CHAPTER 3

CONSUMER PRODUCT SECTOR IN INDIA:
A BIRD’S EYE VIEW
3.1. Introduction

CPSC Sector, alternatively called as CPG (Consumer packaged goods) industry primarily deals with the production, distribution and marketing of consumer packaged goods. The Consumer Product Sector Companies (CPSC) is those consumables which are normally consumed by the consumers at a regular interval. Some of the prime activities of CPSC industry are selling, marketing, financing, purchasing, etc. The industry also engaged in operations, supply chain, production and general management.

Consumer Products which have a quick turnover, and relatively low cost are known as Consumer Product Sector Companies (CPSC). These items are purchased repeatedly as these are daily use products. These products are having short life also. It may include perishable and non perishable products, durable and non durable goods. Examples of CPSC generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. CPSC may also include pharmaceuticals; consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. Subsets of CPSCs are Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products. White goods in CPSC refer to household electronic items such as Refrigerators, T.Vs, Music Systems, etc.
3.2. **Meaning of CPSC**

Consumer Products which have a quick turnover, and relatively low cost are known as Consumer Product Sector Companies (CPSC). Alternatively known as consumer packaged goods (CPG) are products that are sold quickly and generally consumed at a regular basis, as opposed to durable goods such as kitchen appliances that are replaced over a period of years. The CPSC industry primarily engages in the production, distribution and marketing operations of CPG. CPSC product categories comprise of food and dairy products, pharmaceuticals, consumer electronics, packaged food products, household products, drinks and others. Meanwhile, some common CPSC include coffee, tea, detergents, tobacco and cigarettes, soaps and others. The big names in this sector include Sara Lee, Nestle, Reckitt Benckiser, Unilever, Procter &Gamble, Coca-Cola, Carlsberg, Kleenex, General Mills, Pepsi, Mars and others.

3.3. **CPSC Sector in India**

Indian CPSC sector is one of the fastest growing industrial sectors in country over the past couple of years. Today CPSC sector face increasing pressure due to weak economic environment increasing cost, and competition from new sources. Time starved and increasingly demanding customers expect healthy options, value for money and experience. They demand quality, safety, hygiene and expect demonstration of social responsibility.
India’s CPSC sector was valued at INR 60,000 crores in 2004 after a growth of 4% during 2003-04. According to a report by the Federation of Indian Chambers of Commerce and Industry (FICCI), several CPSC registered double-digit growth in value terms, for example, shaving cream (20%), deodorant (40%), branded coconut oil (10%), anti-dandruff shampoos (15%), hair dyes (25%) and cleaners and repellents (20%). On the contrary, negative growth of up to 8% was registered in products such as personal healthcare, laundry soaps, dish wash, toilet soap, toothpaste and toothpowder. In 2008, India’s CPSC sector had a value of INR 86,000cr and analysts projected a growth of 15% in 2010 (2009: 12%) as the economy shows signs of recovery. According to the FICCI- Technopak report, the CPSC sector will grow at a rate of 10-12% within the next decade to reach INR206, 000cr in 2013 and INR355,000cr by 2018.

The implementation of the proposed Goods and Services Tax (GST) and the less restrictive foreign direct investment (FDI) policies are expected to contribute to the growth of the CPSC sector to INR 225,000cr by 2013 and INR 456,000cr by 2018. With a total market size in excess of USD 14.7 billion. India’s CPSC industry is the fourth largest sector in its economy and plays a vital role in India’s socio-economic front with nearly eight million stores selling CPSC and employing some 25 million people as wholesalers, distributors and others. Besides that, the CPSC sector purchases nearly INR9,600cr worth of agricultural products and processes them into value-added products while the sector accounted for nearly 40% of the media industry’s revenue. Sales in the CPSC sector grew by a staggering 14.8% during the six-month period ended September 2009
but only expanded 7% during the two-month period ended November 2009.

As a result of lower growth in the sector, India’s top 10 CPSC companies experienced deceleration in sales growth from 9.9% during the first half of the financial year (April-September 2009) to a growth of 3.3% during the October- November period. In addition, contributing factors such as price increase of 50-100% for most agri-commodities as well as higher crude oil prices caused operating margin to fall during the October-December quarter.

3.4. CPSC Category Products

Table: 3. 1 CPSC category products

<table>
<thead>
<tr>
<th>Category</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Beverages</td>
<td>Health beverages; soft drinks; staples/cereals/bakery products (biscuits, bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks; processed fruits; vegetables; dairy products; bottled water; branded flour; branded rice; branded sugar; juices etc.</td>
</tr>
<tr>
<td>Household Care</td>
<td>Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners, insecticides and mosquito repellents, metal polish and Furniture polish).</td>
</tr>
<tr>
<td>Personal Care</td>
<td>Oral care; hair care; skin care; personal wash (soaps); cosmetics and Toiletries; deodorants; perfumes; feminine hygiene; paper products.</td>
</tr>
</tbody>
</table>
3.5. **Significance and Contribution of CPSC Sector in India.**

3.5.1. **Scope of the Sector**

The CPSC sector in India has played a vital role in the growth and development of the country, from making efforts to reach out to the poorer section of consumers through distribution of smaller pack sizes, innovations like single use sachets, to developing innovative products to cater to regional or local tastes and the needs of niche consumers.

