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Retail and Consumer Quarterly Newsletter
Q4 FY 2017

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Introduction

PwC's Retail and Consumer practice takes immense pleasure in presenting its fourth newsletter. This quarter, we have highlighted how the salty snacks space has been growing in India and how low penetration levels and changing demographics are presenting a huge opportunity for the industry. With changing competitive dynamics and evolving tastes and preferences of consumers, several new brands are expected to emerge and challenge established players. The second part of the newsletter highlights the deal activity in this quarter compared to previous quarters, along with our insights into the future of consumer and retail transactions.

Thought leadership for the quarter

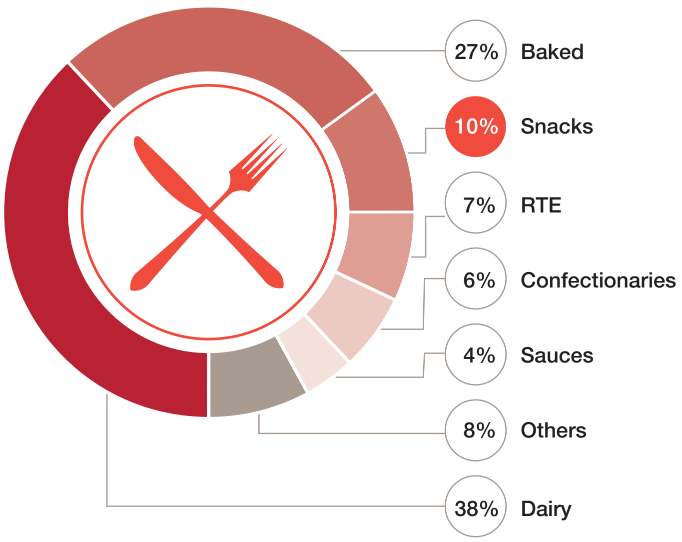
Salty snacks: The rise of regional players

The packaged foods space in India is primed for fast growth in the future on the basis of various macro consumption factors. The snacks category is set to benefit immensely given low penetration levels and rising levels of household incomes. The snacks market in India has undergone a rapid transformation in the past 20 years and snacks have gone from being a home cooked affair to becoming a branded and packaged story. From just a few organised national players such as Uncle Chipps (later acquired by Pepsico) and Haldiram's in the 1990s to a large number of national and regional players, the market has emerged strong enough to challenge established multinationals.

The overall industry has witnessed rapid growth in the past and is set to grow at similar levels. A large and fast-growing market has thus attracted several companies and increased competitive intensity in the industry.

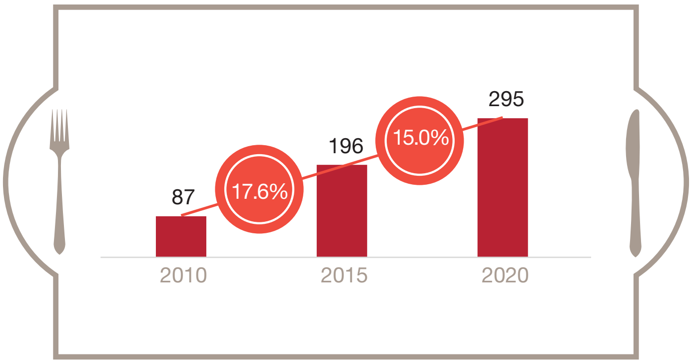
It is thus imperative for brands to understand the rapidly changing desires of the new Indian middle class and constantly innovate offerings to suit their tastes and preferences. Failing to do so can cause brands to lose their market share and become irrelevant in the rapidly evolving industry.

Snacks are the third largest category of packaged foods, with low penetration levels providing massive growth potential.

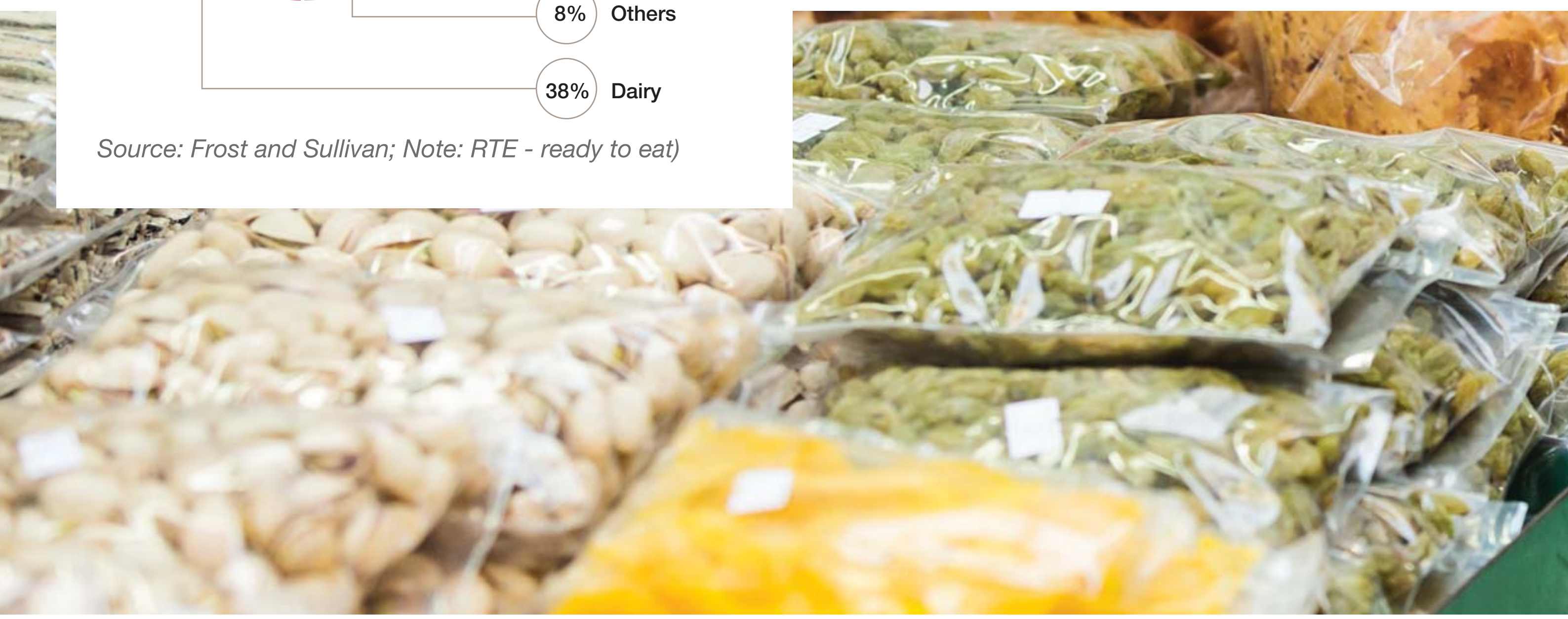


Source: Frost and Sullivan; Note: RTE - ready to eat)

