

CONSUMER GOODS INDUSTRY IN INDIA

A comprehensive guide on the consumer goods sector in India.



Table of Contents

An overview	01
Market dynamics	02
Emerging trends	03
Government initiatives	05
Major investments	06
Legal compliances	07
Taxation regimes	09
Dispute resolution	10
How we can help?	12



AN OVERVIEW

India is a country that no FMCG player can afford to ignore due to its large middle-class population, which is larger than the total population of the United States of America (USA). The Indian FMCG market continues to grow as more people start to move up the economic ladder and the benefits of economic progress become accessible to the general public. More crucially, with a median age of just 27, India's population is becoming more consumerist due to rising ambitions. This has been further aided by government initiatives to increase financial inclusion and establish social safety nets.

Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the sector. The urban segment (which accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG sector in India. However, in the last few years, the FMCG market has risen at a faster pace in rural India compared to urban India. Semi-urban and rural segments are developing at a rapid pace, and FMCG products account for 50% of total rural spending.

Fast-moving consumer goods ("FMCG") sector is India's fourth-largest sector and has been expanding at a healthy rate over the years as a result of rising disposable income, a rising youth population, and rising brand awareness among consumers. With household and personal care accounting for 50% of FMCG sales in India, the industry is an important contributor to India's Gross Domestic Product ("GDP").



MARKET DYNAMICS



The Indian FMCG industry grew by 16% in Financial Year ("FY") 2021 despite nationwide lockdowns, supported by consumption-led growth and value expansion from higher product prices, particularly for staples. The Indian processed food market is projected to expand to US\$ 470 billion by 2025.

Fast-moving consumer goods giants such as Johnson & Johnson, Himalaya, Hindustan Unilever, Lakmé and other companies (that have dominated the Indian market for decades) are now competing with D2C-focused start-ups such as Mamaearth, The Moms Co., Bey Bee, Azah, Nua and Pee Safe. Market giants such as Revlon and Lotus took ~20 years to reach the Rs. 100 crore (US\$ 13.4 million) revenue mark, while new-age D2C brands such as Mamaearth and Sugar took four and eight years, respectively, to achieve Rs. 100 crore milestone.

Advertising volumes on television recorded healthy growth in the July-September quarter, registering 461 million seconds of advertising, which is the highest in 2021. FMCG continued to maintain its leadership position with 29% growth in ad volumes compared to the same period in 2019. Even the e-commerce sector showed a healthy 26% jump over 2021.

The Indian online grocery market is estimated to exceed sales of about Rs. 1,310.93 billion (US\$ 17.12 billion) by 2026, at a Compound Annual Growth Rate ("CAGR") of 28.99%. The gross merchandise value ("GMV") of the online grocery segment in India is expected to increase 18 times over the next five years to reach US\$ 37 billion by FY 2025.

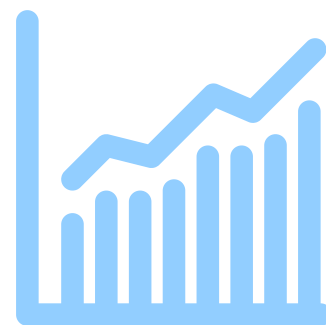
EMERGING TRENDS

The consumer goods industry is witnessing an overhaul with rapidly changing consumer behaviour. Consumer tastes, preferences, and needs are evolving with changing global affairs like the pandemic.

The consumer goods industry has witnessed a dramatic change in recent years. The recent global health crisis has further accelerated a wave of new trends in the consumer goods industry, which is mostly guided by the aspirations of the customers.

These trends may be driven by a shift in demographics, the constant need for organisations to innovate products that are built on modern technologies, serve value to customers, and most importantly, be honest and transparent about the brand's vision. E-commerce players, retail brands, and digital-first companies have been quick to meet new consumer demands using online shopping technology advances as well as supply chain optimization.