The Indian CPSC sector with a market size of US$13.1 billion is the fourth largest sector in the economy. A well-established distribution network, intense competition between the organized and unorganized segments characterizes the sector. CPSC Sector is expected to grow by over 60% in 2010. That will translate into an annual growth of 10% over a 5-year period. It has been estimated that CPSC sector will rise from around Rs 56,500 crores in 2005 to Rs 92,100 crores in 2010. Hair care, household care, male grooming, female hygiene, and the chocolates and confectionery categories are estimated to be the fastest growing segments, says an HSBC report. Though the sector witnessed a slower growth in 2002-2004, it has been able to make a fine recovery since then. For example, Hindustan Levers Limited (HLL) has shown a healthy growth in the last quarter. An estimated double-digit growth over the next few years shows that the good times are likely to continue.
3.5.2. Economic Contribution

3.5.2.1. Employment Contribution

The CPSC sector is one of the larger employers in the country. The total salary outlay of the sector on direct employment is estimated at approximately 6% of turnover, i.e. US$ 1.5 billion (Rs. 7,000 crores).

There are approximately 12-13 million retail stores in India, out of which 9 million are CPSC kirana stores. Thus the sector is responsible for the livelihood of almost 13 million people.

3.5.2.2. Fiscal Contribution

Cascading Multiple Taxes (Import duty, CENVAT, Service Tax, CST, State VAT, Octroi/Entry Tax and Income Tax) are paid at multiple points (levied at Centre, State, City and mandis) by the CPSC sector. On an average therefore, almost 30% (and much more for liquor and tobacco categories) of the revenue of the sector goes into both direct and indirect taxes. At an estimated size of $25 billion (Rs. 120,000 crores), that would constitute a contribution to the exchequer of approximately US$ 6.5 billion (Rs. 31,000 crores).

3.5.2.3. Social Contribution

It is a sector which helps create employment for people with lower educational qualifications. Many become small entrepreneurs operating their own General, Stationary and kirana stores. Along with this, CPSC firms have also undertaken some specific projects to integrate with upcountry and rural areas for both inputs and for distribution as well as to fulfill CSR.
Some examples:

- ITC Echoupal and Choupal Sagar – Choupal Sagar is ITC’s chain of rural retail which sells both agricultural inputs and daily needs products. ITC’s rural e-network enables farmer connectivity and provides an easy way for farmers to get better profitability and control through access to timely information.

- HUL’s Shakti Amma network – HUL pioneered a rural entrepreneurship model amongst women who became HUL distributors and through this status also gained stature in their local community and now operate as entrepreneurs for other product categories than CPSC products.

- Dabur India regularly conducts rural and adult education programs and provides training in rural areas to facilitate employability.

3.5.3. Contribution to Other Sectors

The CPSC sector has a strong impact on several other sectors of the economy – agriculture; supply chain; ancillary industry; packaging; media.

3.5.3.1. Agriculture:

Its intake of agricultural output as raw material is estimated to constitute roughly 9% of total turnover for the sector. That would put its total value to agriculture at US$ 2.2 billion (Rs. 10,500 crores).
3.5.3.2. Third Party Logistics:
The third-party logistics market for the CPSC sector in India has been growing at a CAGR of 12% since 2002, and is estimated to be worth US$ 63 million (Rs. 300 crores). It is anticipated to double in 2011, and be worth over US$ 146 million (Rs. 700 crores) in 2012, a growth of 211% from 2002. India’s infrastructure in both transportation and warehousing facilities has been lacking which enables the growth of independent third party logistics (3PL)-players to come up to bridge the gaps.

3.5.3.3. Ancillary Industries
Ancillary industries like manufacturing and distribution are greatly boosted by the CPSC sector.

Manufacturing – Almost 9-10% of total sector’s production is outsourced to contract manufacturing units taking the total size to $1.7 – 2 billion (Rs. 8,000 – Rs. 9,500 crores), approximately.

Distribution –

- ITC services 1.1 million outlets at an average frequency of three days down to villages with Population of 2,000, and has 1,000 wholesale dealers.
- Marico reaches 1.6 million outlets, through almost 900 direct distributors, 100+ super distributors, catering to almost 2,500 small stockiest and 4,600 van markets.
- HUL reaches 50,000 villages through 6,000 stockists, apart from 3.5 lac direct selling agents and distributes products to a staggering 6.5 million retail outlets.
3.5.3.4. Packaging Industry:

The packaging industry for the CPSC sector alone is worth US$ 2.9 billion (Rs. 14,000 crores), and is expected to grow faster due to the growth of private label CPSC products through both modern and traditional retailers as well as the increasing shift from loose to packaged goods.

3.5.3.5. Media Industry:

The media industry has a lot to gain from the CPSC sector. Around 40% of media industry earnings from advertising (US$ 5 billion) are estimated to come from the CPSC sector, a contribution of US$ 2 billion (Rs. 9,500 crores)

3.5.3.6. Tourism Industry:

Penetration of familiar brands across the length and breadth of the country provides comfort and reassurance of quality to both Domestic and International tourists. The state of availability and quality of these brands in some ways help increase the flow of tourism in the country.


Following are the major policy used by Government in CPSC sector

3.6.1. Goods & Service Tax (GST) Implementation

A Goods and service tax has been proposed by the Government, to be introduced in 2010, with a tentative rate of 16% being mooted at present. This would replace the multiple indirect
taxes currently being levied on CPSC products. A GST would have several beneficial effects, including:

3.6.1.1. Uniform taxation:

The rate of taxation would be the same across all geographic boundaries of India and thus would eliminate the opportunity for arbitration as well as provide goods at a uniform rate everywhere in India.