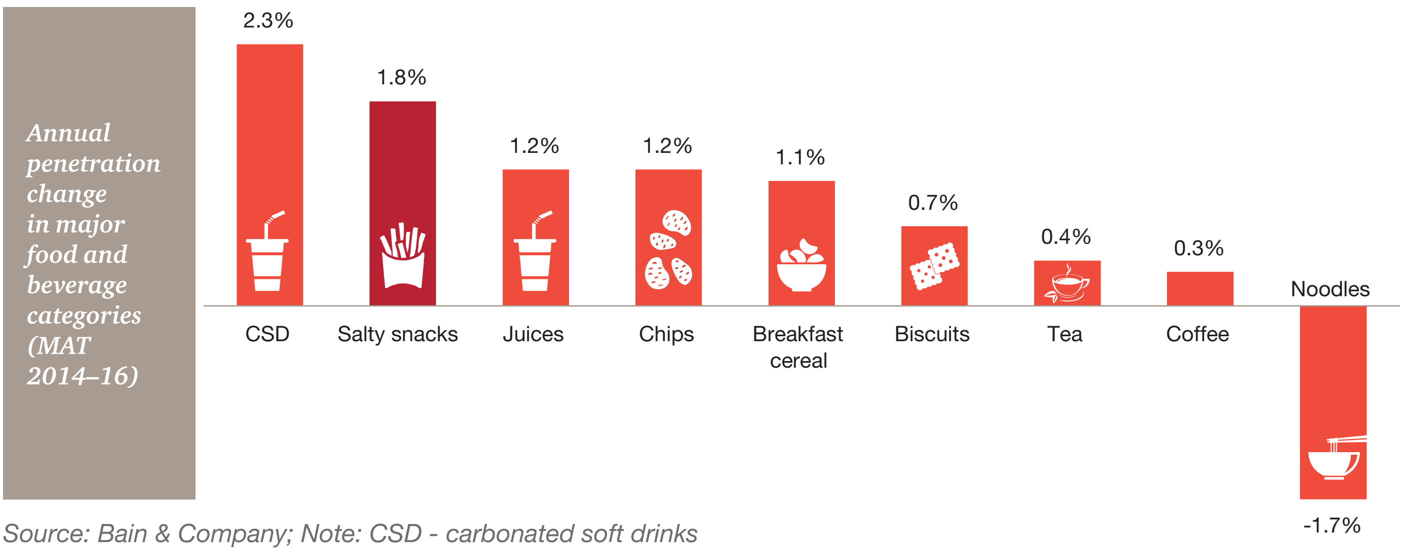
The organised snacks market, valued at 196 billion INR in 2015, is expected to grow at a CAGR of 15.0% till 2020.



Source: Frost and Sullivan

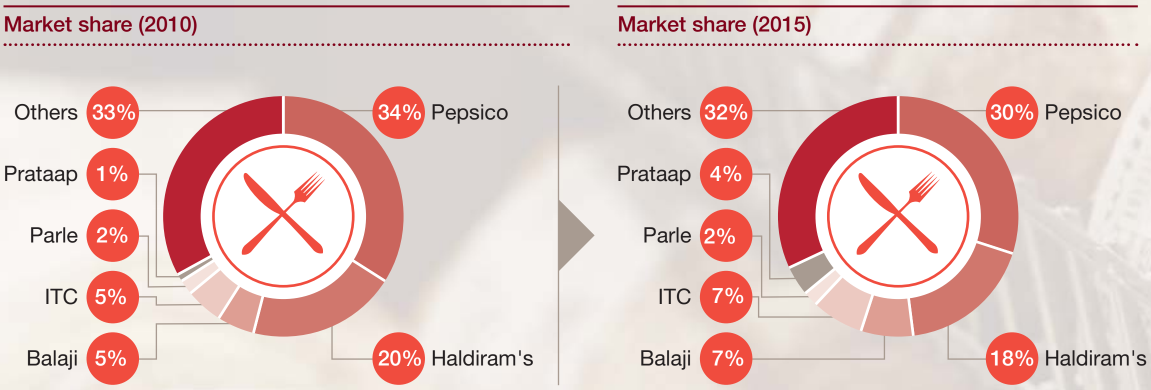


The snacks category recorded massive penetration gains in 2014–16, suggesting high potential for volume growth.



Source: Bain & Company; Note: CSD - carbonated soft drinks

The past few years have seen dominant MNCs losing their market share to established regional firms selling traditional snacks.



Source: Frost and Sullivan

> *Over the past few years, large national players such as Pepsico and Haldiram's have gradually been losing their market share to regional players such as Balaji Wafers, Prataap Snacks, Bikaji, etc. It is expected that such regional brands will continue to strengthen their presence in the market.*
>
> Rajesh Vig, Partner, Corporate Finance

National players

Pepsico
Brands: Lays and Kurkure
Products: Chips, extruded snacks, namkeen

Haldiram's
Brands: Haldiram's
Products: Chips, traditional snacks/namkeen, nuts

ITC
Brands: Bingo
Products: Chips, extruded snacks

North and west

Balaji Wafers
Brands: Balaji
Products: Chips, extruded snacks, traditional snacks

Bikaji
Brands: Bikaji
Products: Traditional snacks/namkeen, extruded snacks

Prataap Snacks
Brands: Yellow Diamond
Products: Chips, extruded snacks, traditional snacks

Bikanervala
Brands: Bikano
Products: Traditional snacks/namkeen, extruded snacks, chips

South

MTR
Brands: MTR
Products: Chips, extruded snacks, traditional snacks/namkeen

Maiyas
Brands: Maiyas
Products: Traditional snacks

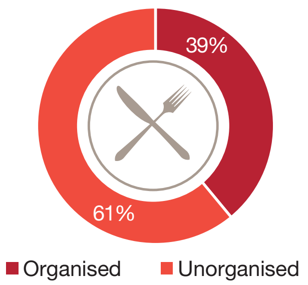
Traditional/ethnic snacks form the largest part of the market and are expected to grow at the fastest pace given their low levels of organised penetration.

