COVID 19 – Impact on Indian economy: A detail case study on FMCG

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Abstract
The Covid-19 pandemic has badly collapsed the worldwide economy. The overall growth of domestic production has fallen down drastically, damaging manufacturing sector thus affecting export-import of the countries. India economy is not an exceptional; growth rate of GDP has fallen to negative ever since the independence. Manufacturing sector recorded a negative growth with almost no production taking place. The FMCG is the only sector recorded a positive growth and registering a massive demand growth during this pandemic. The study has covered a detailed study on the market size of FMCG as well tries to capture the recent development initiatives undertaken to boost the overall FMCG market.

Keywords: Covid-19, macro-economics, GDP, stimulus package, FMCG

Introduction
The problem with the novel coronavirus is that with the exception of China, which battled another coronavirus epidemic in 2003 — the Severe Acute Respiratory Syndrome (SARS) epidemic — there is little available for most nations on which to base their assessment of what next. What is known is that China’s growth rate has further plummeted, even as it was confronting an economic slowdown which had been in the works for some time. The consequences for the global economy of China ceasing to be the world’s biggest exporter of manufactured goods are considerable, and with no country in a position to replace it, this development will precipitate a further economic downturn internationally.

The COVID-19 pandemic could not have come at a more difficult time. The world already had to contend with an uncertain economic environment, with industries in turn facing newer challenges such as having to adjust to a shift from cost efficiencies to innovation and breakthrough improvements. Added to this were: a global slowdown, increasing political and policy uncertainties, alterations in social behaviour, new environmental norms, etc. Newly emerging economies, such as India, were even more affected by all this, than some of the older established ones.

At one point, India was estimated to be among the 15 most affected economies by the COVID-19 epidemic, but as the pandemic has raged unchecked, all bets are off. An early estimate by the Asian Development Bank, soon after the epidemic was declared, was that it would cost the Indian economy $29.9 billion. A recent industry estimate pegs the cost of the lockdown at around $120 billion or 4% of India’s GDP. The Confederation of Indian Industry (CII) had at one point warned that the COVID-19 impact, and the existing stress in the financial sector, meant that India would require up to six months even after the entire course of the COVID-19 epidemic is over to restore normalcy and business continuity.

Indian context, ever since COVID 19 strike, markets loom under fear as uncertainty prevails. It has sent markets around the world crashing to levels not witnessed since the Global Financial Crisis of 2008. Following the strong correlation with the trends and indices of the global market as BSE Sensex and Nifty 50 fell by 38 per cent. The total market cap lost a staggering 27.31% from the start of the year. The stock market has reflected the sentiments this pandemic unleashed upon investors, foreign and domestic alike. Companies have scaled back; layoffs have multiplied and employee compensations have been affected resulting in negligible growth in the last couple of months. Certain sectors such as hospitality, tourism and entertainment have been impacted adversely and stocks of such companies have plummeted by more than 40%.
Scenario of Global Macro-economic
While the world has witnessed many financial crises in the past, the last one being the global recession of 2008, the current coronavirus crisis is different from the past fallouts.

All the economies across the globe are suffering and the impact of COVID 19 has been the worse of all time with Real GDP growth dropping all time low even for the advanced economies. The figure 2 shows that there is hardly country in the world whose Real GDP growth wouldn’t be affected or grow beyond 6%.

The YoY to comparison of the growth rate for FY 2019-2020, shows that with exception to couple countries like India and China almost all the economies will face negative growth for FY2020.
As per the report from Goldman Sachs Research, countries across the globe have revised their respective 2020 GDP growth forecast after incorporating the impact of COVID-19. Some of them are mentioned in the figure given below.

