KIRTANE & PANDIT

Future of Consumer Durables in India

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Executive Summary

The Indian Consumer Electronics and Appliances Market was valued at USD78.95 billion in 2021 and is expected to grow at an impressive CAGR of 12.78% in the forecast period, 2023-2027, to reach USD160.03 billion by 2027. Global corporations view India as one of the key markets from where future growth is likely to emerge and is attracting marketers from across the world. The sector attracted foreign direct investment (FDI) worth US$ 1.97 billion between April 2000 and June 2018.

The country became the second largest global smart phone market with 40.1 million units shipped between July-September 2018 and is expected to have 829 million smart phone users by 2022. Reduction in GST rates from 28% to 18% has boosted the demand across all consumer durable segments Consumers are becoming more aware of the benefits of using consumer electronics and appliances and are investing in the purchase of premium appliances. The growing residential sector and favorable government policies are the primary drivers for the Indian Consumer Electronics and Appliances Market.

Also, the high internet penetration and proliferation of smart devices and integration of smart technologies like the internet of things and artificial intelligence are expected to create new growth avenues for the Indian Consumer Electronics and Appliances Market in the forecast period. The income level of middle-class families is rising at a rapid rate, and they can spend more on quality lifestyles and equipment to live a comfortable life. Companies are working on the development of high-performing and easy-to-use devices to meet the growing consumer requirements.

Market players are trying to reach remote locations by investing in developing an efficient supply chain and inventory and adopting e-commerce websites to sell their products. An increase in the utilization of consumer electronics and appliances and the availability of a wide portfolio of products are expected to fuel the demand for the Indian Consumer Electronics and Appliances Market in the forecast period.

This report tries to cover

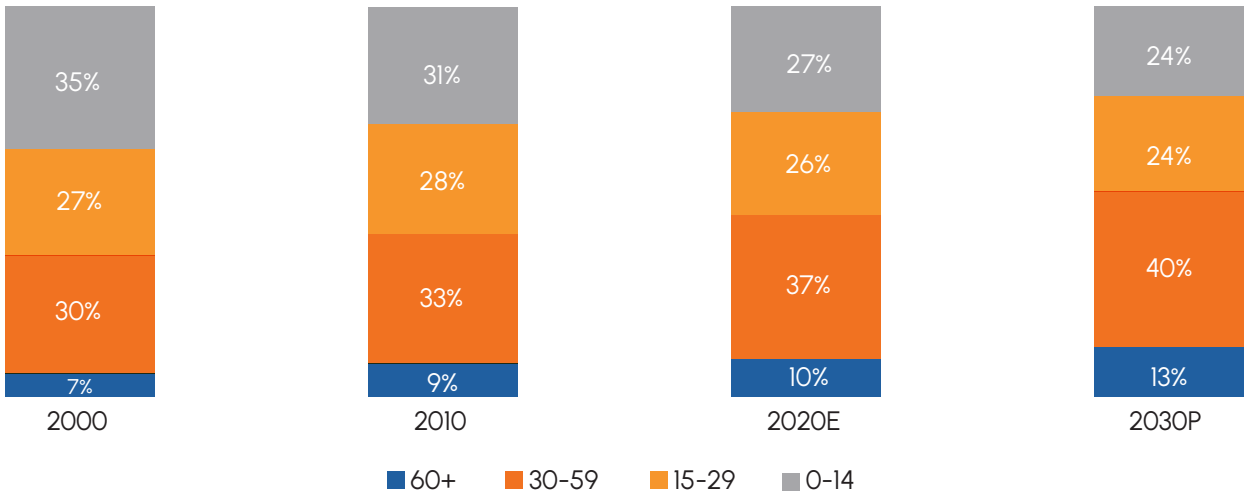
- The changing demographics in the Indian context since liberalization.
- Urbanization and nuclearization, the fast-growing trend across the country leading to an impetus within affordable housing segments.
- Smaller replacements cycles, nuclear families, increasing disposable incomes, double incomes, and increased penetration due to smart phones with easy availability of finance.
- The recent trends dominating the market, along with the growth drivers and challenges faced by the industry.

