Consumer, retail and e-commerce

Dealtracker

Providing M&A and PE deal insights

Foreword

Naveen Malpani

Partner, and National Sector Leader Consumer Industry

Grant Thornton Bharat LLP

During the first half of 2023, the landscape of mergers and acquisitions (M&A) and private equity (PE) deals in India has been cautious and evolving. There is a significant reduction in M&A and PE investments by 61% and nearly 45%, respectively, with only a few notable activities in various sub sectors.

FMCG and consumer products: The success of the consumer and retail industry in India relies heavily on the economic progress of Tier 2 and 3 cities, considering India is predominantly a rural economy. Interestingly, rural India accounts for approximately 60% of the consumer and retail market and experienced a growth rate of around 7% in 2022. The e-commerce market also witnessed significant expansion in Tier 2 and 3 cities. However, in the quarter ended March 2023, FMCG companies reported flat volume growth due to weak rural demand caused by higher inflation. Although inflation has stabilised, the FMCG sector is monitoring the potential impact of the "El Nino" phenomenon. Nevertheless, the government's investment in the agricultural sector is expected to generate demand for FMCG products, leading us to believe that the sector is poised for stronger recovery in the second half of the year.

Consumer durables: The consumer durable industry also experienced an unfavourable summer season, with sales, particularly of cooling products, witnessing a significant decline of 25-30% nationwide during the months of April and May. The first half of the year recorded no major deals in the consumer durables segment. Untimely rainfall has been the main cause for this sales downturn.

Digital growth companies: Many D2C companies have come under the umbrella of receiving PE investments. However, there has been a decline in both transaction volume and number. We anticipate a shift in valuations for these companies due to intensifying competition and investors' focus on reducing cash burn. Investors are now taking a more cautious approach, closely examining business models and placing greater emphasis on reporting and governance. This has primarily occurred due to headwinds caused by failures of some start-ups. We expect PE investors to be extremely focused on operations of their investments and parallelly keeping a constant tab on their RoCE.

Apparels and fashion: The first six months had been tepid for the apparel sector. The industry faced challenges from rising procurement prices of cotton and increased production costs, putting pressure on profitability. The growth primarily stemmed from high prices rather than increased sales volumes. To address this situation, many retailers are planning to extend the duration of sales periods and implement aggressive discounting strategies to clear their inventory before the launch of the new season.

Globally, the ongoing concerns about inflationary pressures in the US and Eurozone and the possibility of long-term high interest rates continue to be a major focus. The global banking sector is already feeling the impact of these increased rates, resulting in a volatile and uncertain environment for global deal-making and a decline in deal activity.

Overall, in the domestic market, the government's sustained focus on capital and infrastructure spending has bolstered the resilience of the M&A and PE sectors. Regulatory reforms and initiatives to improve the ease of doing business have further enhanced the investment climate in India. To take advantage of the favourable dynamics, more than 24 International labels are being launched in India either individually or through a tie up with established business houses. The market continues to present opportunities for companies willing to navigate the evolving landscape and capitalise on the country's robust fundamentals.

Deal snapshot

Q2

Deal summary	Volume			Value (USD million)		
	2021	2022	2023	2021	2022	2023
Domestic	14	19	11	1,740	980	606
Cross-border	1	3	1	5	15	5
Total M&A	**15**	**22** ↓ 45%	**12**	**1,745**	**995** ↓ 39%	**611**
Private equity	**76**	**104** ↓ 42%	**60**	**3,327**	**1,775** ↓ 51%	**861**
Grand total	91	126 ↓ 43%	72	5,072	2,770 ↓ 47%	1,472
Cross-border includes						
Inbound	1	2	0	5	10	0
Outbound	0	1	1	0	5	5

H1 2023

Deal summary	Volume			Value (USD million)		
	2021	2022	2023	2021	2022	2023
Domestic	27	63	24	1,885	1,788	661
Cross-border	4	7	3	45	35	20
Total M&A	**31**	**70** ↓ 61%	**27**	**1,930**	**1,823** ↓ 63%	**681**
Private equity	**140**	**227** ↓ 45%	**124**	**4,348**	**5,226** ↓ 60%	**2,077**
Grand total	171	297 ↓ 49%	150	6,278	7,049 ↓ 61%	2,758
Cross-border includes						
Inbound	3	4	2	40	20	15
Outbound	1	3	1	5	15	5

