

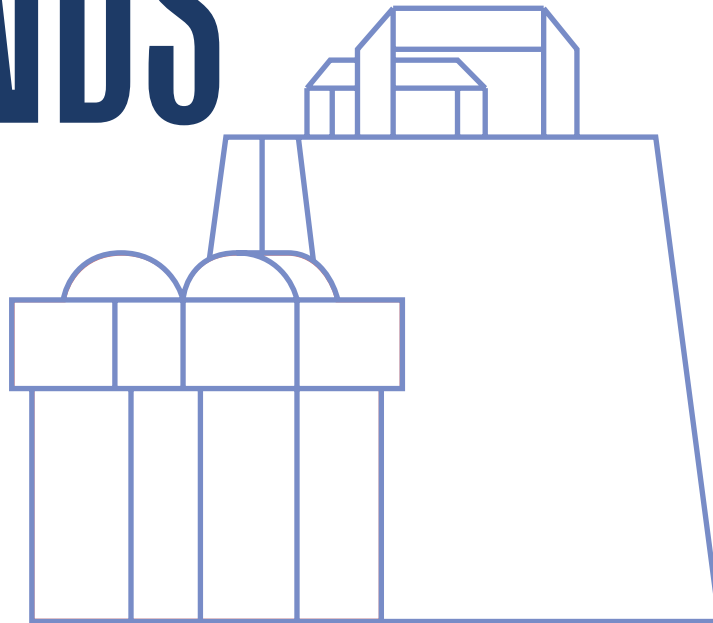


REIMAGINING

NEW-AGE



BRANDS



Summary

India is at a massive inflection point where rise in awareness, per capita income, urbanization and rise of millennials is spurring demand across multiple consumer product categories. Structural shifts in the Indian market such as digital influence & access, localised content availability and emergence of new distribution models that touch the last-mile are altering the consumer landscape and creating categories that did not exist earlier. The retail market is expected to grow from \$550B in 2015 to \$2.1T in 2025.

As India's retail market evolves, new distribution models are emerging, leveraging data & modern trade. By 2025, Modern trade is expected to account for 15% of the overall distribution, from the current 8%, Similarly, online retail is expected to account for 6% of the overall market, from the current 3%. In addition, digitally enabled last mile models for customer acquisition and fulfillment like assisted commerce is gaining acceptance across India.

We believe the consumer sector is now ripe for VC investments, driven by: (1) Challenger brands gaining market share as they capture aspirations of new-age consumers (2) D2C distribution channels have become deeper, driving brand reach in a cost effective manner (3) Digital mediums have reduced the cost of building a brand (4) Specialized contract manufacturing has lowered manufacturing related barriers.

Based on these trends and growing demands of the Indian consumer we expect five large categories to entail a majority of the consumer market. (1) Fashion & Apparel (F&A), (2) Food & Beverage (F&B), (3) Beauty & Personal Care (BPC), (4) Consumer Technology and (5) Home & Kitchen. However, F&A, F&B and BPC remain the three largest segments within the consumer sector and are likely to see significant growth & brand creation in the next decade.

Indian Consumption at an Inflection

India's macro economic environment continues to remain robust, drawing support from steady expansion of private consumption and investments, supportive government regulations and a rapidly emerging consumer class.

Rising Middle Income Segment

Between 2016 and 2025, the share of elite and affluent households is expected to increase from 8% to 16% while the share of strugglers is expected to drop from 31% to 18%. This implies a significant rise in population with higher spending power in the next decade. The elite and affluent segments are expected to contribute 40% to the total consumption in 2025, compared to the current 27%.

This is expected to increase per capita income from \$1,700 to \$3,650 during the same period.

Growth in Emerging Cities

Driven largely by the increasing affluence, emerging cities (population of <1M) are likely to witness strong growth. Consumption expenditures in these cities are growing at 14% y-o-y, compared to 12% in India's biggest cities. Unlike Thailand or Indonesia, the migration to urban centers is not concentrated to a few cities in India. This will lead to 120 new cities emerging with the average household income in line with those of today's major metropolitan cities. The consumer behaviour of the migrant population is expected to be one of the key factors for growth of the consumer landscape in India.

Rise of the 'Millennials'

India will have 410M millennial consumers (age 22-37) by 2020 with total consumption expenditure of \$330B. Millennials bring strong brand affinity, seek instant gratification, are not averse to change and are risk takers while purchasing. They want new experiences, a sense of individualism and nonconformity. They spend an average of 17 hours per week online across various mediums. Majority of millennials are first time employees and are more financially independent than their predecessor generation. With significant shift towards millennials, the consumer brand landscape is expected to change in favour of new-age challenger brands.

New Customer clusters being Created

There are multiple new consumer clusters being created across the country. These clusters have common behavioral patterns, propensity to spend, risk appetite and preferences.



→ **Women:** The segment is growing due to the significant increase in the share of earning women in the country. Financial independence for women gives rise to opportunities in product categories such as fashion, health & fitness, beauty & personal and products for home & children.



→ **Senior Citizens:** A significant number of digitally active people will become a part of this cluster in the next five years (age group 55 to 65). Financially independent, their behavioral patterns, product needs, customer experience and service expectations differ from the rest of the population and are a large untapped market in India today.