Indian Context

Demographic dividend

As of 2020, India had one of the largest young populations in the world, with a median age of 28 years. Nearly 90% of the country's population is estimated to be below 60 years of age in 2020 (77% for US and 83% for Brazil) and about 85-90% of Indians would still be below the age of 60 years by fiscal 2030. In comparison, by fiscal 2030, the US, China and Brazil will have 75%, 76% and 82%, respectively, of their population below the age of 60.

Exhibit 1: India's demographic dividend



Note: E: Estimated, P: Projected Source: United Nations Department of Economic and Social affairs, CRISIL Research

Urbanisation

Urbanisation is one of the most important growth drivers of India. Urbanisation drives substantial investments in infrastructure development, which, in turn, leads to job creation, development of modern consumer services and increased ability to mobilise savings. Factors such as urbanisation and favourable demographics are likely to manifest in higher per-capita income growth and increased propensity to spend on discretionary items, including household appliances, mobiles, and personal computers. Indian urban areas accounted for 17% of the total population in 1950, which in 2020 was estimated to be 35%. It is expected to reach approx. 37% by 2025.

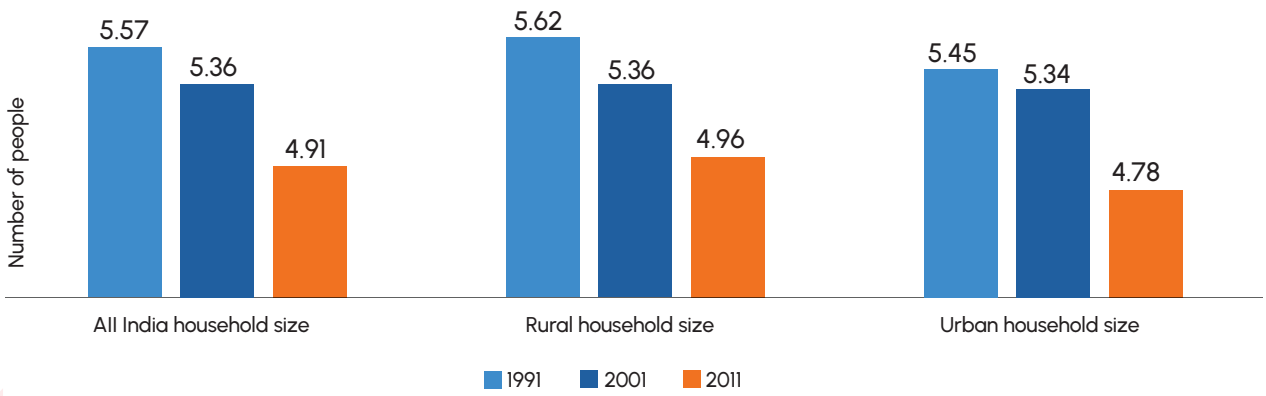
Investments in smart cities to lead to better urban infrastructure

In fiscal 2017, the government allocated Rs 480 billion for development of 100 smart cities over five years. The focus was on adequate and clean water supply, sanitation, solid waste management, efficient transportation, affordable housing for the poor, power supply, robust IT connectivity, e-governance, safety and security of citizens, health, and education. The selected cities were given a central government assistance of Rs 2 billion in the first year, Rs 1 billion in each of the next four years, and a matching contribution from the respective state.

Increasing Nuclearization

Increasing nuclearization of families is driving up consumption expenditure. In the recent past, the number of nuclear families, as a percentage of total household population, increased. The average household size of the country came down to 4.9 in 2011 from 5.6 in 1991.

Exhibit 2: Decline in the size of households to drive overall growth in consumption



*Source: Census 2011, Crisil Research

▶ Increased internet penetration, consumer awareness

Spreading reach of e-commerce will provide an added support to the industry. Internet connectivity will also boost demand for smartphones. Changing consumer perception about the utility of products (such as ACs) as utilities rather than luxury items, rising cost of household labour, increase in the number of working women, and better water supply in semi-urban cities. As a result, there has been a gradual shift in the consumption patterns of Indians. Demand for better quality, convenience and a higher value for money have increased demand for branded goods.

