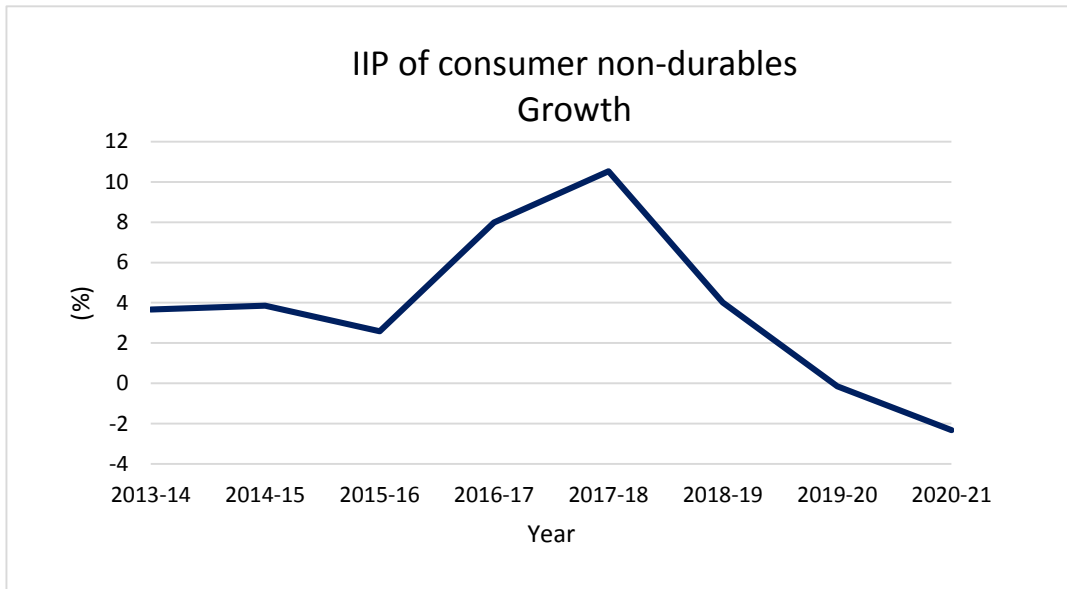


# FMCG production in 2020-21 a mixed bag

May 21, 2021

The production of fast-moving consumer goods as indicated by the index of industrial production (IIP) contracted by 2.3 per cent for the 2020-21 financial year. While the pandemic-led lockdowns dealt a blow to consumer non-durables during the June 2020 quarter, the index showed a quick turnaround and a marginal expansion during the September 2020 quarter itself and a steady improvement during the subsequent two quarters. The consumer non-durables basket closed the March 2021 quarter with a 4.1 per cent growth, the fastest since the June 2019 quarter. But the pace of growth was paltry at best given that the index benefited from its low base of the year-ago quarter. The IIP had contracted by 7.7 per cent then.



While the overall index showed a contraction over the previous year, the fall in production was not broad-based but remained confined to largely discretionary products. The pandemic severely impacted consumption demand as consumers tightened their purse strings and cut down on unnecessary purchases. The nationwide lockdown during the June 2020 quarter constrained supplies as factories remained shut and only the movement of essential items was allowed. Come the September quarter, the phased re-opening of the economy alleviated the problems to an extent, but demand for discretionary products refused to increase discernibly. Naturally then, the products within the FMCG basket showed divergent trends during the year. Essentials like drugs and pharmaceuticals continued to grow, others like detergents and washing powders found traction as these products shielded or lowered the risk of contracting infections. In contrast, varieties of soft oils that mainly find their usage in the hospitality sector, alcoholic beverages and paper products were worse off.

Drugs & pharmaceuticals, which command a significant share in the overall FMCG production, bounced back to growth as early as May 2020. With more people staying indoors and postponement of elective surgeries following the coronavirus outbreak, demand for anti-infectives, analgesics and gastro-intestinal drugs did remain tepid. But the very nature of medicines ensured that demand from chronic therapy segments and export markets sustained. As a result, APIs and formulations grew by 10.8 per cent and anti-diabetic drugs recorded a robust 56 per cent growth during the year. The production of anti-cancer and antihistamine drugs grew by 15.6 per cent and 14.3 per cent, respectively.

A somewhat big turnaround also came from sugar, which is another heavyweight in the FMCG group. Sugar production had shrunk by 19.3 per cent during 2019-20 due to drought in Maharashtra and erratic monsoon in Karnataka, the second and third largest sugar-producing states, and barely marginally higher production in Uttar Pradesh, the largest sugar producer in India. A favourable and timely monsoon, coupled with higher cane acreage in key sugar-growing states helped sugar production return to growth during the December 2020 quarter and average 15.6 per cent higher in 2020-21.