→ **Teens & Youth:** India's GenZ (10-20 year olds) are heavily influenced by digital channels and have unique preferences across product categories



→ **Indian Language Digital Users:** Indian language speaking digital users are a new category where consumer brands are focusing today. Their needs vary in terms of the activation, outreach, and messaging about the products



→ Other clusters include Digital Mothers, Government employees, Migrant population, Fitness seekers, Current Ecommerce customers, Bank employees, Teachers, Customers of a specific geography etc. Each of these have specific behavioral patterns, ways of getting influenced and risk appetite to transact online

Structural Shifts in Consumption Pattern

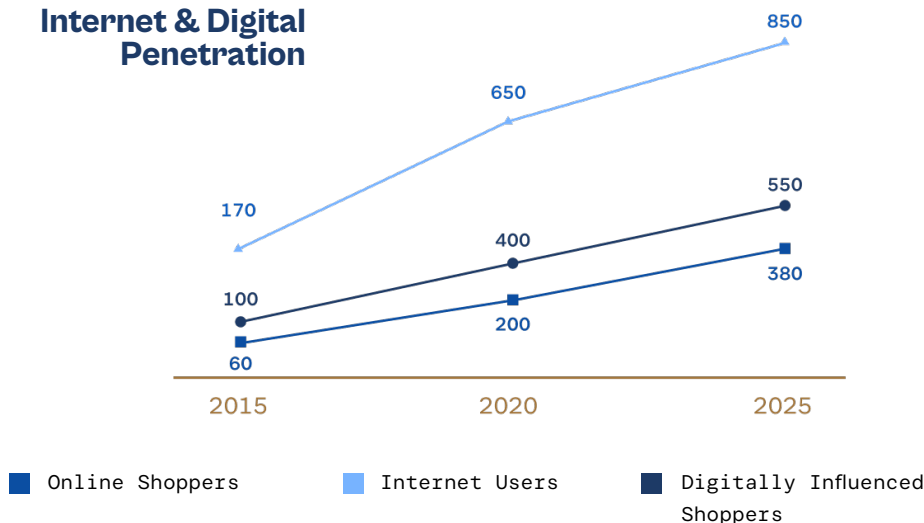
The penetration and cheaper availability of internet and smartphones has significantly changed the digital landscape of India. These changes, as discussed in detail in the India Opportunity section, are structurally changing the consumption patterns.

Rising Digital Penetration

850M people in India are expected to have access to data by 2025, making India the second most digitally populated country. A typical internet user follows a cycle of discovery to influence to purchase online. By 2025, we expect almost 550M consumers in India to be digitally influenced and almost 380M users in India to become digital shoppers, more than a three fold rise from today. As more & more of India's consumers come online in some form or the other, the barriers for new age brands to drive discovery, purchase, & loyalty is expected to reduce significantly. India's retail market is expected to more than double over the next 5-7 years. A large part of this growth will be driven by purchases online and/or purchases which are digitally influenced.

This implies that digital mediums will not only have a significant direct impact on retail market but also have a much larger indirect effect purchasing habits of people.

Growth in Internet & Digital Penetration



Shifting Family Structures

India was characterized by traditional joint family households where children stayed with their parents. Today with increasing migration across cities, this structure is giving way to nuclear families. This trend is important to drive consumption as nuclear families usually spend 20-30% more per capita in comparison to joint family households.

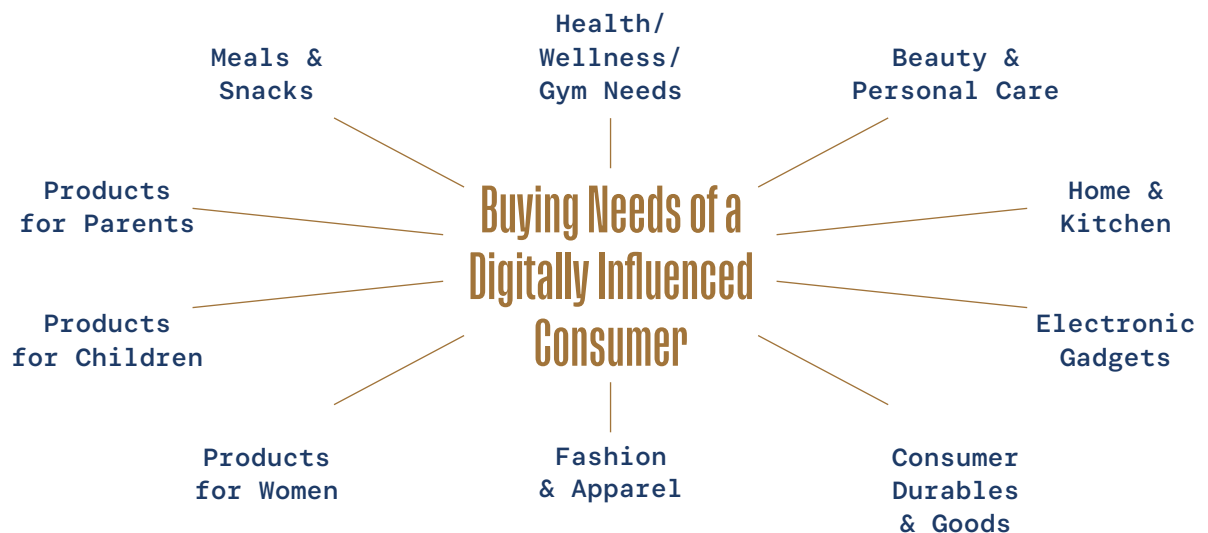
These trends alongside digital adoption are creating multiple spending avenues for digital active consumer.

