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FMCG PULSE

IMRB KWP NEWSLETTER

Welcome to the first edition of FMCG pulse. Track us for news, views, insights and much more



A SPECIAL FOCUS ON
**BUDGET
2016**

The background image shows a corkboard with various items: a pair of glasses, a speech bubble saying 'Communication', a note saying 'This is important!', a note saying 'URGENT', a note saying 'Customers', a note saying 'idea', a note saying 'Business Marketing', and a note saying 'STRATEGY'. A hand is writing on the central note with a black marker. There are also some colorful pens and pencils in a cup on the left side of the board.

IN THIS ISSUE

The 2016 budget is touted as the budget for Bharat. We look at the impact it could have on the FMCG market?

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Hello,

We are very pleased to commence a new initiative - a newsletter from IMRB KWP. In addition to updating you on the happenings in the Panel service, this newsletter also aims to take up specific issues of relevance to our business lives. For instance, the inaugural issue aims to provide some highlights on the recent budget and how it can impact the lives of marketers of FMCG.

The purpose of the newsletter is to introduce a channel of communication that is over and above what we do in our business as usual. This is just our attempt to share our thinking on issues that could be of relevance to all of us. In fact, it will be our delight if any of you wishes to contribute to this newsletter by way of news/ views/ articles and updates.

Needless to say, any new initiative survives only if it receives feedback and it acts on it. We are absolutely open to your feedback on this and will be pleased to act on it to make the initiative much better. Feel free to write to us with your views, whether they are bouquets or brickbats.

Have a super productive year ahead.

K. Ramakrishnan
Country Head, IMRB Kantar Worldpanel





BUDGET 2016 IMRB KWP INDIA

The Indian Express, on 1st March 2016 called this budget as the “budget for Bharat”. While the Urban working class has not much to celebrate in this budget there are heaps of initiatives that the finance minister proposed for rural. In this edition, we look at the business outlook in 2016 with respect to the highlights of the Budget 2016.

STRONG RURAL GROWTH

Impetus provided for irrigation and organic farming is going to propel the agriculture sector. MNREGA thrust is going to provide more days of employment. More focus on road connectivity could improve distribution in the rural market. Coupled with these, El-Niño is expected to become neutral in May 2016 and there are indications of a good monsoon post that, especially for the Kharif season.

THE IMPACT

While there will not be an immediate growth in Rural’s consumption, we can likely see it picking up as a result of the above during Q3 and Q4 of 2016.

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FOODS & BEVERAGES

The Processed Food industry is poised for good growth given the Government’s relaxation of the FDI norms in the sector. Focus on Organic farming is also expected to increase more players in the market. The one negative for the F&B category is the expectation of aerated drinks becoming more costly.

THE IMPACT

We can expect strong growth in the foods sector, while the beverages sector could be under some stress in the coming year.

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HOUSEHOLD CARE

The focus on Swachh Bharat during 2015 had a positive impact on the Toilet Cleaner industry. Increased allocation during 2016-17 and over 90% of the target for Swachh Bharat yet to be reached is a sure shot sign of growth in the toilet cleaner category in particular and hygiene in general.

THE IMPACT

Again, the target for SBA is 2019, therefore, we are unlikely to see massive jump in the category; but a growth in line with the previous year (8%) can be expected.

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LOCAL BRANDS

Relaxation in taxing and the increasing ease of setting up businesses could mean that more local players could enter into the market.

THE IMPACT

Coupled with lowering Crude Oil prices, we can most likely see local players popping up in categories like Detergents, Soaps, Deodorants and related products, eating into the growth of the big national companies. However, this impact is not expected to be immediate because of the time involved in setting up a plant from scratch.

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HIGHER DISPOSABLE INCOME

Tax rebates for individuals earning less than 5Lakhs and exemptions on House Rent would increase disposable income in some of the middle class homes.

THE IMPACT

We could see some immediate effect because of this – the likely response of the consumer could be to upgrade or buy more or newer categories.

