

Retail and consumer quarterly newsletter Q1 FY 2017

August 2016







Introduction

PwC's Retail and Consumer practice takes immense pleasure in presenting its first newsletter. As India embarks on a journey to become one of the biggest retail stories of the decade, we, here, capitalise on our extensive sector knowledge and present our insights to enlighten our readers and keep them updated with the latest happenings in the sector.

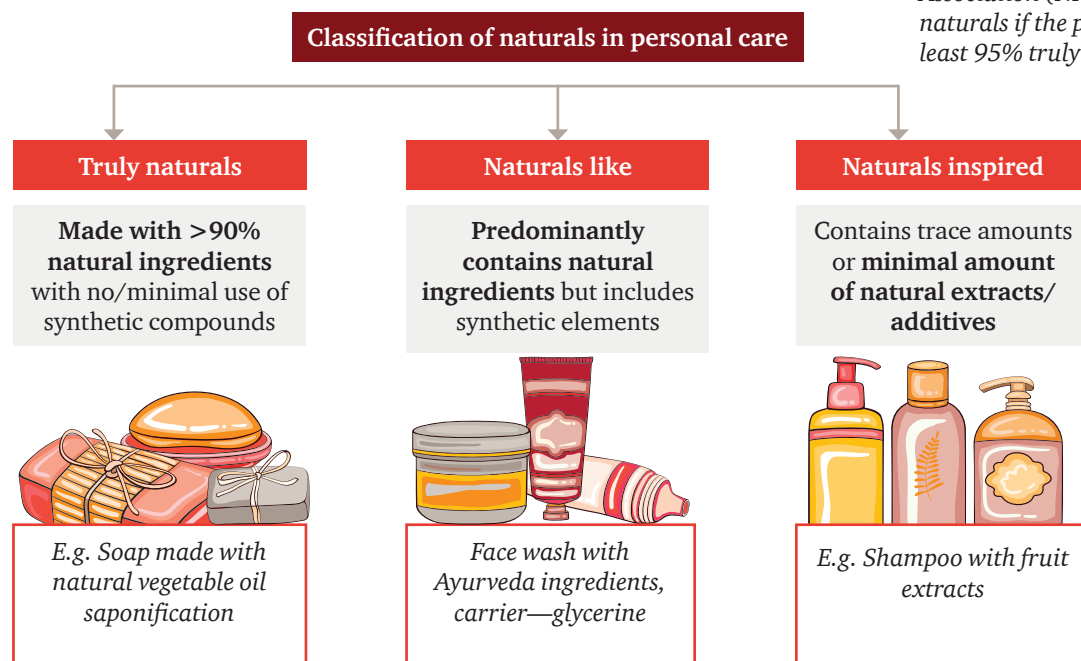
Starting Q1 FY 17, we intend to publish the newsletter every quarter, presenting our thoughts on trends that are expected to shape the future of the sector. This quarter, we have highlighted the growing importance of *naturals* (FMCG products that use extracts of natural ingredients and natural formulations as their primary raw material) as a trend amongst Indian consumers, and how deal activity has been affected by the emergence of this new wave of innovation. The second part of the newsletter highlights the deal activity in the quarter, in comparison with the previous quarters, along with our insights into the future of consumer and retail transactions.

The rise of naturals continues to disrupt the market

The rise of naturals—fast-moving consumer goods (FMCG) products, especially in personal care in India, has gathered pace in the last few years. Consumers are increasingly purchasing products made from natural formulations (mixture of herbs such as neem and tulsi), natural ingredients extracts (e.g. aloe vera) and organically grown natural ingredients. Patanjali, which positions itself as an Ayurveda brand, has capitalised on the naturals trend and has increased sales of more than 10x in four years to 50 billion INR in FY 16. Similarly, new but niche firms such as Krya have started developing natural home care products such as detergents, and in foods, firms such as Juc Up and Raw Pressery provide cold pressed juices that are 100% natural with no additives. The new naturals players are increasingly taking share from market leaders (mostly non-naturals players). For example, as per analysts, Patanjali has grabbed 7–8% of the oral care market via its Dant Kanti brand at the expense of market leaders.