▶ Easier access to credit

Companies like Bajaj Finance have revolutionised the consumer durable segment, wherein the easy availability of credit has pushed up spending on housing and consumer durables. The ease of making payments with credit and debit cards has led to a sharp increase in consumer spending in recent years. Collaborations between bigger companies, For example, the Retail chains such as Croma and Vijay Sales has entered into a strategic partnership with Bajaj Finance for easy EMIs for the purchase of goods ranging from apparel and grocery to high-end consumer durables. This trend will continue to expand.

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Policy Support

The implementation of GST has likely spawned structural changes in the supply chain and logistics networks in India. Companies are expected to have migrated from the current strategy of 'multiple warehousing' to the 'hub-and-spoke' model as tax treatment across India became uniform.

The government's decision to permit 100% FDI in single-brand retail under the automatic route from 49% earlier, along with relaxation in sourcing norms is further expected to drive growth for organised retail. While FDI approval underthe automatic route will reduce the time to commence business, the relaxation of 30% local sourcing norms for the first five years to enable incremental sourcing for global operations will provide sufficient time for new entrants to set up and stabilise their sourcing base

Evolution of Indian Consumer Durable Industry

India in its journey of 75 years has seen manifold increase in per capita income, leading to paradigm shift in the purchasing behaviour of people here. Since 1950, the per capita income (PCI) has jumped over 500 times. In 1950, it stood at Rs 265. It increased to Rs 1,28,829 in 2020-21. Since the fold of the new millennium, in 2000-01, when it was Rs 18,667, the PCI has jumped seven times, the Economic Survey 2020-21 showed. Indian customers have been provided with choices post liberalisation, wherein the Indian customers had inundation of goods from cross borders, wherein the domestic markets were dominated by few domestic players like Godrej, Allwyn, Kelvinator, and Voltas. But post-liberalization many foreign companies have entered India, dethroning the Indian players, and dominating the market.

1980s and early 1990s pre Liberalisation

·Closed market.
·Increased product availability, increased media penetration and advertising.

Mid and late 1990s Libreralisation

·Liberalisation of market.
·Influx of global players such as LG and Samsung.
·Shift in focus from promotion to product innovation.

Early 2000s Growth

·Increasing availability and affordability of consumer finance provides impetus to growth.
·Low penetration of highend products such as air conditioners(<1%).

Late 2000s Consolidation

·Companies look to consolidate market share.
·Indian companies such as videocon gaining global identity.
·Introduction of new aspirational products such as High Defination TVs(HDTVs)

2017 onwards

·Goods and Services Tax introduced from july 2017,with most electronics good taxed at 18%
·In 2019, National Policy of Electronics 2019 (NPE 2019) introduced.