Based on the needs and growing demands of the Indian consumer we expect four-five large categories to entail a majority of the

consumer market.

1. Beauty & Personal Care (Face, Skin, Hygiene, Health, Fragrance)
2. Packaged Food & Beverages (Sweet & Savoury snacks, baby food, ready to cook, Health Juices)
3. Fashion & Apparel (Footwear, Apparel, Accessories, Jewellery)
4. Consumer Technology (Durables, white-goods, gadgets, electronic hardware)
5. Home & Kitchen (Household consumables Home furnishing, appliances)

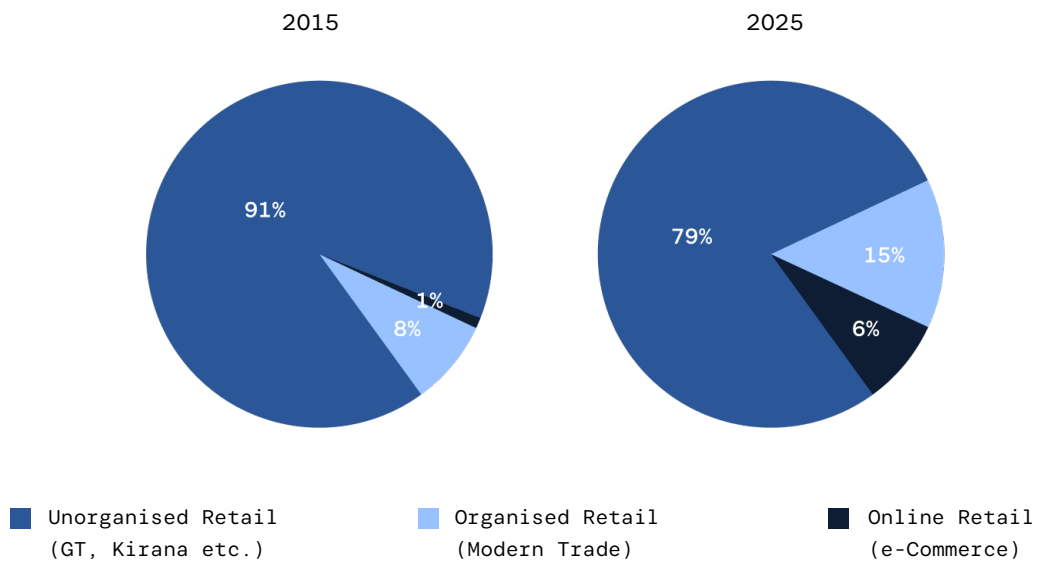
Various Buying Needs of Today's Consumers



Emerging Distribution Channels

Channels such as e-commerce, modern trade, assisted commerce, direct-to-consumer are providing more power to the consumer who is now able to access goods & services from remote locations. With a reach of more than 19,000 pincodes in India most large consumer brands have adopted online distribution.

Shift in Distribution Channels



Poised for Non-Linear Growth

Some trends that could contribute to the non-linear growth of brands include—

Advent of Challenger Brands—

In the last 5 years, 85% of top 50 consumer companies have seen a decline in either revenues or profits. Between 2012 and 2017, 8 of India's top 12 brands have ceded nearly 0.4-2% of either market share to new entrants in Personal Care, Packaged Food and Beverage and Fashion categories. Each of these are large multi-billion dollar opportunities and are expected to double in the next 5-7 years providing space for challenger brands to capture niche segments and build sustainable brands

Large CPG and FMCG companies are looking to acquire innovative brands in order to stay ahead of the curve and build efficiencies. As a result, there is not only opportunity in backing innovative brands in unique sub-segments, but also in collaborating with large FMCG companies through strategic partnerships or acquisitions

Deeper Distribution Channels for Better Brand Reach—

Direct to Consumer (E-commerce, Social Media, Alternate commerce) and Modern Trade are enabling faster time-to-market and an effective audience outreach at a reduced cost. Amazon, Flipkart, Big-basket, Nykaa, Myntra are online distribution channels that have seen deep penetration over the last 3 years. New-age brands are effectively leveraging these online channels to build sizeable and scalable internet-first brands that can grow exponentially. The emergence of these distribution channels gives VC's the ability to realize sizeable returns on consumer brands which wasn't previously the case

Cost Efficient and Quick Brand Building Mediums—

Social media and online communities are strongly influencing purchasing decisions of consumers. It is estimated that 70% of the users who have internet access, go online to make a purchase decision. This makes it imperative that brands build a strong voice, engage their community and target niche audiences, thereby building market depth for their product.

The ability to reach out to a large customer set at relatively low costs, has enabled the newer brands to pilot products more efficiently, use feedback and launch with the right product-market fit.

Specialized Contract Manufacturing Has Lowered Manufacturing Related Barriers—

Manufacturing was a barrier-to-entry that incumbent FMCG companies and traditional retailers had established. With the emergence of contract manufacturing, scale-related barriers have also diminished, allowing smaller brands to manufacture smaller quantities. The savings through reduction of upfront capex is now allowing for VC money to be used towards growth and expansion, making it more capital efficient and scalable.