3.6.1.2. Simplified taxation:

Calculating a GST at a uniform rate would be much easier and it would make adherence to the proposed tax simple.

3.6.1.3. Single point taxation:

Rather than a multiplicity of authorities to deal with, single-point taxation could be dealt with through a single-point window thus creating greater efficiency and speed of operation within the system.

3.6.1.4. Solve issues related to holding regional warehouses:

A GST would do away with the need for regional warehousing, thus freeing up greater margins to be either distributed to retailers, CPSC firms or consumers.

3.6.1.5. Reduce inventory in transit:

The amount of inventory held in transit is considerable at present, due to the multiple check-points and authorities involved in the tax and clearance processes. GST would reduce the amount of
inventory in transit, creating greater operational efficiencies and reducing working capital needs for CPSC firms.

### 3.6.1.6. Increase penetration of CPSC products:

The prices of CPSC products would fall if the overall tax rate is reduced to 16% GST as proposed. This would expand consumption base and also enable current consumers to consume more of the goods they need and want, thus improving the lifestyle of people.

A GST at 16% would reduce the per unit tax paid, but due to its cascading impact on lowering end prices to the consumer, it would result in an increase in volume of sales which would have the effect of actually raising tax collections over time. An example of this can be seen in the impact of reduced excise rates over the years and the sales of the affected sector:

### 3.6.1.7. Amplified growth of CPSC sector:

The proposed rate of 16% GST can mean 10% - 12% reduction in retail prices of CPSC products and hence increased volumes and value for the CPSC sector. GST implementation can give a very significant growth fillip to the CPSC sector. As per Technopak analysis, GST implementation can speed up the growth of CPSC sector.

### 3.6.2. Zero Central Sales Tax (CST)

CST has come down from 4% in 2007 to 2% at present. A reduction to 0% in 2010 is widely expected to be on track. With Zero CST implemented, companies can setup large distribution
warehouses and hubs as there will be no inter-state tax levied with zero CST. This would require redesign of their current distribution network including modernization of key warehouses. Modernization of key warehouses is strongly recommended because of

1. Large sizes and more complex operations.
2. Increasing level and variety of service required by customers especially modern retailers.
3. Increasing scarcity of skilled labour and real estate requiring vertical and mechanized warehouses.

Besides leading to redesigned distribution network, Technopak estimates it would lead to many other benefits like:

1. Savings of almost Rs. 7 – 10 crores for a company with revenue of Rs. 2000 crores
2. 5% - 10% net savings in logistics and inventory carrying costs
3. Simplified planning and reduced warehouse and C&FA management
4. Improved service levels to all key customers.

3.6.2.1. Food Security Bill:

The food security Bill has been passed recently by the Union Cabinet. As per the Bill, 30Kg of food grains per person per month will be provided at subsidized prices from State Governments under the targeted public distribution system. With additional demand, the agriculture sector would receive a boost and this could lead to more investments in improving agriculture productivity and making it more competitive.
3.6.2.2. National Food Processing Policy

India’s food processing sector has enormous importance in the nation’s development and with India being the second largest food producer in the world; this sector has solid growth potential. Food production is expected to double within the next decade to accommodate the rising consumption of value added food products. Benefits such as economic growth, rowing agricultural yields, higher productivity and job creation will definitely raise the living standards of the Indian community, especially those living in the rural areas.

This policy will facilitate the establishment of cold chain, low cost pre-cooling facilities that are located near farms, cold stores and grading, sorting as well as packing facilities so that wastage levels can be lowered whilst improving quality and shelf life of those products. New technologies in the food processing and packaging will be developed in order to provide mechanism to facilitate the process of technology transfer through a network of R&D institution.

In addition, agro food parks will be built to facilitate the food production process. The following will have greater priority and special consideration in view of policy and plans:

- The North Eastern Region, the Hilly Areas, and ITDP (Initiative for Transportation and Development Program) areas in India shall be given priority in terms of attention and consideration.
- Fiscal incentives (such as excise duty or sales tax concession and tax holidays) are to be given to the above mentioned areas
as well as areas that are established outside these areas near the market centre.

- Food processing units can enjoy tax holiday (excluding liquor, cigarettes and aerated drinks and similar luxury products) for a period of 10 years.

**Table: 3.2: Government policies and initiatives

<table>
<thead>
<tr>
<th>Policy Description</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Removal of Quantitative Restrictions and Reservation Policy</td>
<td>The abolishment of most of the food and agro-processing Industries (except for alcohol, cane sugar, hydrogenated animal fats and oils etc. and items reserved for the exclusive manufacture in the SSI sector) as well as the removal on quantitative restrictions in 2001 led to market expansion in the CPSC industry.</td>
</tr>
<tr>
<td>Central and State Initiatives</td>
<td>State government such as Himachal Pradesh, Uttarakhand and Jammu and Kashmir provided companies with fiscal incentives (such as allotment of land at concessional rates, 100% subsidy on project reports and 30% capital investment subsidy on fixed capital investment up to USD63,000) that encouraged them to establish manufacturing plants in their respective regions. The reduction of excise and import duty allows most of the processed food products to be exempted from excise duty.</td>
</tr>
</tbody>
</table>
3.6.2.3. FDI Policy in Retail Trading (Single Brand)

In February 2010, ministers in India advocated that its retail market lacks competition for a check on prices as well as liberalization of the industry. The share of FDI inflow to the retail trading (single brand) sector has been increasing over the years, in which it accounted for 0.18% of India’s INR469,364.98 cr FDI inflows from April 2000 to December 2009. However, from April 2000 to December 2008, FDI inflow to the retail trading sector only accounted for 0.03% of total FDI inflow of INR338, 384.74cr. The key driving forces for retail growth are banks, capital goods, engineering, CPSC, software services, oil marketing, power, two wheelers and telecommunication companies. On July 2009, FDI inflows of retail trading (single brand) hit an approximate USD46.6mn, meanwhile India’s retail sector is expected grow to a market size of USD833bn in 2013 and USD1.3tn by 2018 with a CAGR of 10%. The nation’s retail market saw exponential growth as developments take place in major cities, metros as well as tier-II and tier-III cities across India. The 51:49 joint venture partnerships between UK-based Marks & Spencer and India-based Reliance Retail Ltd has 15 retail stores spanned across India while plans are being laid out to open as many as 35 stores over the next five years. Besides that, Europe’s largest retail – Carrefour S.A. is expected to commence its wholesale operations in India in 2010. This retail giant also plans to establish its first wholesale cash and carry outlet in the National Capital Region and the company currently exports USD170mn worth of products from India.
3.6.2.4. Relaxation of license rules:

Industrial licenses are not required for almost all food and agro-processing industries, barring certain items such as beer, potable alcohol and wines, cane sugar, and hydrogenated animal fats and oils as well as items reserved for exclusive manufacturing in the small-scale sector.

3.6.2.5. Milk and Milk Powder Control Order, 1992 (MMPO)

With intentions to maintain and increase the supply of liquid milk that are of desired quality in view of public interest, the central government of India introduced the MMPO in order to regulate the production, supply and distribution of milk and milk products, whereby ‘milk’ carries the meaning of milk of cow, buffalo, sheep, goat or a mixture thereof, raw or processed in any form and includes pasteurized, sterilized, recombined, flavored, acidified, skimmed, toned, double toned, standardized or full cream milk. The functions of this board are as follows:

- Provide assistance and advise the central government on any matter that concerns the production, manufacture, sale, purchase and distribution of milk and milk products.
- Registering authorities or other officials authorized by it may carry out periodic inspection of any premises that manufacture or process milk or milk products, or business in which milk or milk products are carried out. This is to ensure compliance that are stated in the Order as well as genuine and proper supply of milk or milk products to consumers.
• Without prejudice to the provisions of the previous provision, the board shall advise the central government on matters relating to:

1. Facilitation of the supply of availability of liquid milk, through balancing uneven distribution supplies in different regions and seasons.

2. Maintenance or increase in supplies of milk as well as balance the distribution of milk and milk products.

3. Establishment of appropriate standards and norms for controlling and handling milk and milk products.

4. Maintenance of proper sanitary and hygiene standards during the manufacturing process of milk and milk products.

5. Establishment, promotion or registration of any industry that is relatable to milk products.

3.6.2.6. Meat Food Product Order, 1973

This Order came into effect from 15th July, 1975 with instructions stating that no person shall conduct business his/her business as a manufacturer except under and in compliance with the terms and conditions of a license granted to him/her under this Order. As stated in the Order, sanitary and other requirements are to be complied with by a licensee are as follows:

• All parts of the factory shall always be kept clean, lighted, ventilated and should be cleaned, disinfected and deodorized at a regular basis.
• All factories shall be equipped with adequate cold storage facilities, efficient drainage as well as plumbing systems.

• The factory shall be constructed and maintained as to allow hygienic production. All operations relating to the preparation or packing of meat food products shall be carried out with strict hygienic procedures and the factory premises shall not be utilized for living or sleeping purposes provided that it is separated from the factory by a wall.

• Meat used for the preparations of meat food products (if it is not slaughtered in the factory) should only be obtained from slaughter houses in which ante-mortem and post-mortem inspections have been conducted in compliance with rules prescribed and so certified by the local authority.

• All parts of the internal surface above the floor or pavement of the slaughter house shall be washed with hot lime wash within the first ten days of March, June, September and December. Meanwhile, any blood or liquid refuse or filth in the slaughter house shall be thoroughly washed and cleaned with water and deodorant or disinfectant within three hours after the completion of slaughter.

3.7. Performance of CPSC Sector.

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


- The Indian CPSC industry represents nearly 2.5% of the country’s GDP.
- The industry has tripled in size in past 10 years and has grown at 17% CAGR in the last 5 years driven by rising income levels, increasing urbanisation, strong rural demand and favourable demographic trends.
- The sector accounted for 1.9% of the nation’s total FDI inflows in April 2000- September 2012. Cumulative FDI inflows into India from April 2000 to April 2013 in the food processing sector stood at `9,000.3 crore, accounting for 0.96% of overall FDI inflows while the soaps, cosmetics and
toiletries, accounting for 0.32% of overall FDI at 3,115.5 crore.

