CRISIL Ratings

# Press release

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# FMCG sector to witness 7-9% rise in revenue this fiscal

Volume growth to be the driver, gradual revival in rural demand to help, too

Revenue of the fast-moving consumer goods (FMCG) sector is expected to grow 7-9% this fiscal, a wee slower than the 8-9% clip of the past two fiscals.

Higher volume is expected to drive revenue growth, amid support from gradual recovery in rural demand. On the other hand, urban demand will see stable growth on a higher base.

Product realisations are foreseen range-bound — even moderating in a few categories — this fiscal because of price cuts in certain products where raw material prices have moderated. In contrast, revenue growth in the past two fiscals was driven by higher realisations.

Lower raw material costs, primarily of edible oil, crude derivatives and chemicals, will help offset higher selling and marketing spend, leading to a 50-100 basis point improvement in operating margin to pre-pandemic levels of 20-21%, compared with consecutive years of erosion.

A CRISIL Ratings study of 76 FMCG companies, which accounted for ~35% of the estimated Rs 5.2 lakh crore revenue of the sector last fiscal, indicates as much.

**Says Anuj Sethi, Senior Director, CRISIL Ratings, "After subdued volume growth in the past two fiscals (1-3%), the sector is likely to record a 4-6% volume expansion this fiscal, supported by gradual recovery in rural demand (35-40% of overall demand), and steady urban demand (60-65% of overall demand). That said, any adverse impact of El Niño conditions on rainfall pattern this monsoon season will have a bearing on rural demand and remains monitorable**."

Demand from the rural segment began to recover in the last quarter of fiscal 2023 after being negative for six consecutive quarters. This was supported by growing rural income in the last two quarters, coupled with falling rural inflation levels. Demand recovery is expected to sustain this fiscal with continuing moderation in inflation, healthy hike in minimum support prices for key crops, and stable non-agricultural income indicators.

The urban segment, which grew in double-digits the past two fiscals, will continue to support overall growth this fiscal owing to increasing disposable incomes, continuing rise of e-commerce, growth of contact-based services, and progress on premiumisation in the home care and personal care segments.

On their part, the players have undertaken price cuts in key categories such as edible oil and soaps and detergents to stimulate demand as prices of key inputs such as crude oil, linear alkylbenzene and soda ash have softened.

**Says Aditya Jhaver, Director, CRISIL Ratings, "Revenue growth would vary across product segments and firms, but will largely be volume-driven. While the food and beverages (~50% of the FMCG sector revenue) is expected to grow 9-10% this fiscal, home care (~25% of sector revenue) should slow to 6-7% after price cuts. Personal care (~25% of sector revenue) will see continued traction growing at 7-8%, owing to revival in rural demand and steady urban demand."**

The credit profiles of CRISIL Ratings-rated FMCG companies will continue to be 'Stable', supported by their healthy cash generating ability, strong balance sheets, and sizeable liquid surpluses.

Any sharp movement in agri-based and crude-linked raw material prices, as well as impact of El Niño on farm income, will bear watching.

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