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BUMPER RAINFALL EXPECTED

Agricultural production is affected by El-Niño, an abnormal warming of the Pacific waters near Ecuador and Peru, which disturbs weather patterns around the world. The 2015 El-Niño has been the strongest since 1997, depressing agricultural production over the past year.

The current El-Niño started around February 2015. Most climate models predict that this weather pattern is going to continue at least until May 2016. An extended El-Niño explains the deficient monsoon lasting through the winter this time and this has in turn, impacted both kharif as well as rabi crop.

The strongest El-Niño years were followed by La-Niña episodes, which is an abnormal cooling of the sea surface waters along the tropical west coast of South America. This resulted in bumper harvests. The possibility of this being repeated in 2016 after the second strongest El-Niño in record cannot be ruled out.

If that happens, we can see strong rural growth this year. However, we are likely to see this only in the kharif cropping season, which is towards Q3 and Q4 of 2016.

Budget's Focus on Rural

Rural is a strong focus area in the 2016-17 Union budget.

Following are only some of the rural focused programs, which are likely to have an impact on rural consumption and purchase behaviour in the coming months.

- The Government targets to double the farmer's income by 2020. If this happens, in the next five years we can also see the consumption in rural almost doubling from what it is currently. If that happens, and Urban consumption continues to grow at the existing pace, Rural's consumption, which is less than a third of the Urban consumption, could jump to become 3/4th of it by 2020.
- 28.5 Lakh hectares will be brought under irrigation and Rs. 20,000 Crore dedicated irrigation fund is set aside under NABARD. The Government will also set apart Rs. 412 Crores to encourage organic farming. All these could improve work opportunities and disposable income in the rural sector.
- The allocation for MNREGA was increased to Rs. 38,500 Crores in this Fiscal, and if the total amount is spent, it will be the highest budget spent on MNREGA. This will ensure higher employment days in rural and therefore more disposable income.
- Pradhan Mantri Gram Sadak Yojna is allocated Rs. 19,000 crores in 2016-17, bringing the total allocation to Rs. 27,000 crores to advance completion target to 2019. If the target is met, by 2019 all villages with a population of at least 1000 would be connected via a proper road, which would increase distribution of FMCG products, thereby increasing penetration as well as consumption.

All these programs are likely to cause a growth in Rural FMCG purchases. However, the growth would not be immediate, because for these proposals to actually come to fruition it would take about 6-12 months. The budget programs coupled with good rainfall could likely cause a turnaround in Rural starting Q4 of 2016.



FOODS & BEVERAGES

The F&B sector saw an All India growth of 5% in terms of volume. Rural outpaced Urban by growing at 7% as against 3%. Within Rural, Personal Care grew by 3% and Household Care grew by 4%, therefore, Foods & Beverages outpaced both these sectors in Rural

The following budget proposals could impact the F&B sector in the coming year:

The Finance Minister proposed 100% FDI through the FIPB route in the marketing of food products produced and manufactured in India. Not only would this boost the food processing industry in the country, but also benefit consumers by bringing down the cost.

The Krishi Kalyan Cess imposed on the taxable services would mean higher costs of eating out in Air Conditioned restaurants. Aluminium foils are getting expensive and therefore, the cost of some take-aways would marginally increase, which will likely encourage more cooking at home. This would in turn increase the consumption of food products such as Atta, Spices, Sugar, Edible Oil, Ghee, Butter etc.,

Aerated drinks are expected to get dearer, which could drag the category marginally down. The aerated drinks category had seen double digit growth in Rural and an increase in costs could slow it down this year.

HOUSEHOLD CARE

Swachh Bharat Abhiyan was allotted 9,000 Crore in the 2016-17 budget. Between 2015 April and December, about 77 Lakh toilets were built as part of the Swachh Bharat Abhiyan.

