

## Performance of FMCG sector in Q3-FY20

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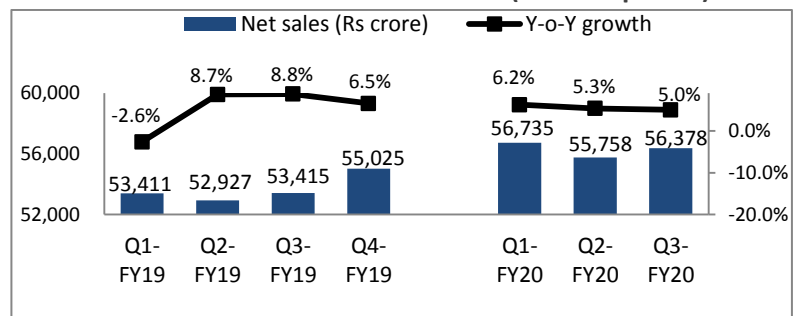
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Amidst a subdued demand environment, the Indian FMCG sector continued to post decline in revenue growth for the fourth consecutive quarter of Q3-FY20. Analysis of 101 companies operating in this sector shows sales growth of modest 5% in Q3-FY20, compared with 8.8% in similar period last year.

**Chart 1: Net sales of FMCG sector (101 companies)**



Source: Ace Equity, CARE Ratings

Both – ‘food products’ and ‘household and personal care’ categories posted decline in demand from consumers. However, the fall in demand was much higher for items that are discretionary in nature like hair oil and hair dyes. Certain consumer goods like toothpaste and soaps also witnessed down trading to low unit price points.

Though the fall in demand was witnessed in both segments – urban as well as rural, it was much more pronounced in the latter. This fall in demand can be attributed to the on-going challenges in the macro environment such as:

- 13-quarters high unemployment levels in Q3-FY20 of 7.7% (according to CMIE) - Low economic growth has led to lower job creation and thereby, reduced spending by consumers.
- Rising inflation in prices of key raw materials such as milk, sugar, potato, onion, etc. affecting cost of production.
- Deteriorating consumer confidence (according to RBI survey) - Most households perceived prices have gone up and expect further rise in expenditure in coming months. Households reported lower spending on non-essential items, when compared with previous year.
- Stressed liquidity conditions added to the woes of distributors by impacting working capital operations. To counter this, FMCG players extended credit to selective dealers.

Table 1: Production of fast moving consumer goods

	Item	Production in Q3-FY20		Production growth (%)	
		Unit	Quantity	Q3-FY19	Q3-FY20
Dairy products	Ghee	'000 tonnes	47	0	-0.1
	Butter		28	-10.1	-25.7
	Milk powder		55	-4.1	-19.2
	Milk	Mn litres	1,679	0.4	-3.6
	Ice cream		36	10.3	8.6
Tobacco Products	Cigarettes	Mn sticks	22,316	10.1	1.9
	Biri		20,621	12	-7.1
Vegetable Oils & Products	Groundnut oil	'000 tonnes	11	487	-34.1
	Soyabean oil		622	58.1	-16.8
	Mustard & rapeseed oil		144	-24	56
	Sunflower oil		163	1340	29
	Cottonseed oil		24	13.2	-28.1
	Refined palm oil		952	18.8	-7.9
Cocoa products and confectionery	Chocolate and cocoa powder	'000 tonnes	44	-0.1	11
	Sweetmeat and sugar confectionery		29	7.8	-8
Bakery products	Breads, buns and croissant	'000 tonnes	67	-4.9	-3.9
	Biscuits / cookies		158	0.2	0.7
	Cakes, pastries and muffins		2	-2.1	-10.1
Processed food	Honey, artificially preserved	'000 tonnes	1	0.6	3.5
	Fruit pulp and fruit juice		7	9.7	-44.6
	Bottled water	Mn litres	210	1.6	3.5
Milling products	Maida	'000 tonnes	452	-4.1	1.5
	Wheat flour (atta)		362	-0.1	-4.6
	Gram flour (besan)		60	-11.4	6.5
	Rawa (sooji)		69	2.4	-15.1
Consumer goods	Soaps	'000 tonnes	285	1.1	-4.7
	Detergents		378	2	4.8
	Toothpaste		36	-2.4	-5.5
	Hair oil		28	-15.8	-10.2
	Hair shampoo		64	16.4	6
	Hair dye	tonnes	598	-35.1	-44.7
	Creams and lotions		66	-72.9	16.1