Decline in deal activity reflects challenging quarter

- Deal activity in this quarter in the retail and consumer sector declined by 43% with 72 deals valued at USD 1.5 billion as compared to Q2 2022. It is hindered by overall decline, rising inflation, and supply-demand fluctuations.
- Expectations of increased M&A activity in the digital era dashed as the sector witnessed 45% drop in volumes and 39% drop in values over Q2 2023, recording only 12 deals worth USD 611. This also marked the lowest volumes since Q1 2021. While Q2 2023 saw only two high-value transactions totaling USD 546 million, Q2 2022 saw three such transactions totaling USD 893 million.
- However, compared to Q1 2023, M&A values soared by 840% despite 14% decline in volumes over Q1 2023 driven by deals activity in the personal care segment that accounted for 58% of the M&A deal valued at USD 354.5 million.
- Similarly, PE activity also registered a declining trend both in terms of deal volumes and values recording only 60 deals – the lowest quarterly volumes since Q1 2021. However, there is a notable growth in retail tech companies that provide services such as digital ledgers, inventory management, payment solutions, and logistics and fulfillment tools to support the retail sector in India which are likely to attract investment.

Sector sees decline despite shift towards e-commerce

- H1 2023 saw only 150 deals valued at USD 2.8 billion, nearly a 50% drop in volumes and 61% decline in deal values over H1 2022. This trend was driven by significant decline in domestic M&A and absence of big-ticket investments due to uncertainties in the market and cautious investor sentiment.
- Despite the potential of digital adoption and growing e-commerce, there has been a decline in both the number of deals and their values driven by companies facing challenges in effectively leveraging digital opportunities and adapting their business models.

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Top deals: Q2 2023

Top deals accounted for **79% of overall deal** values and constituted only **14% of volumes.**

Investor/ Acquirer	Investee/ Target	Deal type	sub sector	stake%	USD million
Godrej Consumer Products Ltd	Raymond Consumer Care Ltd	Domestic acquisition	Personal Care	100%	345
Aditya Birla Fashion Retail Ltd	TCNS Clothing Company Ltd	Domestic acquisition	Textiles, Apparel and accessories	51%	201
Warburg Pincus	Watertec India Pvt. Ltd	PE	Consumer Durables and Home furnishing	66%	132
Temasek Holdings	Jewels Online Distribution India Pvt Ltd - Bluestone.com	PE	Textiles, Apparel and accessories	20%	100
ChrysCapital	Lenskart Solutions Pvt Ltd- Lenskart.com	PE	E-commerce	N.A.	100
Temasek, Steadview Capital, Trifecta Capital, Jungle Ventures and Inflexor Ventures	Atomberg Technology Pvt Ltd	PE	Consumer Durables and Home furnishing	N.A.	86
L Catterton	Drools Pet Food Pvt. Ltd	PE	E-commerce	N.A.	60
Convergent Finance LLP and angel investors	Agilitas Sports Pvt Ltd	PE	Textiles, Apparel and accessories	N.A.	52
Avataar Ventures, Lightrock India, WaterBridge Ventures, and angel investor	Zophop Technologies Pvt. Ltd- Chalo	PE	E-commerce	N.A.	45
Khazanah Nasional Berhad	BusyBees Logistics Solutions Pvt. Ltd- Xpressbees	PE	E-commerce	3%	40

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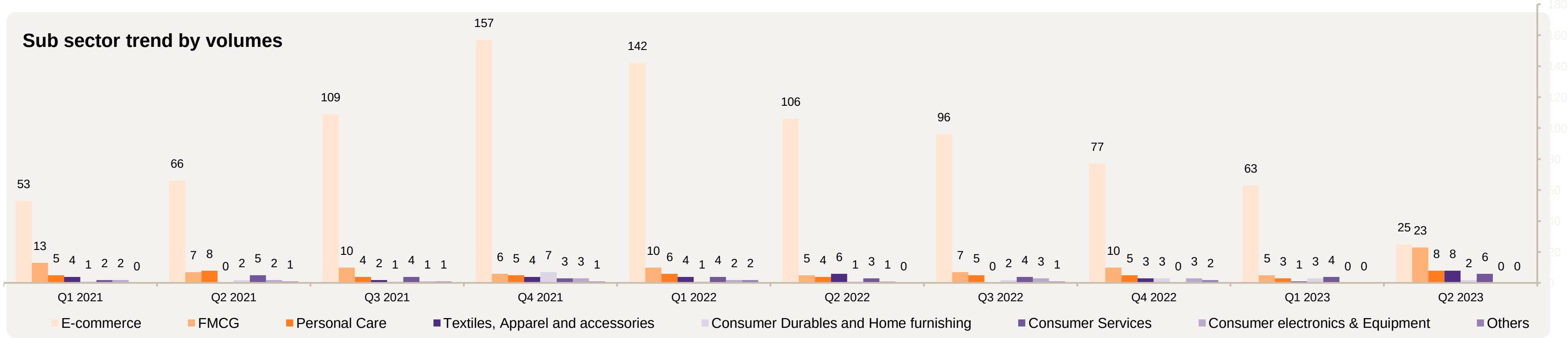
Sub-sector analysis