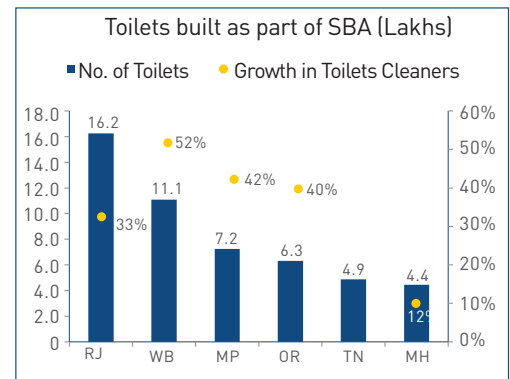
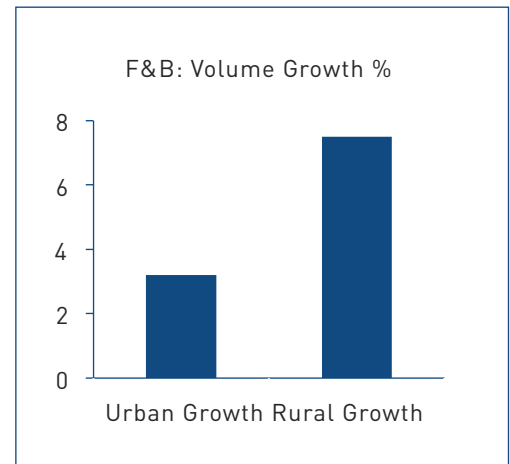
The states where Swachh Bharat Abhiyan had a huge success in terms of number of toilets being built are also the states where toilet cleaners have seen a huge growth as well, barring Tamil Nadu, which saw a 4% decline, marginally due to the high rainfall during Nov-Dec 2015.

Further thrust on the Swachh Bharat Abhiyaan and the target of 12 crore toilets in Rural India by 2019 being yet far away, points to some significant growth in the number of toilets being constructed in the coming years and a high growth for this category.

LOCAL BRANDS

New manufacturing firms from March 1, 2016 shall be taxed at 25%. The erstwhile flat corporate tax was 30%. Moreover, a 3-year tax exemption has been given for startups, which will reduce the compliance burden and cash outflows, allowing investments in product development and scaling-up the businesses.

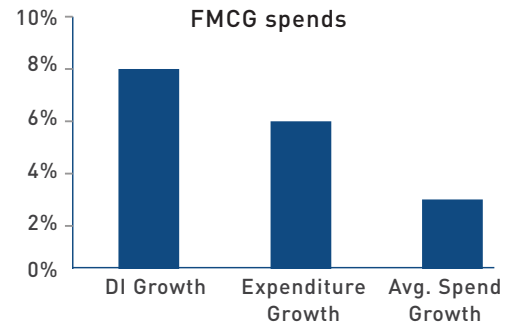
Conducive business environment could mean more local competitors entering the market challenging the big players to take a small segment of the market pie. For example, in a market like Detergent Powders, local brands saw a growth of 16%, which is almost equal to the growth of 19% that the big brands saw in 2015. However, it is unlikely that we see the effect of this in 2016.



HIGHER DISPOSABLE INCOME

Tax rebate under section 87A is raised from Rs. 2000 to Rs. 5000 to lessen burden on individuals with income upto Rs. 5 Lakhs. 80GG limit also extended from Rs. 2,000 to Rs. 5,000 (per month) for people not having their own house nor receiving HRA. This will increase the disposable income of the middle class and has a potential to increase their FMCG consumption. The impact of this could be immediate starting FY 2017

Disposable income has gone up by 8% in the previous year, while expenses at the household level increased by about 6%. Nevertheless, the average spend grew by 3% at the All India level, pointing out that about 40% of the disposable income came into the FMCG sector. If this holds good this year, we can see significant growth in spends this year too.



Sources:
Economic Survey 2015-16
Budget Speech 2016
IMRB KWP Data
Swachh Bharat Mission (sbm.gov.in)

We hope that you found this edition of our newsletter useful.
Please do send your feedback to FMCGpulse@imrbint.com