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# *Retail and Consumer Quarterly Newsletter*

## Q2 FY 2017

December 2016



**pwc**





# Introduction

PwC's Retail and Consumer practice takes immense pleasure in presenting its second newsletter. As India embarks on a journey to becoming one of the biggest retail stories of the decade, we look forward to capitalising on our extensive sector knowledge, presenting our insights to our readers and keeping them updated on the latest happenings in the sector.

This quarter, we have highlighted the growth of the dairy sector in India and the resulting impact on deal activity. The second part of the newsletter highlights the deal activity in the quarter compared with that in previous quarters, along with our insights into the future of consumer and retail transactions.

# Dairy in India: Milking the cash cow

In 2016, India surpassed the European Union to become the largest milk producing nation in the world, producing approximately 18% of the world's milk output. India also became the largest consumer of milk in the world, paving the way for the rise of an important industry that still has low per capita consumption and holds enormous potential.

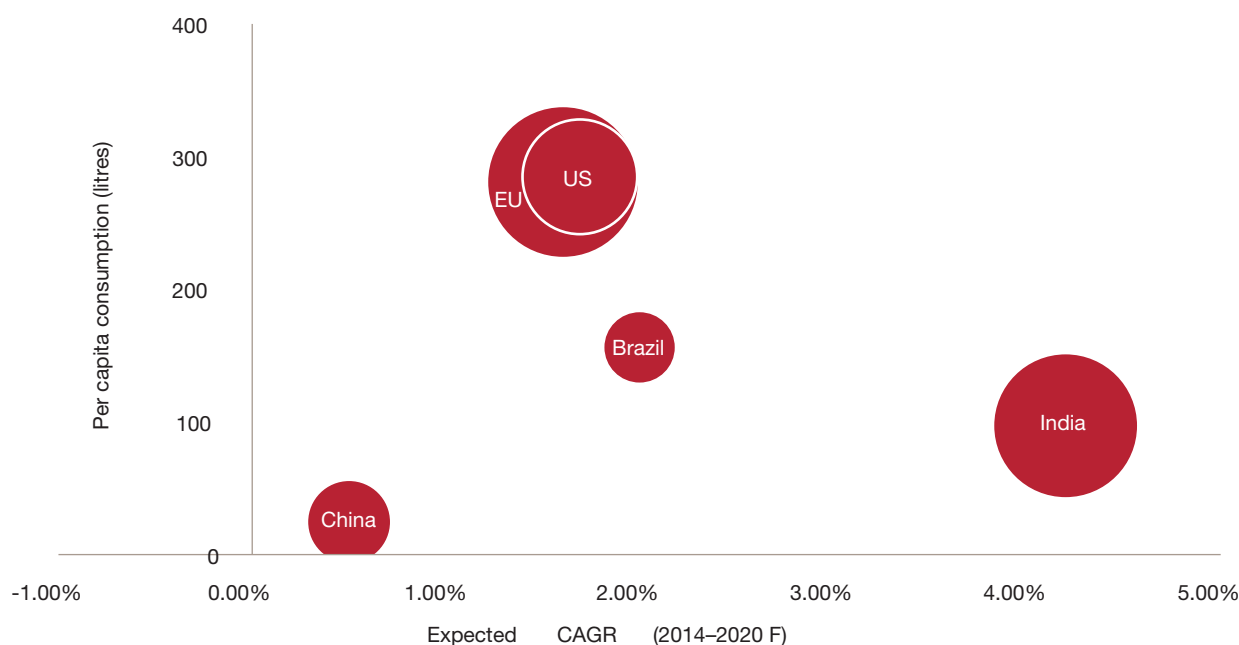
Despite being the largest producer and consumer of milk in the world, India is expected to grow faster than the global milk market and many of its comparable peers. This was validated by the fact that even though the global dairy industry faced headwinds in 2016, India's dairy market posted a cheery 6.3% volume growth. Strong growth prospects, driven by formalisation of the market and growth of the value-added dairy segment, will be critical to the development of the sector in the future.

India's dairy industry is different from that of its developed counterparts in that it has a fragmented farmer base, low milch animal yields, high labour intensiveness and an underdeveloped supply chain network. Further development of the industry necessitates certain improvements so as to support the high demand that is expected to outstrip supply in future.

According to industry sources, India will witness supply chain investments of around 2 billion USD by 2020. This would entail investments in the milk procurement network, capacity addition and development of retailing infrastructure.

These factors have caught the attention of various domestic and global companies, which have become interested in the Indian dairy space.