While no standard definition exists for naturals, the personal care products can be broadly classified into ‘truly naturals’ (made with more than 90% of natural/naturally derived ingredients with minimal use of petroleum/synthetic compounds), ‘naturals like’ (predominantly contains natural ingredients but includes synthetic elements), and ‘naturals inspired’ (contains trace amounts or minimal amount of natural extracts/additives). Based on this definition, the naturals personal care market is pegged at 27 billion INR (35% of the overall personal care market) and is expected to grow faster than the overall market in the next five years.

Growth in the naturals space has been on the back of several drivers. Firstly, India has always had an Ayurveda heritage and culture rooted in using natural ingredients for personal care (e.g. applying henna, egg yolk on the scalp and hair, and haldi on the skin).



Globally, the Natural Products Association (NPA) certifies products as naturals if the product is made up of at least 95% truly natural ingredients.¹

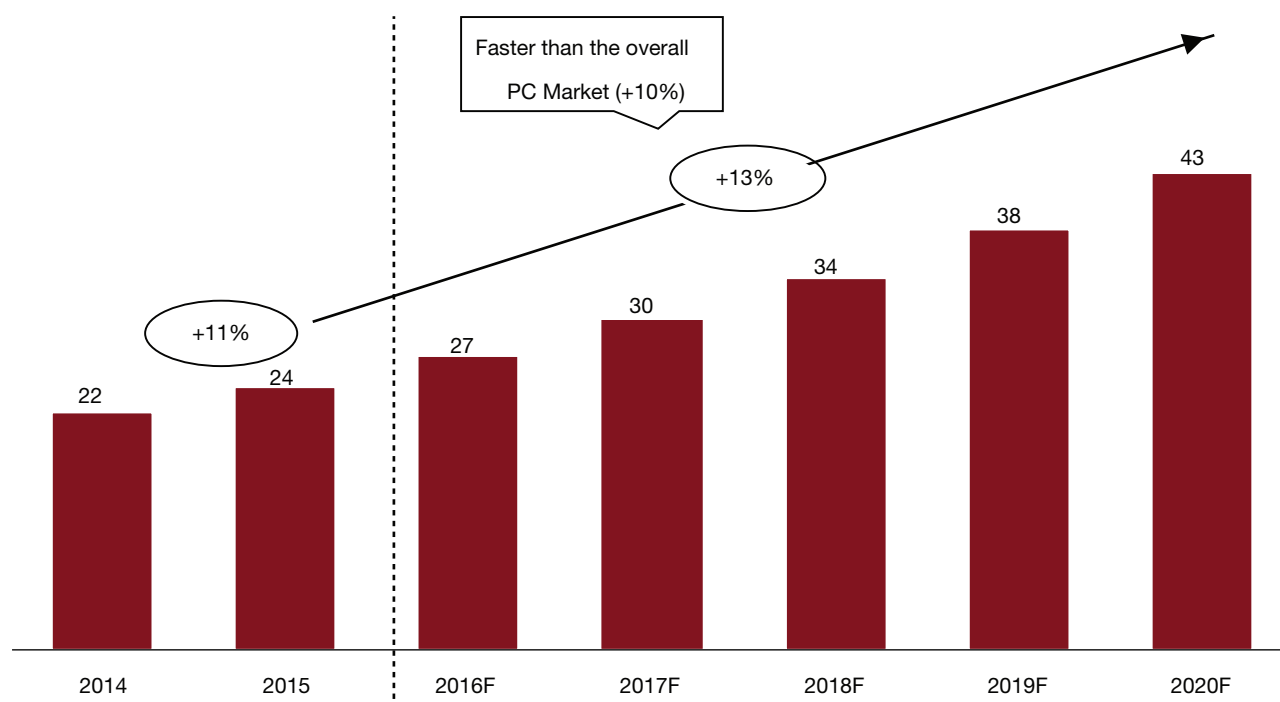
Sources: NPA website, news articles, PwC Strategy& analysis
Note: 1) Excluding water

The availability of natural ingredients in a packaged product form has led to an increase in trial of such products. Secondly, there is an increasing awareness around health and wellness and interest in product ingredients. Many consumers perceive products of natural ingredients to be 'better for you/less harmful for you', as some synthetic compounds such as parabens and sulphates have been linked with cancer. Thirdly, the association of certain brands with influential spiritual leaders with a large number of devoted followers (Baba Ramdev for Patanjali

and Sri Sri Ravishankar for Sri Sri Ayurveda) has resulted in a captive consumer base for these products, who are willing to buy, distribute and sell these products (e.g. several of Patanjali's distributors and retailers are ardent followers of Baba Ramdev). The value discount for these products in the market vs their more established counterparts has led to increased access and higher sales of such products.