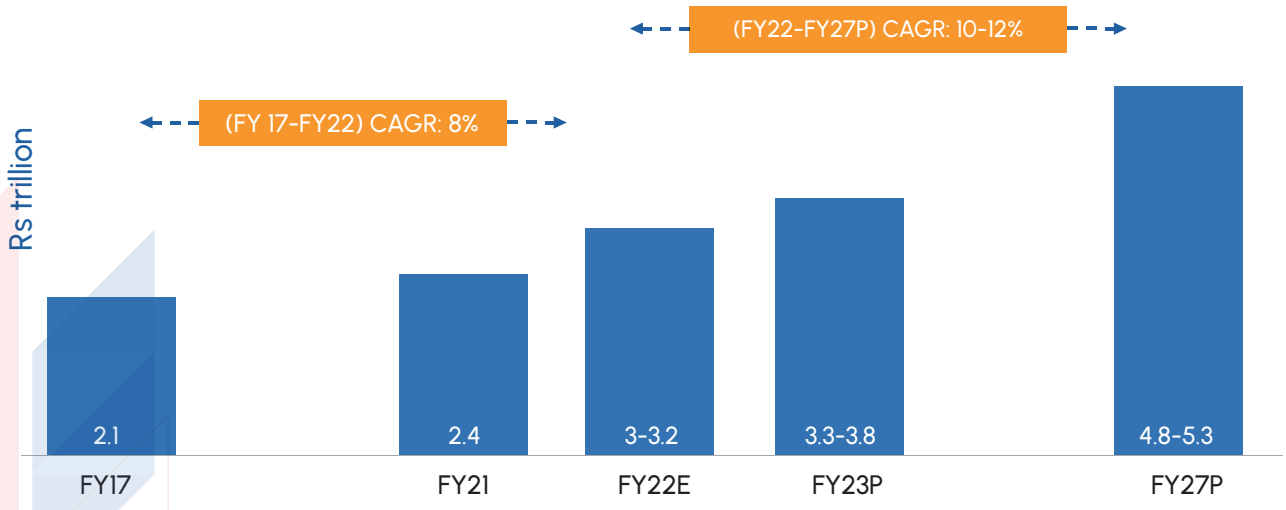
Indian consumer durable landscape

Durable goods are those which don't wear out quickly, yielding utility over time rather than at once. The consumer durables industry can be broadly classified into two segments: Consumer Electronics and Consumer Appliances. Consumer Appliances can be further categorized into Brown Goods and White.

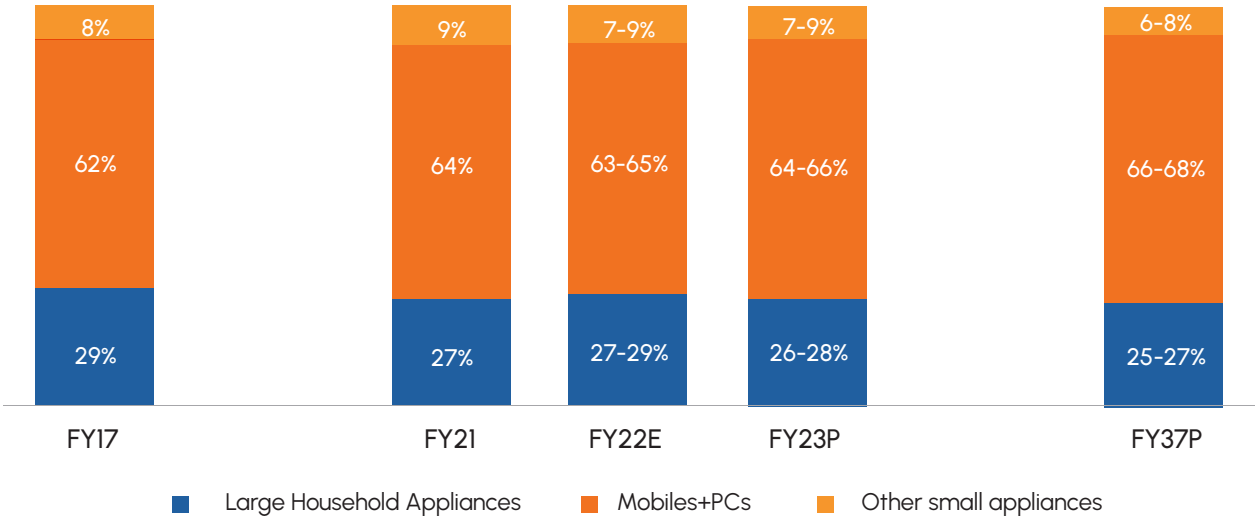
Electrical Consumer Durables	Consumer Appliances - White Goods	Consumer Durables - Brown Goods
Cables and wires Lighting and Fixtures	Refrigerators, Air Conditioners, Washing Machines	Mixers, Grinders, Microwave, Grinders, Oven, Electric Fans, Cooking Range, Chimneys.

CRISIL Research estimates the size of India's consumer durables industry, including large consumer durables, mobile phones, and smaller appliances, at Rs. 3-3.2 trillion as of Fiscal 2022. The industry recorded ~12% CAGR between Fiscals 2017-2020.