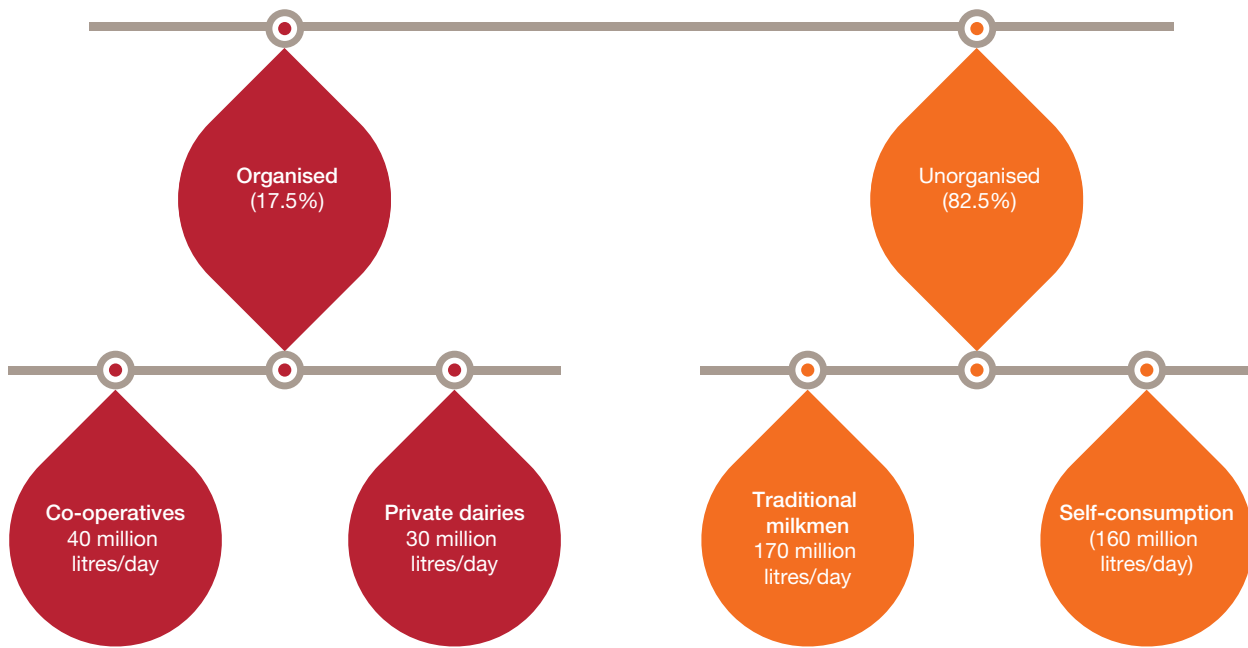
**The Indian dairy market is well placed amongst its peers, given its large market size, high expected growth rate and low per capita consumption.**



The bubbles indicate the size of the dairy industry in MMT (2014). F = Forecast

Source: PwC research

### Indian dairy market (400 million litres per day)



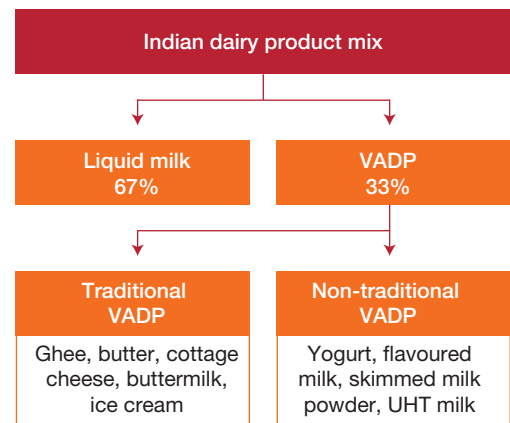
Source: PwC research

Various sources estimate the size of the Indian dairy industry to be between 4,000 billion INR and 5,000 billion INR. Although the size of the Indian dairy market has been large since a long time, it remained unattractive, as most of the milk consumption was in basic liquid form

or, at best, in the form of ghee and butter. However, over the past years, the value-added segment has picked up momentum (value-added dairy products [VADPs] grew at a CAGR of 20% between 2008–2015) and now forms an attractive market for private players.

Category	Market size (billion INR) 2014	Organised share %	CAGR (2014–20)
Liquid milk	2,621	20%	21%
UHT milk	26	100%	26%
Flavoured milk	13	100%	25%
Curd	216	6%	20%
Flavoured and frozen yogurt	2	100%	32%
Lassi*	12	NA	21%
Buttermilk*	14	NA	21%
Cheese	12	100%	31%
Butter	168	13%	19%
Ghee	618	18%	17%
Paneer	293	2%	24%
Skimmed milk powder	50	100%	15%
Cream*	13	NA	15%
Whey (powder)	3	100%	22%
<b>Total</b>	<b>4,061</b>	<b>20%</b>	<b>20%</b>

Source: PwC research



Value-added products have higher profitability (12%–18%) vis-à-vis liquid milk (4%–5%) and require lower investment in the milk procurement network.

