

Indian
consumer
sector

De-growth to spawn opportunities for PEs

Chartbook

May 2020

Notes:

All views in this chartbook are as of May 2020.

To analyse, CRISIL has classified the consumer goods sector under three broad categories:

1. **Essential items manufacturing:** Mostly non-durables with a shelf life of less than one year. Includes packaged foods like biscuits, snacks, noodles, and branded pulses, rice, wheat flour and edible oil; personal care products like soaps, shampoos and sanitizers; and home care products such as detergents, dish washers, toilet and floor cleaners, and disinfectants
2. **Discretionary items manufacturing:** Mostly durables with a shelf life of one year or more. Includes apparel, electrical appliances, electronics, furniture, dry fruits, cosmetics, etc.
3. **Services:** Cover quick service restaurants (QSRs), e-commerce, online marketplaces, café chains, food delivery platforms, pharmacy and grocery delivery, etc.

Analytical contacts

Rahul Prithiani

Director
CRISIL Research
rahul.prithiani@crisil.com

Anjali Nathwani

Associate Director
CRISIL Research
anjali.nathwani@crisil.com

Prisha Sheth

Senior Research Analyst
prisha.sheth@crisil.com

Overall revenue growth to be knocked back materially

E-retail, essentials to fare better






Revenue is projected to decline 2-4% for consumer essentials and 16-30% across discretionary manufacturing and consumer services in fiscal 2021 in the base case scenario. The decline could be steeper for some discretionary segments -- 30-40% -- in case of extended vulnerability.

The decline will be lower for essentials as demand is only marginally impacted, albeit large players are producing only 60-80% of their normal output with almost half the factories located in Covid-19 hotspots. Start-ups and small and medium-sized enterprises (SMEs) with in-house logistics such as iD Fresh food and local snacks manufacturers in rural areas are able to keep pace with the growing demand for essential items.

E-retail will be an exception as e-grocers such as BigBasket and Grofers, online marketplaces such as Amazon and Flipkart have seen a surge in demand and are delivering essential items at the doorstep.

Household appliances, readymade garments and QSR will witness the sharpest decline in revenues - in both base case scenario as well as extended vulnerability - as consumers postpone discretionary purchases.

Severe impact on revenue growth this fiscal with staggered recovery post lockdown

Consumer segments	Revenue growth FY18	Revenue growth FY19	Revenue growth FY20E	Covid-19 impact analysis (FY21P)		CAGR FY20-FY23
				Base case	Extended vulnerability	
 Consumer food (organised) *	14%	15%	4-6%	(2)-(4)%	(6)-(7)%	9.5-10.5%
 Household appliances	12%	8%	5-6%	(16)-(18)%	(32)-(34)%	~1%
 Readymade garments	5%	8%	0-(2)%	(16)-(18)%	(30)-(40)%	~2%
 E-retail **	25%	25%	19-20%	3-4%	~0%	17-18%
 QSRs	~18%	~17%	12-14%	(25)-(30)%	(35)-(40)%	11-12%

Note: The analysis is based on two scenarios: base case, which assumes a total lockdown in first quarter of FY21, and extended vulnerability or assuming that a partial lockdown will be in place till the second quarter of FY21

* Consumer foods include bakery, confectionery, snacks, ready to eat (RTE) and ready to cook (RTC)

** E-retail consists of online retail and online marketplaces dealing in fashion, furniture, grocery, pharmacy, electronics, jewellery and others

Red represents more than 5% de-growth over the previous year; amber (5)-5% growth; green more than 5% growth

E: Estimated; P: Projected

Essential goods and services to rebound in a month

Discretionary spending will take up to a year to recover

Discretionary consumer goods will bear the brunt of the pandemic fallout -- demand, production and supply-chain disruptions.

However, essentials will bounce back faster owing to sustained urban demand as consumers turn brand agnostic and switch to available alternatives; recovery in rural demand and normalisation of the supply chain.

Within the services space, demand will revive quickly as safety-concerned consumers will continue to opt for contactless shopping and doorstep deliveries.

Demand to kick off faster for essentials and services than discretionary items

		Essential items	Discretionary items	Services
Expected rebound period	Demand	5-7 days	Up to 1 year	15-20 days *
	Production and supply chain	25-30 days	30-40 days	NA
Demand		<ul style="list-style-type: none"> Sustained demand for food & groceries, recovery in rural demand Switch to alternatively available brands 	Low discretionary spending on account of pay cuts, job losses and shutting down of non-profitable businesses	Demand for doorstep delivery to increase as fear of Covid-19 lingers
	Production	Automated production capacities	High unsold inventory	NA
Supply chain	Raw materials	Pent-up demand for raw materials to cause slight production delays	Dependancy on imports (largely from China) to lengthen delay	NA
	Labour	Remigration of labourers to take up to 15 days	Remigration of labourers to take up to 15 days	Locally hired delivery staff
	Distribution & logistics	Transportation of essentials to be given priority	Transportation of essentials to be given priority	Local transport/last-mile delivery

* Demand for QSRs, coffee chains may take ~6 months to rebound as Covid-19 fear may linger among consumers

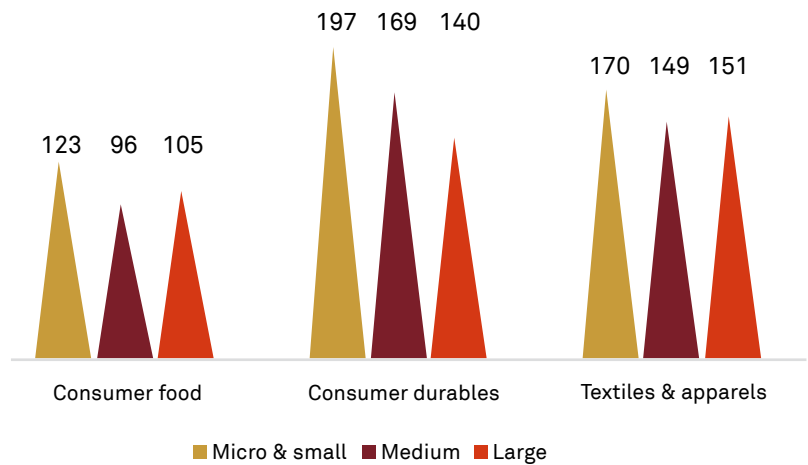
Legend ■ Low impact ■ Moderate impact ■ Severe impact NA: Not applicable

Stretched working capital cycle to squeeze liquidity It will also hurt profitability

Consumer food companies will be moderately impacted on working capital intensity as automated production capacities and steady demand will ensure inventory days remain low. However, stressed penetration in rural areas and supply-chain disruptions would delay payments from distributors.

Household appliances and readymade garments will be worse off because of higher inventory and receivable days with unsold stocks piling up and poor sales. Also, upfront payments to raw material suppliers will put a squeeze on payable days.

Median gross current asset days (FY19)



Note: Micro & small: <Rs 100 crore annual revenue, Medium: Rs 100-500 crore, Large: >Rs 500 crore

Gearing and interest coverage ratio in FY19 and FY21(P)

(Times)	Snacks		RTE/RTC		Biscuits & Bakery		Chocolates		Household appliances		Readymade garments	
	FY19	FY21P	FY19	FY21P	FY19	FY21P	FY19	FY21P	FY19	FY21P	FY19	FY21P
Gearing ratio	0.20	↑	0.08	↑	0.79	↔	0.31	↔	0.17	↑	0.18	↑
Interest coverage	23	↓	103	↓	312	↔	8	↓	20	↓	3.3	↓

Note: RTE: Ready to eat; RTC: Ready to cook; RMG: Readymade garments; P: Projected

The new consumer priorities

Availability, convenience, affordability, and hygiene and safety

Consumer behaviour will witness a change in the near term as availability, convenience, affordability, hygiene and safety become new consumer priorities.

The shift in brand loyalty due to unavailability will boost sales of local/SME manufacturers with a flexible logistics network. Retailers and fast-moving consumer goods companies have already tied up with food delivery service providers for doorstep deliveries, to meet consumer inclination towards convenience.

Within essential items, demand for food and home care is higher than personal care/beauty products owing to increased concern about hygiene among consumers. Restaurants and theatres will continue to be hit by the change in consumer priorities amid lingering fear of the pandemic.