E-Commerce to Drive Key Categories

The Indian e-commerce market penetration is expected to deepen. The total gross merchandise value at the end of 2018, across all platforms is at \$20B and is expected to grow 5x to reach \$100B by 2025. Going forward, the ability to allow discovery, window shopping, access to a larger range will drive social commerce and consumption in tier-3 and tier-4 towns. The following categories that are expected to drive growth include—

Fashion and Apparel—

In e-commerce, apparel is the second largest online consumer spend category at \$4.2B, 25% of the total market. As new age e-commerce companies further solve for discovery, range & curation, and as social commerce brings Tier 3 & 4 consumers online, we expect the growth in online shopping for fashion to accelerate. Fashion & Apparel will continue to grow to reach \$21B in online retail sales by 2025.

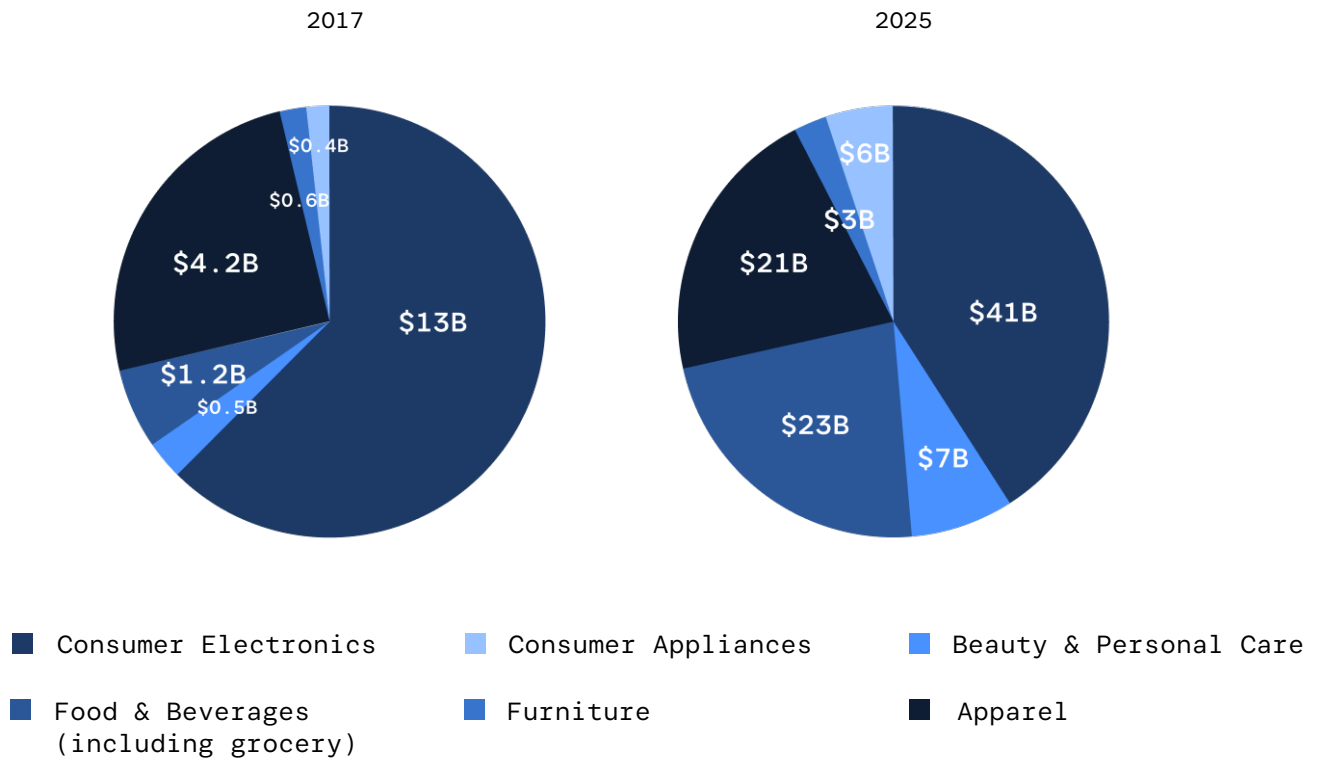
Beauty & Personal Care—

A \$0.5B online market today, BPC is currently at a nascent stage. The industry is expected to witness significant growth driven by improved purchasing power, rising aspirations and a younger population going the extra mile to look good. With over 62% of young consumers in top tier cities, this segment is expected to strongly contribute to the online channels of purchase. The online BPC market is expected to become a \$7B market by 2025.

Food & Beverages—

F&B today constitutes only \$1.2B of total GMV of e-commerce players. However, given the segment's high frequency and repeat ratios, brands are keen to capitalize on the category. Additionally, growing modern trade and specialised e-tail channels such as Big Basket that manage the supply chain and logistics to ensure product efficacy, the category is expected to grow significantly. Online F&B sales alone are expected to reach \$23B by 2025.

e-Commerce Market Size Across Categories



Overall, these three categories have high growth rates, strong sales channels through online e-tailers and the potential to create large, venture-scale outcomes.