E-commerce takes the lead in deal activity, driving growth and investment

- With the rise in digital technologies and changing consumer preferences, D2C businesses are gaining traction by directly reaching customers through online platforms. Investors are recognising the potential of these companies to disrupt traditional distribution channels and create innovative products or services. The D2C model offers advantages such as data-driven marketing, high profit margins, and direct customer engagement, making it an attractive investment avenue in India's evolving entrepreneurial ecosystem. As a result, we are witnessing increased funding and investor interest in D2C startups across various sectors, including e-commerce, FMCG, and personal care.
- In Q2 2023, while M&A witnessed high value deals in the personal care and textiles, apparel and accessories segment, companies such as CarLelo, NestAway, Kook, etc., in the e-commerce, consumer service and FMCG space, respectively, were acquired by bigger brands with a collective investment of more than USD 31 million to cater to a larger audience.
- Similarly, PE investments have also shown increased interest in the e-commerce segment during the first half of 2023. Lenskart alone received a funding of USD 600 million during the first half of 2023 followed by Freshtohome Foods with a PE investment of USD 104 million and Bluestone with USD 100 million.
- Retailers are increasingly relying on M&A to diversify revenue sources beyond traditional trading, reflecting the evolving industry dynamics. This strategic shift allows retailers to pursue significant deals, positioning themselves as leaders in local and global markets while capitalising on cost synergies.
- In the first half of 2023, the M&A and PE activity remained active in the e-commerce, FMCG, textiles, apparel and accessories sectors and personal care. While e-commerce witnessed decline, other segments saw increased activity compared to past quarters. Nonetheless, these segments are expected to witness increased activity in the medium-to-long term as retailers focus on adopting omnichannel business models, leading to more investments and partnerships.



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Current global trends

The global retail and e-commerce sector is witnessing several notable trends that are shaping the industry's landscape

Retailers are increasingly focusing on internationalisation as a strategy for business growth. With domestic markets becoming saturated, retailers are exploring opportunities in overseas markets, particularly in Asia, to tap into new customer bases and expand their reach.

There is a shift from being solely value-driven to becoming values-driven retailers. Consumers are placing increased emphasis on ethical and sustainable practices, prompting retailers to align their values with those of their target customers. This shift is driven by the growing demand for socially responsible products and services.

Retailers are also enhancing their service offerings to provide a differentiated and personalised customer experience. This includes investing in technologies such as artificial intelligence, virtual reality, and chatbots to offer seamless shopping experiences and improve customer satisfaction.

Retailers are launching their private brands to ensure more control over product quality, pricing, and differentiation, allowing them to cater to specific customer preferences while also driving profitability. The US, the UK, Netherlands, Belgium, Norway, and Germany use private labels in modern retail with 80% penetration. However, it is relatively new in India.

There is a migration of retail formats as traditional brick-and-mortar stores adapt to changing consumer behaviours. Retailers are embracing omnichannel strategies to provide a seamless shopping experience across various touchpoints. In India, nearly 60 shopping malls (total retail space of 23.25 million sq. ft.) are expected to become operational during 2023-25.

These trends are influenced by factors such as technological advancements, evolving consumer expectations, and increasing penetration of e-commerce. Retailers who adapt to these trends and leverage them to their advantage are likely to thrive in the dynamic global retail and e-commerce sector.

On the deals front, global PE and M&A activity — both exits and buyouts — appeared to suffer in the face of ongoing macroeconomic uncertainty during 2022 and early 2023. While global PE firms still have a large amount of dry powder at their disposal, it appears that the multitude of challenges they are facing — from rising interest rates to geopolitical conflict and regulatory scrutiny.

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Sector specialist

Naveen Malpani
Partner and National Sector Leader, Consumer Industry
Grant Thornton Bharat
E: Naveen.malpani@in.gt.com

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