**Table 1: Sachs Projected GDP Growth rate**

<table>
<thead>
<tr>
<th>Economy</th>
<th>Latest</th>
<th>Previous**</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL</td>
<td>1.25%</td>
<td>1.9%</td>
</tr>
<tr>
<td>United States</td>
<td>0.4%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-1.7%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>-1.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>France</td>
<td>-0.9%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Italy</td>
<td>-3.4%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Spain</td>
<td>-1.3%</td>
<td>1.8%</td>
</tr>
<tr>
<td>China</td>
<td>3.0%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Japan</td>
<td>-2.1%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>India*</td>
<td>5.2%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

**Impact on Indian Economy**

**Financial Impact**

Indian Rupee depreciated by 6.0% from Rs. 71.47/USD on 30th January to Rs. 75.78/USD on 22nd May. The Government’s announcement of fiscal stimulus package worth Rs.20 lakh crore aided market sentiments immediately.

**Fig 3: Projected Growth rate of Selected Countries**

**Fig 4: Trend of Exchange of Rupee V/s Dollar**
Further, the weekly variation in currency has been significantly fluctuation especially when compared to FY 2018 and 2019.

![Weekly Variation in Exchange Rate](image)

**Fig 5: Weekly Variation in Exchange Rate**

### Facilitating Capital Raising

**Steps Taken**

- Several steps taken to encourage companies to raise equity capital
- Validity of SEBI observations on IPO documents extended by 6 months (for issuers whose observation expires between March 01, 2020 and Sept 30, 2020).
- Permitted flexibility up to 50% on fresh issue size, up from 20%
- Reduced cooling off period for raising capital post buyback by 6 months
- Reduced cost - Filing fees with SEBI and broker turnover fee reduced by 50% each
- Liberalized Fast Track Rights Issuance
- Reduced minimum subscription requirement in right issues from 90% to 75%
- Increased threshold for filing draft letter of offer with SEBI - Rs.10 Cr to Rs.25 Cr

### REITs & InvITs

- Enabled mechanism for fast-track rights issue by REITs and InvITs
- Removed requirement of filing offer document for fast-track rights issue with SEBI
- Permitted pledge of locked-in units held by sponsors of REITs and InvITs

### Proposed Measures

- Permitting investors other than sponsors to hold >25% of unit capital
- Removal of perpetual lock-in requirement for sponsors of REIT
- MFs and Insurance Companies to be categorized as ‘strategic investors’ in addition to existing categories, viz. Banks, NBFCs and FPIs

### Impact on Stock Market

**Global Context:** U.S. stocks lost nearly 12% and $3.5 trillion was erased for U.S.-listed stocks. The Dow Jones Industrial Average tumbled 12% for the week ending February 28. MSCI’s world index, which tracks almost 50 countries, was down over 1% once Europe opened and almost 10% for the week – the worst since October 2008. European shares ended the week down roughly 1.5 trillion US dollars in their worst weekly performance since the 2008 financial crisis. The pan-regional STOXX 600 index fell 3.5% on the same day. Asian stocks incurred significant losses:

- China’s Shenzhen stocks led losses among major markets regionally as they closed sharply lower. The Shenzhen component was 4.8% lower.
- The Shanghai composite was down 3.71%.
- Hong Kong’s Hang Seng index dropped 2.42%.
- The Nikkei 225 dropped 3.67%.
- Following the strong correlation with the trends and indices of the global market as BSE Sensex and Nifty 50 fell by 38 per cent. The total market cap lost a staggering 27.31% from the start of the year.
Immediate Impact in Global Financial Markets
The demand for capital and liquidity have increased manifold and the fear of credit risks pushed investors and lenders to seek refuge in short-term safe assets. Risk on credit quality is increasing, posing serious challenges for financial institutions to remain viable. Global financial system faced dual challenges:

- Sustaining flow of credit amidst lock-down and economic recession, and
- Managing heightened financial stability risks.

