



# Pepsi will ramp up investment to leverage the India opportunity

*PepsiCo chief executive Indra Nooyi laid out her company vision at an investor meeting at New York's Yankee Stadium last week, where she pinpointed the company's priorities for growth, including plans to invest heavily in emerging markets like India and healthier products.*

*Pepsi is struggling to restore its North American beverage business to profitable growth in 2010 after an incredibly tough 2009, and is looking to countries like India to be key drivers of the company's overall growth. Pepsi still expects earnings per share to climb by 11-13% this year, excluding the impact from currency. It is targeting low double-digit growth for 2011 and 2012.*

*The financial Armageddon hit Pepsi's beverage business in North America with force but left India untouched. "PepsiCo India had a stellar year. We registered solid net revenue with exceptional 40% growth in our India beverage business," said Sanjeev Chadha, chairman and CEO of PepsiCo India. A rising star in the company, Chadha was one of the presenters at the New York investor conference.*

*The 18-year veteran of Pepsi is back in India after being away for a little more than a decade, heading a newly resurgent entity whose global CEO, Nooyi, also happens to have India high on the agenda for personal and business reasons. Chadha talked to Uttara Choudhury in New York about how Pepsi will invest \$500 million in India over the next three years. Pepsi plans to invest aggressively in emerging markets where the company can achieve leadership or parity with rivals such as Coca-Cola whose international business is broader than Pepsi's.*





**PepsiCo told investors that 2009 was among the toughest years it has ever seen. Full-year revenue was nearly flat at \$43.2 billion. But did Pepsi's Indian operations withstand the downturn better than most markets?**

It has been one of the toughest years for the global economy. PepsiCo did well in the face of a difficult global outlook, volatile commodity prices and fluctuating currencies. It did well if you look at the improvement in profit margin. Fortunately, emerging

economies like India and China were less impacted by the downturn. India's GDP went down from 8-9% to 6% last year and it is now rising handsomely. Within that, some industries were impacted more than others — fast moving consumer goods (FMCGs) faced a lesser impact. Food and beverage

companies were almost not impacted at all. PepsiCo India actually had a stellar year.

We have been growing well over 20% compounded annual growth rate (CAGR) over the last so many years in India. Last year, even compared to that as a combined business, we grew over 30% in terms of revenues. We have been the fastest growing beverage business in India for the last two years and in 2009 we

expanded by over 40% in terms of revenues. Today, we are a \$1.5 billion company in In-

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dia in terms of retail sales and have overtaken Nestle to become the No 1 F&B company in the country. We are the No 3 in terms of FMCGs behind ITC and Unilever. Yes, PepsiCo India has had outstanding results. Why? Firstly, we are a very good size business. Separately, the per capita consumption of convenient food and beverages in India is very small. People only spend an "X" number of rupees a month on convenient packaged food and beverages so during a time of economic tightening they cut out other bigger items that make a difference to the family budget. Our products generally don't get touched.

**Is Pepsi looking to populous countries like India to be key drivers of growth? Is India among Pepsi's top ten markets?**

Last year, we invested \$200 million in the country. Frankly, this underlines the confidence we have in India's future and in PepsiCo's future in India. The investments also reflect the confidence Pepsi's top management here in New York has in India. India's food and beverage business is already amongst PepsiCo's top five businesses in the world.

**“We are doing a lot of innovation in India on new product development. Our portfolio has changed from what it was even five years ago... We are working on a bottom of the pyramid breakthrough product.”**

Emerging countries like China, India, Russia and Brazil will drive Pepsi's growth. India and China are top priority markets for us.

**Pepsico chief Indra Nooyi told reporters that Pepsi has 22 plants on the ground in China and just got permission to build another 14. How does India compare in terms of this hyper build-out?**

It is a very different situation. In India, we already have 45 plants. We are building plants year after year. In China, the situation is different — we had not got the approvals to build the plants that we needed to build; there was a backlog. That backlog is now getting cleared.

**How much has PepsiCo invested in India and what are your invest-**

**ment plans over the next three years in coolers and plants?**

We completed 20 years in India this year. Over the last 12 years we have invested one billion dollars. Last year, we invested \$200 million and we have a three-year plan which we announced a year back of investing \$500 million over the next three years of which one year is now over. Recalibrating that, it will be upwards of \$500 million over the next three years. The main point is that India will receive accelerated investments. In the last 20 years, we have provided direct and indirect employment to 150,000 people. In the next three years, we hope to provide direct and indirect employment to an additional 50,000 people. We are definitely going to be ramping up and leveraging the India opportunity. **How will Pepsi broaden its appeal to health conscious Indian consumers?**

Our portfolio has changed from what it was even five years ago. On the beverage side, we have Tropicana which is a pure juice, Gatorade which is sports drink, zero-calorie beverages and are working on a bottom-of-the-pyramid breakthrough product.

On the snacks front, we have

**“India is cited as the first in the Pepsi world to achieve positive water balance — we are giving back more water than the company consumes in India. Our intake of water for producing a litre of beverage has dropped to one-third of what it used to be six years ago. Outside the fence, we are helping communities living around the plant conserve water.”**



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Quaker Oats which is a magic food. It grew 70% last year and is a market leader. It lowers cholesterol, it has high fibre. Then we have introduced Aliva, our baked savoury snacks made with wheat and *dal*. We have received rave reviews about Aliva — it is going to be introduced in many different markets. We are doing a lot of innovation in India on new product development. Globally, PepsiCo expects its nutrition business to reach \$30 billion in sales by 2020 from about \$10 billion now.

**What are the steps Pepsi has taken to respond to criticism that it sucks scarce water from farm lands in India?**

India is one of the most water-stressed countries in the world so we strive to use water efficiently. We hit a landmark in 2009 by achieving the positive water balance that Indra Nooyi talks about in the annual report. PepsiCo India is cited as the first in the Pepsi world to achieve positive water balance — we are giving back more water than the company consumes in India. Within the fence, we have adopted super-efficient production practices. Our intake of water for producing a litre of beverage has dropped to one-third of what it used to be six years ago. We have cut water use in manufacturing by reusing, recycling and refreshing water in the plant. Outside the fence, we are helping communities living around the plant conserve water. For instance, Pepsi scientists were able to do a great deal with very little in Paithan, Aurangabad. They noticed rain water just ran off, so they built 13 check-dams to capture water. They transformed the lives of the villagers by giving them water for agriculture and recharging a hundred dry wells. We have a team in Pepsi that looks at water preservation and partners that make it happen. We have done water harvesting in Neelamangla, Karnataka, Uttarakhanda and other places.