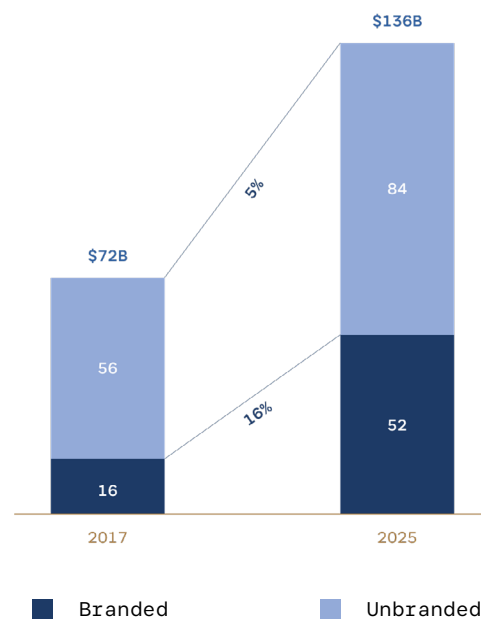


Food & Beverages

India's packaged food & beverages market is currently at \$72B and is expected to grow at 8.3% y-o-y to become a \$136B market by 2025. Within this, the branded segment is expected to show faster growth and contribute from the current 22% to 38% of the overall market.

The Indian food & beverage industry is witnessing change in preferences, consumers are now moving towards preservative-free, natural and healthy alternatives.

Packaged Food & Beverage Market



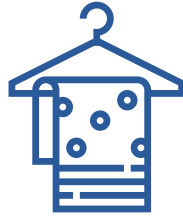
Key Trends shaping the Industry

Growing awareness about health, food safety & nutrition

through digital media is increasing focus on 'self' and 'wellness', leading to an increase in the healthy food sub-segment. Urban consumers are willing to pay a premium for products that offer nutrition, convenience or taste. Ayurvedic recipes, high protein and fiber rich food & beverages are some alternatives consumers are seeking. Indians are paying "healthy option" premiums of around 24% in biscuits, 71% in tea & 82% in noodles. In addition, growing concerns around excessive use of pesticides, growth hormones & antibiotics have led to the growth of organic food. The healthy, organic F&B market alone is expected to be \$6B by 2025.

Homegrown Brands gaining Popularity—

There has been a 5% reduction in market share of established packaged food brands in the last 5 years owing to homegrown brands gaining popularity. Some early trends that are emerging from these sub-segments are based on traceability, plant-based food & beverages, dairy alternatives, and functional products providing new-age niche brands a competitive advantage

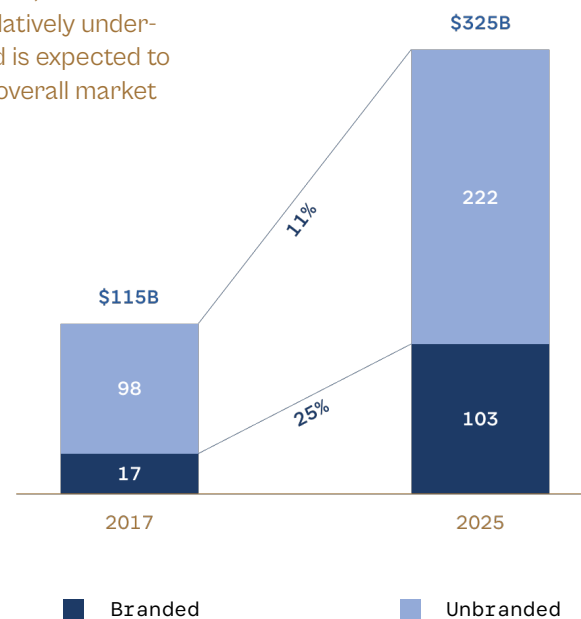


Fashion & Apparel

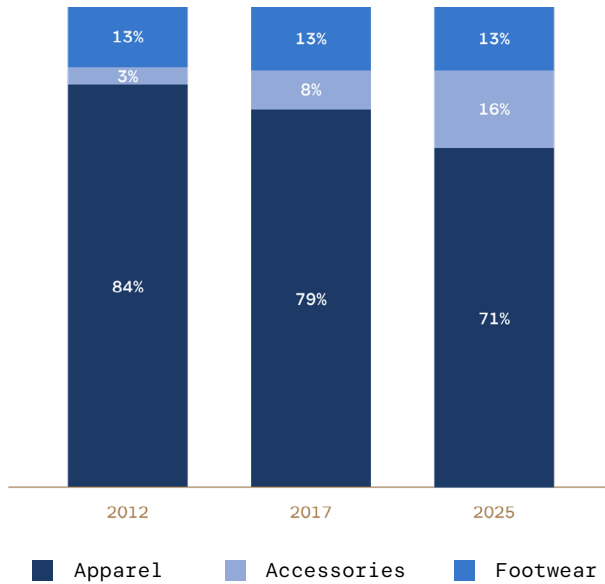
At \$115B, the fashion & apparel market in India is expected to grow at a 14% CAGR to reach \$325B by 2025. Growth in this segment is expected to come mainly from fashion wear in women and kids. Changing brand preferences are also expected to cause the branded segment to grow at a 25% CAGR, contributing 32% of the overall market by 2025 from the current 15%.

As millennials & gen-Z enter the mainstream, one expects to see significant growth in the purchase of fashion accessories (jewellery, bags, belts, wallets etc). The category remains relatively underpenetrated currently and is expected to contribute to 16% of the overall market from the current 8%.