Given the size and growth, traditional/ethnic snacks will form the largest and the fastest growing market. Therefore, players with a presence in this category will witness substantial growth going forward. Realising this, a few years ago, Pepsico launched the brand 'Kurkure', under which it sells traditional/ethnic snacks. The market has seen various regional players dominate their home turf as they have a better understanding of the tastes and preferences of the local population and are able to charge low prices given their lean operations and tight cost structures.

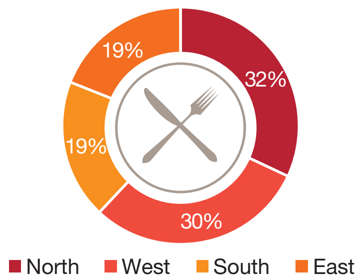
Segment	Market size (billion INR)	Share (%)	Growth (%) (2015–20)	Organised (%)	Market leader	Market share (%)
Namkeen and traditional snacks	194.6	39.0%	18.7%	35%	Haldiram's	48%
Extruded snacks	162.7	32.6%	14.8%	39%	Pepsico	42%
Chips	129.6	26.0%	10.8%	47%	Pepsico	51%
Others (nuts, popcorn and tortilla chips)	11.5	2.3%	9.5%	40%	Agro Tech Foods	38%
Total	**498.5**	**100%**	**15.0%**	**39%**	**Pepsico**	**30%**

Source: Frost and Sullivan

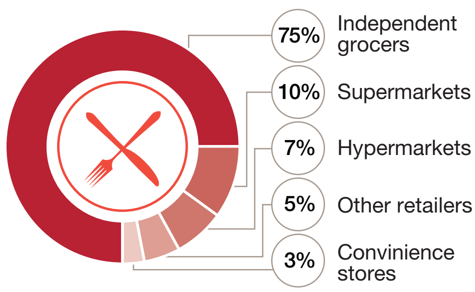
A study of the market suggests various emerging trends.



A large part of the market is unorganised, suggesting potential growth opportunities from the shift to the organised market. Thus, branded players in categories with low levels of organised penetration will hugely benefit from the trend.



Although the north and west regions currently dominate the market, the south and east regions are expected to grow fast on the back of increasing penetration in these areas. Therefore, establishing a presence in these regions is key to future growth.



Independent grocery stores form a dominant channel of distribution, with other channels being supermarkets and hypermarkets. The 'impulsive' nature of consumption for such products suggests that e-commerce is less likely to disrupt this market and players with strong offline distribution will dominate.

Source: Frost and Sullivan

Various factors will ensure healthy growth of the industry.

India is the second most populous country in the world. Currently, 65% of its population is below the age of 30, thus suggesting the entry of millennials to the workforce. The young population is expected to be the largest consumer of convenience foods. This has been a major driver in the demand for packaged foods.

Rising per capita incomes of people suggest rising affordability and thus higher spends on packaged foods. With an expected GDP growth of 7%, consumption is expected to grow in the future and the packaged foods sector will be a major beneficiary.

Increasing educational and job opportunities in major cities have led to an increase in the movement of people from rural to urban areas. The trend is expected to grow until 2020, with one-third of the rural population expected to migrate to urban areas. This will have a large impact on the Indian snacks market as the urban population accounts for 78% of its total share.

The availability of an increasing number of snack variants at cheap and affordable price points has led to the higher consumption of products as consumers find them to be highly convenient for consumption between meals.

With the entry of global companies and strict regulations issued by the Food Safety and Standards Authority of India (FSSAI), there is a greater focus on hygienic packaging and production processes. A longer shelf life, credibility and product quality are some of the key characteristics that will make consumers choose packaged foods.

Improvements in the supply chain infrastructure have enabled companies to make their products available in every nook and corner of the Indian market, ensuring reach beyond cities. As a result, the availability of products has increased in rural areas.

Source: Frost and Sullivan

There have been growing concerns around health and wellness, causing a host of companies to innovate their offerings to cater to consumers' tastes and preferences.

Brands such as Cornitos and Maiyas have started offering snacks with no gluten, trans fats or cholesterol to target health-conscious consumers.

Other players have started offering innovative products that are perceived to be healthy by consumers. The products include quinoa puffs, kale chips and soya sticks. One such company offering these products is the Green Snack Company.

Dealmaking in the snack space

Date	Company	Brand	Investor	Deal value (million INR)
29 Jun 16	Prataap Snacks Ltd	Yellow Diamond	Faering Capital	473.0
29 Apr 16	Maiyas Beverages and Foods Pvt Ltd	Maiyas	Peepul Capital, Ascent Capital	1,600.0
27 Mar 14	Maiyas Beverages and Foods Pvt Ltd	Maiyas	Ascent Capital	1,199.4
17 Mar 14	Bikaji Foods International	Bikaji	Lighthouse Advisors India Pvt Ltd	898.8
30 Jan 14	DFM Foods Ltd	Crax	Westbridge Capital	652.5
10 Jan 14	Prataap Snacks Ltd	Yellow Diamond	Sequoia Capital	250.3

Source: VCCEdge

The snack space has seen a slew of investments over the past years, making it one of the popular sectors for PE/venture capital investments.

There are various reasons that make the sector interesting to the investors. They are:

- Scalability: The overall snack market is estimated at 500 billion INR (39%) and presents a large addressable market to build big brands with low incremental investments.
- Competitive moat: Pepsico, the largest player, holds approximately 30% of the market share and other players hold >40% of the market share in their respective segments, indicating the ability to fend off competition and build a moat around the business by aggressively investing in branding and distribution networks.
- High growth of the industry: The market is expected to grow at a CAGR of 15% over the next five years, thus presenting high growth opportunities and the ability to generate high returns.