Source: CMIE

Table 1 depicts production (in quantity terms) of fast moving consumer goods in Q3-FY20. It also provides growth rates on a Y-o-Y basis. An analysis of Table 1 shows most items of food products and consumer goods have witnessed fall in production growth during Q3-FY20.

- Dairy products: Four out of five dairy products reported negative growth in output. Production of butter and milk powder deteriorated further by 25.7% and 19.2% respectively compared with similar period last year, while milk production de-grew by 3.6% in Q3-FY20. However, a delayed onset of winter led to an increased production for ice creams.
- Tobacco products: Production of cigarettes grew moderately by 1.9%, compared with 10.1% in same period last year, while biri production fell by 7.1% compared with positive growth of 12% in Q3-FY19. The frequent rise in excise duties, along with increasing health concerns and rising awareness among consumers has led to gradual fall in demand for cigarettes.
- Vegetable oils and products: Production growth of four out of six vegetable oil varieties including groundnut oil, soyabean oil, cottonseed oil and refined palm oil have witnessed fall in production. However, sunflower oil, mustard and rapeseed oil posted impressive positive growth during the quarter.
- Cocoa products and confectionery: Chocolate and cocoa powder production grew to 44,000 tonnes, establishing 11% growth Y-o-Y, while sweetmeat and sugar sweetmeat and sugar confectionery witnessed a fall in production of 8% in Q3-FY20.
- Bakery products: Bakery products such as breads, buns and croissant and cakes, pastries and muffins have witnessed negative growth of 3.9% and 10.1% respectively, while biscuits and cookies registered no growth in production.
- Processed foods: Fruit pulp and fruit juice output witnessed a sharp decline of 44.6% in Q3-FY20. This category has seen much sharper down trading in the past quarter as consumers find it difficult to differentiate between multiple products in this category such as juice, nectar and a drink. This is even more evident in the current scenario of slowdown, where consumers prefer to spend money on low-priced items of the same category.
- Milling products: After displaying falling growth rates in three milling products in Q3-FY19, maida and gram flour (besan) displayed modest positive growth of 1.5% and 6.5% respectively in Q3-FY20, while wheat flour (atta) and rawa (sooji) production declined further by 4.6% and 15.1% respectively.
- Consumer goods: Most consumer goods such as soaps, toothpaste, hair oil and hair dye witnessed fall in production growth in Q3-FY20. Hair oil and hair dyes – which are discretionary in nature have exhibited fall in production growth since multiple quarters. Also, toothpaste and soaps witnessed down trading to low unit price points in Q3-FY20. Due to late onset of winter in most parts of India, hair shampoo witnessed healthy demand. Other consumer goods such as detergents and creams and lotions also exhibited good production growth during the quarter.

- A weak consumption story was reflected in FMCG sector's growth numbers of Q3-FY20. This was the fourth consecutive quarter witnessing sluggish production in most items of 'food products' and 'household and personal care' categories.
- The late withdrawal of monsoons led to delayed onset of winter, impacting sales of companies that have a larger winter portfolio of personal care products like skin care items, however the late start of winter benefited demand creation for some food items such as ice-cream.
- Among food products – decline in production was witnessed in dairy products, varieties of vegetable oil, bakery products and fruit juices. Within consumer goods, discretionary items such as hair oil and hair dye witnessed sharper fall in production.

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