

FMCG, auto products' sales pick up pace in rural India, outsmart cities

By Sagar Malviya, Writankar Mukherjee, Ketan Thakkar, ET Bureau| Updated: Nov 22, 2017, 12.26 AM IST



This is the second consecutive quarter of double-digit growth in the rural FMCG market, which helped to boost volumes in the overall fast-moving consumer goods sector by 7%.

MUMBAI / KOLKATA: Purchases of consumer products and automobiles in rural India picked up pace during July-September, outstripping the rate in cities, as a good monsoon lifted farm income. Rural sales of FMCG products by both value and volume — the number of products sold — increased 13% during the quarter from a year earlier, according to Kantar Worldpanel, the consumer insights arm of WPP, the world's biggest advertising company. It was the fastest pace of growth in over three years.

In contrast, the urban market expanded 4% by value and 1% by volume during this period, the researcher said.

This is the second consecutive quarter of double-digit growth in the rural FMCG market, which helped to boost volumes in the overall fast-moving consumer goods sector by 7% compared with about 4% a year earlier. The rural market accounts for more than a third of all consumer goods sold. "In our case, rural growth has been very good.

GST itself is creating demand. There are other factors also — the economy is doing well and overall, we are back to normal," said Adi Godrej, chairman of the Godrej Group, which sells appliances, food and grocery and personal and home care products.

"Companies have become proactive by increasing direct distribution in rural areas as the headroom for penetration is very high compared to urban, which is saturated," said Abneesh Roy, senior V-P, institutional equities, Edelweiss Securities.

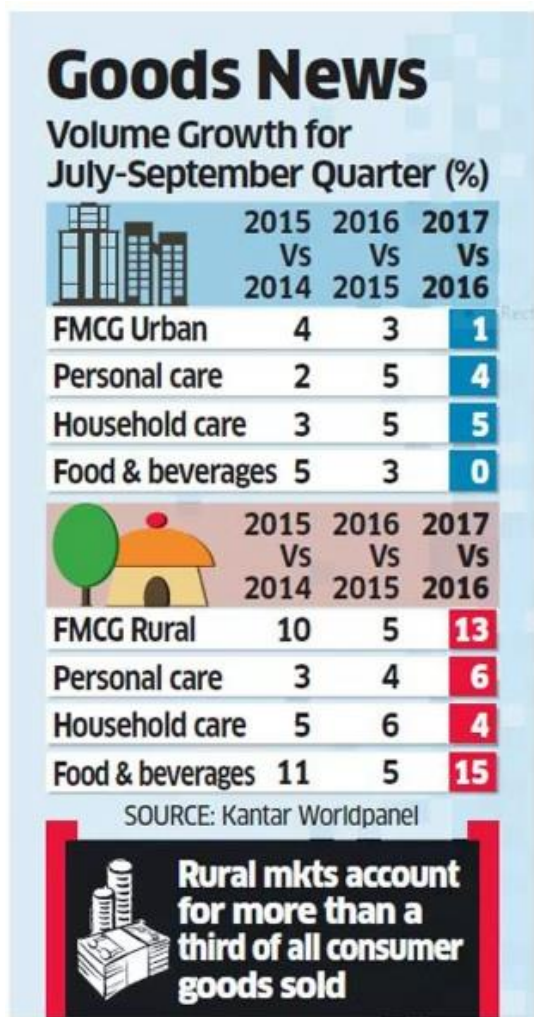
Edelweiss Securities' Abneesh Roy said direct benefit transfer (DBT) for job guarantee schemes and crop procurement, which eliminates pilferage, has put more money in the hands of rural customers. Urban

consumption growth was constrained primarily by foods, while home care expanded by 5% and personal care by 4%, continuing their normal growth trajectory, said K Ramakrishnan, country head at Kantar Worldpanel.

“The drop in growth of foods was driven by high-volume categories like atta and rice, which have shown a marginal decline,” Ramakrishnan said. Food accounts for almost 70% of the total volume sales, according to the researcher. Auto companies and manufacturers of refrigerators and washing machines said rural purchases have increased.

Maruti Suzuki, which sells one in every two cars in the country, said rural sales grew faster than in urban areas at 22% so far this financial year, the highest in recent years.

“Two consecutive good monsoons, strong minimum support price and increasing availability of finance has ensured higher off-take in the rural markets. Led by new models and expanding network, we expect to sustain the momentum,” said RS Kalsi, senior executive director of sales and marketing at Maruti. “Double-digit growth in rural areas has offered a cushion to slowing urban sales,” said Rakesh Srivastava, director of sales and marketing at Hyundai Motor India.



ELECTRIFICATION DRIVE HELPS

While white goods and television sales went up by 12-13% in July-September, their growth in rural India during this period was 16-17%, as per industry data. Executives said sales growth in rural India exceeded that in urban areas for the past three quarters. "Low penetration level and good monsoon boosting farmer income has been the main reason behind this higher growth in rural India," said LG India director-sales Rajeev Jain.

Another reason the industry cited was the electrification drive in smaller markets, which is boosting demand. Over the past decade, sales of branded daily-need products in the nation of 1.3 billion people have increasingly relied on the vast rural hinterland, home to about 800 million people whose purchasing behaviour depends on farm output. Therefore, annual monsoon rains that help irrigate India's crops play a vital role in shaping buying patterns in Asia's thirdbiggest economy. Below-average monsoon rains over the past couple of years had been blamed for stagnant sales growth.

To counter the impact of the currency note ban announced in November last year, finance minister Arun Jaitley announced incentives built around farm infrastructure and credit for rural and lowincome consumers. "We are now witnessing a revival in demand and consumption, led by the hinterland," said Lalit Malik, chief financial officer at Dabur India, the maker of shampoos, hair oils, fruit juices and health supplements. "Riding on the back of a good monsoon last year, coupled with a slew of fiscal reforms and higher spending on infrastructure by the government, the rural economy is already showing signs of revival and has been growing ahead of the urban markets."

SENTIMENT IMPROVING

Market sentiment is improving and stabilising after the introduction of GST, which consolidates multiple central and state taxes into one. "We expect the demand scenario to move up, in both the rural and urban markets," Malik said. According to some companies, several unorganised makers of unbranded consumer products such as detergents, oil and soaps sold in the rural areas were slow to register with the GST network or failed to comply with the new tax structure, helping bigger firms gain market share. Changes in pricing after GST also helped rural growth as rates fell for some products.

"We believe that GST can be converted into a competitive advantage since we compete with a lot of unorganised players that are affected due to the new tax regime," said Saugata Gupta, MD at Marico. "The company expects rural to contribute nearly 40% of sales in the next few years." In the run-up to the introduction of GST, several consumer companies cleared inventory across trade channels, especially in the urban markets, amid uncertainty over pricing of goods produced before the start of the new tax regime. A few months ago, most companies said the pace of re-stocking was slower in the rural markets as wholesalers adapted to the transition. They expected the situation to stabilise by July-end.

Hindustan Unilever, which posted a 10% rise in sales in the second quarter of the financial year, said that it was difficult to break up the growth on the basis of demand and inventory change. "For the market to move up significantly, rural growth will have to move up because that is where the headroom to grow is the maximum," HUL MD Sanjiv Mehta said last month.