## Production of different fast-moving consumer goods (Y-O-Y change)

Type of goods	Jun 2019	Sep 2019	Dec 2019	Mar2020	Jun 2020	Sep 2020	Dec 2020	Mar2021
APIs & formulations of vitamins	-11.24	-8.20	-8.86	-18.69	7.34	5.99	23.81	5.81
Anti-diabetic drugs	22.81	-1.80	-1.56	0.31	80.75	88.16	73.58	-1.01
Sugar	-19.25	25.50	-28.95	-13.95	18.31	-20.14	36.08	5.49
Paper (excl. newsprint)	-12.46	-6.12	0.05	-5.13	-23.95	8.59	-8.80	7.65
Newspapers	1.73	-7.32	-1.95	2.55	-40.40	-28.79	-29.73	-32.27
Vegetable oils	50.25	43.86	33.31	2.42	-13.97	-22.49	-11.93	12.31
Beer	2.79	-5.18	-4.10	-15.10	-79.98	-51.60	-25.32	-15.01
Spirits (Distilled alcoholic liqueurs)	-0.53	-1.48	2.56	-6.34	-50.13	12.13	-0.84	11.13
Palm oil	24.46	9.57	-5.61	-8.69	-39.48	13.76	5.50	12.61

The 2020-21 financial year was less of a food products growth story. Rice production did particularly well and grew by over 27 per cent. The production of instant food, biscuits, and bread grew in low to mid-single digits due to majority of urban Indians staying indoors for longer. Other food items such as cashews, confectioneries and ice creams continued to face demand constraints. Cashew, confectioneries and ice cream production fell by 26.8 per cent, 19.3 per cent and 41.7 per cent, respectively. The output of meat and meat products also tanked. Frozen poultry meat production fell for eight consecutive months of the year and remained 18.8 per cent lower for the year. Frozen buffalo meat production fell during each of the months of the 2020-21 financial year and averaged 28.7 per cent lower for the year. Similarly, varieties of frozen seafood saw their production fall in the range of 8-50 per cent.

The hospitality sector, inarguably among the worst hit by the pandemic, drives the demand for beer and alcoholic beverages. The shutdown of hotels and restaurants impacted the demand and consequently brought down the production of beer and alcohol. The first phase of the lockdown saw standalone liquor stores also being shut. State governments also increased excise duties on alcoholic beverages to bring in additional revenues. This is estimated to have impacted the demand for low to mid-range varieties, but premium brands probably remained unscathed. Although restaurants opened with the gradual reopening of the economy, footfalls likely remained lower than pre-Covid levels as patrons stayed away due to fears surrounding a second wave. Beer production recorded its sharpest-ever fall in 2020-21. It fell by 47.2 per cent. The production of wine declined by 8.6 per cent and that of distilled alcoholic liqueurs fell by 7.3 per cent.

The near shutdown of the hotels and restaurants and even catering services impacted the production of edible oils too. The production of vegetable oils nearly halved in May 2020 and continued to remain much lower than year-ago levels until January 2021. The consumption of soft oils remained lower even after the first wave of the pandemic receded. Hotels were operating at lower capacities and social distancing and reduced travel were other dampeners. While in-home consumption increased as more and more people cooked their meals themselves, this was insufficient to compensate for the fall in commercial consumption. For the year, vegetable oil production contracted by 10.7 per cent. The production of groundnut oil, which returned to growth in July 2020, also remained 40.9 per cent lower in 2020-21 than in 2019-20. The production of soyabean oil and palm oil fell by 40.1 per cent and 1.2 per cent, respectively.

Paper production fell by 15.1 per cent while newspaper production tanked by 32.9 per cent. The paper industry's problems worsened during the pandemic year. Domestic paper manufacturers were struggling due to cheaper imports from China and increasing competition from the digital media even before 2020-21. The last year accelerated the shift towards the electronic medium. Nearly all offices moved to work from home which rendered writing and printing paper redundant. Newspapers continued to cede the market to digital platforms that offered news updates almost instantaneously and even free of cost. Consumers also stayed away from buying newspapers for the fear of contracting the virus.

The coronavirus pandemic worked in favour of soaps and hygiene products though. Demand for disinfectants and cleaning supplies witnessed a turnaround during the pandemic year and production of both detergent powders and soaps increased during 2020-21 after contracting in the preceding year. Detergent powders production which had stagnated in 2019-20, inched up by 4.5 per cent during 2020-21. Toilet soap production grew by 8.6 per cent during 2020-21 after falling by 2.4 per cent in 2019-20. Washing soap bar production also returned to growth in 2020-21 after declining by 10.6 per cent in the previous year. However, the demand for personal care products such as hair oils, hair dyes, toothpastes and topically applied creams continued to remain low for the second consecutive year. Hair oils and dyes production fell by 8.8 per cent and 2.2 per cent, respectively, while that of toothpastes fell by five per cent. The production of topically applied creams and lotions stagnated in 2020-21 after falling by 18.5 per cent in the preceding year.

Consumer non-durables may not be able to stage a very strong recovery during the current year, which is fraught with uncertainty due to a resurgence of the coronavirus and a stronger, more lethal second wave. The second wave will particularly impact FMCGs because these products find around half of their demand from rural India which remained largely unaffected during the first wave but is seeing a higher caseload of infections this time around. However, the production of the FMCG basket will remain in the positive territory due to continued improvement in pharmaceuticals productions, traction from hygiene products and the low base of the year-ago period.

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