- Food products and personal care together make up two-third of the sector’s revenues.
- Rural India accounts for more than 700 million consumers or 70% of the Indian population and accounts for 50% of the total CPSC market.
- With changing lifestyle and increasing consumer demand, the Indian CPSC market is expected to cross $80 billion by 2026 in towns with population of up to 10 lakh.
- India's labor cost is amongst the lowest in the world, after China & Indonesia, giving it a competitive advantage over other countries.
- Unilever Plc's $5.4 billion bid for a 23% stake in Hindustan Unilever is the largest Asia Pacific cross border inbound merger and acquisition (M&A) deal so far in FY’14 and is the fifth largest India Inbound M&A transaction on record till date.
- Excise duty on cigarette has been increased in the Union Budget for 2013-14, which would hit major industrial conglomerates like ITC, VST Industries in the short term.
### Table: 3. CPSC performance NSE top 50 companies

<table>
<thead>
<tr>
<th>Company</th>
<th>CMP</th>
<th>Change</th>
<th>Change (%)</th>
<th>Mkt Cap</th>
<th>PE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gillette India</td>
<td>1,890.00</td>
<td>15.7</td>
<td>0.8</td>
<td>6,095.96</td>
<td>119.46</td>
</tr>
<tr>
<td>Vadilal Inds.</td>
<td>185.00</td>
<td>5.8</td>
<td>3.2</td>
<td>128.74</td>
<td>114.17</td>
</tr>
<tr>
<td>Godrej Consumer</td>
<td>824.95</td>
<td>[12.3]</td>
<td>[1.5]</td>
<td>28,416.59</td>
<td>50.46</td>
</tr>
<tr>
<td>Dabur India</td>
<td>181.95</td>
<td>1.9</td>
<td>1.1</td>
<td>31,370.96</td>
<td>46.63</td>
</tr>
<tr>
<td>P &amp; G Hygiene</td>
<td>3,650.00</td>
<td>[30.7]</td>
<td>[0.8]</td>
<td>11,824.85</td>
<td>45.26</td>
</tr>
<tr>
<td>Nestle India</td>
<td>4,548.00</td>
<td>[37.9]</td>
<td>[0.8]</td>
<td>44,165.66</td>
<td>40.64</td>
</tr>
<tr>
<td>Jyothy Lab.</td>
<td>201.90</td>
<td>1.2</td>
<td>0.6</td>
<td>3,623.62</td>
<td>39.91</td>
</tr>
<tr>
<td>Colgate-Palm.</td>
<td>1,358.85</td>
<td>21.3</td>
<td>1.6</td>
<td>18,174.36</td>
<td>38.16</td>
</tr>
<tr>
<td>GlaxoSmith CHL</td>
<td>4,406.00</td>
<td>[22.4]</td>
<td>[0.5]</td>
<td>18,631.53</td>
<td>37.03</td>
</tr>
<tr>
<td>Hind. Unilever</td>
<td>561.65</td>
<td>5.9</td>
<td>1.1</td>
<td>120,473.00</td>
<td>32.56</td>
</tr>
<tr>
<td>Britannia Inds.</td>
<td>835.00</td>
<td>9.4</td>
<td>1.1</td>
<td>9,898.87</td>
<td>27.04</td>
</tr>
<tr>
<td>Marico</td>
<td>227.75</td>
<td>4.8</td>
<td>2.2</td>
<td>14,410.29</td>
<td>24.91</td>
</tr>
<tr>
<td>Emami</td>
<td>435.00</td>
<td>5.5</td>
<td>1.3</td>
<td>9,759.87</td>
<td>24.25</td>
</tr>
<tr>
<td>Sita Shree Food</td>
<td>6.00</td>
<td>0.0</td>
<td>0.0</td>
<td>13.66</td>
<td>19.35</td>
</tr>
<tr>
<td>Bajaj Corp</td>
<td>211.20</td>
<td>4.9</td>
<td>2.4</td>
<td>3,056.20</td>
<td>17.56</td>
</tr>
<tr>
<td>Zydus Wellness</td>
<td>511.15</td>
<td>13.9</td>
<td>2.8</td>
<td>1,939.83</td>
<td>17.33</td>
</tr>
<tr>
<td>Heritage Foods</td>
<td>357.85</td>
<td>8.0</td>
<td>2.3</td>
<td>819.19</td>
<td>15.13</td>
</tr>
<tr>
<td>Kohinoor Foods</td>
<td>43.50</td>
<td>1.6</td>
<td>3.7</td>
<td>148.01</td>
<td>13.89</td>
</tr>
<tr>
<td>ADF Foods</td>
<td>47.00</td>
<td>0.6</td>
<td>1.3</td>
<td>102.19</td>
<td>7.68</td>
</tr>
<tr>
<td>L T Foods</td>
<td>108.30</td>
<td>2.6</td>
<td>2.5</td>
<td>278.49</td>
<td>7.22</td>
</tr>
<tr>
<td>Kwalta</td>
<td>35.85</td>
<td>1.7</td>
<td>5.0</td>
<td>693.93</td>
<td>6.59</td>
</tr>
<tr>
<td>KRBL</td>
<td>62.35</td>
<td>1.6</td>
<td>2.6</td>
<td>1,430.66</td>
<td>5.48</td>
</tr>
<tr>
<td>SKM Egg Prod.</td>
<td>13.40</td>
<td>0.4</td>
<td>3.1</td>
<td>34.23</td>
<td>5.14</td>
</tr>
<tr>
<td>REI Agro</td>
<td>2.45</td>
<td>[0.3]</td>
<td>[9.3]</td>
<td>255.79</td>
<td>3.25</td>
</tr>
<tr>
<td>Usher Agro</td>
<td>41.75</td>
<td>2.8</td>
<td>7.1</td>
<td>148.62</td>
<td>3.16</td>
</tr>
<tr>
<td>Lakshmi Energy</td>
<td>23.50</td>
<td>1.5</td>
<td>6.8</td>
<td>146.30</td>
<td>1.72</td>
</tr>
<tr>
<td>Farmax India</td>
<td>0.35</td>
<td>[0.1]</td>
<td>[12.5]</td>
<td>15.11</td>
<td>0.20</td>
</tr>
<tr>
<td>T N Petro Prod.</td>
<td>13.40</td>
<td>[0.2]</td>
<td>[1.1]</td>
<td>122.63</td>
<td>0.00</td>
</tr>
<tr>
<td>JHS Sven.Lab.</td>
<td>6.90</td>
<td>0.0</td>
<td>0.0</td>
<td>16.53</td>
<td>0.00</td>
</tr>
</tbody>
</table>
3.9. **Problems and prospects of CPSC Sector.**

