/12/2022) Link
- Marico buys Vitenam's personal care firm Beauty X Corporation (9/12/2022) Link
- Hindustan Unilever to buy 19.8% stake in Nutritionalab for Rs. 70 crore (8/12/2022) Link
- Dabur to acquire 51 per cent stake in Badshah Masala for a cash consideration of Rs 587 cr (27/10/2022) Link
- Bhartia Group Jubilant Foodworks completes acquisition of 29.42% stake in startup Roadcast Tech Solutions (26/9/2022) Link
- Reliance Retail Ventures buys controlling stake in personal care brand Insight Cosmetics (5/9/2022) Link
- Nestle India buys Purina Petcare India for Rs125 Cr (28/7/2022) Link
- Personal care company Emami buys 30% stake in pet care startup Cannis Lupus Services India (21/7/2022) Link
- Ruchi Soya to acquire Patanjali's food retail business for Rs 690 crore on a slump sale basis (18/5/2022) Link
- Adani Wilmar acquires Basmati rice brand Kohinoor from McCormick Switzerland (4/5/2022) Link
- Nykaa makes strategic investments in Earth Rhythm, KICA and Nudge Wellness (22/4/2022) Link
- Emami buys Dermicool brand from Reckitt Benckiser Healthcare in a Rs. 432 crore cash deal (26/3/2022) Link
- Emami buys minority stake in nutrition products maker Tru Native (7/3/2022) Link

8. Policy measures undertaken by the government

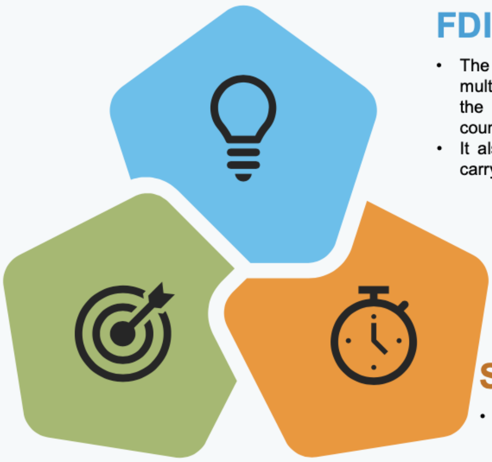
Production-Linked Incentive (PLI) Scheme

- In FY 2021-22, the government approved Production Linked Incentive Scheme for Food Processing Industry (PLISFPI) with an outlay of Rs. 10,900 crore (US$ 1.4 billion) to help Indian brands of food products in the international markets.
- On November 11, 2020, Union Cabinet approved the production-linked incentive (PLI) scheme in 10 key sectors (including electronics and white goods) to boost India's manufacturing capabilities, exports and promote the 'Atmanirbhar Bharat' initiative.
- Developments in the packaged food sector will contribute to increased prices for farmer and reduce the high levels of waste. In order to provide support through the PLI scheme, unique product lines—with high-growth potential and capabilities to generate medium- to large-scale jobs—have been established.

Sectors	Ministry/Department	Approved financial outlay over a five-year period
Food Products	Ministry of Food Processing Industries	Rs. 10,900 crore (US$ 1.4 billion)

Relaxation of license rules

- Industrial license is 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 manufacture in the small-scale sector.



FDI in organised retail

- The Government approved 51% FDI in multi-brand retail in 2006, which will boost the nascent organised retail market in the country.
- It also allowed 100% FDI in the cash and carry segment and in single-brand retail.

SETU scheme

- Government has initiated Self Employment and Talent Utilisation (SETU) scheme to boost young entrepreneurs. Government has invested US$ 163.73 million for this scheme.

New goods and service tax (GST) would simplify tax structure:

- **Supply chain structure**
  Introduction of GST as a unified tax regime will lead to re-evaluation of procurement and distribution arrangements.
- **Pricing and Profitability**
  Elimination of tax cascading is expected to lower input costs and improve profitability.
- **System change and transaction management**
  Changes need to be made to accounting and IT systems in order to record transactions in line with GST requirements.

9. Select commentary on key players

HUL

- Faced severe headwinds in the last two years due to factors ranging from a slowdown in volume growth (especially in rural) to sharp inflation in key inputs such as palm oil and crude derivatives
- Despite these pressures, HUL is likely to deliver a double-digit EPS growth in FY23 with 3Y Cagr also at ~10%. Incrementally, we see inflationary pressures easing in 2023 led by moderation in palm oil and crude prices
- While other inputs remain elevated, we expect HUL to take up product price hikes in a staggered manner. This should drive a recovery in gross margin in FY24, after three years of continuous decline. While ad-spends will also inch higher & offset part of the GM gain, HUL should be able to deliver margin expansion in FY24

Godrej Consumer Products

- While earnings have been tepid in 1HFY23, we expect trends to start improving in 2HFY23 and thereafter, aided by a correction in palm oil prices and a gradual recovery in margins
- India HI and Indonesia remains a work-in-progress as the new CEO (Sudhir Sitapati) is undertaking several structural initiatives, which should yield results over the medium term
- Initiatives include new hires (Indo CEO, business transformation & digital head), a renewed focus on access packs (without worrying about potential cannibalization), inventory correction, a step-up in market development efforts, etc. More steps are underway, with a focus on simplification, growing category penetration, and better coordination across geographies

Britannia

- Delivered low-to-mid-single-digit volume growth through most of CY22, despite the adverse impact of grammage reduction, weak rural demand, and >20% product price hikes in the last two years
- This was enabled by continued market share gains, initiatives on distribution expansion, and a focus on states with relatively lower market shares
- While volume growth has been resilient, Britannia did see margin headwinds due to input inflation, notably refined palm oil
- Britannia is also a play on packaged foods, as it expands beyond biscuits into a total foods company

ITC

- Strong momentum in the cigarette business - 3Y volume CAGR recovering to ~3% in 9mCY22 (5% in the Sep quarter); management commentary has also been optimistic
- Union budget in Feb-23 however does create some near-term uncertainty on a potential change in tobacco taxation

- FMCG business is also delivering strong revenue growth (price-led) although margin expansion is likely to be limited in the near -term due to RM inflation
- Other businesses such as hotels, paperboards, and IT services remain on a strong growth trajectory

Nestle

- Rides on the growing demand for packaged foods in India; demonstrated a consistent volume growth trajectory, despite high inflation and subsequent price hikes.
- However, valuation remains an issue with the stock trading at 66x CY23e P/E

Dabur

- Dabur is a play on growing consumer preference for naturals and Ayurveda-based products. Even outside its healthcare portfolio, it has been gaining market share in oral care, shampoos, and hair care
- Dabur can also be a key beneficiary when a recovery in rural demand plays out

Tata Consumer

- TCPL has undergone transformation in the last few years - pivoting from a 'global beverages' company to an India-focused F&B franchise; has emerged as a platform for Tata Group's FMCG ambitions
- It has focused on capacity building, expanding distribution reach and entering new categories
- TCPL's future ambitions remain aggressive - management focus is strongly on growth, both in the core portfolio and in new emerging categories

Marico

- Topline growth has lagged peers, with the India business seeing <5% growth in the last few quarters
- While volume growth should improve in 2HFY23, value growth will remain tepid as the company takes price reductions in key portfolios

Colgate

- Under its new CEO, is focussing on driving volume growth, led by increased usage & premiumisation in oral care and building personal care portfolio
- Colgate has a higher rural exposure and could be a beneficiary of a pick-up in rural demand

DMart

- 2nd largest organised grocery retailer in India (behind Reliance Retail); the two players account for >80% of the brick-and-mortar organised grocery retail in India
- Store additions, which dipped due to Covid, have now recovered
- The company is also expanding its e-commerce franchise, 'DMart Ready' in a calibrated manner with minimal cash burn

10. Sector outlook

Consumer staples to see a year of earnings recovery

- 2023 is likely to be a year of a pick-up in earnings growth for consumer staples as inflationary headwinds start to moderate
- Key inputs such as crude oil and palm derivatives have corrected 20-40% from peak, although benefit from this has been delayed due to high cost inventory
- While prices for several agri. inputs remain firm, overall RM inflation should moderate for most companies - this should drive ~200bps GM expansion after a ~500 bps contraction seen in the last four years

Multi-category retailers —better-placed on a relative basis

- Brick-and-mortar multi-category retailers such as DMart and Reliance Retail made a comeback in CY22, as store operating hours normalized and COVID-19 restrictions subsided; further supported by steady network expansion
- For DMart, recovery however was uneven on a revenue per store/ per sq. ft. basis. While per-store food and FMCG throughput largely normalised, mass discretionary categories such as general merchandise (GM) & apparel lagged owing to acute inflationary pressure faced by consumers.
- There is scope for per-store revenue to move up higher in CY23, as GM & apparels recover. This, along with continued network expansion should drive high EPS growth
- In the case of Reliance Retail, area addition should slow down in CY23 after a substantial ~13mn sq. ft. addition in the last six months alone. EBITDA growth nonetheless will remain at ~20% levels.

QSR — Slowdown concerns amidst aggressive network expansion

- QSR players had a mixed-bag year in 2022:
  - Network expansion remained strong, with most players delivering a 10-30% CAGR in store additions
  - Dine-in format also recovered this year, while share of delivery normalized
  - Despite aggressive additions per-store revenue remained at par or higher than pre-Covid levels across formats, partly due to inflation and consequent hikes in menu prices
  - On the other hand, higher prices of key raw materials have impacted gross margins and SSS growth – indicating lower volumes
- In 2023, network expansion to remain strong although lower than the trends seen in the last two years
- There is downside risk to SSS growth and per-store revenue, given concerns about urban discretionary consumption

- A comeback by unorganised players who lost ground during the Covid period but are now recovering - this may have some impact on the organised players who ramped up well in the past 2-3 years

Prefer consumer staples over discretionary in 2023

- With expectations of a recovery in rural growth and improvement in margins to play out in staples in 2023, margin recovery should be a more dominant theme in the near term with rural uptick playing out gradually through the course of CY23.
- In the near term, companies that benefit the most as inflation subsides could be preferred - this includes HUL, GCPL, and Britannia.
- Dabur and Colgate, given their higher rural skew could also be good plays

11. References

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