

Inflation up, FMCG firms hike rates, cut pack sizes; ministry seeks to standardise

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AS INFLATION soars, India's consumption trends are witnessing a palpable impact. With raw material prices rising, fast-moving consumer goods (FMCG) companies are increasing product prices -- not only by directly raising the retail rates but also by reducing the pack sizes, an industry practice that is known as "grammage reduction". On the consumer side, the buyer of items such as soaps, shampoos, toothpastes, biscuits etc are "downtrading" -- meaning they

FEELING THE PINCH

Item	Oct '21	Apr '22
SOAPS		
Patanjali soap Neem Kanti 75 g	20	29
Godrej No 1 Lime & Aloe Vera (3+1) 100g	18	26
ITC Fiama Di Wills Mild Dew 3 115g	46	57
BISCUITS		
Britannia Good Day Butter 150g	13	17
Britannia Tiger 124g	8	10
Parle Glucose 120g	8	9

Normalised Price in ₹/100gm (adjusted for grammage changes)
Normalised changes account for actual price hikes and grammage changes. Source: Company data/Kotak Institutional Equities

are either opting for cheaper alternatives or smaller pack sizes. Even as the strategy to shave

small quantities -- few grams or millilitres -- from biscuit packets and shampoo bottles is being de-

ployed across the board by FMCG companies to deal with the input cost pressure, starting October 1, these companies will have to display the unit sale prices of pre-packaged items, according to a notification issued by the Ministry of Consumer Affairs in March. The companies will have to display prices per gram where net quantity is less than one kilogram, and per kilogram where net quantity is more than one kilogram; per millilitre where net volume is less than one litre and per litre where net volume is more than one litre, enabling consumers to better compare non-standard pack sizes.

A mail sent to the ministry on the trend of grammage reduction by companies did not elicit
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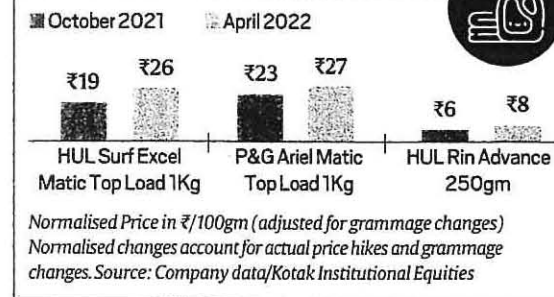
any response. According to information sourced from companies and FMCG sector analysts, the raw material inflation has led to price hikes across product categories -- either through increase in MRPs or reducing quantities of packages.

Some categories like soaps saw price hikes of 25%-50% over the last one year (April 2021-April 2022), while others like detergents saw price hikes of 4%-18% in the three months from February to April this year. During the same three months, companies manufacturing toothpastes raised the prices of their products by 2%-18%, while some shampoo brands saw a price hike of nearly 47%. In the food and beverages segment as well, while edible oils saw a 10%-29% price hike, noodles saw an increase of 10%-17%.

On Tuesday, the Ministry of Commerce & Industry said the rate based on Wholesale Price Index (WPI) surged to a record high of 15.1% in April, while retail inflation, according to data released last week, also surged to an eight-year high of 7.79%. Analysts have attributed the rise in prices of essential commodities to geopolitical factors such as the Indonesia palm oil ban and the Russia-Ukraine war.

Grammage reductions have been especially focussed on low-unit price products, according to FMCG firms. For biscuit-maker

DETERGENT BARS/POWDER



Britannia, grammage reductions accounted for around 65% of the price hikes it undertook during 2021-22. The company's MD, Varun Berry, said at an analyst call this month that going ahead "the grammage cut might end up being even higher than that".

For FMCG companies, these grammage reductions mostly happen across the low-price unit items that are priced at Re 1, Rs 2, Rs 5, Rs 10, etc. "Almost 30% of our business comes from packs that operate at magic price points like Re 1, Rs 5 or Rs 10. In these packs, our preferred mode of price increase is by reducing grammage. As a result, even the same number of units sold leads to volume decline. This had a circa 2%-3% impact on our UVG (underlying volume growth)," Ritesh Tiwari, chief financial officer of Hindustan Unilever, India's largest FMCG company, said.

For Britannia, the low-priced

packs make up 50%-55% of the company's sales mix.

Tiwari said that because of the "unprecedented" inflation, FMCG market value growth has slowed down significantly and volumes were declining in high single digit. "The impact is more pronounced in rural segment, where even

value growth has started declining. Consumers are tightening volumes and essentials are being prioritised over discretionary categories," he said. The rising prices are also leading to consumers, especially in the rural segment, downtrading to cheaper items and smaller pack sizes.

"There is a pushback happening from rural as far as LUP (low-unit price packs) is concerned which sells more in rural India... And even in urban India, we find a little bit of downtrading happening on all portfolios. So, be it a shampoo portfolio, or hair oil, or oral care, our price points of Rs 20, Rs 10, Rs 5 or Re 1 are doing significantly better as compared to the larger packs, with the exception of e-commerce and modern trade," Delhi-based Dabur India's CEO Mohit Malhotra said earlier this month during an analyst call.