Naturals personal care market size

(000' INR Cr, 2014-2020F)

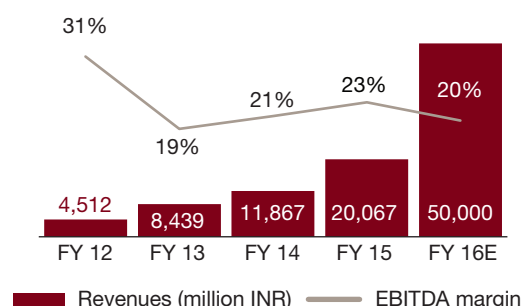


Source: Nielsen, Euromonitor, Strategy& analysis

Firms in India are beginning to pursue distinct plays within the naturals segment. For example, within personal care, players such as Forest Essentials and Kama are positioning themselves as luxury Ayurveda and have focussed on developing a large assortment of premium-priced products available predominantly at its own high-end retail stores. Other niche player such as The Body Shop and L'Occitance are following a premium/speciality play focussed on modern naturals (exotic ingredients not commonly found in India, including cocoa butter, berry, and ginseng) versus Ayurveda.

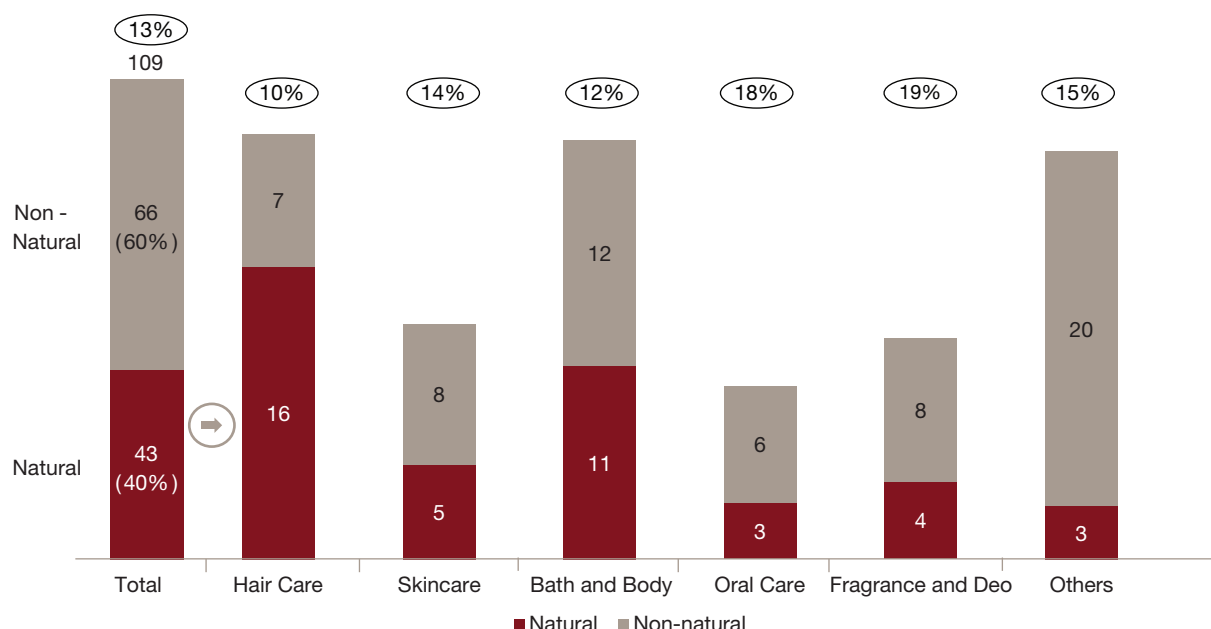
The growth in the naturals market has also piqued the interest of many local smaller players. The space has seen a plethora of launches from local players who have strong regional credibility for Ayurveda and from new players looking to cash in on the trend

Patanjali Ayurved (financial overview)



Source : Regulatory Filings

Naturals personal care market: Category breakdown (Thousand crore INR, 2020)



1) Include facewash and face moisturizers

Source: Nielsen, Euromonitor, Strategy& analysis

Firms such as Dabur, Himalaya and Patanjali are leveraging their Mother brands to expand beyond healthcare into personal care and other categories, leveraging the influence of alternative channels such as chemists, chikitsalayas and Ayurveda clinics. Lastly firms such as L'oreal, P&G and Godrej have largely pursued a naturals inspired play, infusing naturals ingredients in some of their brands.