An analysis of deal activity suggests that investors have bet on regional players offering traditional products. Armed with the requisite financial resources, such companies will be able to grow at phenomenal rates and challenge national players.

Various regional players have grown considerably over the years but still remain family managed. In order to take advantage of the vast opportunities that the market presents, these players are expected to tap external sources of funds such as PE, venture capital and public markets.

Various international companies have also noticed the tremendous opportunities that the Indian snack market has to offer and are expected to acquire regional players to strengthen their presence in these markets.

We thus believe that the space will experience heighted deal activity over the coming years and will stoke the interest of several players, both strategic and financial. Strong inbound M&A, PE funding and initial public offerings will drive deal activity in this space.

Transactions in Q4 FY17 in the retail and consumer space

Deal round-up

Executive summary

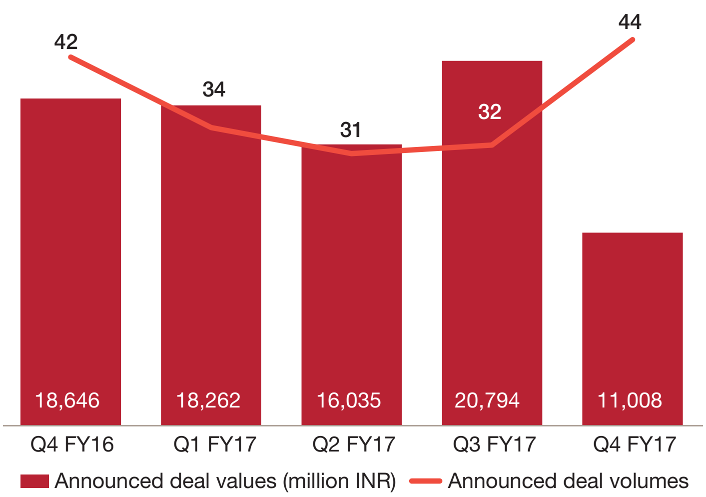
Deals in the retail and consumer sector witnessed an uptick in volume in Q4 FY 2017, showing signs of recovery vis-à-vis previous quarters. However, deal value remained suppressed partly due to a higher number of deals with undisclosed values.

The increase in deal volumes compared to Q4 FY16 and Q3 FY17 can be attributed mainly to an increase in PE investments. However, this quarter witnessed a decline in the M&A market compared to previous quarters. The largest domestic M&A deal this quarter was the acquisition of Kangaroo Kids Education Ltd by EuroKids International Private Limited for 1,242 million INR.

The largest deal in the quarter was the investment of 1,700 million INR in iD Fresh Foods by Premji Invest.

Several trends such as rising per capita incomes and changing consumer lifestyles continue to shape dealmaking in India. Packaged foods, dairy, apparel and retail have been receiving high interest from investors betting on the India consumer story.

Retail and consumer deal value and volume



Deal value: The numbers (Q4 FY17)

11,008 million INR

47% Decrease in deal value versus Q3 FY17

41% Decrease in deal value versus Q4 FY16

Deal volume: The numbers (Q4 FY17)

44

38% Increase in deal volume versus Q3 FY17

5% Increase in deal volume versus Q4 FY16

Key trends and highlights

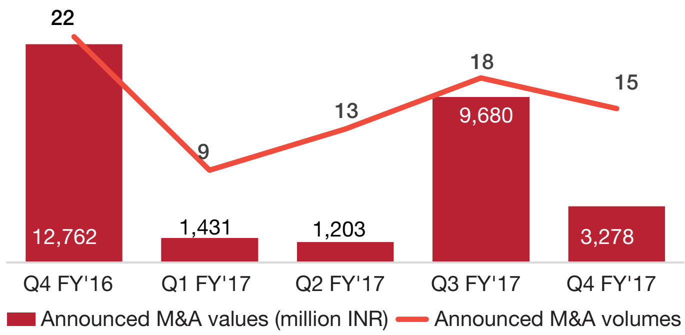
- A total of 44 retail and consumer deals were announced in Q4 FY17, aggregating to 11,008 million INR.
- PE deals witnessed a massive surge this quarter in terms of deal volume; however, deal value remained suppressed.
- Apparel and retail deals led the market in terms of value and volume, followed by consumer services, food and beverages, and personal care.
- There was a slowdown in M&A activity this quarter partly due to the fact that a high number of deal values remained undisclosed.

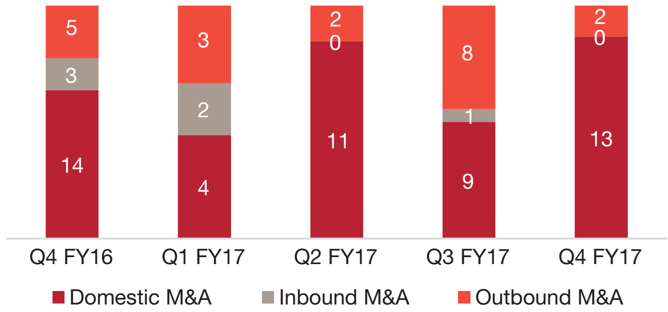
M&A market records sluggish activity.

Q3 FY17 witnessed a sharp downtick in deal activity compared to the previous quarter, with a decline in both deal value and volume. The major reason for the downtick was the weak performance in the outbound M&A market in terms of number of deals (three this quarter compared to eight in the previous quarter). The domestic M&A market recorded improved activity in terms of deal volume and reduced activity in terms of deal value.

Emergence of outbound deals

An emerging trend observed over the quarters has been the rise of outbound M&A deals. Indian companies have identified potentially big markets outside their home country where they can score big gains and use India's cost advantage. Though outbound deals slowed this quarter, they are expected to improve going forward as various FMCG companies make international bets.

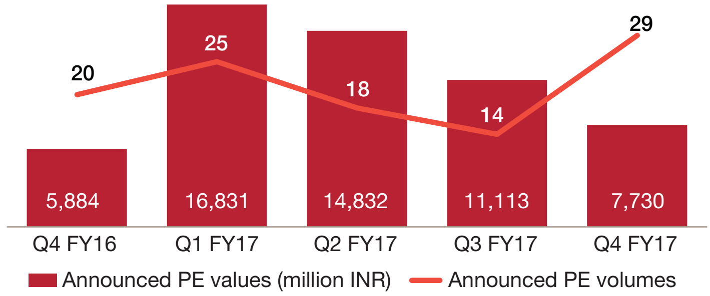




PE remains the driver.