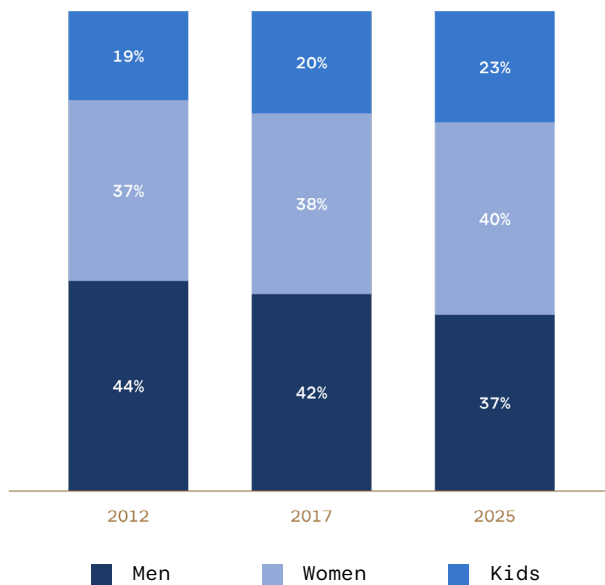
Fashion & Apparel Market



F&A Market Segmentation across Categories



F&A Market Segmentation across kind of Consumers



Key Trends shaping the Industry

Change in consumption class— India's growing aspirer and next billion classes are expected to contribute ~55% of India's fashion & apparel market by 2025. These consumers are more open to purchasing on the internet and are brand aware yet, value conscious. They seek quality and design at affordable prices. We expect to see a significant growth in the number of private label brands targeting niche segments within the market.

Strengthening women consumers— The number of urban working women in India is growing at 7% and is expected to reach ~60M by 2025. With Indian women gaining financial freedom, the segment is expected to contribute 2% more to the total F&A market in 2025.

Rise in Fast Fashion— Frequency of apparel purchase per year by Indian consumers has nearly doubled over the last few years with an average consumer making 10-12 purchases per year. A growing influence of social media on purchasing decisions has led to fashion trends reaching consumers much faster. This has increased the need for companies to provide "fast fashion" and ensure rapid change in styles and designs to keep up with evolving trends.

Technology driving disruption— Technology can truly disrupt the way fashion is accessed and consumed. An entire product life-cycle, right from predicting demand and trends, designing, managing production, replenishment, and determining the most optimal pricings, can be done using technology & data science. This helps reduce manufacturing time and brings down inefficiencies in the system across the value chain. Many new-age consumer brands are leveraging technology to forecast demand and optimize their supply-chain accordingly.

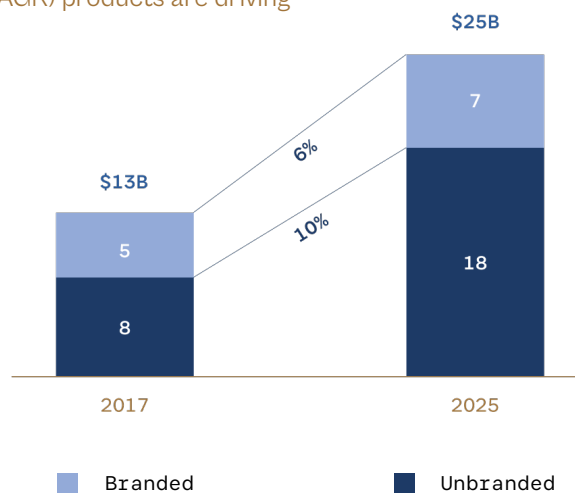


Beauty & Personal Care

India's Beauty & Personal care (BPC) market is currently at \$13B and is expected to reach \$25B by 2025. This is largely driven by increased awareness, accessibility and growing contribution of upcoming segments such as natural and ayurveda. The branded segment today contributes significantly to the personal care market (61%) and is expected grow at a 10% CAGR to reach \$18B, contributing 72% of the overall market. However, there will be a huge shift in the kind of brands that will win, given consumers are looking for certain attributes such as authenticity, clean labels, ethical sourcing and production etc.

Face-care is expected to capture 4% and 2% respectively of the total BPC market by 2025. With growing consciousness & increased awareness, rural lifestyle has started mirroring urban aspirations & lifestyles. Consumers are trading up from homemade solutions to branded products. In face care, men's grooming (9% CAGR), women's cleansing (15% CAGR) & foundation (20% CAGR) products are driving growth.

Beauty & Personal Care Market



Key Trends shaping the Industry

Preference for Natural Products—

Natural products today contribute to about 41% of all personal care products and is growing at 7%. In the last few years, there has been significant growth for brands with natural positioning over their non-natural peers. Interestingly, Indian origin companies have been leading this trend, commanding a 79% market share in the natural products segment. We expect a proliferation of more homegrown companies that will capitalise on their innate 'Indian-ness' with local recipes and ingredients.

Increased vertical consumption of product subcategories—

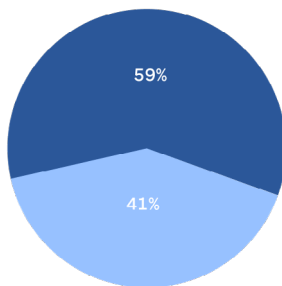
There is a conscious shift from generalist to specialist products with core functionality and value added benefits. Consumers have now moved from using a single product in any segment to multiple products within the same segment such as hair care, skin care etc. For Eg: In face care, we have moved from just a face wash and moisturizer to scrubs & exfoliators, cleansers, serums, masks and peels.

Social & Digital to have pronounced influence on driving purchases—

Tech-savvy millennials have driven beauty & personal care from a low-involvement to a high-involvement product category. Purchase decisions are now driven by peer-recommendation, product reviews and influencer advocacy in this segment. New-age brands that leverage digital channels and platforms have chance to build significant online brand-pull.