At this point, there are no clear winners in the naturals space. FMCG players need to consider whether to play in the naturals segment, or how to compete against the emerging naturals players. Creating a successful play in naturals requires an alternative approach vis-à-vis traditional FMCG. New capabilities will need to be honed around R&D (e.g. Ayurveda specialists), sourcing and understanding the value chain (ensuring adequate supply of key natural ingredients), go-to-market (GTM) (own retail stores, digital, chemists, Ayurveda centres, vaidyas), branding (single brand or multiple brands).

The Naturals phenomenon is not a short lived trend - it is here to stay in a nation rich with wisdom of ages and historical recipes from nature. Companies that build a coherent strategy around a set of differentiating capabilities will emerge the winners

— Anurag Mathur
Partner & Leader , Consumer Goods & Retail,
PwC India

Transaction in Q1 FY 17 in the retail and consumer space

Deal round-up

Executive summary

In Q1 FY 17 of the retail and consumer sector, deal activity fell below expectations. Both deal volume and value decreased in the sector during the quarter compared with Q4 FY 16 and Q1 FY 16.

The decline in deal activity from Q1 FY 16 can mainly be attributed to a decline in the domestic mergers and acquisitions (M&A) market and a decline in private equity (PE) funding. The decline from Q1 FY 16 is mostly driven by the 16,487 million INR acquisition of Kesh King by Emami and the 7,707 million INR merger of Bharti Retail and Future Retail.

The largest deal of the quarter was the investment of 4,827 million INR by Deccan Value Advisors into PC Jewellers. However, the overall consumer sector deals were mainly driven by deals in the foods and beverages (F&B) sector.

There are several trends that are influencing deals, including changing lifestyle and health preferences of the consumer, thereby driving F&B and personal care spending. In addition to this, rising per capita incomes are leading to increasing discretionary spending in jewellery, footwear and apparel retail.

Value by numbers: 18,262 million INR



2%

Decrease in deal value versus Q4 FY 16



62%

Decrease in deal value versus Q1 FY 16

Value by numbers: 34



19%

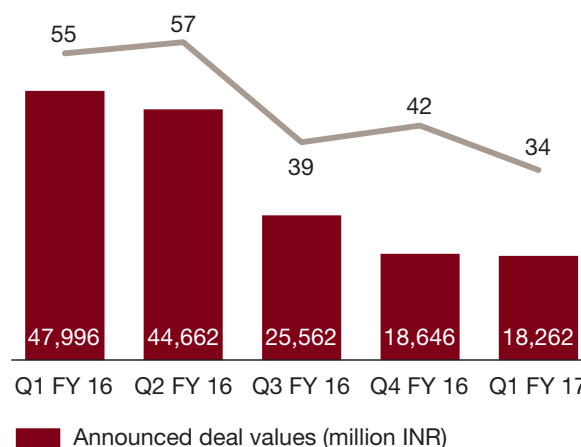
Decrease in deal value versus Q4 FY 16



38%

Decrease in deal value versus Q1 FY 16

Retail and consumer deal value and volume



Source: VCCEdge

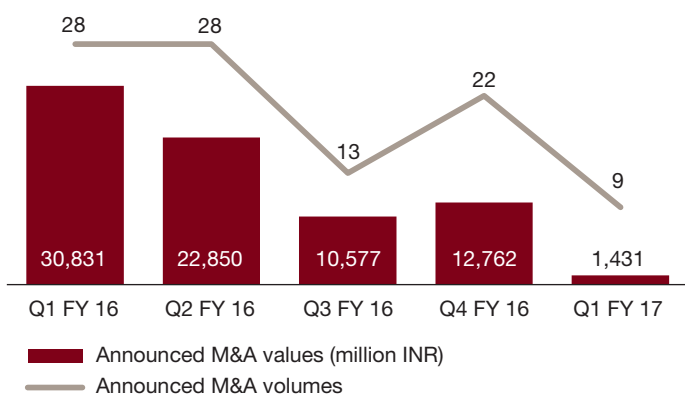
Key trends and highlights

- Thirty-four retail and consumer deals were announced, aggregating to 18,262 million INR in Q1 FY 17.
- M&A deals have slowed down compared with previous quarters.
- PE volume as a percentage of total deal volume has improved over the quarters and stands at 74% in Q1 FY 17.
- F&B deals led the market in terms of value, whereas consumer services deals led the market in terms of volume.
- There is a growing trend of Indian companies making acquisitions abroad.