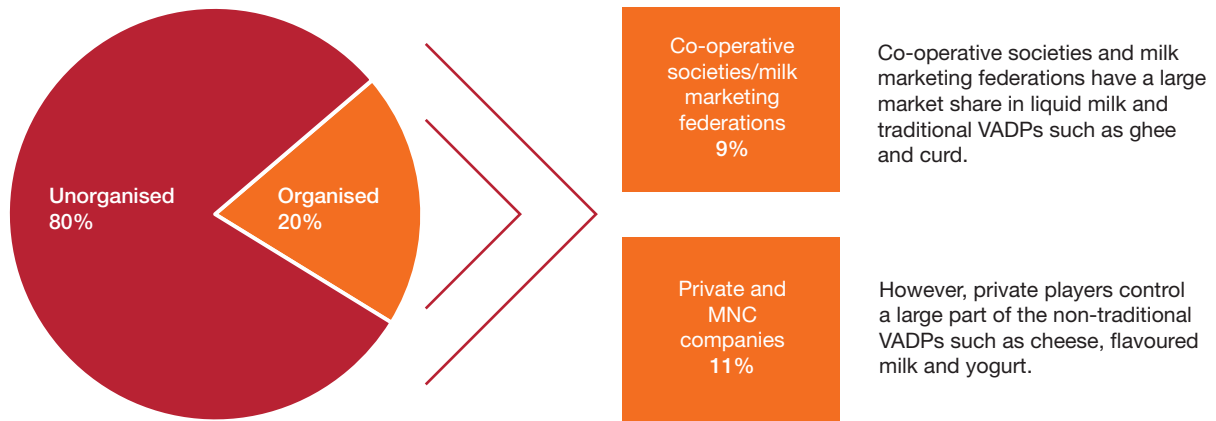
‘Heightened interest in VADPs has led to the emergence of players such as Milky Mist (sells VADPs only), Dairy Craft, Epigamia (Greek yogurt), and various other companies that are selling ice cream, dairy beverages (Milky Moo), etc.’

**- Rajesh Vig**  
Partner, Corporate Finance, PwC India

# Competitive scenario

The dairy sector in India is highly fragmented, with the organised segment accounting for approximately 20% of the overall market. The players in the organised segment can be divided on the basis of ownership (state co-operatives vs private players) and reach (regional vs national).

Regional players tend to focus on strengthening the distribution network and rely heavily on the selling of traditional products such as milk, curd and paneer. Urban-oriented national players focus on value-added products such as yogurt, cheese and butter.

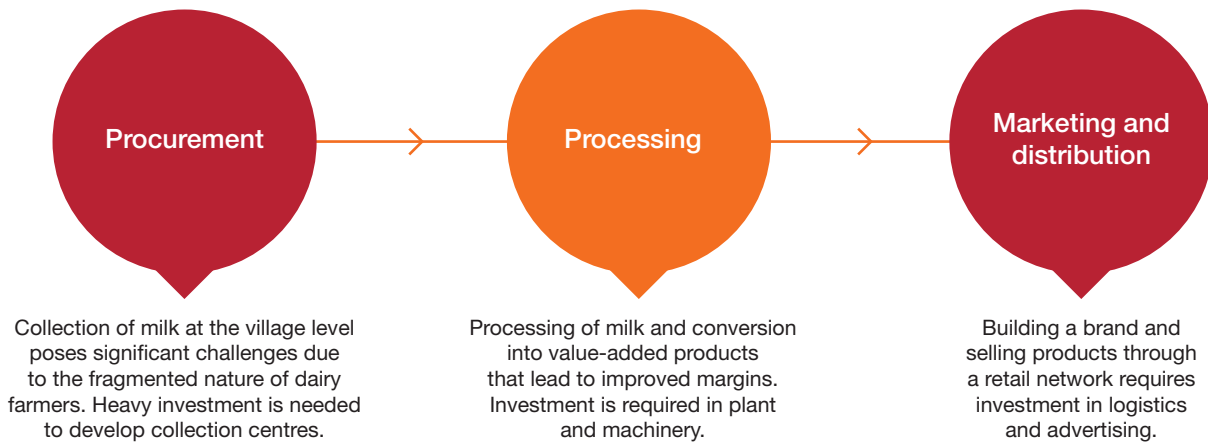


The industry is characterised by a fragmented farmer base with a small herd size of 1–2 cattle. However, the emergence of medium-scale farmer-owned dairy farms with a herd size of 50–300 cattle is a growing trend.

This will make it easier for companies to procure milk from farmers without investing heavily in the procurement network and lead to a more organised structure for the industry in future.

