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Budget 2018: FMCG players expect tax policy for cigarettes to be soft

With improved consumer sentiment, FMCG products are expected to have seen nearly 15% revenue growth in the quarter ended December 31

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The *Fast-moving consumer goods (FMCG) or consumer packaged goods (CPG)* industry is the backbone of equity and human resource markets nationally. The sector logged a healthy 8 percent revenue growth in the first half of fiscal 2017, but failed to sustain momentum thereafter following demonetization of high-value notes. This restricted full-year growth to just 6 percent on-year.

GST Impact

In August 2016, the GST bill was passed by the Indian Parliament. It was levied on as many as 178 products, including chocolates, cosmetics, detergents and air-fresheners etc. Some firms operating in categories such as FMCG, consumer electronics and food retail reaped the benefits in the form of reduced logistics costs and lowering of taxes. However, other segments, such as soft drink manufacturers and e-tailers have had to pay higher taxes. Many companies like HUL passed on this cost advantage to the end consumer, but quite a few others did not. Especially those that carried long pipeline stocks did not pass on the advantage despite the government making it clear that it was the responsibility of the companies to ensure that their entire retail is directing to announce this to the end user.

E-commerce

This got a huge fillip, thanks to demonetization and GST, and aided FMCG sector on an everyday level. Monthly groceries that were traditionally cash and carry were now going cashless. The adoption to this online mechanism has been surprisingly quick, compared to expectations. Aggregators like big basket or Amazon grocery, are trying a new route to deepen relationships with consumers.

Corresponding to the growth of e commerce, one saw the decline in Television advertising paving way to viral marketing in social media. Brands getting marketed through this medium increased. Examples included new screens/modes like Netflix, Hotstar, Jio movies, endangering the blockbuster/events driven advertising which has been the mainstay of FMCG advertising. Even Nestle relaunched its noodles via Snapdeal, a tribute to the reach of E-commerce.

<u>What to expect in FMCG -2018?</u>

Favorable demographics and rise in income level will boost FMCG market in 2018. This industry in India is expected to grow at a CAGR of 20.6 per cent and is expected to reach US$ 103.7 billion by 2020 from US$ 49 billion in 2016. Growing awareness, easier access, and changing lifestyles are the key growth drivers for the consumer market. The Government of India's policies and regulatory frameworks such as GST and demonetization are expected to drive demand, both in the rural and urban areas, and economic growth in a structured manner in the long term and improve performance of companies within the sector.

Quarterly growth trends are positive for the industry already, but that is partly also because the comparison basis of last year same quarter was low! Some other trends to look forward to:

· Ethnic positioning seems to be gaining favor- some examples are Paper boat beverages from Hector, Cheddar foods into the banana/tapioca chips segment as against KFC (shutting down in some places) to Dominos that has reported slow growth. Western trends in foods seems to have slowed down and desi is clearly up.

· **Fitness/Health- this is expected to grow more... Consumer awareness in this area fueled by 'organic' farm foods and gym/work out areas- this is one segment that will continue to bring in the money.**

Rural is picking up demand. Semi-urban and urban segments accounted for a revenue share of 40 per cent in the overall revenues recorded by FMCG sector in India. Affordability will be the primary focus as companies target the rural folks. Smaller unit packs that encourage bottom of the pyramid to purchase products will be seen more and more. Britannia's Tiger is going to see revival in packaging and in distribution/availability. Dabur is revamping its Dabur Red toothpaste. Patanjali is further entering rural India with its various brands.

EXPECTATIONS FROM 2018 BUDGET-for FMCG

As per a report, makers of Fast moving consumer goods (FMCG) are expected to see nearly 15% revenue growth in the quarter ending December 31, 2017. The reason provided for the growth is improved consumer sentiment and rise in rural demand

From a FMCG perspective, for GST benefits to reach the consumers, organizations like Mars (confectionary) are investing in instore technology to ensure monitoring of this.Dabur, which makes Vatika shampoo and Fem skin-care products, plans to release ads telling consumers about the price reductions as well as to monitor the trade closely. Kolkata based Emami is also planning to do similar things.

Analysts expect tax policy for cigarettes to be soft, with an anticipation of an increase in excise duty on cigarettes by 10 percent across slabs and also the likely introduction of 59-mm segment in the current slab structure.

Given the above importance of rural in fueling the economy, the budget is expected to favor this segment. The plan of 'double rural income in the next 5 years' may get further clarity on its implementation.

In order to boost e commerce, miniaturized Point of Sale (POS) card reader for m-POS, iris scanners, fingerprint readers/scanners and micro ATM standards version 1.5.1 that have been exempted from BCD, excise/ Countervailing Duty (CVD) and Special Additional Duty (SAD), will continue that way.

According to CRISIL, overall FMCG is to see volume-driven growth and improved margins. However, rising input prices of raw materials such as crude oil and milk will restrict further margin expansion.

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