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FMCG Companies Hope to Clock Higher Sales in 2012

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Consumer goods makers in the country expect newer categories and products, particularly in premium product segments, along with a revival in rural demand to help them grow faster in 2012 after a challenging year.

"2011 was characterised by a very optimistic first half and a rather pessimistic second half," Godrej Group chairman Adi Godrej says. "I expect 2012 will be exactly the opposite of 2011 in that the first half will not be strong but the second half will do very well."

Companies such as Hindustan Unilever, Dabur, Procter & Gamble and Marico have done well to increase their sales between 15-30% in the first nine months of the year, but higher raw material prices and a sales slowdown, particularly in rural areas, have hit their profitability in recent months. Companies expect these issues to settle early next year.

"India has a lot of tools to stimulate the economy," says Godrej. Measures such as introducing uniform goods and services tax, and reduction in banks' cash reserve ratio and the repo rate, which is the benchmark for overall lending rates, will boost the economy, he says.

Having said that, 2011 has been a good year for FMCG companies, given the overall slowdown in growth rate.

Between January-September this year, the country's largest consumer products company Hindustan Unilever reported one of its highest volume growths in a decade, clearly indicating that the high double-digit growth in the industry was driven by demand and not price hikes.

And that explains the good performance of consumer companies on the bourses. The share price of HUL has increased more than 32% over the past one year, while Marico share gained 21% on the Bombay Stock Exchange (BSE). Stocks of ITC, Colgate, Nestle and Britannia too have firmed up by 8-15% while the benchmark index Sensex fell around 25% since last year.

But in the past few quarters, prices of most commodities have soared, triggering an unprecedented cost push in the industry.

Marketers were forced to increase prices and tweak pack sizes to pass on some extra costs to consumers. But frequent price increases have started impacting demand, especially in the rural market, as soaring food prices and fuel costs make several people switch to cheaper brands or unbranded products. With signs of rural slowdown and uncertain commodity costs prevailing, companies fear that this trend may continue.

"If there is economic slowdown as it appears now and there is drop in real income growth or at least a perceived slowdown as it appears likely now, consumer demand will tend to fall, especially for discretionary items," says Marico Group chief financial officer Milind Sarwate.

"Even for non-discretionary items, there would be lower conversion of users of unbranded products to users of branded products," he says.

Another factor worrying marketers days before entering a new year is the weakening rupee and volatility in the currency market.

Dabur India CEO Sunil Duggal expects more headwinds next year in the form of "further volatility in currency, headline inflation above acceptable levels and elections in key states".

"These will determine the state of economy, going forward, and we look up to the New Year with cautious optimism," he says.

Godrej Consumers MD A Mahendran is hopeful that commodity prices will normalise next year and the pressure on margins will ease when they adjust costs and consumer pricing. "With this predicted backdrop, we would expect FMCG sector should post better growth rates in 2012," he says.

Companies also plan a slew of launches next year, particularly in premium segments where increasingly aspirational young consumers are driving he growth. Analysts say 'premiumisation' is becoming a key strategic focus for FMCG makers.

For instance, Dabur plans to introduce the country's first body bleach under its Fem brand in January. It will target the salon market along with a host of new healthcare initiatives. Emami, Godrej and Marico say innovations would increase significantly in the industry next year.

"Consolidation of existing products is a major growth drive. However, we would continue to invest in innovation and new categories," says Emami CEO, Supply Chain, Sales and Human Resources, Krishna Mohan.

Hoping for a Better 2012

Unlike demand-led growth in 2010, there would be a mix of volume and value growth next calendar year

Newer categories and product launches to drive growth for Emami, Dabur and Godrej Consumers

Input pressure to ease in 2012 but difficult to predict as overall situation remain volatile but due to various market changes

Price increases may become difficult impacting value growth. Cos with strong brands better placed but profitability could be somewhat lower than where it is today

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ADI GODREJ
Chairman, Godrej Group