	Regional	National
Co-operative societies/milk marketing federations	<ul style="list-style-type: none"> <li>Rajasthan Co-operative Dairy</li> <li>Karnataka Milk Federation</li> <li>Orissa State Cooperative Milk Producers Federation</li> </ul>	<ul style="list-style-type: none"> <li>Amul</li> <li>Mother Dairy</li> </ul>
Private companies/MNCs	<ul style="list-style-type: none"> <li>Tirumala Milk Products</li> <li>Hatsun Agro</li> <li>Heritage Foods</li> </ul>	<ul style="list-style-type: none"> <li>Danone</li> <li>Parag Milk Foods</li> <li>Britannia</li> <li>Nestle</li> </ul>

## Supply chain



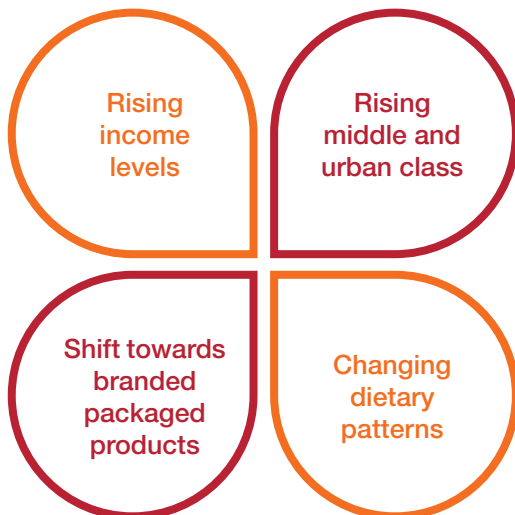
Moving up the value chain helps companies command a pricing premium and build a brand moat, whereas moving down the value chain helps minimise costs and ensure a steady stream of income.

FMCG companies such as Nestlé, Britannia and Patanjali leverage their marketing and distribution capabilities and operate at the upper end of the value chain, thereby selling value-added products such as ghee, cheese, spreads, curd and yogurt.

Companies such as Prabhat Dairy, Parag Milk Foods and Kwaliti Dairy are involved in the procurement and processing stage and act as suppliers to large companies (B2B). However, sensing the opportunity in the B2C segment, these companies have now launched their own brands and sell value-added products as well.

Companies such as Amul operate across the value chain and sell a variety of traditional as well as value-added products. Such players tend to have the highest market share due to their pricing power and distribution reach.

### Drivers of growth in the organised segment



Players who are able to earn a high gross margin as well maintain a competitive moat around the business are well placed to deliver high ROI.

– Anurag Mathur  
Leader and Partner  
Consumer Goods and Retail, PwC India



# Deal activity in the dairy space

## Mergers and acquisitions

Date	Buyer/investor	Target	Key brands	Deal value (million INR)
28 Oct 16	Heritage Foods	Reliance Retail (dairy business)	Dairy Life, Dairy Pure	NA
07 Mar 16	Lactalis Group	Anik Industries (dairy business)		4,699
21 Dec 15	Godrej Agrovet Ltd.	Creamline Dairy Products	Jersey	1,372
07 Jan 14	Lactalis Group	Tirumala Milk Products	Thirumala	16,847
30 Oct 13	Hatsun Agro Products Ltd	Jyothi Dairy Pvt. Ltd.	Jyothi Milk	650

## Private equity deals

Date	Buyer/investor	Target	Key brands	Deal value (million INR)
24 Oct 16	Motilal Oswal PE	Dairy Classic Ice Creams	Dairy Day	1,100
22 Jul 16	Verinvest, DSG Consumer	Drums Food International	Hokey Pokey, Epigamia	444
13 Jul 16	KKR	Kwality Limited	Dairy Best	5,200
22 Sep 15	TVS Capital	Prabhat Dairy Ltd.	Prabhat	849
01 Jan 15	Eight Roads Ventures	Milk Mantra Dairy Pvt. Ltd.	Milky Moo	877
30 Jun 14	Westbridge Capital	Hatsun Agro Products Ltd.	Hatsun	360
31 Aug 13	Capvent AG	Hangyo Ice Cream	Hangyo	333
05 Nov 12	Cargill Ventures	Dodla Dairy Ltd.	Dodla Dairy	1,099

The dairy sector in India has seen an increasing number of deals in the past years.

Mergers and acquisitions (M&A) have primarily been motivated by companies looking to expand their regional footprint and gain access to a particular distribution or procurement network. As the Indian dairy sector gains prominence, international companies are expected to enter the market by acquiring small regional firms.

Private equity (PE) deals, on the other hand, have been motivated by several factors. PE firms have shown a huge interest in investing in companies that are involved in

selling VADPs such as ice creams, yogurts, cheese and curd.

Such firms can avoid heavy investments in traditional milk procurement networks and charge high prices for their products.

The competition in the sector is set to get fierce with more FMCG companies, international dairy companies and private players set to enter the industry and expand offerings. However, corresponding growth in demand will ensure ample growth opportunities for all players.