Deals in the market are being increasingly driven by PE players. PE deals formed 70% of the total deal value and 66% of the total deal volume this quarter.

This quarter witnessed a massive surge in PE deals in terms of volume. As PE and venture capital players become increasingly interested in the Indian consumer story, the share of PE deals as a percentage of total deals is expected to remain high and, hence, the overall market is expected to be driven by PE/ venture capital players.



IPO activity

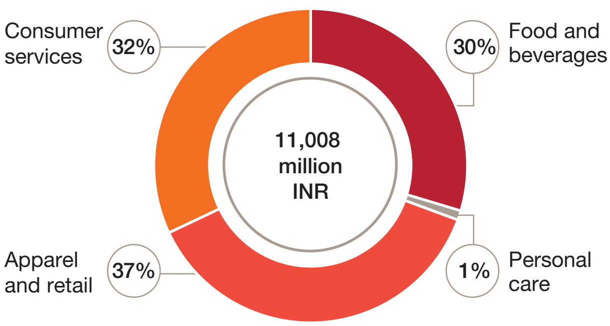
This quarter witnessed a surge in the IPO activity of retail and consumer companies. Two companies, namely Avenue Supermarts Limited (the Mumbai-based owner and operator of D-Mart branded retail chains) and CL Educate Limited (a branded career launcher, education services and products provider), were listed on the stock exchange.

Sector round-up

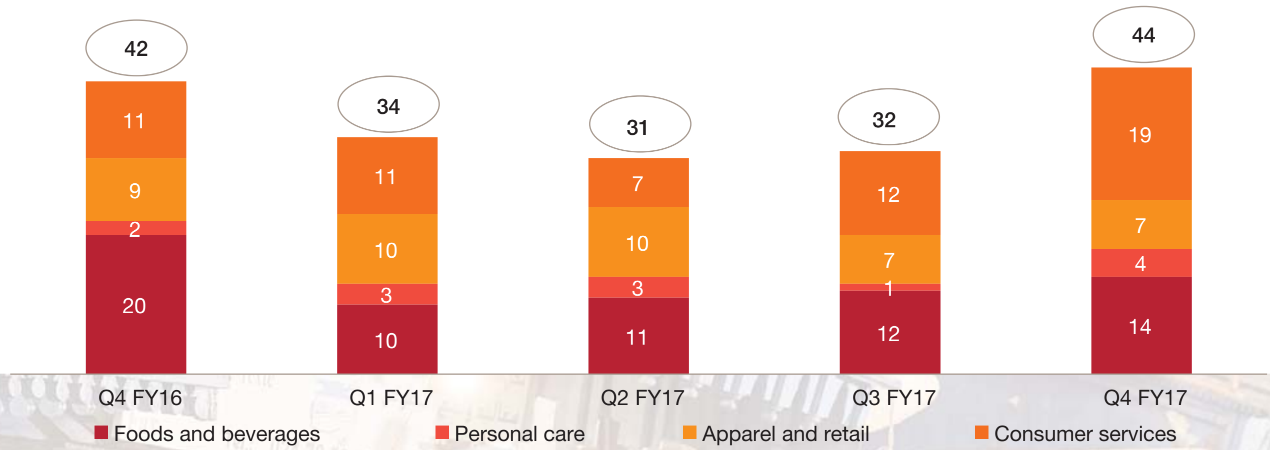
Sector snapshot

- Deals in the consumer and retail sector were largely driven by the apparel and retail and consumer services sectors, which accounted for 69% of the total transactions in Q3 FY17 by value, followed by food and beverages, which accounted for 30% of the transactions by value.
- Personal care deals this quarter witnessed an improvement as compared to Q3 FY17 in terms of both deal value and volume. Activity is expected to improve going forward, driven by both PE and M&A.
- The largest deal in the quarter was in the food and beverages space, namely the investment of 1,700 million INR in iD Fresh Foods by Premji Invest.
- The consumer services sector also recorded improved dealmaking, with education becoming a key theme in deals. The largest deal in the consumer services sector this quarter was the acquisition of Kangaroo Kids Education Ltd by EuroKids International Private Limited for 1,242 million INR.