The expansion has been fueled by an increase in average income, an increase in middle-income groups' disposable income, increased urbanization, and a shift in consumer preferences for hygienic products. There is also the trend of more women in the workforce and an increase in double-income households, which increase the demand for food products as an aid to cooking where there is a lack of time as well as a lack of skill.



According to Nielsen's FMCG Industry Growth Forecast, E-commerce for FMCG will reach US\$ 400 billion by 2023, accounting for between 10% and 12% of the global market for such products. This growth can be attributed to the following reasons:

THE SURGE IN PURCHASING

During the pandemic, consumers felt safer while ordering online. As the industry recovers from the pandemic, there has been unprecedented growth in online purchasing. This has created a dramatic increase in consumer demand online. The internet commerce business has witnessed tremendous growth attributed to cutting-edge technology and has attracted new users from urban and semi-urban areas too. E-commerce platforms continue to provide accessibility, a variety of options, discounts, and consumer ease.

The consumer product demand in e-commerce has tempted brands to set up a direct sales channel on multiple digital marketplaces and standalone websites and stores. Almost every FMCG brand has partnered with big e-commerce websites like Flipkart, Grofers, BigBasket, and others. This has also resulted in a rise in demand for instant meals; Ready to Cook ("RTC") and Ready to Eat ("RTE") are also influencing current consumer preferences. Post the COVID-19 crisis, digitization has been an emerging FMCG trend in India, which has shaped the future of retailing consumer goods.

GROWING DEMAND FOR NEW HEALTHIER OPTIONS

There is increasing awareness among people regarding their wellbeing. Rising disease rates have prompted consumers to make significant changes in their diet and lifestyle, making them more health-conscious than ever.

People are becoming more watchful of what they buy and what goes into their bodies. Organic, superfood-based, nutritious, natural products without preservatives are going to be very popular among the masses. There is a clear need for FMCG companies to embrace healthy ingredients in their product DNA.

THE RISE IN READY TO COOK (RTC) AND READY TO EAT (RTE) SEGMENTS

The Ready-to cook (RTC) and Ready-to-eat (RTE) food segments have witnessed a surge in demand in the last couple of years. The segment is driven by the increase in accessibility offered in terms of effectiveness and the little effort and skill required for preparation. The preference for these meals by the working population and millennials has grown because of the easy cooking method. Other factors that have driven the growth of this segment are rising income levels, preference for healthy products, and increasing urbanization.

The overall outlook for the FMCG sector seems positive, even though challenges remain in the near term. FMCG players will have to create a niche in their segments and position their business model, strategy, marketing, stores, and operations to succeed in a post-pandemic world.

GOVERNMENT INITIATIVES

Some of the major initiatives taken by the government to promote the FMCG sector in India are as follows:

As per the Union Budget 2022-23:

- The Department of Consumer Affairs has been allocated Rs. 1,725 crore (US\$ 222.19 million).
- The Department of Food and Public Distribution has been given Rs. 215,960 crore (US\$ 27.82 billion).
- In Financial Year ("FY") 2021-2022, the government approved the Production Linked Incentive Scheme for Food Processing Industry ("PLISFPI") with an outlay of Rs. 10,900 crore (US\$ 1.4 billion) to help Indian brands of food products in the international markets.
- The government's production-linked incentive ("PLI") scheme, worth \$1.42 billion, provides companies with a significant opportunity to boost exports.
- In November 2021, Flipkart signed an MoU with the Ministry of Rural Development of the Government of India ("MoRD") for their ambitious Deendayal Antyodaya Yojana—National Rural Livelihood Mission ("DAY-NRLM") programme to empower local businesses and self-help groups ("SHGs") by bringing them into the e-commerce fold.
- Companies are expecting recent budget announcements such as the direct transfer of 2.37 lakh crore (US\$ 30.93 billion) in minimum support payments ("MSP") to wheat and paddy farmers and the integration of 150,000 post offices into the core banking system to help them.

