

# Consumer packaged goods revival to lag other consumption sectors

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The consumer packaged goods industry has been hoping for a substantial increase in consumption, helped by a good monsoon, increased government spending and Seventh Pay Commission payouts.

The recovery in the industry may, however, be less spectacular than expected as consumer good makers compete for a share of the consumer's wallet with sectors as varied as travel, eating out, home decor and furnishings, consumer durables and autos.

It's not just that the choices available across categories from automobiles to apparel and soaps have widened dramatically over the past 10 years. A number of new spending avenues have opened up, including in experiential and personal consumption categories such as travel and mobile phones.

The slowdown of the past two-three years had hurt almost every consumption category.

"The macro data is showing early signs of a rural revival, manifested in rural wages, motorcycle sales and consumer non-durables growth increasing. The fact that currency in circulation, growth has already accelerated is some corroboration, we believe, that rural demand is firming. There are enough potential supports for consumption growth over the next year," said Sajjid Chinoy, chief India economist at investment bank JP Morgan, while explaining that for the recovery to be sustainable now, the "key is investment shouldn't lag too much".

As such, sales growth in passenger vehicles and two-wheelers for the April-August period is already at a five-year high, showing a strong rebound. For instance, during the April-August period in 2013, passenger vehicle sales shrank 5.3% and two-wheelers grew marginally by 0.72% from a year earlier. Both categories are now recording double-digit growth rates.

From April to August this year, passenger vehicle sales grew 10.74% and those of two-wheelers rose at an even higher clip of 16.5% over the year-earlier period, according to data from the Society of International Automobile Manufacturers, the apex national body representing Indian auto manufacturers.

Likewise for the consumer durables industry.

"Our sales have been in double digits since the start of the year, led by both urban and rural demand," said Kapil Agarwal, vice-president, marketing, Whirlpool of India Ltd, while sharing that this is in contrast to last year, when rural sales were sliding.

In fact, consumer durable manufacturers such as the Indian arm of South Korea's LG Electronics Inc. are hopeful of a bumper festive season this year.

The company expects a 30% growth in sales in the coming season over the same period last year, said Niladri Datta, head of corporate marketing, LG India.

In contrast, in the consumer packaged goods sector, volume growth declined in the June quarter.

Volume growth indicates that consumers are buying more units or an increase in the number of consumers. It came in at a muted 3.2% from 7.1% a year earlier, according to insights firm Nielsen.

In segments such as home care, volume growth in the June quarter was stagnant, and in personal care, it was a dismal 1.1%. Foods, and within that impulse foods, fared better with a growth of 4.7% and 5.7%, respectively, for the June quarter, Nielsen said.

"What we are seeing is a pent-up demand release happen. The higher-end and discretionary categories will be the first to see a pick-up whereas essentials and necessities will pick up later," said Sumita Kale, economist, Indicus Foundation, Indicus Centre for Financial Inclusion, an economic research firm.

She explained that if people see an increase in their spending power as a one time—such as the payment of arrears—then they are more likely to use the money to do up their houses, spend on interiors, furniture, tiles and travel, apart from upgrading or buying a new car and motorcycle.

Industry experts are also factoring in the slow revival.

"We believe sales growth would remain anaemic in financial year 2017," said analysts Varun Lohchab and Manish Poddar of brokerage Religare Capital Markets in their 8 September India consumer report, reiterating their cautious view on the sector.

The report looked at consumer packaged goods companies including Hindustan Unilever Ltd, ITC Ltd, Godrej Consumer Products Ltd, Marico Ltd and Nestle India Ltd.

It appears that for consumer packaged goods, it could well be financial year 2018 before volume growth exceeds 10%.

Besides consumers spending on discretionary categories, government spending on schemes such as Mahatama Gandhi National Rural Employment Guarantee Scheme and the minimum support prices has come down, hurting rural spends.

"We have yet not seen any significant revival in demand," said Vivek Gambhir, managing director at Godrej Consumer Products Ltd, which makes Cinthol soap and Hit insecticides. Gambhir added that the sector would see a gradual recovery.