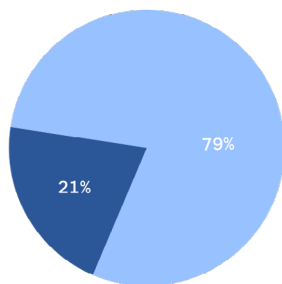
BPC Segmentation

Natural vs Non-Natural Products (2017)



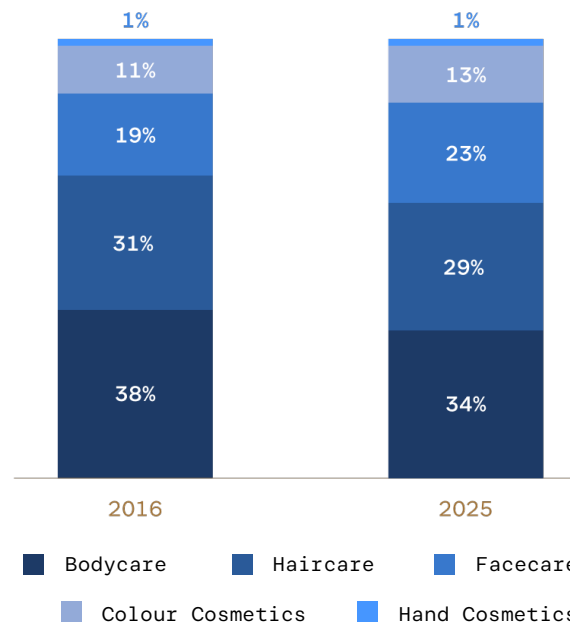
- Natural (Growing at 6.6% y-o-y)
- Non Natural (Growing at 2.9% y-o-y)

Indian vs Foreign Origin Companies (2017)



- Indian Origin Companies
- Multi-National Corporations

BPC Market Segmentation across Categories

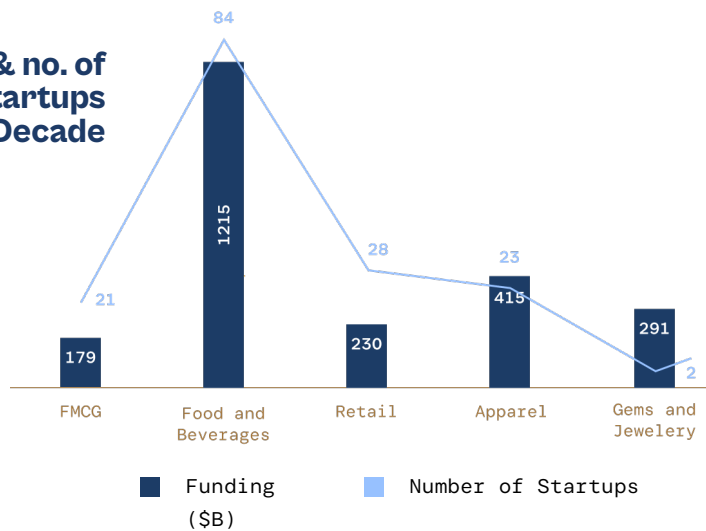


**Investment
Ecosystem for
Consumer Brands
Improving**

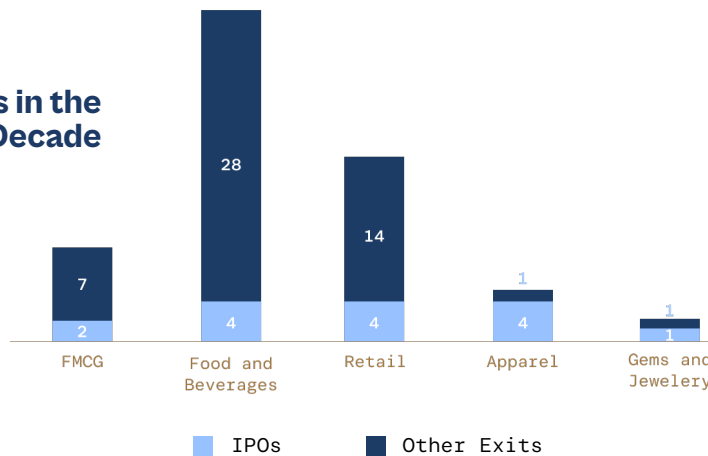
**Entry of Strategic
Growth Investors**

In recent years, the proliferation of challenger brands has caused large MNCs and FMCG players to lose market share in key categories. In order to retain their market position and stay ahead of the curve, these companies are investing in startups. Several family offices (Premji Invest, Marico, Emami, RPSG) and FMCG giants (Hindustan Unilever, ITC) have started their own venture divisions to invest in companies that can help them achieve long-term strategic goals.

**Funding & no. of
Consumer Startups
in the Last Decade**



**IPOs & Exits in the
Last Decade**



**Value Creation by Consumer
Brand Startups leading to a
Virtuous Cycle of Investment
and Returns**

**Funding in the
last decade—**

The consumer segment has seen a flurry of investment activity. Over the last decade, there has been close to \$2.3B invested in consumer brand companies in India across 158 startups. Close to \$1.2B has gone into food & beverages (across 84 startups) followed by retail (28) and apparel (23).

**Consumer brands
creating value—**

Over the last decade, the consumer brands space has witnessed a total of 51 exits out of 158 startups that have been funded. 15 of the 51 exits were through IPOs. Our view is that the markets are conducive for IPOs in the consumer brands space because the industry generally operates at 40% gross margins and maintains good profitability levels.