Overall consumer durables market growth over fiscals 2017-2027P



Consumer Durables Market segment-wise split



Source: Crisil, Industry Reports

Under penetration in Indian Households

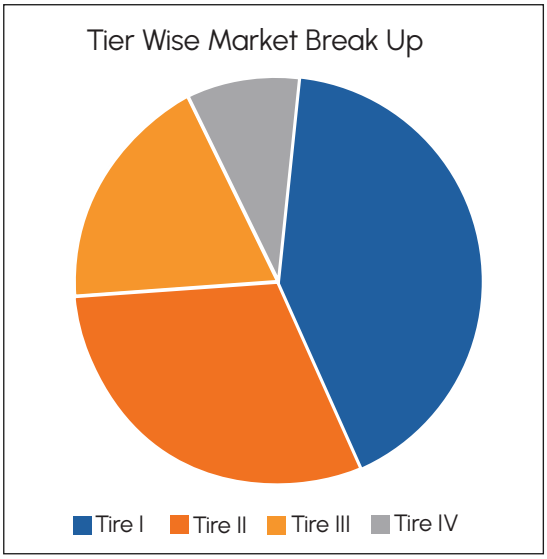
Household penetration of consumer durables in India remains much lower than that of many developed and developing nations. Only 17% of households in India own an room air conditioner(RAC), compared with above 90% in China, Japan and the US. For WMs, penetration in India is 21%, as against the global average of more than 50%. However, the pandemic has led to an increase in penetration of products due to work from home and schools being shut. Even in the case of TVs, the most penetrated product, India's level is around 58%, compared with above 95% for Brazil, another developing nation.

country-wise product penetration

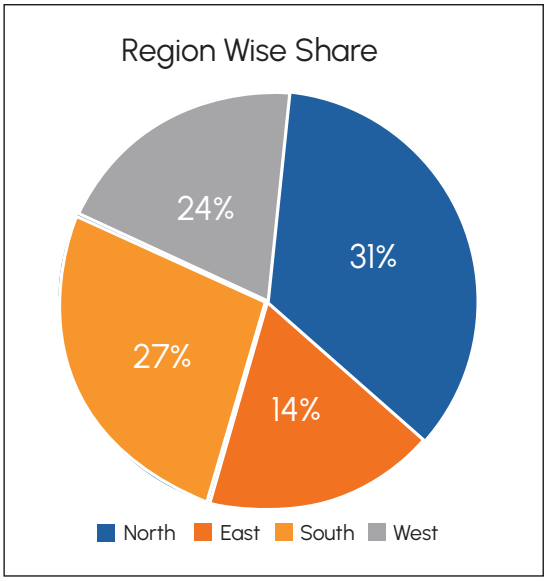
%of households	India	US	Germany	Japan	Australia	China	Brazil
Colour television	58	98-100	96-98	96-98	98-100	96-98	95-97
Refrigerator	40	98-100	98-100	97-99	98-100	95-97	97-99
Mobile	41	94-96	97-99	96-98	98-100	96-98	93-95
Washing machine	21	85-87	95-97	96-98	97-99	93-95	66-68
Air conditioner	17	91-93	25-27	93-95	79-81	92-94	19-21
Personal computer	14	91-93	91-93	79-81	84-86	59-61	44-46

Note: India data it for fiscal 2022; data for other countries is for calendar year 2020
Source: CRISIL Research

Tier I and II cities are the bread and butter of the consumer durables industry. Despite having a lower population share than the Tier III and sub-Tier III regions,



Tier I and II cities witness higher traction in consumer durables due to significantly higher disposable incomes of consumers, better awareness, higher aspiration levels, luxury lifestyle, uninterrupted electricity/ water supply, and shorter replacement cycles. The market is dominated by Tier I cities (with population of 1 million and above), typically accounting for ~45% of consumer durables sales, followed by Tier II cities (population of 0.5 million to 1 million) adding another 25-30% to the sales. Tier III and sub-Tier III regions contribute the balance 25-30%. Rising penetration of organised players into Tier II and III cities is backing the increased sales from these regions. Demand for consumer durables, especially CTVs, refrigerators and WMs, in Tier I and II cities is driven by replacement demand. Meanwhile, in Tier III and IV cities, the driver is new demand.