MAJOR INVESTMENTS

The Government of India has allowed 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail. This would boost employment, supply chains, consumer spending, and encourage more product launches. From April 2020 to June 2021, the sector received US\$ 13.63 billion in FDI.

The Indian e-commerce market is expected to reach US\$ 120 billion by 2026, up from US\$ 38 billion in 2021, according to a report released by industry body Federation of Indian Chambers of Commerce and Industry.

- Dabur acquired a 51% stake in Badshah Masala Private Limited in October 2022 for Rs. 587.52 crore (US\$ 71.81 million), with the Badshah enterprise valued at Rs 1,152 crore (US\$ 140.81 million) on the closing date.
- Mr. Yogi Adityanath, Chief Minister of Uttar Pradesh, inaugurated HUL's ultra-modern factory in Sumerpur in July 2022, with a total investment of Rs. 700 crore (US\$ 88.07 million) planned by 2025.
- In July 2022, Emami acquired a 30% stake in Cannis Lupus to enter the petcare segment in India.
- Godrej Consumer Products Limited (GCPL) will launch Godrej Magic Bodywash, India's first ready-to-mix body wash, in July 2022 for just Rs. 45 (US\$ 0.57).
- PepsiCo India announced expansion plans for its largest greenfield foods manufacturing plant in Kosi Kalan, Mathura, Uttar Pradesh, in June 2022, with an investment of Rs. 186 crore (US\$ 23.84 million).
- In April 2022, Dabur India announced plans to induct a fleet of 100 electric vehicles into its supply chain for last-mile product distribution.



LEGAL COMPLIANCES



There are several laws that regulate various aspects such as licensing, sanitation and other permits of the FMCG industry in India. The legislation that dealt with food processing and food safety in India was the Prevention of Food Adulteration Act, 1954 ("PFA") which remained in force for over five decades after which it was replaced with the Food Safety and Standards Act, 2005 ("FSSA") that overrides all other laws regulating food.

DRUGS AND COSMETIC LICENSE

The licensing authority for the sale of drugs and cosmetics is the Drugs and Cosmetics Act, 1940. The act sets several regulatory standards for the manufacturing and selling of those drugs and cosmetics.

REGULATIONS RELATED TO SIGNAGE AND CUSTOMER NOTICES

The Food Safety and Standards Act, 2005 provides certain provisions regarding advertisement of products by Food Business Operators ("FBOs"). According to FSSA, the term "advertisement" includes a notice as any audio or visual publicity, pronouncement or representation made using light, smoke, sound, website, internet, electronic media and includes through any circular, notice, invoice, wrapper or other documents.

Further, FSSA also provides that no advertisement of food can be made which is misleading, deceiving or is in contravention of the provisions, rules and regulations made under FSSA. It also bars anyone from engaging in any unfair trade practice with respect to sale, supply, or consumption of articles of food.



REGISTRATION, LICENSING, HEALTH AND SANITARY PERMITS IN INDIA

The provisions of The Food Safety and Standards Act, 2005 are applicable for getting the registration and licenses for both health and sanitary permits throughout India as it is the only legislation of food industry in this country. The registration and license aspects of a food business operator are governed by the Food Safety and Standards (Licensing and Registration of Food Business) Regulations, 2011. Regulation 2.1 of the Licensing and Registration Regulations makes it mandatory that all the food business operators in the country have to register and procure license in accordance with these regulations.

Any person who is operating the food business need to comply with all the conditions with regard to the sanitary, safety and hygienic requirements at all times. It shall be the deemed responsibility of every food business operator to comply with the standards related to the labelling, packing, health, sanitary and safety that have been laid down in the License and Registration Regulations. The labelling requirements provided under the regulations need to be complied with at all times especially in relation to pre-packaged foods.

