

Press Release

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FMCG growth to recover to double digits in fiscal 2021

Good monsoons to boost rural demand even as urban demand remains steady

An expected recovery in rural demand, coupled with steady urban demand, is set to lift revenue growth of the Rs 4.0 lakh crore fast-moving consumer goods (FMCG) sector to 10-11% in fiscal 2021, close to the levels witnessed in fiscal 2019.

That would follow a nearly 400 basis points (bps) moderation in growth to an estimated 8-9% in fiscal 2020.

Rural demand is expected to recover gradually from March-April 2020, riding on an increase in farm incomes. Given better storage levels in reservoirs (40% higher than the long period average as on January 16, 2020) after a good monsoon, better rabi output (7-8% on-year increase), and good visibility for the upcoming crop seasons.

This fiscal, sales of FMCG products have been impacted by slack rural demand and the liquidity squeeze that affected wholesale channels. Rural demand, which accounts for just under a half to the sector's revenue, slowed down considerably in the first half of current fiscal, following lower crop production and moderation in agriculture GDP to 2%.

Says Anuj Sethi, Senior Director, CRISIL Ratings, "Next fiscal, growth in rural FMCG revenue will recover to 11-12% from lows of about 8-9% in fiscal 2020, largely driven by better agriculture GDP growth. Besides, higher spending by the government on rural infrastructure could benefit rural incomes and thereby demand for FMCG products. Growth in urban FMCG revenue, meanwhile, is expected to hold steady at 8%, as growth and share of modern trade continue to improve."

CRISIL's analysis of 57 FMCG firms, which account for close to half of the industry revenue, however, shows that the rate of revenue growth may not be uniform across firms.

The packaged foods segment, which accounts for nearly half of the FMCG sector's revenue, will continue to grow the fastest – at 9-10% this fiscal and 11-12% in fiscal 2021 – driven by increasing shift to branded products and deeper penetration of product segments.

The personal and home care segment, which accounts for a third of FMCG revenue, is also likely to see recovery in growth to 8-9% in fiscal 2021 from 6-7% in fiscal 2020. Growth will be lower than that of packaged foods given relatively more discretionary-spend products and higher penetration of these product categories.

That said, with increasing raw material prices and high promotional intensity continuing next fiscal, operating profitability of FMCG firms may moderate by up to 100-150 bps next fiscal. However, operating profitability will continue to remain healthy in the 15-20% range, with personal care and home segment firms being in the higher range.

Says Sushant Sarode, Associate Director, CRISIL Ratings, "The credit profiles of FMCG companies are likely to remain stable, supported by well-capitalised balance sheets. For instance, their debt/EBITDA (earnings before interest, tax, depreciation and amortisation) ratio will continue to be healthy below 0.5 time in fiscal 2021, in line with the past three fiscals."

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