North India accounts for the major share of organised consumer durables sales, followed by the south and west regions. Given the limited number of Tier I and II cities in east India, the region remains relatively untapped. Due to the second wave of Covid-19 in the first quarter of fiscal 2022, the west and south regions were more impacted than the east and north regions. Even the mobility restrictions continued for a longer duration in these regions. This had an adverse impact on sales growth in the west and south regions, while the north region expanded its share further.

Key Products

Colour TV's: Television industry in India stood at Rs. 787 billion (US$ 11.26 billion) in 2019, and grew to reach Rs. 955 billion (US$ 13.66 billion) by the end of 2021. In the year 2020, India imposed restrictions on imports of colour TV sets, intending to encourage local manufacturing and check imports from China.

Refrigerators: This segment made up 27% of the consumer appliances market in 2019.In February 2021, Blue Star launched a range of commercial refrigerators, with offerings comprising temperature-controlled designs for refrigeration and storage of vaccines.

Air-conditioners: Installed stock of room ACs in India increased from two million units in 2006 to 30 million units in 2017 and is expected to be between 55-124 million by 2030. Production of ACs increased to 2.92 million units in FY20. In April 2022, 17.5 lakh AC units were sold, an all-time high for the month.

Washing Machines: Production of washing appliances in India is expected to reach 12.6 million units in FY25 from 5.63 million units in FY20. In April 2021, Samsung launched an artificial intelligence-enabled bilingual washing machine with user interfaces in Hindi and English.

Key Players in the segment

White goods industry in India is highly concentrated. In washing machines and refrigerators, the top five players have more than 75% market share, while for air conditioners and fans it is around 55-60%. On the other hand, kitchen appliances segment is fragmented with top five players having 30-35% market share.

Players	Fans	Lighting	Switches	Home Appliances	Kitchen Appliances	Wire & Cables
Bajaj Electricals	■	■		■	■	
CG Consumer	■	■		■	■	
Finolex Cables	■	■	■			■
Havells	■	■	■	■	■	■
KEL						■
Orient Electric	■	■	■	■	■	
Phillips		■		■	■	
Polycab	■	■	■			■
Whirlpool				■	■	
Voltas				■		
TTK Prestige				■	■	

Recent Investments by Major companies

Flipkart launched its private label 'Marq' for selling large appliances in India.

Panasonic started its first refrigerator plant with an annual production capacity of 500,000 units with an investment of Rs 115 crore

Flipkart

Dyson

Samsung has announced an investment of Rs 5,000 crore for expansion of manufacturing capacity from 68 million to 120 million devices at its Noida plant.

Xiaomi has entered the white goods segment while Transsion Holdings will launch entire range of consumer durables in the country.

Intex Technologies to invest around Rs 60 crore in technology software and IoT (Internet of Things) startups.

Samsung

Xiaomi

British technology company **Dyson** to invest around Rs 1,300 crore in the Indian consumer durable sector by 2023.

Hero Electronix, part of the Hero Group made announcement of entering consumer goods and expects to launch 10 artificial intelligence (AI) products in the next five years

Hero Electronix

Blue Star Climatech

Blue Star Climatech, the wholly owned subsidiary of Blue Star, plans to invest Rs. 550 crore (US$ 73.45 million) over the next few years to set up a new manufacturing facility at Sri City in Andhra Pradesh's Chittoor district.