# Transactions in the retail and consumer space in Q2 FY17

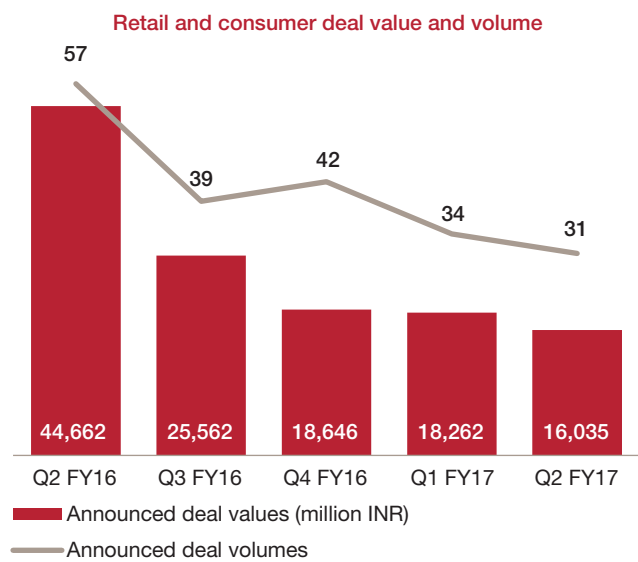
## Deal round-up

Deals in the retail and consumer sector remained sluggish, with both deal value and volume showing no signs of improvement.

The decline in deal activity from Q2 FY16 can mainly be attributed to a decline in the domestic M&A market and a decline in PE funding. The decline from Q2 FY16 was mostly driven by the 10,090 million INR acquisition of United Breweries by Heineken and the 9,724 million INR investment in JBF Industries by KKR.

The largest deal of the quarter was the investment of 9,250 million INR by TA Associates into TCNS Clothing Company Pvt. Ltd. ('W' brand of women's ethnic wear). The broader retail and consumer sector was driven by apparel and retail deals this quarter.

Several trends are influencing a change in the lifestyles and health preferences of consumers, thus driving food and beverage and personal care spending. In addition to this, rising per capita income has led to increased spending in the jewellery, footwear and apparel sectors.

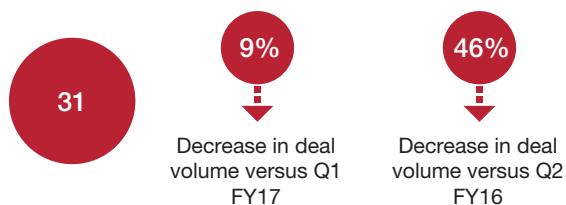


Source: VCCEdge

### Deal value: The numbers (Q2 FY17)



### Decrease in deal value versus Q2 FY16



## Key trends and highlights

- 31 retail and consumer deals were announced, aggregating 16,035 million INR in Q2 FY17.
- PE deals slowed down compared to previous quarters.
- Apparel and retail deals led the market in terms of value, whereas food and beverage deals led the market in terms of volume.
- There was also a growing trend of Indian FMCG companies making acquisitions abroad.

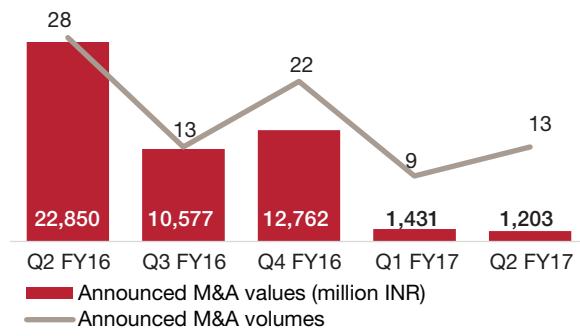
## M&A market slowdown

Q2 FY17 witnessed muted deal activity compared with the previous quarter. Although deal volumes improved this quarter, deal values continued to decline. This, however, is also affected by the fact that certain deal values have not been disclosed by companies.

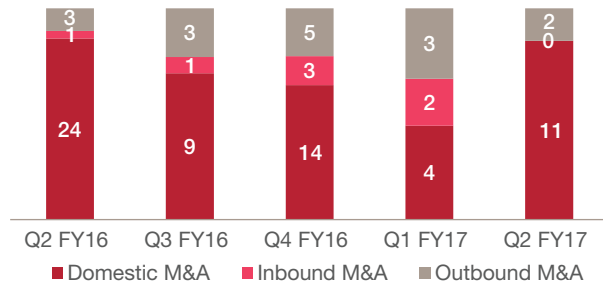
The major reason for the fall in deal activity can be attributed to a fall in inbound M&A transactions, which are nil this quarter.

### 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 big markets outside their home country where they can score big gains and use India's cost advantage. Some of the deals this quarter were the acquisition of Zhongshan Ma Er Daily Products Limited (China) by Wipro Consumer Care & Lighting and the acquisition of JoeyforLife (China) by Jaquar and Company.