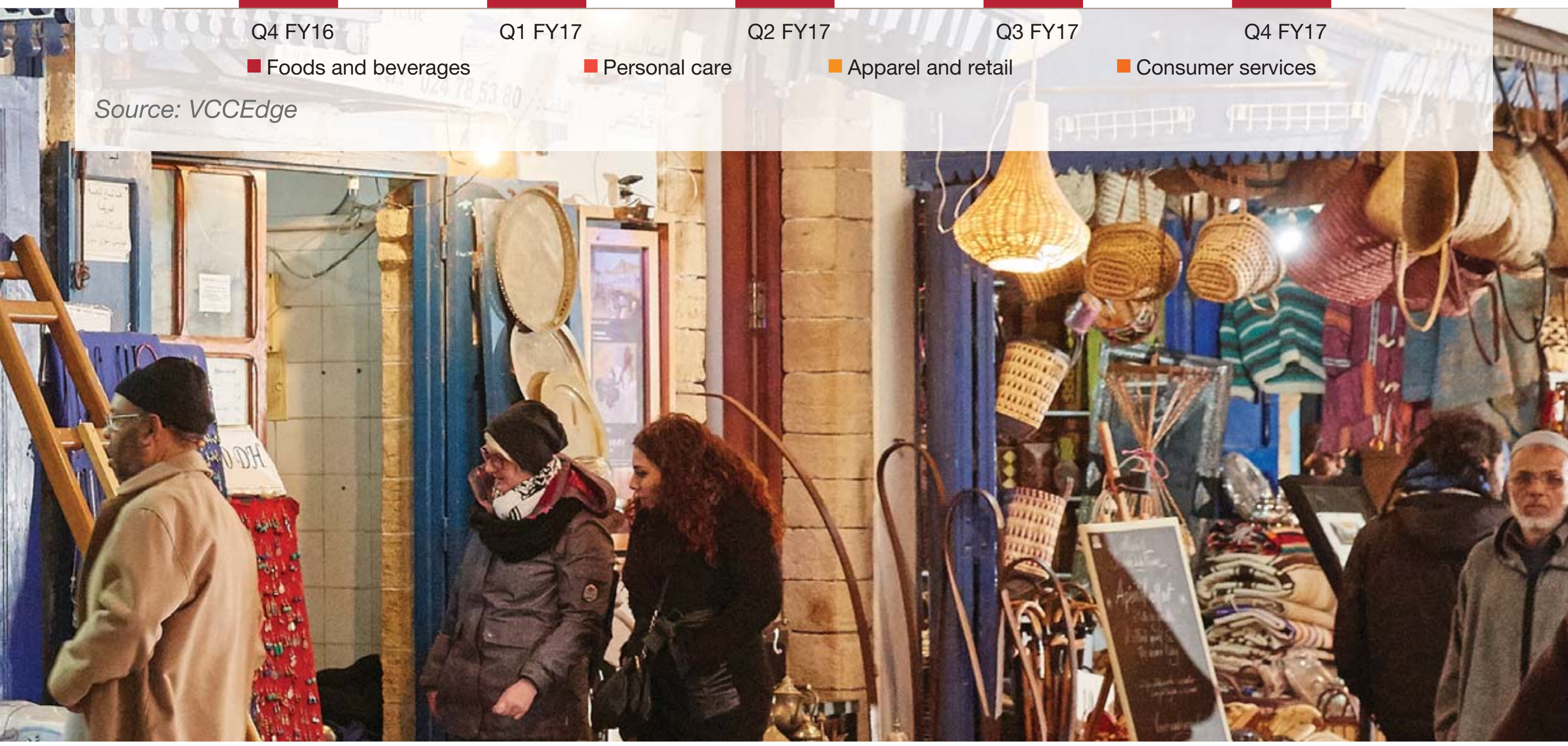
Q4 FY17



Deal volume



Source: VCCEdge



Key announced transactions

Top M&A/PE deals in the quarter

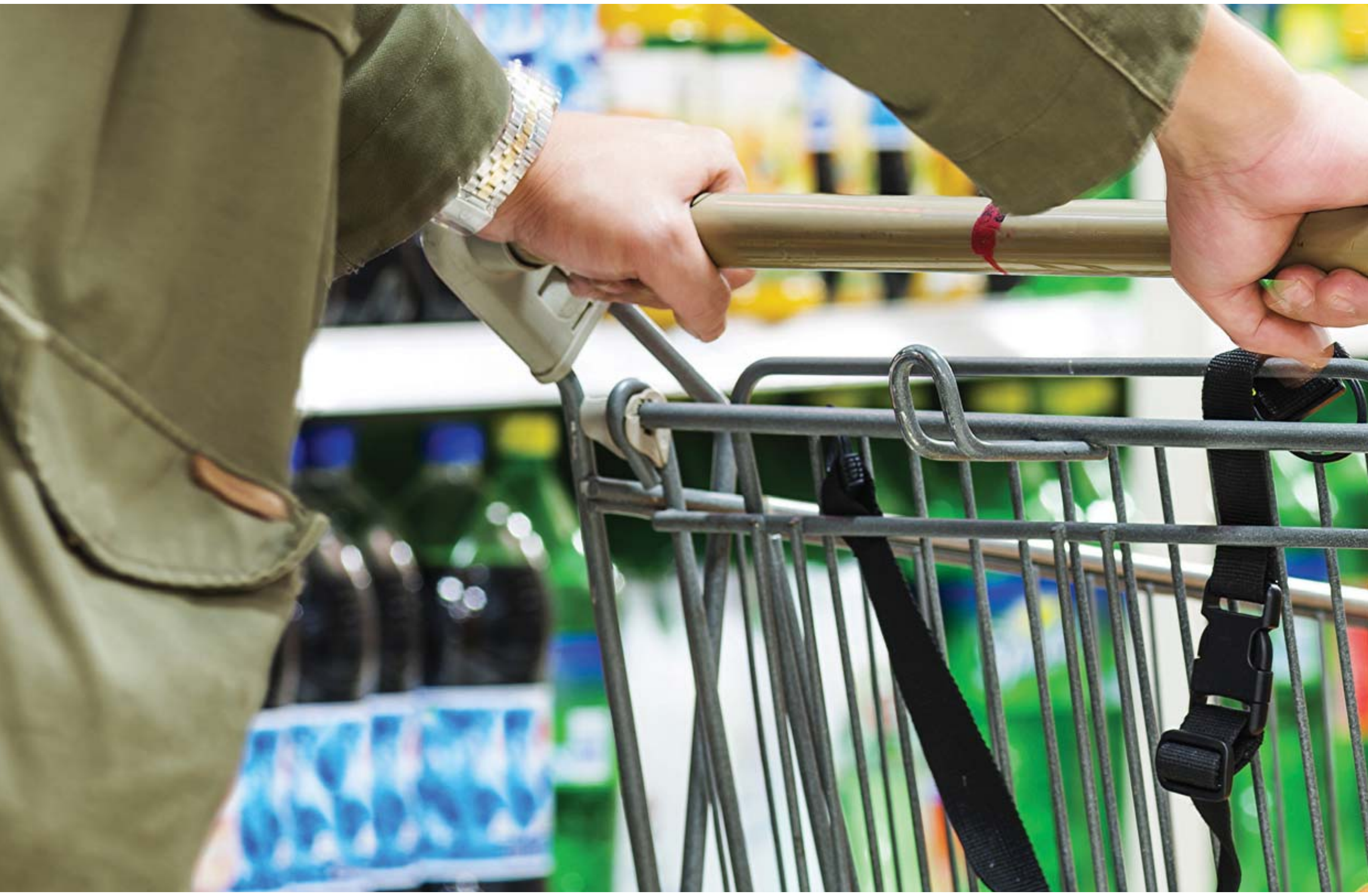
Target	Acquirer	Target industry	Deal value (million INR)	Stake
Kangaroo Kids Education Limited	EuroKids International Private Limited	Consumer services	1,242	100.0%
iD Fresh Food India Private Limited	Premji Invest	Foods and beverages	1,700	25.0%
Future Retail Limited	Bennett Coleman and Co. Ltd.	Retail	1,048	0.87%
Cue Learn Private Limited	Sequoia Capital, CapitalG	Consumer services	1,020	NA
Cravatex Brands Limited	Paragon Partners	Apparel and retail	749	NA