Trends Dominating the Sector

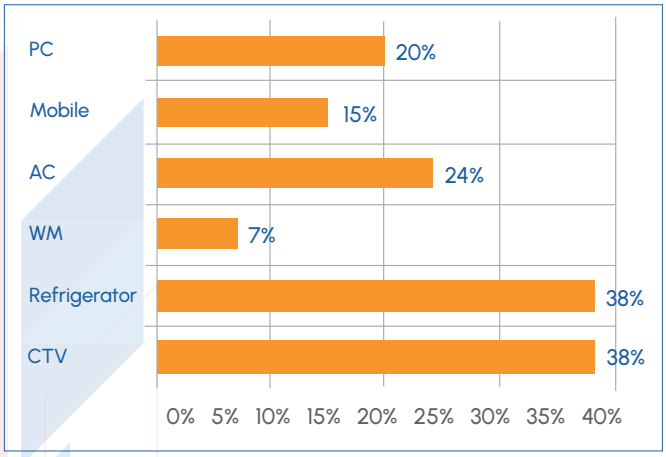
Increasing affordability of products

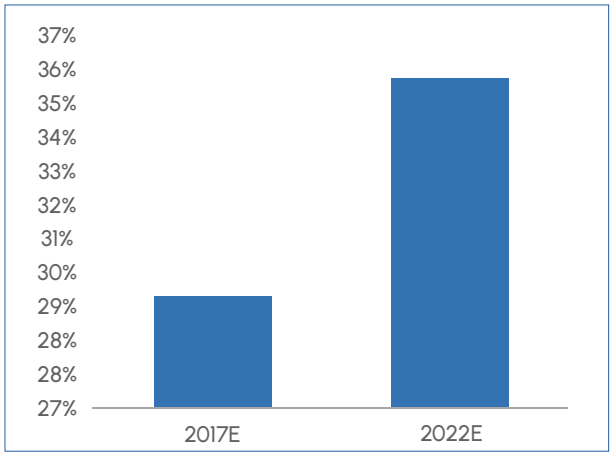
Over FY10-21, the GDP per capita has increased by 9.2% CAGR while the average selling price of key consumer durable products such as ACs, Refrigerators and Washing Machines has increased by only 4-5% CAGR. Thus, these appliances have become a lot more affordable for consumers. Household appliances are now a matter of comfort and upgraded lifestyle and no more luxury.

Consumer durable loans in India stood at Rs. 25,100 crore (US$ 3.29 billion) in FY21, up from Rs. 24,000 crore (US$ 3.15 billion) in FY20. With the initiative of "Make in India" campaign, many domestic and Chinese manufactures are investing in India to set up their manufacturing plants which would produce more affordable products.

Increased penetration of consumer financing

Consumer Financing has immensely helped to improve the affordability of appliances given the flexibility in payment terms with an option to pay EMI over a period of 6-12 months COVID-19. Finance penetration within the consumer durables industry increased from 27-32% in fiscal 2017 to 33-38% in fiscal 2022. Within the space, finance penetration is relatively high in the CTV and refrigerator segments as compared to RACs and WMs, which are more popular with the relatively affluent strata, and, hence, require limited financing. Paper finance penetration is low in mobile phones and PCs, given the higher interest rates.





▶ Changing Dynamics post COVID-19

Amid the COVID-19 lockdown, new trends such as work from home and online classes gained momentum, which led to additional demand for consumer durable appliances. Shift towards online education and rise in TV viewership during the lockdown increased the demand for CTVs. Hygiene concerns and unavailability of maids boosted the Washing Machine segment. Higher cold storage space requirement supported refrigerator demand. Cloud Kitchen and increased packaged food preferences and bigger refrigerators post COVID-19, increased Cold storage chains.

▶ Internet of Things (IoT)

IoT-enabled appliances can be operated remotely using a smartphone, tablet, or computer or verbally by issuing a command to a smart speaker such as Alexa or Google Home. IoT enables AC's are nothing new, but the recent trend across the homes and commercial spaces is installation of smart appliances. For example, AC's can be operated remotely, wherein it possible for a person to come home to a cool room because during their commute, they turned the cooler on using an app on their smartphone. Thus, transition has shifted from the 'Nice to Have' category to a 'Must Have' Category. In a household where someone suffers from a disability or has limited mobility due to old age, IoT-enabled fans and coolers can be a god-sent. Also, with smart enabled features, one of the largest contributors to a household expenditure, which is electricity bills can be curtailed. One can go for IoT-enabled energy-saving fans that come with a BLDC motor. Such fans consume up to 50 percent less electricity than regular induction motor-based fans.

