

Indian arms of MNCs find place in the sun

UNLOCKING OPPORTUNITIES. Many global firms are seeing Indian affiliates outpacing the parents and are looking to cash in on higher valuations with stake sales

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ITC Ltd. accounts for over a fourth of its parent BAT Plc's revenue. Hindustan Unilever contributes 10-11 per cent to parent Unilever's revenue; Whirlpool of India contributes around 5 per cent to Whirlpool Corporation's revenues, and Colgate India accounts for 4-5 per cent of its parent's global revenue.

At the same time, several Indian arms of consumer multinational corporations command higher valuations than their parents.

The Indian subsidiaries' PEs are at a significant premium to that of their parents, ranging from 2 to 4 times.

Also, compared to their revenue contributions, markets caps of Indian companies as a percentage to that of their parents are higher. Recently-listed consumer electronics giant LG Corp's India arm has a higher market capitalisation compared to its parent.

India as a market is finding prominent mention in commentaries by global companies in their earnings calls.

"Over the past decade, India has become the third largest contributor to consumer products (CP) growth among emerging markets — and it has significant headroom for expansion," Bain and Company said in a report, just a few months ago.

It noted that Indian affiliates of CP multinational corporations (MNCs) have delivered superior shareholder returns and strategic value to their parent in terms of innovation and shared services talent.

STAKE SALES

A quick glance at the accompanying chart shows that stock performance of the Indian subsidiaries — a good metric for shareholder returns — have outpaced that of their principals over a 10-year period.

The appreciation in stock price has also prompted many of the global MNCs to take some money off the table to pursue their objectives such as paying down debt.



Just over a week ago, Whirlpool Corporation sold 11 per cent stake in its Indian arm for ₹1,490 crore to reduce debt. Earlier, in February 2024, it had sold a 24 per cent stake for ₹4,039 crore.

A couple of days ago, BAT sold its stake in ITC Hotels (a part of ITC) for ₹3,800 crore; earlier, it had sold stake in ITC to generate funds for its share buyback programme.

The growth in India has been propelled by three factors — a youthful and growing working-age population; consistent real income increases, and swift urbanisation that is formalising consumption patterns, says Hiten Mistry, Sector Lead — Consumer, Equirus Capital.

With real disposable income per capita rising at around 6 per cent, India is projected to experience the highest per capita income growth among the leading CP market in the next five years, "providing significant opportunities for premiumisation and deeper category penetration.

India is expected to maintain a growth rate that is considerably faster than that of most developed markets, even as the ex-

ceptionally high rebound rates following COVID-19 begin to stabilise," explains Mistry.

In mature markets like the US and UK, demand has reached saturation and the MNCs are also not innovating.

"The lagging performance of MNCs in their home countries is closely tied to the growth rates there and the overall performance. Reduced innovation has also played in tapering growth. For example, in tech or pharmaceuticals truly innovative moves continue to witness robust growth and valuations in their home countries," says Divy Malik, Partner, McKinsey & Company.

The home markets for the MNCs exhibit flat to low single-digit volume growth, an ageing population and high levels of category penetration with very little scope for topline growth, notes Equirus' Mistry.

"The growth in these markets is increasingly driven by a mix of product offerings and pricing strategies, and even significant innovations tend to result in shifts in market share rather than true market expansion. Consequently, the overall growth

rates appear weaker when compared to rapidly growing profit pools such as India or other emerging economies," he says.

This situation is primarily a structural issue of demand saturation, with innovation aimed at maintaining profitability rather than fostering substantial volume growth. In contrast, India continues to present opportunities for both increased penetration and premiumisation, says Mistry.

India was once a difficult market for consumer multinationals to crack. Though MNCs operated in India and even listed here, navigating the regulatory maze and controls imposed posed restrictions to growth, resulting in underperformance and lower-than-expected growth.

The low single-digit economic growth, low per capita incomes were impediments.

OPENING UP OF ECONOMY

However, progressive liberalisation, reforms, opening up of the economy and increasingly investor-friendly policies have made it easier for global companies to operate in India.