Trading multiples for public companies

Company name	Price (million INR)	% of 52 week high	% of 52 week low	Market cap	Enterprise value	EV/sales	EV/ EBITDA	P/E	EBITDA (%)	PAT (%)
ITC Limited	306.0	95.7%	137.8%	3,716,542	3,575,966	8.4x	23.3x	36.2x	35.9%	24.0%
Nestlé India Limited	6,667.5	90.5%	117.9%	642,847	621,640	6.6x	34.0x	68.0x	19.4%	10.0%
Dabur India Limited	282.2	88.2%	108.9%	497,013	495,579	6.4x	33.2x	39.1x	19.4%	16.6%
Britannia Industries Limited	3,673.0	96.7%	145.8%	440,261	438,149	4.9x	34.4x	49.8x	14.2%	9.9%
Tata Global Beverages Limited	154.4	95.6%	135.1%	97,352	106,028	1.6x	13.3x	25.0x	11.8%	5.7%
Manpasand Beverages Limited	769.0	86.6%	155.4%	44,114	43,482	6.4x	29.0x	59.5x	22.1%	9.8%
DFM Foods Limited	1,328.6	54.6%	118.4%	13,288	13,708	4.0x	40.9x	83.8x	9.7%	4.6%
Mean						**5.5x**	**29.7x**	**51.6x**	**18.9%**	**11.5%**
Median						**6.4x**	**33.2x**	**49.8x**	**19.4%**	**9.9%**
Hindustan Unilever Limited	1,095.4	98.2%	140.1%	2,370,519	2,314,769	7.0x	37.0x	53.1x	18.9%	13.5%
Godrej Consumer Products Limited	1,884.5	96.2%	148.1%	641,862	659,099	7.1x	35.3x	49.2x	20.1%	14.1%
Colgate-Palmolive (India) Limited	1,076.3	99.2%	126.5%	292,453	289,445	7.3x	31.4x	50.7x	23.2%	14.5%
Emami Limited	1,130.0	89.7%	122.2%	256,065	256,962	10.1x	36.6x	75.3x	27.8%	13.4%
Procter & Gamble Hygiene and Health Care Limited	8,040.6	98.1%	134.0%	261,098	248,671	9.7x	35.5x	56.2x	27.4%	18.2%
Gillette India Limited	4,898.7	96.5%	121.8%	159,156	154,000	7.7x	39.5x	61.0x	19.4%	13.0%
Jyothy Laboratories Limited	386.1	90.4%	138.2%	70,012	69,148	4.1x	27.1x	34.4x	15.2%	12.4%
Bajaj Corp Limited	374.4	85.9%	115.4%	55,113	51,754	6.5x	19.7x	25.4x	33.0%	27.4%
Marico Limited	317.2	96.2%	135.2%	409,337	404,219	6.8x	34.8x	51.2x	19.6%	13.5%
Mean						**7.4x**	**33.0x**	**50.7x**	**22.7%**	**15.5%**
Median						**7.1x**	**35.3x**	**51.2x**	**20.1%**	**13.5%**
Hatsun Agro Product Limited	585.0	86.7%	193.8%	89,133	95,484	2.3x	28.1x	66.5x	8.1%	3.2%
Kwality Limited	138.1	81.8%	139.9%	32,894	47,658	0.7x	10.5x	16.8x	6.6%	2.8%
Parag Milk Foods Limited	229.8	64.4%	113.8%	19,283	20,609	1.2x	22.3x	110.5x	5.3%	1.0%
Heritage Foods Limited	1,116.7	91.7%	224.2%	25,905	26,838	1.5x	17.6x	38.8x	8.4%	3.7%
Prabhat Dairy Limited	115.2	76.3%	155.7%	11,243	12,976	0.9x	10.6x	23.8x	8.7%	3.3%
Mean						**1.3x**	**17.8x**	**51.3x**	**7.4%**	**2.8%**
Median						**1.2x**	**17.6x**	**38.8x**	**8.1%**	**3.2%**
Avenue Supermarts Limited	802.4	97.3%	143.7%	500,173	492,487	4.1x	49.0x	94.6x	8.4%	4.0%
Page Industries Limited	16,242.6	93.4%	133.8%	180,288	180,169	8.5x	42.2x	68.0x	20.1%	12.5%
Aditya Birla Fashion and Retail Limited	182.1	98.0%	148.1%	139,994	159,765	2.4x	30.5x	263.8x	7.9%	0.8%
Trent Limited	249.0	90.0%	156.7%	82,730	84,337	4.6x	56.4x	97.6x	8.2%	4.6%
Shoppers Stop Limited	332.7	79.3%	124.1%	27,402	33,223	0.7x	19.8x	nm	3.4%	-0.8%
Kewal Kiran Clothing Limited	1,730.0	86.2%	106.9%	21,322	20,407	4.1x	20.7x	25.0x	20.1%	17.3%
Indian Terrain Fashions Limited	209.6	96.0%	171.6%	8,049	7,757	1.9x	16.8x	28.4x	11.6%	6.9%
Mean						**3.8x**	**33.6x**	**96.2x**	**11.4%**	**6.5%**
Median						**4.1x**	**30.5x**	**81.3x**	**8.4%**	**4.6%**