CONSUMER PROTECTION ACT, 2019

The FMGC market is also monitored by the Consumer Protection Act as it is working towards the interest of the consumers. In order to safeguard the consumers from unfair trade practices and further to address and solve their problems, the Ministry of Consumer Affairs, Food and Public Distribution on May 17, 2021, has notified the Consumer Protection Rules, 2021.

CENTRAL CONSUMER PROTECTION AUTHORITY

This regulation provides power to Central Government to establish Central Consumer Protection Authority (CCPA) to regulate matters relating to violation of rights of Consumers, unfair trade practices and false or misleading advertisements which are prejudicial to the interests of public and Consumer and to promote, protect and enforce the rights of Consumer as a Class.

TAXATION REGIMES

GST is an indirect tax, which is a transaction-based taxation regime, that has been in effect in India since 1 July 2017. Multiple indirect taxes (except customs duty) have been subsumed under GST, and thus now there is one single tax applicable on supply of goods and services. However, there are a few products that continue to be outside the ambit of GST, like petrol, diesel, aviation turbine fuel (ATF), natural gas, alcohol for human consumption and crude oil.

FMCG PRODUCTS	TAX RATE POST-GST IMPLEMENTATION
Milk, rice, eggs, paneer (non-branded), oats, wheat, fresh vegetables	NIL
Honey, fried areca (betel) nuts, paneer (branded), frozen vegetables	5%
Butter, ghee, cheese, dry fruits	12%

COSTS OF LOGISTICS AND WAREHOUSING

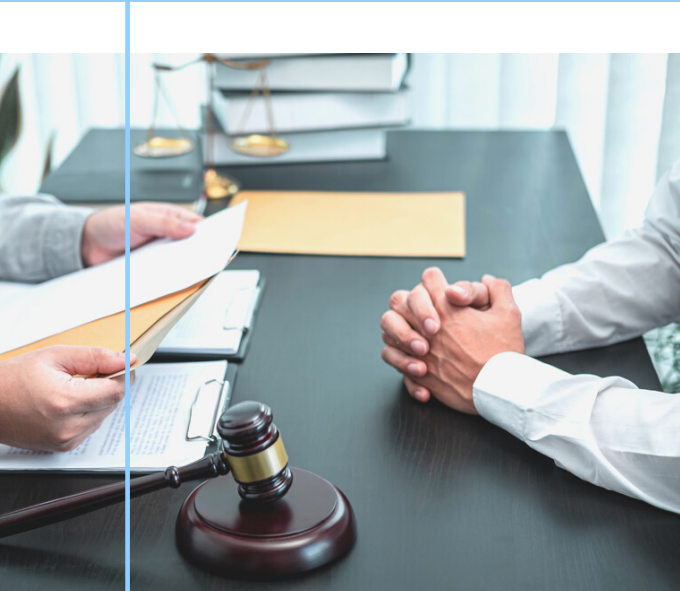
Overall, GST has reduced the logistical costs for the FMCG sector. Distribution costs that came out to be 2-7% of the total cost earlier dropped to 1.5% after GST implementation. Since companies previously paid taxes to the states based on their geographical location, GST has had a significant impact on the effective cost management of their supply chains.

Further, transportation of goods from one state to another required payment of a Central State Tax (CST). GST's implementation abolished this tax. CST compelled several FMCG companies to open their warehouses in as many states as possible to avoid CST costs. Now, companies can reduce the number of warehouses in operation. This cost can be redistributed to fewer large-scale warehouses and help improve the efficiency of customer service.

GSTN: A SPECIALISED IT NETWORK

The Goods and Services Tax Network is one of the most talked-about features of GST in India. This specialized IT network matches the outward supply transactions of the supplier at the invoice level with the inward supplies of the customer and allows Input Tax Credit to the customer based on a matching concept.

DISPUTE RESOLUTION



Consumer Protection Law In India:

The growing interdependence of the world economy and international character of many business practices have contributed to the development of universal emphasis on consumer rights protection and promotion.