The key Problems faced by CPSC sector in India are as follows:
1. Tax Structure.
2. Infrastructural Bottlenecks.
4. Emergence of Private Labels.
5. Regulatory Constraints.
6. Price of Inputs.

### 3.9.1. Tax Structure

#### 3.9.1.1. Complicated Tax Structure:

In India, problems are exacerbated by the complicated tax structure. There is a VAT which is to be levied at state level, there are other state taxes such as octroi and entry taxes and then centre levies excise duties and service tax. As a result, no product cost is exactly the same from one state to another.

#### 3.9.1.2. High Indirect Tax:

Indirect Tax levels are quite high, especially in light of the fact that the sector provides goods meant for daily consumption. China, for instance, levies a tax of 10% on average, whereas in India, the average is around 30%.

#### 3.9.1.3. Lack of uniformity:

Despite VAT states do not implement rates and procedures uniformly. Each state still continues to approach taxation differently, and thus moving goods from one state to another is like moving them
from one country into another. The taxation rate policies on many CPSC goods differ from state to state and centre to state. Centre has classified many CPSC products under Merit (VAT exempt) list, such as processed foods, tooth powder, sanitary napkins but states levy on the same products high rate of 12.5%.

3.9.1.4. High Octroi & Entry Tax:

There are Octroi and Entry Tax at city and state entry points in a few states, which leads to an increase in pricing and affords opportunities for arbitrage. For instance, Mumbai has octroi of 4-6% on goods produced outside of Mumbai. Thus, a bottle of mineral water produced by Coke or Pepsi which have their plants in Thane, which is considered outside the city limits of Mumbai, have to pay this extra charge, while Parle, which has a bottling plant within the city limits does not. So Bisleri is sold in Mumbai for Rs. 12, while Kinley or Aquafina cost Rs. 13, just because of the factory location. This opens up possible arbitrage opportunities, apart from causing a genuine grievance to the consumer.

3.9.1.5. Changing Tax Policies:

Tax policies keep changing which makes it difficult to plan for the long term. For instance, tax havens were created in J&K some years ago and many companies opened facilities there. However, recently part of the exemption was withdrawn by the government, thus leading to a sudden hike in costs.
3.9.2. Infrastructural Bottlenecks

3.9.2.1. Agricultural Infrastructure:

Agriculture infrastructure in India is particularly weak. Firstly, irrigation and modern farming methods are not widespread and thus agriculture in India is at the mercy of nature. Thus, it makes for grossly varying amounts of harvest of critically needed inputs into CPSC manufacture, from one season to the next and one year to the next.

3.9.2.2. Power Costs:

Power costs in India are very high and they contribute substantially to cost of goods sold. They are 3-4 times the optimal costs.

3.9.2.3. Transportation Infrastructure:

To compound this problem is the poor transportation and roadways infrastructure – many of the villages are extremely poorly connected with means of transportation – road, rail or sea – so the amount of time it takes for the harvest to be transported to the CPSC manufacturers is unpredictable, and results in substantial spoilage of the goods. For example, it costs nearly 12 days to transport goods from Baddi in Himachal Pradesh to South India, a distance of 3000 km. The lack of a cold chain adds to this problem, because it means a tremendous amount of farm output actually rots or gets spoiled in transit. Nearly 8 - 10% of dairy produce is lost to pilferage.
3.9.2.4. Cost of Infrastructure:

It takes almost Rs. 7-8 crores to lay 1km. of road. Along with this problems in land acquisition due to fragmented land holding further delay development of road and rail infrastructure increasing the cost associated

3.9.3. Counterfeit and Pass-offs

Counterfeit products are another issue for the CPSC sector. Taking advantage of the lack of literacy and consumer knowledge, several small manufacturers churn out spurious products which they label akin to the big brands, Lifebuoy or Lux soap or Five star chocolate bars, Vicky balm, for instance. These spurious pass off products affect large, high quality brands which have actually invested money in research and development to create their products and build brand equity. These account for almost 10% - 15% of the total sector revenue and pose serious challenge to its growth and also impact government’s tax revenue significantly. But the only recourse available to CPSC manufacturers against counterfeit and pass off products is to file an FIR. There are no Bureau of Industrial Standards norms laid out for each product category which could help prevent the mushrooming of counterfeit products. And an FIR results only in local action, if at all, while the source of the counterfeit products continues to remain in existence.