Source: VCCEdge

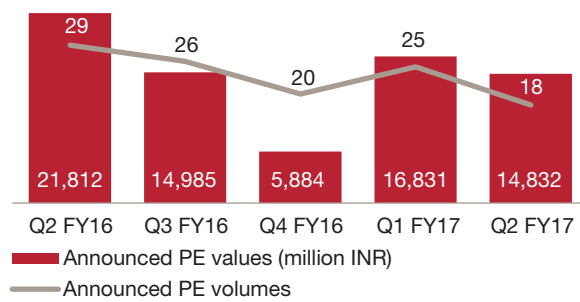


Source: VCCEdge

## PE remains the driver

Deals in the market are increasingly being driven by PE players. PE deal values as a percentage of total deal values have increased from 49% in Q2 FY16 to 92% in Q2 FY17.

While total PE deal volumes have shown a declining trend over the previous quarters, total deal values have been steady. As PE and venture capital (VC) players increasingly become interested in the Indian consumer story, the share of PE deals as a percentage of total deals is expected to rise.



Source: VCCEdge

## IPO activity

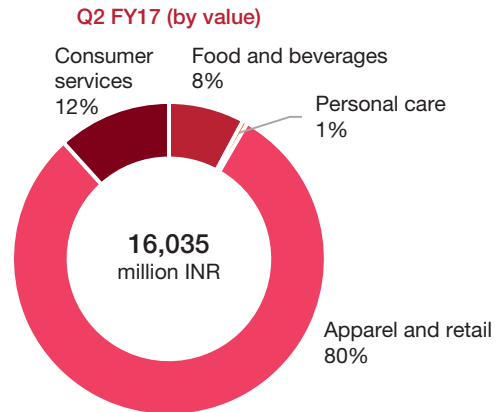
This quarter witnessed a 6,744 million INR initial public offering (IPO) of S.P. Apparel Limited—a manufacturer and seller of knitted garments for infants and children—based out of Tirupur. The shares were issued at an offer price of 268 INR, implying a PE ratio of 20.0x as per FY16 earnings.



# Sector round-up

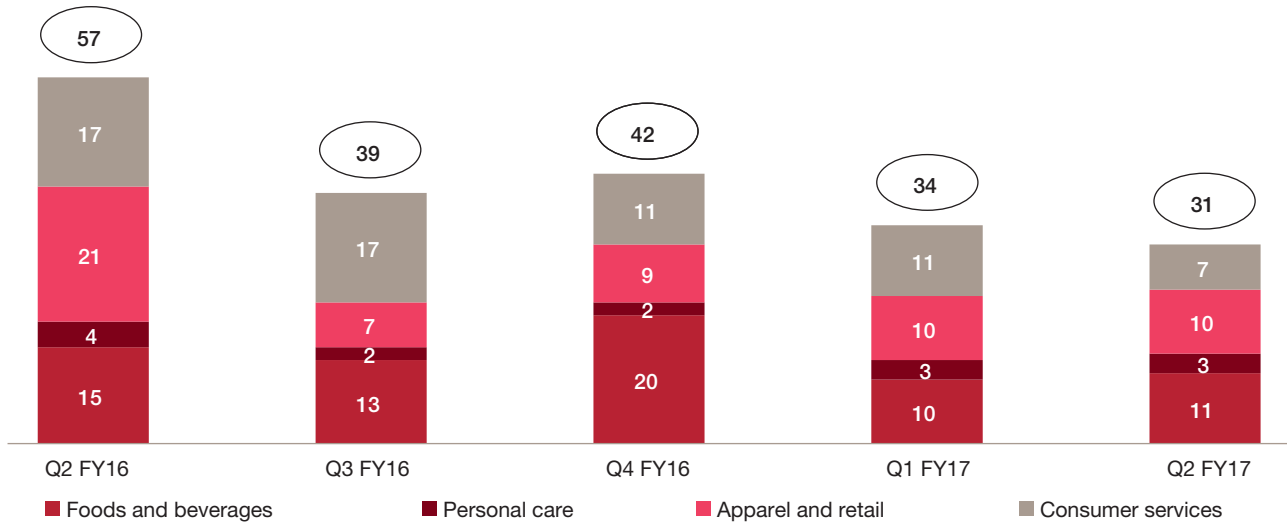
## Sector snapshot

- Deals in the consumer and retail sector were largely driven by apparel and retail transactions, which accounted for 80% of the total transactions in Q2 FY17 by value. This was followed by consumer services, which accounted for 12% of the transactions by value.
- The largest apparel and retail transaction in Q1 FY17 was an investment of 9,250 million INR in TCNS Clothing Company Pvt. Ltd. by TA Associates.
- The personal care space also witnessed a landmark transaction this quarter with Wipro Consumer Care's acquisition of Zhongshan Ma Er Daily Products Limited—a Chinese FMCG company with estimated revenues of 75 million USD. An increasing number of Indian FMCG companies are making acquisitions in emerging markets that are expected to follow the Indian growth story.