Competitive strategies: Omni channels for distribution

Many organised retailers are also exploring the online market though their e-retail portals to compete with established e-commerce players. Players are looking to integrate their multiple channels to provide customers a seamless experience across touchpoints. Better buying experience: An omni-channel strategy improves the customer buying experience and provides the customer with more channels to purchase. With the emergence of tech-savvy customers, retailers are providing customers the option to seamlessly switch or move between online and B&M store shopping. This also limits customers shifting from the B&M channel to online retail. Having an online presence can help players expand reach, especially in tier III areas, where their presence is typically limited. Moreover, expansion can be achieved without incurring additional rental costs, which form a significant portion of the overall cost. It also provides additional comfort to customers from smaller micro markets who have to travel to the nearest major city to purchase the products B&M players can gain an advantage over e-retailers using omni-channel strategy, especially in large appliances, where e-retailers struggle due to high cost of serving customers. Moreover, it combines the benefit of touch-and-feel as well as the cost-optimisation model of e-commerce

Challenges within the consumer Durable Industry

One of the fastest growing industries has a lot of challenges to watch for to avoid pitfalls:

- Pricing our products to remain competitive while achieving a customer
- perception of comparatively higher value
- Anticipating and quickly responding to changing consumer demands
- Maintaining favorable brand recognition and effectively marketing products to consumers in diverse markets
- Providing strong and effective marketing support
- Any increase in interest rates or inflation any exchange rate fluctuations
- Scarcity of credit or other financing, resulting in an adverse impact on economic
- conditions and scarcity of financing for the expansions
- Prevailing income conditions among consumers and corporates

Conclusion

Consumer Durables sector is a play on discretionary spending of households. Over FY10-20, the sector witnessed rapid growth led by improving lifestyle and the advent of consumer financing, which improved the affordability of appliances. The growth in the sector was aided by lower penetration as well as macro-drivers such as rising urbanization, electrification, and middle-class households. However, in the past two years, the growth derailed due to COVID-19 led lockdowns in peak summer season, global supply-chain constraints, and sharp spike in commodity costs.

Consumer Durables sector is a play on the discretionary spending of households and benefits from macro-drivers such as rising trend of urbanization, electrification as well as growing number of middle-class households. Over FY10-21, the GDP per capita has increased by 9.2% CAGR while the average selling price of key consumer durable products such as ACs, Refrigerators and Washing Machines has increased by only 4-5% CAGR. Thus, these appliances have become a lot more affordable for consumers. Household appliances are now a matter of comfort and upgraded lifestyle and no more luxury. Further, the advent of consumer financing has immensely helped to improve the affordability of appliances given the flexibility in payment terms with an option to pay EMI over a period of 6-12 months. As we witness the shift from 'Nice to have' to 'Must Have', increasing demand for products will be witnessed in the sector. IoT enhancements, changing dynamics post COVID-19 and easier availability of products will lead to incremental product reach.

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Overview of the Kirtane & Pandit

Kirtane & Pandit LLP, Chartered Accountants (KPCA) is an Accounting, Auditing & Consulting firm with a widespread established network of financial experts across India. With the "Step ahead, Always" motto, we partner your growth journey with the delivery of sound financial solutions & value added approach.

With an extensive experience of 65+ years, we deliver a wide range of professional services in the areas of Assurance, Accounting & Advisory to listed & reputed companies from varied industries across the globe.

We are registered member of PCAOB, SEC, USA & feature as an A category firm of RBI and C&AG.

- **6** decades of Experience
- Operating across India with **7** Offices
- **33** Partners
- **700+** Team of Professionals & experts
- Client spread across **30+** Industries
- Multinational Clientele parented from **17+** countries

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