DISTRICT CONSUMER DISPUTE REDRESSAL FORUM

It is also known as the "District Forum," and it deals with complaints involving costs and compensation of less than Rs. 20 lakh. Consumers can file different types of complaints depending on their specific grievances by visiting the Consumer Court at the district, state, or national level with the documents required for filing the complaint.

CONSUMER COURT

The Consumer Court is a special purpose court in India. It primarily deals with consumer-related disputes, conflicts, and grievances. The court holds hearings to adjudicate these disputes.

When consumers file a case, the court primarily looks to see if they can prove the exploitation through evidence such as bills or purchase memos.

In cases where no such evidence is presented, courts rarely rule in favor of the plaintiff. The court mostly bases its verdict on the violations of consumer rights (if any). The point of having a separate forum for consumer disputes is to ensure that such disputes are speedily resolved and to make them less expensive.

Consumers only have the option of offline dispute resolution with the change in dynamics consumers should have the convenience to resolve their disputes online, via effective Online Dispute Resolution (ODR) mechanisms, as an alternative to existing mechanisms that are otherwise limiting due to various reasons such as time, accessibility, convenience, and cost constraints. This will also drastically reduce the number of disputes that reach the court.

PENALTIES ON NON-COMPLIANCE

Penalties under Food Safety and Standards Act, 2006 are mainly imposed on instances of non-compliance. Generally, non-compliance with various provisions of Food Safety and Standards Act, 2006 attracts a penalty up to Rupees 2 lakhs.



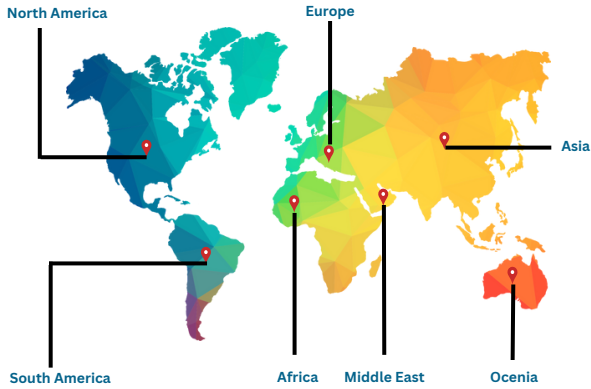
HOW WE CAN HELP?

We advise clients on a spectrum of issues, such as:

- preparation and negotiation of franchise agreements;
- advise on applicable Indian laws like property laws, foreign investment and foreign exchange laws, intellectual property, employment, and tax;
- distribution and agency arrangements;
- all aspects of foreign investment in retail, commercialism, and intellectual property;
- protection of trademarks, brand names, copyrights, and designs;
- management of portfolios and enforcement mechanisms and
- guidance to the client's franchise transaction with the entities, considering the Indian legal landscape.



SERVING CLIENTS WORLDWIDE



The information contained herein is of a general nature. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. The information is not offered as an advice on any matter, and no one should act or fail to act based on such information without appropriate legal advice after a thorough examination of the particular situation. The information does not make us responsible or liable for any errors and/or omissions, whether it is now or in the future. We do not assume any responsibility and/or liability for any consequences.

The Bar Council of India does not permit advertisement or solicitation by advocates in any form or manner. The information may be provided to user on request or otherwise. The information contained in it is entirely determined by the user voluntarily and any transmission or use does not establish any lawyer client relationship.

Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on

[LinkedIn](#)

[WhatsApp](#)

Chandrawat & Partners is a leading and rapidly growing full-service law firm in India providing high quality professional, legal and corporate services to foreign and local clients, representing worldwide companies and individuals in a wide range of practice areas and sectors.

Copyright © 2023 | All rights reserved | Chandrawat & Partners | Email: enquiries@chandrawatpartners.com | Website: www.chandrawatpartners.co

Follow us on:

