The Opportunity called ‘Rural India’

By:
Sunil Duggal
CEO, Dabur India Limited
Agenda

1. The Macro Picture
2. What is driving rural growth?
3. Dabur and its rural connect
India is the fastest growing economy in the world

**The Big Macro Picture**

**India’s GDP (US$ tn)**

- 2017: 2.3
- 2025: 5.0
  - CAGR: 10%

**Consumption to surge ~2.5x by 2025**

**Consumption in India (US$ tn)**

- 2017: 1.3
- 2025: 3.0
  - CAGR: 11%

- Over the next 8 years, India’s GDP is expected to scale up to US$ 5 trillion

- Springboard of this growth will be the 3 Ds
  - **Demography**: India will add around 100 million people to its labour force over the next decade
  - **Debt**: Household leverage is too low, lot of headroom for it to rise
  - **Deregulation**: Building state capacity, Enabling Corporates, Empowering Households
FMCG: Drivers of growth

The great demographic dividend

India’s demographic mix %

<table>
<thead>
<tr>
<th>Year</th>
<th>&gt;59 years</th>
<th>25-59 years</th>
<th>&lt;24 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>43%</td>
<td>49%</td>
<td>8%</td>
</tr>
<tr>
<td>2016</td>
<td>44%</td>
<td>47%</td>
<td>9%</td>
</tr>
<tr>
<td>2025</td>
<td>46%</td>
<td>42%</td>
<td>11%</td>
</tr>
</tbody>
</table>

GDP growing at a good clip

GDP Growth Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.6%</td>
</tr>
<tr>
<td>2015</td>
<td>7.2%</td>
</tr>
<tr>
<td>2016</td>
<td>7.9%</td>
</tr>
<tr>
<td>2017</td>
<td>7.1%</td>
</tr>
<tr>
<td>2018E</td>
<td>7.2%</td>
</tr>
<tr>
<td>2019E</td>
<td>7.7%</td>
</tr>
</tbody>
</table>

Rising Per Capita Incomes

Per Capita Income in India (US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Capita Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,700</td>
</tr>
<tr>
<td>2025</td>
<td>3,500</td>
</tr>
</tbody>
</table>

...will drive the growth of the FMCG sector

Indian FMCG Sector (US$ bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>FMCG Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>21.0</td>
</tr>
<tr>
<td>2015</td>
<td>69.0</td>
</tr>
<tr>
<td>2025</td>
<td>240.0</td>
</tr>
</tbody>
</table>

### Significant opportunity in Middle and Lower Income groups

<table>
<thead>
<tr>
<th>Income Groups</th>
<th>Households (mn)</th>
<th>Income Contribution</th>
<th>Expenditure Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Total (%)</td>
<td>Rural %</td>
</tr>
<tr>
<td>Rich</td>
<td>4</td>
<td>1%</td>
<td>35%</td>
</tr>
<tr>
<td>Higher Middle Income</td>
<td>67</td>
<td>23%</td>
<td>46%</td>
</tr>
<tr>
<td><strong>Total (High Income)</strong></td>
<td><strong>71</strong></td>
<td><strong>24%</strong></td>
<td><strong>46%</strong></td>
</tr>
<tr>
<td>Middle Income</td>
<td>89</td>
<td>31%</td>
<td>62%</td>
</tr>
<tr>
<td>Lower Middle Income</td>
<td>83</td>
<td>29%</td>
<td>76%</td>
</tr>
<tr>
<td><strong>Total (Low Income)</strong></td>
<td><strong>172</strong></td>
<td><strong>59%</strong></td>
<td><strong>69%</strong></td>
</tr>
<tr>
<td>Poor</td>
<td>47</td>
<td>16%</td>
<td>87%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>290</strong></td>
<td><strong>100%</strong></td>
<td><strong>66%</strong></td>
</tr>
</tbody>
</table>

**172 mn households in Middle and Lower Income Groups offer significant potential – of these ~69% are in Rural**

Source: CMIE, Morgan Stanley Research
Rural FMCG Market

Urban 65%  
Rural 35%

Rural FMCG Sector ~US$30 bn

Rural FMCG Market* (US$ bn)

2016  |  29.4
2025  |  100.0

CAGR: ~15%

Expected to grow at a CAGR of 15% and touch US$ 100 bn by 2025

* Source: IBEF Study
Agenda

1. The Macro Picture
2. What is driving rural growth?
3. Dabur and its rural connect
Rural India – Few Facts

66% Population Contribution

6 lacs Villages

17 cr Households

67.8% Literacy Rate

50% GDP Contribution

Rural Contribution to Sectors

- 30% Car
- 36% Grocery
- 45% Telephone
- 50% Two-Wheeler

Source: Govt. of India Census 2011, IBEF, News articles
66% of Indian population still resides in Rural

Rural Population as % of Total Population

However, there is a steady decline due to urbanisation

Source: World Bank Data
Agriculture dependency is going down

Contribution of Agriculture has gone down from 72.4% to 39.2%
Rural vs urban income levels

Average monthly household income (USD per month)

<table>
<thead>
<tr>
<th>Category</th>
<th>USD per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metro</td>
<td>424</td>
</tr>
<tr>
<td>Boom Town</td>
<td>333</td>
</tr>
<tr>
<td>Niche cities</td>
<td>285</td>
</tr>
<tr>
<td>Rest of urban</td>
<td>282</td>
</tr>
<tr>
<td>Developed rural</td>
<td>283</td>
</tr>
<tr>
<td>Emerging rural</td>
<td>221</td>
</tr>
<tr>
<td>Underdeveloped rural</td>
<td>164</td>
</tr>
</tbody>
</table>

Rural incomes are almost half of Metros/ Big towns

Source: Household Survey on India’s Citizen Environment & Consumer Economy (ICE 360° survey)
Exchange rate: USD 1 = INR 69.96
Low penetration levels provide headroom for growth

Penetration levels in rural and urban India

<table>
<thead>
<tr>
<th>Product</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utensil Cleaners</td>
<td>43.2%</td>
<td>70.4%</td>
</tr>
<tr>
<td>Toilet Cleaners</td>
<td>21.2%</td>
<td>52.0%</td>
</tr>
<tr>
<td>Shampoos</td>
<td>68.6%</td>
<td>68.6%</td>
</tr>
<tr>
<td>Honey</td>
<td>3.7%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Fruit Juices</td>
<td>6.5%</td>
<td>17.1%</td>
</tr>
<tr>
<td>Chyawanprash</td>
<td>2.4%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Hair Oils</td>
<td>92.0%</td>
<td>91.7%</td>
</tr>
<tr>
<td>Toothpaste</td>
<td>95.5%</td>
<td>99.5%</td>
</tr>
</tbody>
</table>

Source: Household Panel Data
Rural consumer is evolving – Becoming more aspirational

Aspirational

“I want my family to lead a more comfortable life”
- Rural Consumer A

“I want to enjoy my life”
- Rural Consumer B

“I want to live an urban lifestyle and enhance my self-image”
- Rural Consumer C

Brand Savvy

Reasons for buying branded products

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trustworthy and Reliable</td>
<td>59.0%</td>
</tr>
<tr>
<td>Offer better features</td>
<td>14.0%</td>
</tr>
<tr>
<td>Long warranty &amp; after sales</td>
<td>10.0%</td>
</tr>
<tr>
<td>Better aesthetics</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Trading Up

- Smartphone
- Toothpaste

Exploring

- Rural consumers are continually shifting to newer categories
- Lot of the rural consumers are buying consumer durables, discretionary staples for the first time
- Companies are also using this behavior to sell more of their product range

Source: Accenture report titled “From Touchpoints to Trustpoints: Winning over India’s Aspiring Rural Consumers
Note: The numbers shown are a result of a survey conducted by Accenture
**Rural consumer is evolving – Becoming more networked**

1. **More Connected**

   - TRAI data suggests that in the past four years alone, the subscriber base has expanded seven times in the villages, outstripping the three-fold growth in urban areas.

2. **More Proactive**

   - Earlier Setup:
     - Consumer
     - Retailer
   - Current Setup:
     - Consumer
     - Retailer/ E-retailer
     - World Wide Web

---

Source: Accenture report titled "From Touchpoints to Trustpoints: Winning over India’s Aspiring Rural Consumers, Census of India 2011; TRAI - Telecom Regulatory Authority of India"
Rural consumer is evolving – Becoming more discerning

1. **Street-smart**
   - Impact of ads and celebrity endorsements on purchase decisions
   - Some influence however no bearing on final decision: 7.0%
   - No impact at all: 47.0%
   - Buy mostly based on ads/celebs: 46.0%

2. **Value seeking**
   - Weightage attributed to various considerations while shopping
   - Price: 34.0%
   - Brand Image: 24.0%
   - Functional Aspect: 25.0%
   - Aesthetics: 17.0%

3. **Social**
   - Reaction to bad experience with an organization’s marketing/sales practice
   - Told people around: 63.0%
   - Started engaging with other brands: 25.0%
   - Stopped buying products of the company: 58.0%

*Source: Accenture report titled “From Touchpoints to Trustpoints: Winning over India’s Aspiring Rural Consumers*

*Note: The numbers shown are a result of a survey conducted by Accenture*
Rural consumer is evolving – Women are becoming more empowered

Social and governmental initiatives, microfinance models and women’s self-help groups empowering women

Fostered female entrepreneurship and increase in working women in rural India

Source: Accenture report titled "From Touchpoints to Trustpoints: Winning over India’s Aspiring Rural Consumers, Census of India 2011"
## Govt. support to rural

<table>
<thead>
<tr>
<th>Agriculture Support</th>
<th>Continuity of Income</th>
<th>Increased Awareness and Behavioral Change</th>
<th>Better Accessibility</th>
<th>Financial Stability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pradhan Mantri Krishi Sinchai Yojana</td>
<td>MGNREGA</td>
<td>Digital India</td>
<td>Pradhan Mantri Gram Sadak Yojana</td>
<td>Direct Benefits Transfer</td>
</tr>
<tr>
<td>Minimum Support Price</td>
<td>In 2016-17, increased to INR 48,000 cr from INR 37,000 cr</td>
<td></td>
<td>Road construction accelerated to 133 km per day</td>
<td>(through the Jan Dhan-Aadhaar-mobile trinity)</td>
</tr>
<tr>
<td>Skill India</td>
<td>To boost employability through vocational training</td>
<td></td>
<td>Integration of Villages</td>
<td>National Health Assurance Mission</td>
</tr>
<tr>
<td>Pradhan Mantri Fasal Bima Yojana</td>
<td>Swach Bharat Abhiyaan</td>
<td></td>
<td>Via 80,000 mini-buses connecting over 1,25,000 villages to rural markets</td>
<td></td>
</tr>
<tr>
<td>Minimum Support Price</td>
<td>To reduce farmer’s risk and secure incomes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Support Price</td>
<td>1.5 times the production cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pradhan Mantri Fasal Bima Yojana</td>
<td>Digital India</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Support Price</td>
<td>To boost employability through vocational training</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pradhan Mantri Ujjwala Yojana</td>
<td>Integration of Villages</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum Support Price</td>
<td>Via 80,000 mini-buses connecting over 1,25,000 villages to rural markets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pradhan Mantri Ujjwala Yojana</td>
<td>100 Gram Pachayats to have WiFi hotspot</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Agenda

1. The Macro Picture
2. What is driving rural growth?
3. Dabur and its rural connect
Dabur and its rural connect

Rural contributes ~46% of sales of Dabur

Categories which are big in Rural
- Hair Oils
- Oral Care
- Shampoos
- Digestives
- Health Supplements
- Baby Massage Oils

Brands which are big in Rural

Contribution to Sales
- Rural 46%
- Urban 54%
Dabur’s distribution is a key advantage in rural

**Distribution Network**
- Factory
- C&F
- Super Stockist
- Sub Stockist
- Urban Wholesaler
- Retailer
- Consumer

1. One of the largest distribution networks in India with total reach of ~6.4 mn outlets
2. Reaching directly 1mn+ outlets - ~4.5 lakh outlets in rural
4. Covering ~42,000 villages of India
5. Rural salesforce of ~1,400
Project Double helped expand direct village coverage...