Going forward, with strategic investors looking closely at the innovation created by new-age brands and value being created through meaningful exits for investors and entrepreneurs, we will see the emergence of many companies in the consumer brands sector with several risk and growth investors looking to deeply invest, leading to a virtuous cycle of value creation.

Reimagining New-age Brands

Given the above changes in the Indian landscape and emerging trends, we believe the key themes emerging for the next phase of growth include–

- Affordable premium
- Health & wellness
- Natural and organic
- Categories where there is a fresh digitally enabled retail experience
- Categories with high margins & low frequency of purchase

These categories shall see immense growth as consumers seek out differentiated offerings. In the recent years, new age brands such as Kama Ayurveda (USD \$10M in revenues), Bombay Shaving Company, etc. have emerged and are displacing several large incumbents as they offer uniquely natural products with strong branding. Similarly healthy food alternatives such as RAW Pressery, Epigamia, The Yoga Bar etc. are replacing traditional foods and creating food segments that did not largely exist. Brand conscious consumers who simultaneously seek value is also a segment that offers immense opportunity and is being tapped into by companies like Roadster \$100M revenues), Bira (A new-age craft beer company with USD \$65M revenues) that are fitting price-point gaps with relevant product and excellent branding.

At Kalaari, we shall seek out opportunities within these white spaces that offer one or more of the following—

Differentiated & Effective Product—

The new age consumer is all about Eat well, Look well, Dress well and be ahead of the curve. They are willing to pay premium for products which are aspirational. Hence, in our opinion, successful new age product portfolio for a new age brand will be one that focuses on active lifestyles, has a range of products with specific functions, and is positioned well within the affordable premium segment

Digital First Brand—

By 2025, there will be 550M people who will make shopping decisions under digital influence. The penetration of data and social media has given unprecedented opportunity to new age consumer product companies to build a brand recall & brand loyalty digitally. We believe that successful brands will be able to identify their Target group (TG) really well, build a strong digital community of brand evangelists early on, and will utilize digital channels to continue to refine the product market fit

Brands leveraging D2C—

Unlike 10 years ago, new age brands today have the opportunity to build a large scale business outside of General Trade (GT) distribution network, making their growth faster, cheaper, & more capital efficient. For example, today a personal care brand can reach a revenue of up to \$25M per annum by just selling online (on top e-commerce platforms). A fashion brand on the other hand can reach up to \$100M per annum in revenue through online channels. Similarly a F&B brand can ignore GT till they are about \$20-25M in revenue. The ability to scale early on using these D2C channels is proving critical for the success of new-age brands, as this effectively kickstarts the virtuous cycle of brand visibility & demand across channels

Eventually as the brands scale, they will have to invariably penetrate all channels, but the cost of penetration at later stages, when the brand recall is already established, will be far lower. We believe that across all the three categories we have discussed in the report, brands with revenues ranging from \$100M to \$500M can be created in the next 7-10 years, which at 5-6x Sales multiple can provide solid exit to investors.

As brand penetration increases across all 3 core categories, we estimate that the revenue opportunity for new age brands by 2025 is at around \$35B. The largest revenue for new age brands is in fashion & apparel (c\$21B), followed by Food & Beverage (c\$10B) and Personal Care (c\$4B). In our opinion, consumer segment will produce a few unicorns & several \$500M+ brands in the next decade.

Recent Investment



Sub-sector—

Apparel & Accessories

What?

RoadGods is a design centric consumer products business for outdoor and travel segment. It sells premium outdoor gears and accessories which include travel bags, laptop bags, helmets etc. Their best-selling 'Ghost' backpack is a viral hit with a strong loyalty and following among its users.

Why?

Their products are a design and disruption oriented take on an otherwise large, unbranded and commoditized market. The product design is highly differentiated and patent protected. The team has also built a strong brand and displayed high organic revenue growth.

How are they doing?

FY19 revenues expected to exceed INR 10cr. The company continues to show high sustainable organic growth and healthy margins.

T20 Consumerism - Event Highlights



“Our lives at home have become multifunctional in using space, influenced by technology. Customer journey now has multiple decision points demanding convenience, service & speed” - IKEA India CEO, Peter Betzel



“Innovation is imperative to way the consumer thinks today and they change their minds quickly. If you don't listen to your customer quickly enough, you will be left behind” - Aman Gupta, CEO of Boat Headphones in a panel discussion with Sreedhar Prasad - Venture Partner, Kalaari Capital, Rajiv Srivastava - Co-Founder, Urban Ladder, Vijay Prabhakar - CEO, Chumbak and Shailesh Chaturvedi -CEO, Tommy Hilfiger & Calvin Klein India

Reimagining
New-age
Brands



“Incumbents can get caught in the “core competency” trap. Consumer focussed companies need to watch out for 1. mobile revolution, 2. understand the context of the empowered customer using ML & AI 3. move from insight to foresight, else they will be disrupted” - Vikas Agnihotri, Country Director - Google India



“Large FMCG companies are cognizant of the potential of new-age challenger brands, we are open to collaborating and exploring partnerships with them” - Vineet Agarwal, CEO of Wipro-Care in a panel discussion with Harsha Razdan, Head - Consumer Markets & Internet Business at KPMG in India, Theresa Ronnie, Sr VP & Head of Office, FCB Ulka, Sameer Shekhawat, Ex-CMO, United Breweries group and Govind Shrikhande, Ex-MD, Shoppers Stop