Source: VCCEdge

### Deal volume



Source: VCCEdge



# Deal activity in the dairy space

## Key M&A deals in the quarter

Target	Acquirer	Target industry	Deal value (million INR)	Stake
Zhongshan Ma Er Daily Products	Wipro Consumer Care	Personal care	NA	100%
Wadhawan Retail Private Limited (Sangam Direct)	Future Group	Consumer durables	NA	100%

## Key PE deals in the quarter

Target	Acquirer/investor	Target industry	Deal value (million INR)	Stake
TCNS Clothing Company Pvt. Ltd.	TA Associates	Apparel and retail	9,250	NA
PC Jeweller	Fidelity Investments	Apparel and retail	2,570	NA
LaOpala RG Limited	Westbridge Capital	Apparel and retail	770	7.1%
Azure Hospitality	Goldman Sachs PIA, Max Ventures	Consumer Services	640	22.3%
DRUMS Food International Pvt. Ltd. (Hokey Pokey, Epigamia)	Verinvest, DSG Consumer Partners	Food and beverages	445	NA

Source: VCCEdge



# Trading multiples for public companies

Company name	Price	% of 52 week high	% of 52 week low	Million INR		TTM				
				Market capitalisation	Enterprise value	EV/sales	EV/EBITDA	P/E	EBITDA %	PAT %
<b>Foods and beverages</b>										
ITC Ltd	231.5	87.0	130.3	2,794,393	2,663,369	6.4	16.7	28.1	38.5	34.4
Nestle India Ltd	5,958.0	80.6	119.6	574,445	557,189	6.7	32.3	102.0	20.8	11.8
Britannia Industries Ltd	2,935.1	81.9	117.2	352,135	347,917	3.7	25.8	43.7	14.3	9.5
Tata Global Beverages Ltd	118.6	75.2	118.6	74,852	82,009	1.1	13.6	23.0	10.5	5.4
Manpasand Beverages Ltd	683.9	88.0	184.8	39,110	38,496	4.1	20.6	63.4	19.6	10.1
DFM Foods Ltd	1,587.9	65.3	280.9	15,881	15,902	3.8	31.1	63.4	12.2	6.5
<b>Mean</b>						<b>4.3</b>	<b>23.3</b>	<b>53.9</b>	<b>19.3</b>	<b>13.0</b>
<b>Median</b>						<b>3.9</b>	<b>23.2</b>	<b>53.5</b>	<b>17.0</b>	<b>9.8</b>
<b>Home and personal care</b>										
Hindustan Unilever Ltd	811.7	85.1	106.0	1,756,610	1,704,906	5.6	30.7	43.0	18.4	12.5
Dabur India Ltd	276.5	86.3	119.5	486,403	487,265	5.2	28.8	38.8	19.0	15.9
Godrej Consumer Products Ltd	1,399.3	81.6	125.1	476,509	502,074	5.5	30.0	42.6	19.2	13.1
Marico Ltd	249.2	81.2	127.1	321,446	313,072	5.1	29.2	44.3	18.8	12.9
Colgate Palmolive (India)	926.9	89.7	117.7	252,090	250,565	5.2	27.8	46.7	22.8	14.0
Emami Ltd	1,086.1	86.1	120.5	246,510	252,286	8.3	31.7	68.7	28.1	12.4
Procter & Gamble Hygiene	6,500.1	89.3	125.7	210,998	200,264	7.8	31.7	49.9	24.4	17.1
Gillette India	4,349.8	88.8	114.3	141,738	136,373	7.4	47.4	71.5	15.8	10.4
Jyothy Laboratories	347.3	92.3	137.8	63,062	61,974	3.5	26.1	39.8	15.1	9.0
Bajaj Corp	375.1	79.3	115.6	55,327	52,143	6.1	19.6	28.2	15.1	9.6
<b>Mean</b>						<b>6.0</b>	<b>30.3</b>	<b>47.3</b>	<b>19.7</b>	<b>12.7</b>
<b>Median</b>						<b>5.6</b>	<b>29.6</b>	<b>43.7</b>	<b>18.9</b>	<b>12.7</b>
<b>Dairy</b>										
Hatsun Agro Products	343.6	84.5	123.8	52,285	58,717	1.5	16.8	86.4	8.6	1.7
Kwality Ltd	120.5	75.6	153.6	28,230	42,077	0.6	10.1	15.2	6.1	2.7
Parag Milk Foods Ltd	262.6	73.5	130.1	22,084	25,614	1.6	17.2	36.3	9.1	2.9
Heritage Foods Ltd	822.0	86.0	184.9	19,068	19,506	0.5	9.5	34.4	5.6	2.5
Prabhat Dairy Ltd	99.8	59.0	140.5	9,743	11,208	1.0	10.2	35.0	9.8	2.5
<b>Mean</b>						<b>1.0</b>	<b>12.8</b>	<b>41.5</b>	<b>7.8</b>	<b>2.5</b>
<b>Median</b>						<b>1.0</b>	<b>10.2</b>	<b>35.0</b>	<b>8.6</b>	<b>2.5</b>