- Rolled out during 2011-12 to expand direct distribution reach in rural markets
- Focus on improving reach, range and availability of products in rural areas
- Led to strong volume-led growth in rural business with improved product width and profitability

**Dabur - Direct Village Coverage**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar'11</td>
<td>14,865</td>
</tr>
<tr>
<td>Mar'12</td>
<td>17,882</td>
</tr>
<tr>
<td>Mar'13</td>
<td>30,091</td>
</tr>
<tr>
<td>Dec'14</td>
<td>43,888</td>
</tr>
</tbody>
</table>

Increase of c.3x
...and Project Buniyaad has been a key driver of growth

Urban Strategy
Leveraging potential through Channel based approach

Rural Strategy
Split the front line teams into two to increase reach and frequency – Showing significant positive gains

Portfolio Focus
Leveraging split teams for focused portfolio building

Enabling Technology
Using technology to track and improve performance and automate processes

New Avenues of Growth
Leveraging the alternate channels of MT and E-comm to grow at a rapid pace

Continue Engagement
Using initiatives and technology to build and continuously motivate the trade and front line teams

Direct Reach – No. of Outlets

<table>
<thead>
<tr>
<th></th>
<th>Mar-15</th>
<th>Mar-16</th>
<th>Mar-17</th>
<th>Mar-18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>916,869</td>
<td>910,095</td>
<td>912,332</td>
<td>1,022,974</td>
</tr>
</tbody>
</table>

Project Buniyaad achieved its direct reach target of 1 mn outlets and continues to expand distribution
Key Changes for Rural under Project Buniyaad

**Rural Sales force of 1,400**

- **50% RSPs servicing HPC Range**
- **50% RSPs servicing HC Range**

1. Increased Rural Servicing Efficiency & Frequency
2. Focus On Wider Range vs. only high Throughput Brands Previously
3. Small Sub Stockists now Covered Directly By Super Stockist
4. Smaller Kirana coverage improved due to enhanced focus
5. Visibility initiatives extended to include small kiranas
Project Buniyaad has led to larger distribution, higher efficiencies and improved hygiene.

**Increase in Lines Sold in Rural**

Q1 FY18: 17.3, Q2 FY18: 17.9, Q3 FY18: 18.6, Q4 FY18: 19.3, Q1 FY19: 20.0

**Increase in Average Brand Sold (ABS) in Rural**

Q1 FY18: 7.30, Q2 FY18: 7.60, Q3 FY18: 7.90, Q4 FY18: 8.00, Q1 FY19: 8.30

**Reduced Pipeline**

**Days of Stock**

FY16: 33, FY17: 31, FY18: 24, Q1 FY19: 17
LUPs are a significant driver of growth and penetration

Seeding
Vans for seeding operation

Distribution
Increase Rural footprint
- Increase Outlets

Visibility
Point of Sales Banning and visibility

Trade Lubrication
Lucrative trade packs and offer to trade

Print
Support thru Print and local media.

Front line Engagement
Incentivize Rural RSP’s to keep momentum.
Engaging with rural consumer at Haats and Melas

Direct engagement through Haats & Fairs like Kumbh Mela, Nauchandi Mela, etc to provide rural consumers an opportunity to experience Dabur products

Stalls set up to engage with consumers by offering them hair oil massage and shampoo

Puppet shows organised for brands like Lal Dant Manjan and Dabur Red Toothpaste

Odomos mosquito repellent cream sampling at Kumbh, where devotees largely stay in tents and prone to mosquito bites
Rural remains key focus area for Dabur

Potential Areas of Growth

- **Home Care**
- **Skin Care**
- **Juices**

Prioritizing High Potential Rural Markets

Range Expansion and Drive Sell Out

Leveraging Split Teams for focused Portfolio Building

Using Technology to sharpen field execution

Adding to the Rural Infrastructure and increasing penetration and availability
Dabur Amla

निहार शान्ति आंवला के मुकाबले बालों को दोगुना तक मजबूत

$9^*$

असली आंवला,
Dabur Amla

*30ml

$^*$निम्नलिखित डाबर आंवला तेल लगाने से आपके बालों की देताल रेट्रेक को दोगुना तक बेहतर होने में मदद मिलती है (निहार शान्ति आंवला तेल के मुकाबले). स्वतंत्र तेल अध्ययन के अनुसार।

*Hair swatches applied with Dabur Amla showed up to 2x improvement in tensile strength measurement when compared with Nihar Shanti Amla. Basis study conducted in independent laboratory.