Liberalisation in foreign direct

Indian affiliates outpace parent cos

	Share price growth (over 10 years)	Revenue growth (over 10 years)	Market cap	PE
Hindustan Unilever	over 3 times	89%	\$64 bn	54
Unilever Plc	70.80%	25.6%	\$145.5 bn	29
Colgate India	over 2.3 times	51.70%	\$6.4 bn	42
Colgate	13.30%	17.6%	\$63.2 bn	22
Nestle India	over 324%	2.6 times	\$26.6 bn	80
Nestle SA	8.5%	-50%	\$252 bn	21
ITC	65%	89%	\$56 bn	25
BAT Plc	24%	86%	\$125.3 bn	31
Whirlpool of India	47.40%	over 2 times	\$1.4 bn	35
Whirlpool Corp	-59%	-17%	\$4.5 bn	-23
LG India		22% in 2 years	\$12.2 bn	
LG Electronics Corp	70%	48.6%	\$8.5 bn	8.9

Source: Research from company filings

MNCs have been selling stakes in Indian affiliates

Corporations have shed parts of their stake in their Indian arms to reduce debt and generate funds for their share buyback programmes, among other reasons.

MNC	Indian arm	Stake sold by MNC	Amount (in crore)	Date
Bata Corporation	Bata India	2.80%	613	Jun-22
Whirlpool Corp	Whirlpool of India	11.20%	1489	Nov-25
Whirlpool Corp	Whirlpool of India	24.70%	4,039.00	Feb-24
BAT Plc	ITC	3.50%	16,690.00	Mar-24
BAT Plc	ITC	2.50%	12,100.00	May-25
LG Electronics	LG India	15%	11,607.00	Oct-25

Source: Prime Database, Company filings

investment regulations for single brand retail and multi-brand trading, along with reforms aimed at improving the ease of doing business, the implementation of the Goods and Services Tax (GST), and the digitisation of compliance processes, have facilitated the expansion of multinational corporations' operations in India.

Additionally, the introduction of simplified tax structures, expedited approval processes, and enhanced infrastructure and minimised obstacles in establishing manufacturing, distribution, and direct-to-consumer channels, has enabled global consumer product companies to adapt their products, pricing strategies, and supply chains more effectively to

the local market.

The growing consumer class with big aspirations is the primary engine of growth for consumer-focused companies. India is a dynamic market, brimming with exciting opportunities. Over the past five years, India's volume growth contribution outpaced its volume share by 2-8 times across several categories, said Bain & Company.

It adds that India is showing disproportionate contribution to volume growth among emerging markets.

India's share of global incremental growth, which ranged between 5 and 10 per cent across categories such as consumer appliances, apparel and footwear, hot beverages and snacks during

2019-24, has risen two to over eight times in 2024.

The emergence of digital channels like quick commerce and e-commerce has played a big role in accelerating the growth narrative of CP MNCs in India.

Q-comm platforms account for around 35 per cent of FMCG e-commerce sales and for several large FMCG companies it is about 60 per cent of online revenues.

"While regulations for MNCs are easing in India, with regulatory barriers reducing, there is still some way to go when compared to leading business-friendly countries like Singapore," cautioned Malik.

DISPROPORTIONATE RETURNS

Indian subsidiaries have also delivered disproportionate returns, as much as 2-6 times of their global parents. "Their success in India is driven by outsized contributions to revenue growth compared to their parent companies," said Bain & Company.

"Valuations of Indian MNCs can be as high as 2-3x versus their parent companies. Overall, their valuations are in line with their Indian peers, which reflects the strong growth expectations investors have for the Indian players, points out McKinsey's Malik.

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Despite the rapid growth in the consumer sector, India is still largely an underpenetrated market in many markets with even urban markets yet to reach saturation in all categories.

Relatively new entrants such as French sports retailer Decathlon and Japanese health and hygiene company Unicharm have seen rapid growth in their businesses in India.

Global consumer brands like Lotto, Lush, Footlocker, Lululemon, and Angara are making a beeline for India.

With India's digitally native middle class set to constitute around half the population by 2030, higher per capita incomes and disposable income are attractive propositions for MNCs.