Company name	Price	% of 52 week high	% of 52 week low	Million INR		TTM				
				Market capitalisation	Enterprise value	EV/sales	EV/EBITDA	P/E	EBITDA %	PAT %
<b>Apparel and retail</b>										
Page Industries Ltd	13,016.6	74.8	133.5	145,185	146,049	7.6	36.0	62.4	20.5	12.6
Aditya Birla Fashion And Ret	134.7	51.1	109.6	103,555	121,851	2.2	32.9	nm	5.8	-3.3
Arvind Ltd	341.0	80.4	145.1	88,215	120,497	1.4	11.5	24.5	11.8	3.9
Trent Ltd	189.2	73.7	140.4	62,874	65,003	2.3	39.8	nm	6.0	2.7
Shoppers Stop Ltd	329.2	77.5	115.6	27,471	35,950	0.8	19.5	nm	3.7	0.7
Bombay Rayon Fashions Ltd	135.9	62.9	108.2	24,712	79,159	1.8	10.0	33.9	17.7	1.3
Future Lifestyle Fashions Ltd	115.0	77.7	165.2	21,847	27,102	0.8	7.5	61.2	11.3	1.0
Kewal Kiran Clothing Ltd	1,757.1	78.1	109.6	21,656	20,702	4.6	17.8	31.9	25.7	15.0
Indian Terrain Fashions Ltd	138.1	74.6	135.3	5,145	4,951	1.4	11.1	18.2	12.4	7.7
Maxwell Industries Ltd	47.5	63.8	163.5	3,139	4,049	2.0	19.0	nm	-0.4	-9.5
Zodiac Clothing Company	183.1	62.1	109.7	3,573	4,143	1.4	100.3	nm	0.9	-2.5
<b>Mean</b>						<b>2.4</b>	<b>27.8</b>	<b>38.7</b>	<b>10.5</b>	<b>2.7</b>
<b>Median</b>						<b>1.8</b>	<b>19.0</b>	<b>32.9</b>	<b>11.3</b>	<b>1.3</b>
<b>Consumer services</b>										
Westlife Development Ltd	179.2	67.2	105.0	27,868	27,795	3.6	nm	nm	5.4	-1.4
Jubilant Foodworks Ltd	894.2	56.8	108.1	58,867	57,645	3.4	29.7	56.0	11.5	4.3
Talwalkars Better Value Fit	240.6	79.4	132.9	7,147	8,963	2.7	4.7	12.6	59.9	22.7
Speciality Restaurants Ltd	75.7	51.1	100.4	3,555	2,799	1.0	18.9	nm	3.4	-3.6
<b>Mean</b>						<b>2.7</b>	<b>17.7</b>	<b>34.3</b>	<b>20.0</b>	<b>5.5</b>
<b>Median</b>						<b>3.0</b>	<b>18.9</b>	<b>34.3</b>	<b>8.4</b>	<b>1.4</b>
<b>Other speciality retail</b>										
Bata India Ltd	427.4	69.6	103.0	54,926	51,500	2.6	22.6	25.1	15.5	9.1
Mirza International Ltd	73.9	51.0	101.0	8,891	10,708	1.3	7.2	10.2	18.4	8.7
Titan Co Ltd	315.9	71.0	104.7	280,452	280,586	2.7	32.2	40.7	8.4	6.1
Relaxo Footwears Ltd	401.7	75.6	114.8	48,214	50,555	2.7	19.1	40.1	14.4	7.0
Liberty Shoes Ltd	134.2	59.9	107.4	2,287	3,560	0.8	8.6	22.7	9.1	2.1
Gitanjali Gems Ltd	54.5	58.2	182.0	6,465	88,414	0.6	11.6	4.1	5.3	1.1
Thanga Mayil Jewellery Ltd	183.9	55.0	110.8	2,523	3,779	0.3	8.7	23.9	3.7	1.0
<b>Mean</b>						<b>1.6</b>	<b>15.7</b>	<b>23.8</b>	<b>10.7</b>	<b>5.0</b>
<b>Median</b>						<b>1.3</b>	<b>11.6</b>	<b>23.9</b>	<b>9.1</b>	<b>6.1</b>

Source: Bloomberg as of 18 November 2016

Note: nm indicates non-meaningful

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