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Kraft Invests in India Chocolate in Push for 30% Sales Gain (1)
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(Updates with analyst comment in the seventh paragraph)

By Vinicy Chan

Dec. 5 (Bloomberg) -- Kraft Foods Inc., the world's second-largest food company, has boosted spending in India by more than half, targeting annual sales growth of 30 percent for chocolate, a market it expects to resist any consumption slump.

The nation's biggest chocolate maker has increased its annual investment in advertising, capital expenditure, sales and marketing by more than 70 percent since acquiring Cadbury Plc last year, said Anand Kripalu, Kraft president, South Asia and Indo-China.

The foodmaker has invested more to fend off rivals including Nestle SA in India, where the Cadbury unit controls 70 percent of the chocolate market, and as the Northfield, Illinois company boosts its reliance on growth in developing countries.

Kraft revenue from emerging markets has almost quadrupled since 2004, propelling sales at the international business past North America's last year for the first time.

"There are some categories in the world that people consume in good times and bad times, and chocolate is one of them," Kripalu said in an interview in Hong Kong on Nov. 30. He declined to say how much Kraft was investing in India or to say what the company's profit margins are.

India's economy grew 6.9 percent last quarter, the slowest pace in more than two years, after the central bank raised interest rates by a record to try to tame inflation.

Tang and Oreos

The maker of Lu cookies and Philadelphia cream cheese is betting on its chocolate business, Oreo cookies and Tang powdered drink to propel growth in the world's second most populous country after paying about 13.6 billion pounds ($21 billion at the time) for U.K.-based Cadbury last year.

"Cadbury's distribution and marketing in India are top notch," said Abneesh Roy, an analyst at Edelweiss Financial Services in Mumbai. "Food is doing well in India. Nestle, Cadbury should do well." Cadbury would need to introduce new chocolate products to keep meeting a 30 percent sales growth target, he said.

Kraft started selling Oreos, a chocolate sandwich cookie, in India last year as it expands into the growing market for cookies, also called biscuits, a $3 billion business that is growing as much as 20 percent per annum, Kripalu said.

"If we can get a substantial percentage of that market it would be very good," Kripalu said. "We'd like to make up for the lost time."

Rising sugar prices and declines in the rupee against the dollar may hurt the earnings at the company, which makes the Oreo cookies and chocolates it sells in India locally.

Sugar has jumped 19 percent in the past six months based on futures traded on the National Commodity & Derivatives Exchange Ltd. in Mumbai. Sugar for December delivery fell 0.5 percent to 2,978 rupees per 100 kilograms (220 pounds) on Dec. 3. It will begin trading again at 10 a.m. today, Mumbai time.

‘Commodity Headwinds’

“In addition to commodity headwinds, there is also the added cost of the depreciating rupee which will make imports more costly,” Kripalu said.

The Indian rupee has depreciated 13 percent against the dollar this year, Asia’s worst performance, according to data compiled by Bloomberg.

Kraft may raise prices as a last resort, Kripalu said.

“Affordability is the key driver of our business” in India, he said. “Chocolate gives consumers a small moment of joy.”

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--With assistance from Malavika Sharma in New Delhi, Thomas Kutty Abraham in Mumbai and Anjali Cordeiro in Hong Kong.
Editors: Dave McCombs, Garry Smith

To contact the reporter on this story:
Vinicy Chan in Hong Kong at +852-2977-6473 or vchan91@bloomberg.net

To contact the editors responsible for this story:
Frank Longid at +852-2977-6643 or
flongid@bloomberg.net;
Stephanie Wong at +86-21-6104-3042 or
swong139@bloomberg.net