M&A market slows down

Q1 FY 17 witnessed the lowest deal activity compared with previous four quarters in terms of both deal volume and value.

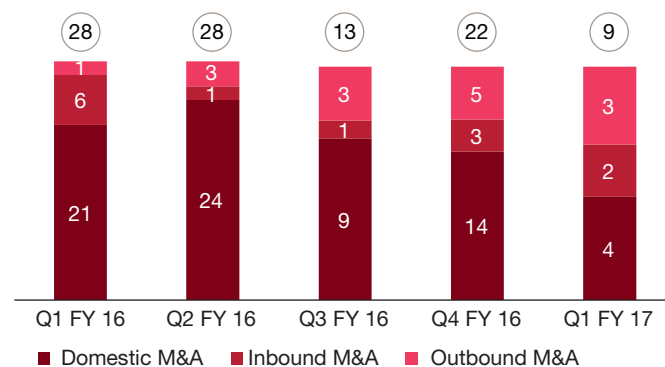
The major reason for the fall in the deal activity can be attributed to a fall in the domestic M&A transactions that have fallen to 4 from 21 in Q1 FY 16 and FY 14 in Q4 FY 16.



Source: VCCEdge

Emergence of outbound deals

An emerging trend observed over the quarters has been the rise of outbound M&A deals. Indian companies have realised potentially large markets outside their home country where they can score big gains and use India's cost advantage. Some of the deals this year were the acquisition of Strength of Nature, a US-based company that makes hair care products, by Godrej Consumer Products Limited and acquisition of Silampus UK Limited by TTK Prestige.



Source: VCCEdge

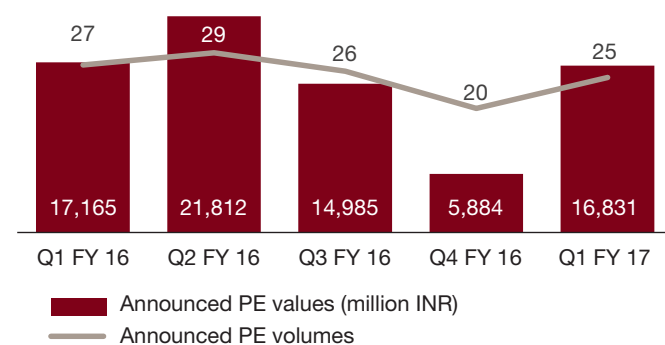
PE remains the driver

Deals in the market are being increasingly driven by the PE players. PE volume as a percentage of total deal volume has increased from 49% in Q1 FY 16 to 74% in Q1 FY 17.

Total PE deal volumes have remained constant over the previous years compared with the M&A transactions. Rajesh Vig, Partner, PwC Corporate Finance, said, 'The trend is expected to continue as PE players commit to larger investments in India's consumer story.'

Initial public offering (IPO) activity

This quarter witnessed the 7,360 million INR IPO of Parag Milk Foods Limited, one of the largest private sector dairy companies in India based out of Pune. The shares were issued at an offer price of 215 INR, implying a PE ratio of 29.8 as per FY 16 earnings. The sector currently trades at a median PE multiple of 35.3x.