3.9.4. Emergence of Private Labels

Apart from the pressure on margins, the biggest fear of CPSC players when facing MR is the introduction of private labels or own brands. The fear is justified because world over, private labels have
served to lower the consumer’s price points, particularly at the mass level. Moreover, there are inevitable conflicts of interest when a retail chain has its own label whose packaging looks like category leaders’ and stocks brands of other manufacturers, in terms of display space, promotions etc. A Technopak analysis undertaken across product categories revealed that private labels could constitute as much as one fourth of all sales in the CPSC category in 2011. While the exact year could shift marginally, there is no denying the fact that private label CPSC goods will be here and will constitute a formidable threat to add to the already fierce competition in the CPSC category. Brands which currently appeal to price conscious value shoppers will be facing the highest risk with advent of store brands.

3.9.5. Regulatory Constraints

1. State borders cause a lot of delays and it is common for 2-3 days of finished goods inventory out of 20 -30 days’ total stuck on various state borders due to a requirement for multiplicity of permits and licenses.

2. The Indian labour laws were drafted in the 1940s and take no note of modern manufacturing methods and strategies. They need to be changed on a more dynamic basis to reflect present realities.

3. There is lack of uniformity in definitions, and these do not follow international norms either. Currently, drugs and cosmetics come under the same set of laws when in fact they need to be treated differently. Weights and Measures used under FDA do not conform to those under the Weights and
Measures Act followed in India. Some products come under the OTC category internationally but come under Schedule H drugs in India, requiring doctor’s prescription and require to be distributed only in drug licensed stores.

4. Acquiring manufacturing licenses is a long and painful process, beset with red tape and corruption. It takes 10-12 months to get multiple licenses and to set up a manufacturing unit.

5. Reservation of jobs for employees creates many problems. For instance, Himachal Pradesh has a reservation of 70% of jobs for people domiciled in Himachal Pradesh. Since they are few in number, attrition happens for as little as Rs. 50 pm, and it becomes a problem to maintain the requisite labour force.

6. Export procedures are cumbersome and lengthy. There is no single-party interface so multiple departments and officers have to be followed up with to get the requisite licenses. A transport permit has to be sourced for each consignment rather than assigning a blanket permit for a period of time.

7. Subsidies are announced by the government but to avail of them is both confusing and time consuming.

   • Firstly, the amount of subsidy is restricted to Rs. 50 lakhs, regardless of the total quantum of investment required by a project. Thus, if large projects and small get the same incentives, Large projects may not find takers.

   • Secondly, the release of the said monies is not time-bound and gets done in an ad-hoc basis.
3.9.6. Prices of Inputs

- Commodity prices fluctuate, which make it difficult to finalize raw material prices, affecting the final price of the product. The petroleum price fluctuation also impacts the cost of supply of materials. As a result, the entire supply chain dynamics need to be constantly planned afresh with the changing prices.
- Indian consumers are more price-sensitive and value conscious, making it difficult for CPSC firms to pass on the increased costs, leading to depressed margins.

3.10. Prospects of CPSC Sector in India

3.10.1. CPSC is Fast Growing Sector in India

In 2005, the Rs. 48,000-crore CPSC segment was one of the fast growing industries in India. According to the AC Nielsen India study, the industry grew 5.3% in value between 2004 and 2005. The Indian CPSC sector is the fourth largest in the economy and has a market size of US$13.1 billion. Well-established distribution networks, as well as intense competition between the organized and unorganized segments are the characteristics of this sector. CPSC in India has a strong and competitive MNC presence across the entire value chain. The middle class and the rural segments of the Indian population are the most promising market for CPSC, and give brand makers the opportunity to convert them to branded products. Most of the product categories like jams, toothpaste, skin care, shampoos, 119 etc, in India, have low per capita consumption as well as low penetration level, but the potential for growth is huge.
The Indian Economy is surging ahead by leaps and bounds, keeping pace with rapid urbanization, increased literacy levels, and rising per capita income. The big firms are growing bigger and small-time companies are catching up as well. According to the study conducted by AC Nielsen, 62 of the top 100 brands are owned by MNCs, and the balance by Indian companies. Fifteen companies own these 62 brands, and 27 of these are owned by Hindustan Lever. Pepsi is at number three followed by Thumps Up. Britannia takes the fifth place, followed by Colgate (6), Nirma (7), Coca-Cola (8) and Parle (9). These are figures the soft drink and cigarette companies have always shied away from revealing. Personal care, cigarettes, and soft drinks are the three biggest categories in CPSC. Between them, they account for 35 of the top 100 brands.

3.10.2. Growth Prospects

With the presence of 12.2% of the world population in the villages of India, the Indian rural CPSC market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the CPSC companies. Better infrastructure facilities will improve their supply chain. CPSC sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, CPSC companies have immense possibilities for growth. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would
be able to generate higher growth in the near future. It is expected that the rural income will rise in 2007, boosting purchasing power in the countryside. However, the demand in urban areas would be the key growth driver over the long term. Also, increase in the urban population, along with increase in income levels and the availability of new categories, would help the urban areas maintain their position in terms of consumption. At present, urban India accounts for 66% of total CPSC consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major CPSC categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates.