Company name	Price (million INR)	% of 52 week high	% of 52 week low	Market cap	Enterprise value	EV/sales	EV/ EBITDA	P/E	EBITDA (%)	PAT (%)
Jubilant FoodWorks Limited	969.1	74.6%	127.4%	63,741	62,451	2.4x	29.5x	110.6x	8.2%	2.2%
Westlife Development Limited	236.7	89.6%	155.7%	36,823	37,477	4.0x	94.2x	nm	4.3%	-1.3%
Talwalkars Better Value Fitness Limited	277.4	91.6%	133.8%	8,276	11,132	3.9x	6.6x	12.6x	59.3%	22.9%
Speciality Restaurants Limited	79.8	77.5%	134.1%	3,780	3,084	1.0x	nm	nm	-2.7%	-8.4%
Mean						2.8x	43.4x	61.6x	17.3%	3.9%
Median						3.2x	29.5x	61.6x	6.2%	0.5%
Titan Company Limited	525.0	92.6%	177.2%	466,043	451,477	3.5x	39.4x	66.9x	8.8%	5.5%
PC Jeweller Limited	530.1	92.6%	184.1%	95,019	89,762	1.1x	11.8x	24.2x	8.9%	5.0%
Bata India Limited	554.4	90.3%	138.9%	71,198	65,716	2.7x	22.8x	44.8x	11.7%	6.4%
Relaxo Footwears Limited	490.5	92.9%	140.1%	58,576	59,846	3.4x	25.1x	47.9x	13.7%	7.1%
Mirza International Limited	155.7	95.6%	228.6%	18,726	20,080	2.1x	12.8x	26.3x	16.8%	7.6%
Gitanjali Gems Limited	65.0	69.4%	185.8%	7,710	84,315	0.5x	13.3x	4.4x	3.8%	1.0%
Liberty Shoes Limited	180.9	87.1%	140.7%	3,080	4,363	0.9x	11.2x	48.2x	7.9%	1.3%
Mean						2.0x	19.5x	37.5x	10.2%	4.8%
Median						2.1x	13.3x	44.8x	8.9%	5.5%

Source: CapitalIQ as of 12 June 2017
Note: nm indicates non-meaningful



Deals consummated by PwC's Corporate Finance practice in Q4 FY17

Elior Group invested in **MegaBite Food Services** | Company advised by **PwC**

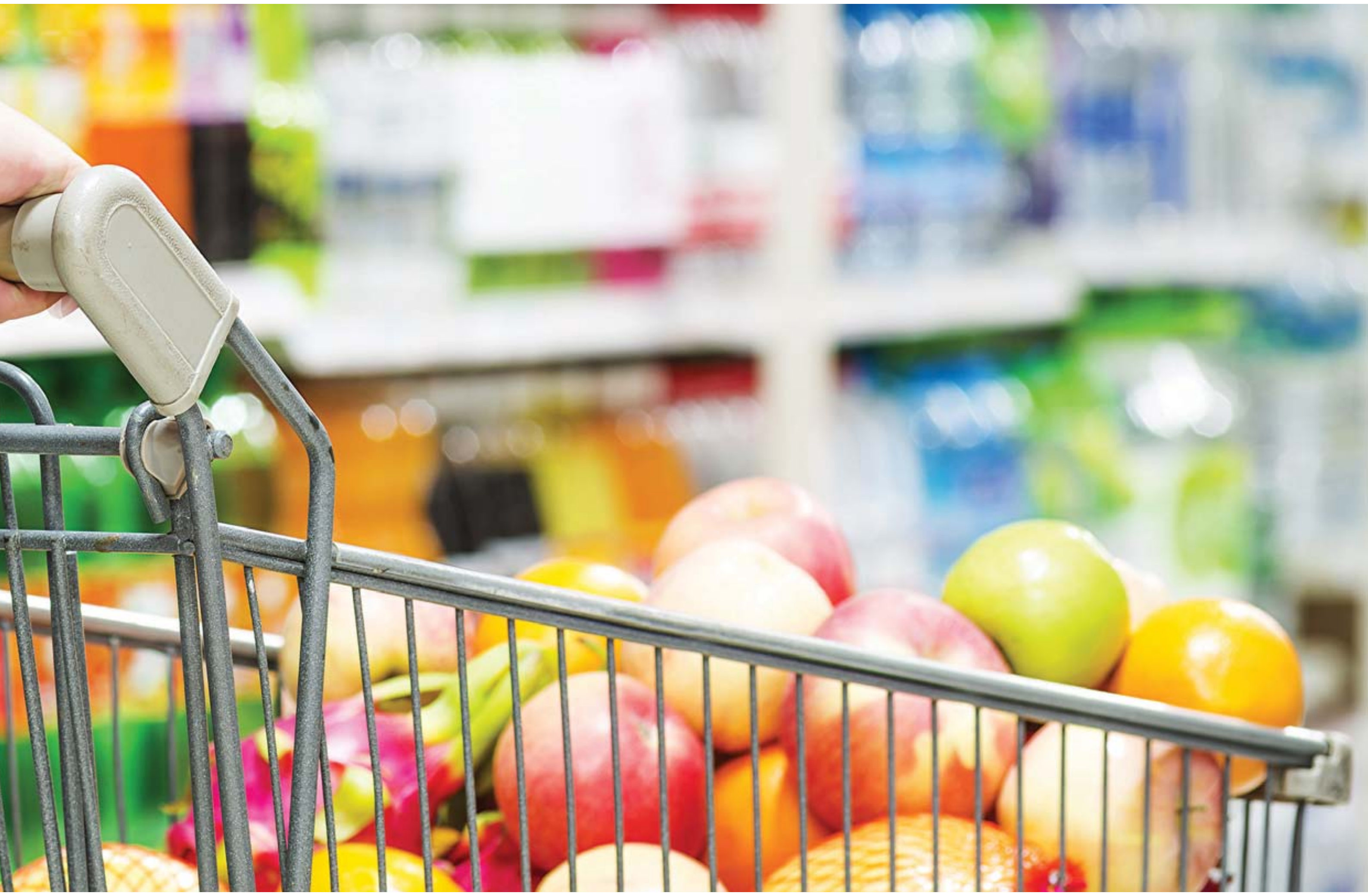
PwC India acted as the exclusive financial advisor to MegaBite Food Services on its sale to Elior Group.

Founded in 2005 by three ex-hoteliers, MegaBite Food Services is a leading corporate catering service with operations in Bengaluru and Mumbai. The company is based out of Bengaluru.

The company serves approximately 30,000 meals per day in Bengaluru and 1,800 meals per day in Mumbai to premium corporate clients such as Cisco, Microsoft, Google, McKinsey and Shell.

The deal marks the Indian entry of French company Elior Group—one of the world's leading operators in the contract food industry.

This is the fourth deal closed by PwC's Corporate Finance – Retail and Consumer team since January 2016, thus highlighting our expertise in the sector. In addition to this, we advised O2 Spa, Maiyas Beverages and Foods, and Catwalk Footwear on raising growth capital.



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