Firstpost.

July 12, 2019

Budget 2019: FMCG sector disappointed over lack of big announcements to revive consumption; govt measures for rural push give some hopes

Rajeshwari K Jul 12, 2019 19:52:25 IST

Finance Minister Nirmala Sitharaman's maiden Budget has met with a mixed response. Most sectors have reported fall in market indices post-Budget 2019 announcement indicating no significant fillip has been given by the government in these. The positive beneficiaries of the Budget seem to be the auto sector (somewhat) through electric vehicles' (EV) tax reduction and investment in rural road infrastructure, the manufacturing industry by way of tax incentives for high-tech plants and also the fact that the base of corporates that falls under the 25 percent tax bracket has gone up.

The fast-moving consumer goods (FMCG) sector comprises the daily consumable and purchase items of the household such as foods and beverages, soaps, toothpastes, detergents, cosmetics etc. and is the 4th largest contributor to the economy.

Characterised by high market competitiveness and ubiquitous presence across socio-economic strata (and hence the role of pricing in driving demand), this category witnesses frequent product improvements. Hence the overall expectations of the industry were to look at the initiatives and sops from the government that would encourage rural consumption, simplify Goods and Services Tax (GST), boost innovation, e-commerce facilitation etc.

But none of that seems to have happened in any remarkable way. The only exception being rural demand—through the mantra of g*aon, garib aur kissan*… Rural area contributes to 45 percent of the overall FMCG segment and any boost in this is likely to positively impact the entire category. Due to insufficient and sporadic monsoon and cash liquidity scarcity, the Indian consumer market began to show sales de-growth from November last year as rural income began to shrink with falling farm outputs. To address this, the government has come up with some action points in the Budget 2019, which if implemented well, should improve consumption of products in rural India.

The rural livelihood scheme, National Livelihood Mission Ajeevika has received a significant additional investment. The minister spoke about *har nal me jal*—meaning water in every tap (in rural India), indicating infrastructure improvements.

Electricity and cooking gas have also received special mentions along with the betterment of rural roads. Pitching for investments in the rural economy, the prime minister has said it will increase rural employment opportunities. According to him, the PM *Kisan Samman Nidhi* and the establishment of a national warehousing grid should help double the income of farmers by 2022.

Cigarettes with tobacco substitutes will now attract an excise duty of Rs 5 per thousand from "nil" earlier. This is marginal and is unlikely to affect the structure of the industry.

India ranks fifth in the order of size in the world when it comes to retail. However, the Budget does not seem to have addressed India’s low share of e-commerce in some categories such as cosmetics, stationery, apparel, textiles. Single brand retail (like Apple) will benefit from the easing of norms on local sourcing and this is good news for the premium consumers in India as they will witness more such exclusive stores. This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organised retail markets. This may also help innovations at the top end of the market.

The other aspect of retail is the GST. It was expected that the GST on branded/unbranded food grain and cereals should be treated on par and declared tax free. This has not been met. Other FMCG products such as soap, toothpaste and hair oil now come under 18 percent tax bracket against the previous 23-24 percent rate. However, simplifying it further to a single slab would have eased up operations a bit more and made it more efficient.

Retail also gets spurred by payment mode and a lot was expected in this area. For instance, solving problems like high merchant discount rates (MDR) and limited point-of-sales (PoS) machines could give a huge stimulus to the Digital India movement.

The Internet has contributed in a big way, facilitating a cheaper and more convenient means to increase a company's reach. It is estimated that 40 percent of all FMCG consumption in India will be online by 2020. One small positive is the implementation of low-cost payment modes for businesses that will definitely drive QR codes and low-cost options. By insisting that all corporates have digital payment options, this has been taken care of.

To sum up, while there are some positives like spurring rural demand, easing the opening of exclusive foreign retail and facilitating low-cost payment options, a lot more could have been accomplished by way of MSMEs, healthcare and GST simplification. These would have further increased the disposable income in the hands of the common people, and boosted the sector growth.

Adi Godrej, summarised this Budget for the FMCG sector by saying, "This is not as much a growth-oriented Budget as we had anticipated—no radical reforms here".

(The writer is senior associate professor (marketing), Great Lakes Institute of Management, Chennai)

https://www.firstpost.com/business/budget-2019-fmcg-sector-disappointed-over-lack-of-big-announcements-to-revive-consumption-govt-measures-for-rural-push-give-some-hopes-6982741.html