3.10.2.1. Foreign firms betting big on CPSC Sector

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

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

3.10.2.2. India eyes M&A deals in CPSC space

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

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

Table: 3. 4 Key M&A deals in the industry

<table>
<thead>
<tr>
<th>Target name (segment)</th>
<th>Acquirer name (segment)</th>
<th>Merger/ Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Spirits</td>
<td>Diageo plc</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Hobikozmetik, Turkey</td>
<td>Dabur</td>
<td>Acquisition</td>
</tr>
<tr>
<td>L.D.Waxson, Singapore</td>
<td>Wipro Consumer</td>
<td>Acquisition</td>
</tr>
<tr>
<td>ParasPharma (Personal care)</td>
<td>Marico Ltd. (Food and Personal Care)</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Cosmetica National (Cosmetics)</td>
<td>Godrej Consumer Products Ltd</td>
<td>Acquisition</td>
</tr>
<tr>
<td>CC Health Care Products Pvt Ltd (Cosmetics)</td>
<td>Colgate-Palmolive India Ltd (Cosmetics and Toiletries)</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Noble Hygiene Pvt Ltd (Household and Personal Products)</td>
<td>Bennett Coleman &amp; Co Ltd (Publishing)</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Argencos, Argentina (Hair Care Products)</td>
<td>Godrej consumer Products Ltd. (Home and Personal Care)</td>
<td>Acquisition</td>
</tr>
<tr>
<td>Godrej Hygiene Care Pvt Ltd (home care)</td>
<td>Godrej Consumer Products Ltd (Home Care)</td>
<td>Merger</td>
</tr>
</tbody>
</table>

Rising per capita income and changing lifestyle augers well for the CPSC sector

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

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

3.10.3. Export potential

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

**Rupee depreciation and fluctuation in commodity prices may hit margins of companies**

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

3.11. PEST Analysis of CPSC Sector.

The analysis of the CPSC sector of India is carried out on the basis of following:

3.11.1. PEST Analysis

Pest analysis of CPSC sector in India is carried out on Political, Economical, Social and Technological aspects. It is explained below:

3.11.1.1. Political:
- Tax exemption in sales and excise duty for small scale industries.
- Transportation and infrastructure development in rural areas helps in distribution network.
- Restrictions in import policies.
- Help for agricultural sector.

3.11.1.2. Economical:
- The GDP rate of Indian economy is increasing every year. It is expected in future it would be better only in comparison with other countries.
- Inflation rate is increasing across the world and India is also no exception. The government and Reserve Bank of India both
are trying to control the inflation rate with the of different measures.

- Increase in disposable income has taken place due to higher GDP rate. The per capita income is increasing so the customers are having more income to spend for various reasons.

- Indian CPSC sector recorded 16% sales growth in last fiscal year and it is expected it would further improve in the forthcoming years.

- The CPSC sector is a 4th largest sector of Indian economy with market size of more than 60,000 crore. The Indian Territory is very large and number of customers is also very high.

3.11.1.3. Social:

- The Indian culture, social & life styles are changing drastically. The total population is nearly 120 crores and population includes rich, poor, middle class, male, female, located in rural, urban and sub urban areas, different level of education etc.

3.11.1.4. Technology:

- Technology has been simplified and available in the industry. Where technology is not available then it is brought from foreign countries to meet CPSC sector requirements.

- Foreign players help in high technological development. With research and development facilities the new technologies are developed alone or with the help of foreign players.
3.11.2. SWOT Analysis

3.11.2.1. Strengths:

- Well-established distribution network extending to rural areas.
- Strong brands in the CPSC sector.
- Low cost operations
- Presence of established distribution networks in both urban and rural areas
- Presence of well-known brands in CPSC sector
- Favorable governmental Policy:
  - Indian Government has passed the policies aimed at attaining international competitiveness through lifting of the quantitative restrictions, reducing excise duties, 100 per cent export oriented units can be set up by government approval and use of foreign brand names etc.
  - Foreign Direct Investment (FDI): Automatic investment approval up to 100 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies investment is allowed for most of the food processing sector except malted food, alcoholic beverages and those reserved for small scale industries (SSI).

3.11.2.2. Weaknesses:

- Low export levels.
- Small scale sector reservations limit ability to invest in technology and achieve economies of scale.
Several "me-too’’ products, which illegally mimic labels of established brands. These products narrow the scope for CPSC products in rural and semi-urban markets.

3.11.2.3. Opportunities:

- Export potential
- Increasing income levels will result in faster revenue growth.
- Untapped rural market, changing life style
- Rising income levels, i.e. increase in purchasing power of consumers
- Large domestic market with more population of median age 25
- High consumer goods spending
- India is the largest milk producer in the world, yet only around 15 per cent of the milk is processed. The organized liquid milk business is in its infancy and also has large long-term growth potential. Even investment opportunities exist in value-added products like desserts, puddings etc.
- Only about 10-12 per cent of output is processed and consumed in packaged form, thus highlighting the huge potential.
- India is under penetrated in many CPSC categories as shown in below diagram. With rise in per capita incomes and awareness, the growth potential is huge.
- Lower price and smaller packs are also likely to drive potential up trading for major CPSC products
- Rural demand etc.
3.11.2.4. Threats:

- Slowdown in rural demand
- Removal of import restrictions resulting in replacing of domestic brands
- Tax and regulatory structure
- Rural demand is cyclical in nature and also depends upon monsoon.
- India is one of the world’s biggest producers of a number of CPSC products but the country’s exports account for a very small proportion of the overall output.
- Food-processing Industry: With 200 mn people expected to shift to processed and packaged food, India needs around USD 30 bn of investment in the food processing industry.