Changing consumer behaviour to influence funding prospects

Consumer behaviour

Impact on industry

Availability



Local/on-shelf gaining higher acceptance due to availability/supply-chain issues



Private labels, local brands & unbranded essentials from local SMEs and start-ups to gain higher acceptance



Convenience



Prolonged lock-down; lingering fear of Covid-19



Local stores, online marketplaces/large-format e-retail for groceries, pharmaceuticals & food and cloud kitchens to witness boost



Cash conservation



Lower discretionary spending



High-end consumer products, household appliances, furniture, restaurants/dine-in, theatres, apparels to face the brunt of slowdown



Hygiene and safety



Consumers to be more cautious about health post lockdown



Home care, personal care, branded QSRs and restaurants to gain from consumer preference for hygiene

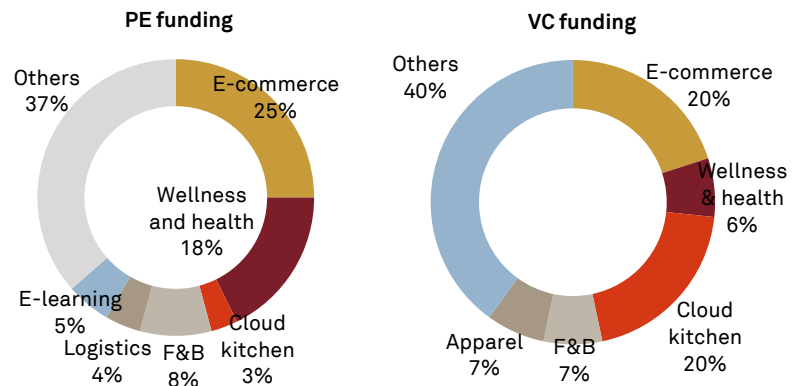


Investment opportunities to open up soon

Game on for private equity

While falling valuations could delay exits from existing companies, they could also throw up bargain finds among consumer businesses with good long-term prospects.

Segment-wise share of deals from January–December 2019



Major PE deal in 2019 (worth ~\$585 million): Udaan (B2B trade platform for manufacturers, traders, retailers and wholesalers)

Major venture capital (VC) deal in 2019: Online fresh fish and meat retailer FreshtoHome

After Covid-19

Investor perspectives



Short-term funding to support companies with a positive long-term outlook but currently disrupted business model



PE investors may fund lucrative companies at lower valuations given the weakened balance sheets owing to the significant Covid-19 impact on the business



Exits may face delays on account of wait-and-watch approach by acquirers and lower valuations arising from near-term concerns

Others include apparels, rental vehicles and technology-driven services such as hyperlocal services, e-sports platform, video & OTT platform, online consulting & counselling platforms, home-hosted social-events platforms, podcasting platforms, etc.

Investors will find health and wellness segment to be attractive

Changing consumer priorities changing the landscape

PE favourites -- consumer foods, QSRs, e-commerce and technology-based consumer services firms – are also the new favourites of consumers given their changing priorities. Within these segments, health- and wellness-focused businesses will emerge as the key investible themes.

With a large part of the demand being essential in nature, the shift in consumer preference to alternative/local brands with a strong distribution network is gaining traction. Cloud kitchens will also attract PE interest as they will revive faster than traditional dine-in restaurants and have lower rental expenses. QSRs with a strong value chain, especially branded ones, will regain consumer trust faster on the health and safety marketing plank.

E-commerce will witness renewed interest as demand for contactless deliveries at the doorstep rises. The lockdown is also expected to strengthen consumer interest in online consultation, e-learning and online recreation.

Key investible themes

Consumer foods	<ul style="list-style-type: none"> • Fresh foods such as meat, seafood and dairy products • Healthy foods, drinks and nutrition bars
QSR	<ul style="list-style-type: none"> • Cloud kitchens • Branded QSRs
E-comm	<ul style="list-style-type: none"> • Acceleration in online marketplaces/large format retailers for food and grocery, logistics • Naturally derived beauty products, pharmaceuticals, readymade garments, etc.
Technology	<ul style="list-style-type: none"> • Online fitness, doctor consultation, mental wellness consultation/apps • Online gaming and recreation • Online study material/coaching

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