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PE investors bet big on Indian FMCG companies

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The consumer story in India makes fast moving consumer goods (FMCG) space an attractive destination for private equity and venture capital investors.

Compared to the typical $20-50 million deals that took place in the past few years, 2012 witnessed one of the largest PE deals in FMCG space with the Singapore Government owned Temasek Holdings buying a five per cent stake in Godrej Consumer Products Ltd (GCPL) for ₹685 crore ($135 million).

Following Temasek's investment, the FMCG sector witnessed another large deal, where Singapore Government GIC Special Investments and Baring India PE jointly invested ₹500 crore for a minority stake in Marico Ltd, through a preferential issue.

Explaining the trend, Abhay Pandey, managing director, Sequoia Capital, said, "The Indian consumer story is a secular, long-term growth trend playing out and investors are backing high quality companies that can take advantage of this trend."

Three deals worth ₹1,287 crore ($234 mn) took place in 2012 against 13 deals worth ₹1,160 crore ($211 mn) in 2011, according to data by VCCedge. The deal size went up to ₹1,061 crore ($194 mn) in 2010 from mere ₹60 crore ($11 mn) in 2009.

Arvind Singhal, chairman, Technopak Advisors said, "Typically, PE investments happen when the company is in growth mode. Investments in large companies are mostly for a specific requirement."

The Temasek investment in GCPL was intended to bring down the latter's debt burden. Baring and GIC invested in Marico to fund the Paras acquisition by the latter.

According to Rahul Bhasin, managing partner, Baring India PE, the FMCG sector sees minimum government intervention as compared to other major sectors, making those sectors risky for investments.

Top deals in 2012 were seen in personal care, while companies in packaged food bagged large investments last year. Standard Chartered PE invested about ₹300 crore in Varun Beverages, while Sequoia Capital invested about ₹160 crore in Prakash Snacks last year.

Anand Ramanathan, associate director, KPMG Advisory, said, "Generally, whenever there is a slowdown, FMCG allocation by PE investors goes up. This is because the sector is viewed as being defensive, which does not react adversely during a slowdown."

Fast-moving consumer goods companies sustained sales momentum in the quarter ended March 31, at a time when inflationary pressures were high. Most companies reported double-digit top line growth, varying from 13 per cent (Nestle) to 39 per cent (P&G Hygiene and Health care). Barring Nestle and Marico, most other companies have seen bottom line growth between 15 and 35 per cent during the quarter.

Sequoia's Pandey said a possible consolidation in FMCG space will provide an easy exit route for investors. He said, "This space also has a number of very large players who can be the potential acquirers of these companies, which provides a nice exit option to the investors."

Achor Group is reportedly in talks to sell off its FMCG business, which includes its popular Anchor toothpaste. But what has been a cause for concern for most investors has been valuations.

The Shahs of Anchor are said to be valuing their business at over ₹1,000 crore, which is two times their fiscal 2011-12 sales. When Paras Pharma sold its business to Reckitt in 2010, it was valued at four times sales.

TOP DEALS IN FMCG SECTOR

Target	Buyer	Deal Size (₹ Cr)
Godrej Consumer	Temasek Holdings	685
Marico Ltd	GIC, Baring India PE	500
Varun Beverages	Stanchart PE	300
Prakash Snacks	Sequoia Capital	160
VVF Ltd	Reliance PE	140
Dunar Foods	IFC, TVS Shriram	125
Bush Foods	Stanchart PE	125

Source: VCCedge

"The Indian consumer story is long-term and investors are backing high quality companies that can take advantage of this trend"

ABHAY PANDEY
MD, Sequoia Capital