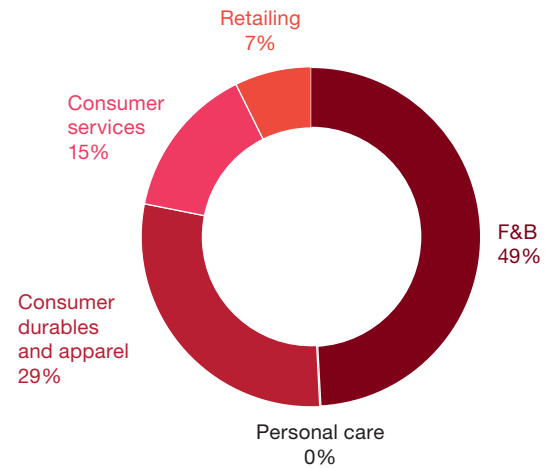
Source: VCCEdge

Sector round-up

Sector snapshot

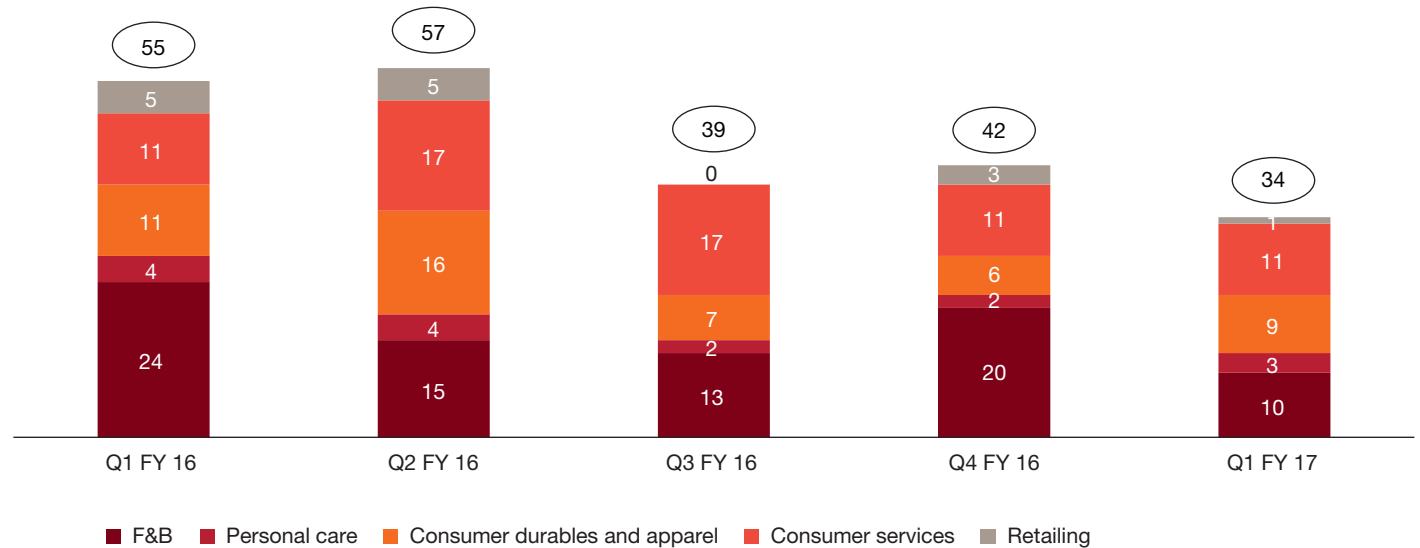
- Deals in the consumer and retail sector were largely driven by F&B transactions, which accounted for 49% of the total transactions in Q1 FY 17 by value, followed by consumer durables and apparel transactions, which accounted for 29% of the transactions by value.
- The largest F&B transaction in Q1 FY 17 was investment of 1,600 million INR in Maiyas Beverages and Foods by Peepul Capital and Ascent India. Although Westbridge Capital made an open offer to acquire an additional 26% stake in DFM Foods, the transaction didn't go through.
- The personal care space also witnessed a landmark transaction this quarter with Godrej Consumer Products' acquisition of Strength of Nature. The US-based company has revenues of 95 million USD for the year 2015. This adds Godrej to the list of Indian FMCG companies, making acquisition abroad in order to boost growth and diversify geography.

Breakdown of deal value: Q1 FY 17



Source: VCCEdge

Deal volume



Key announced transactions

Top M&A deals in the quarter

Target	Acquirer	Target industry	Deal value	Stake
Strength of Nature LLC	Godrej Consumer Products Limited	Personal care	NA	NA
Silampos UK Limited	TTK Prestige	Consumer durables	NA	NA

Source: VCCEdge

Top PE deals in the quarter

Target	Acquirer	Target industry	Deal value	Stake
Cremica Food Industries	Rabo Equity India	F&B	1,007	NA
Maiyas Beverages and Foods	Ascent India, Peepul Capital	F&B	1,600	NA
DFM Foods	Westbridge Capital	F&B	3,443	26.0%
PC Jeweller Ltd	Deccan Value Advisors	Jewellery	4,287	6.0%
Founding Years Learning	Kaizen Private Equity, Peepul Capital	Education	1,074	NA

Source: VCCEdge



Million INR						TTM				
Company name	Price	% of 52 Week high	% of 52 Week low	Market capitalisation	Enterprise value	EV/sales	EV/ EBITDA	P/E	EBITDA %	PAT %
F&B										
ITC Ltd	251.5	97.1	141.6	3,035,809	2,904,786	6.4	16.7	30.5	38.5	25.4
Nestle India Ltd	6,508.1	93.0	130.7	627,478	612,932	6.7	31.6	nm	20.2	6.3
Britannia Industries Ltd	2,792.2	81.3	111.5	334,990	331,444	3.7	26.0	41.6	14.3	9.4
Tata Global Beverages Ltd	132.8	88.7	132.8	83,814	95,132	1.1	13.0	25.7	8.5	4.1
Manpasand Beverages Ltd	564.5	96.0	197.6	28,255	27,321	4.0	18.7	52.3	21.5	9.1
DFM Foods Ltd	2,231.0	95.4	492.8	23,214	23,112	3.7	30.8	92.7	12.1	6.4
Mean						4.3	22.8	48.6	19.2	10.1
Median						3.9	22.4	41.6	17.2	7.8
Home and personal care										
Hindustan Unilever Ltd	888.5	94.1	116.1	1,922,932	1,869,030	5.5	30.5	47.1	24.2	17.0
Godrej Consumer Products Ltd	1,625.0	99.3	145.2	553,367	571,530	5.5	30.1	49.4	18.1	12.5
Dabur India Ltd	311.8	97.4	134.8	548,412	547,029	5.2	28.8	43.7	18.0	14.8
Marico Ltd	265.0	98.2	140.0	341,831	336,939	5.1	29.2	47.1	17.4	11.8
Emami Ltd	1,123.0	82.1	124.6	254,873	260,425	8.3	31.8	nm	26.1	13.7
Colgate Palmolive (India)	917.4	87.4	116.5	249,506	246,623	5.4	24.0	43.3	22.5	14.0
Procter & Gamble Hygiene	6,287.6	90.0	121.6	204,100	194,082	9.2	43.4	59.0	24.2	17.0
Gillette India Ltd	4,561.6	81.1	119.9	148,639	144,147	7.9	48.0	nm	14.6	11.5
Bajaj Corp Ltd	388.5	74.4	109.1	57,296	54,112	6.1	19.6	29.2	31.3	22.5
Jyothy Laboratories Ltd	302.0	88.3	119.8	54,689	59,715	3.5	26.1	34.6	13.4	9.6
Mean						6.2	31.1	44.2	21.0	14.4
Median						5.5	29.6	45.4	20.3	13.8
Dairy										
Hatsun Agro Products Ltd	447.5	91.0	130.6	48,640	53,537	1.4	16.4	nm	8.9	1.8
Kwality Ltd	111.8	72.7	228.3	26,180	40,024	0.6	10.1	14.1	6.1	2.7
Parag Milk Foods Ltd	277.0	96.5	137.3	23,300	28,697	1.8	19.5	41.4	9.0	2.9
Heritage Foods Ltd	525.0	88.2	154.9	12,179	12,777	0.5	9.6	22.0	5.6	2.4
Prabhat Dairy Ltd	100.5	59.5	141.5	9,816	11,278	1.0	10.2	35.3	6.6	4.4
Mean						1.1	13.1	28.2	7.2	2.8
Median						1.0	10.2	28.6	6.6	2.7

Apparel and retail										
Page Industries Ltd	13,990.0	88.0	143.5	156,043	156,691	7.8	36.0	nm	21.6	13.3
Aditya Birla Fashion and Retail	144.3	54.8	117.4	110,944	129,239	2.2	32.9	nm	5.5	-5.4
Arvind Ltd	330.5	90.4	140.6	85,349	117,282	1.2	9.6	23.5	12.7	4.3
Trent Ltd	1,810.00	96.3	163.4	60,149	60,280	2.3	nm	nm	5.8	2.7
Shoppers Stop Ltd	378.7	84.8	125.8	31,603	38,149	0.8	18.6	nm	3.7	0.7
Bombay Rayon Fashions Ltd	158.5	73.4	148.1	28,821	80,319	1.7	9.7	39.5	17.6	1.3
Future Lifestyle Fashions Ltd	120.1	92.0	193.6	22,683	31,692	1.0	9.7	nm	9.9	0.9
Kewal Kiran Clothing Ltd	1,800.0	77.6	112.3	22,185	21,124	4.6	19.9	32.7	23.0	15.0
Indian Terrain Fashions Ltd	156.6	94.1	153.5	5,835	5,587	1.4	11.3	17.1	12.6	10.2
Maxwell Industries Ltd	66.8	81.7	229.8	4,411	5,321	2.0	19.0	nm	-0.2	-6.3
Zodiac Clothing Company	211.4	57.3	109.9	4,126	4,677	1.4	nm	nm	0.9	-2.5
Mean						2.4	18.5	28.2	10.3	3.1
Median						1.7	18.6	28.1	9.9	1.3

Million INR						TTM				
Company name	Price	% of 52 Week high	% of 52 Week low	Market capitalisation	Enterprise value	EV/sales	EV/EBITDA	P/E	EBITDA %	PAT %
Consumer services										
Jubilant Foodworks Ltd	1,150.0	58.0	129.6	75,711	74,472	3.4	29.9	72.2	11.4	4.3
Westlife Development Ltd	246.5	72.5	140.9	38,345	38,272	3.7	nm	nm	5.2	0.3
Talwalkars Better Value Fit	232.0	73.4	128.2	6,892	8,708	3.0	5.0	12.2	59.8	21.9
Speciality Restaurants Ltd	99.0	57.4	123.8	4,649	3,892	1.0	18.9	nm	5.4	0.1
Mean						2.8	17.9	42.2	20.4	6.7
Median						3.2	18.9	42.2	8.4	2.3

Other speciality retail										
Titan Co Ltd	407.6	98.5	135.1	361,817	361,631	2.7	32.3	52.5	8.3	6.2
Bata India Ltd	551.5	88.7	125.9	70,883	67,458	1.2	10.8	16.2	10.2	0.5
Relaxo Footwears Ltd	500.9	81.5	140.1	60,128	62,130	2.7	19.0	50.0	14.1	7.1
Mirza International Ltd	92.4	63.7	123.1	11,110	12,900	1.3	7.1	12.8	18.6	nm
Gitanjali Gems Ltd	40.9	84.1	136.6	4,451	82,620	0.6	11.1	nm	5.3	1.0
Thanga Mayil Jewellery Ltd	243.1	88.7	156.8	3,335	4,516	0.3	8.0	31.6	3.6	0.8
Liberty Shoes Ltd	185.6	65.4	148.5	3,163	4,382	0.8	8.5	31.5	9.1	2.1
Mean						1.4	13.8	32.4	9.9	2.9
Median						1.2	10.8	31.6	9.1	1.5

Source: Bloomberg as of 1 July 2016
Note: nm indicates not measurable

Consumer transactions consummated by PwC Corporate Finance in Q1 FY 17

Peepul Capital Ascent Capital

Invested in

Maiyas Food and Beverages

company advised by
PwC

- PwC India acted as the exclusive financial advisor to Maiyas Beverages and Foods Private Limited, advising the company on a Series B fund raising from Peepul Capital and Ascent Capital.
- Headquartered in Bengaluru, Maiya's Beverages & Foods Pvt. Ltd (Maiyas) is a leading packaged foods and beverages company in India with strong presence across south India. Its products include beverages, frozen food, instant mix, masalas, pickles, savorys and sweets. The company also has six restaurants in Bengaluru.
- The company was incubated by industry veteran Dr Sadananda Maiya in 2012. In 2014, the company raised growth capital (Series A) of approximately 15 million USD from Ascent Capital.
- Before starting Maiyas, Dr Maiya was responsible for successfully establishing MTR Foods, which was sold to Orkla in 2007.

Sara Suole Private Limited

Invested in

Catwalk Worldwide Private Limited

company advised
by PwC

- PwC India acted as the exclusive financial advisor to Catwalk Worldwide Private Limited, advising the company in a minority stake sale to Sara Suole Private Limited.
- Headquartered in Mumbai, Catwalk is the largest women's footwear brand in India. The company has an omnichannel strategy with presence across both brick and mortar and online retail. It currently operates 10 standalone stores and 350+ shop-in-shops in India and has presence across all the leading e-retailers in India.

Notes

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