Even before COVID-19 economy was witnessing slowdown. COVID-19 and lockdown measures triggered immediate dislocations in the financial markets in India

- FX market experienced pressure on USD/INR Rates, thin liquidity, high volatility
- G-Sec market witnessed volatility in yields and FPI outflows in debt segment
- Credit spreads widened and funding conditions tightened
- Equity market experienced unprecedented crash and volatility resulting in FPI outflows and wiping off gains of a decade.
- It will further lead to segmental liquidity worsened, heightened contrast of surplus systemic liquidity v/s segmental shortage and risk averseness of banks increased.

Case Study: A detail Sector Analysis on Fast Moving Consumer Goods
FMCG Fast moving consumer goods is the fourth largest sector in the Indian economy. There are three main segments in the sector – food and beverages, which accounts for 19 per cent of the sector; healthcare, which accounts for 31 per cent of the share; and household and personal care, which accounts for the remaining 50 per cent share. FMCG market is expected to grow at 9-10 per cent in 2020. FMCG’s urban segment grew by 8 per cent, whereas, its rural segment grew at 5 per cent in the quarter ending September 2019, supported by moderate inflation, increase in private consumption and rural income.

Accounting for a revenue share of around 45 per cent, rural segment is a large contributor to the overall revenue generated by the FMCG sector in India. Demand for quality goods and services have been in demand in rural areas on the back of improved distribution channels of manufacturing and FMCG companies. Urban segment accounted for a revenue share of 55 per cent of the overall revenue recorded by the FMCG sector in India.

FMCG companies are looking to invest in energy efficient plants to benefit the society and lower cost in the long term. Growing awareness, easier access, and changing lifestyle are the key growth drivers for the consumer market. The focus on agriculture, MSMEs, education, healthcare, infrastructure and tax rebate under Union Budget 2019-20 was expected to directly impact the FMCG sector. Initiatives undertaken to increase the disposable income in the hands of common man, especially from rural areas, will be beneficial for the sector.
The retail market in India is estimated to reach US$ 1.1 trillion by 2020 from US$ 840 billion in 2017, with modern trade expected to grow at 20 per cent - 25 per cent per annum, which is likely to boost revenues of FMCG companies. Revenues of FMCG sector reached Rs 3.4 lakh crore (US$ 52.75 billion) in FY18 and are estimated to reach US$ 103.7 billion in 2020. The sector witnessed growth of 16.5 per cent in value terms between July-September 2018; supported by moderate inflation, increase in private consumption and rural income.

Recent Developments

- The government has allowed 100 per cent Foreign Direct Investment (FDI) in food processing and single-brand retail and 51 per cent in multi-brand retail. This would bolster employment and supply chains, and also provide high visibility for FMCG brands in organized retail markets, bolstering consumer spending and encouraging more product launches. The sector witnessed healthy FDI inflows of US$ 15.94 billion during April 2000-December 2019.
- FMCG companies have been increasingly relying on rural India, home to nearly 800 million, to fuel growth. While the Indian economy grew at its slowest pace in over six years at 5% during April-June, the agriculture sector expanded a meagre 2% during the period.
- One major factor driving the demand for food services in India is the growing youth population, primarily in the country’s urban regions. India has a large base of young consumers who form most the workforce and, due to time constraints, barely get time for cooking.

Government Initiatives

- The Government of India has approved 100 per cent Foreign Direct Investment (FDI) in the cash and carry segment and in single-brand retail along with 51 per cent FDI in multi-brand retail.
- The Government of India has drafted a new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers.
- The Goods and Services Tax (GST) is beneficial for the FMCG industry as many of the FMCG products such as Soap, Toothpaste and Hair oil now come under 18 per cent tax bracket against the previous 23-24 per cent rate. Also rates on food products and hygiene products have been reduced to 0-5 per cent and 12-18 per cent respectively.
- The GST is expected to transform logistics in the FMCG sector into a modern and efficient model as all major corporations are remodelling their operations into larger logistics and warehousing.

Impact of Covid 19

- Advent of global pandemic, COVID-19 has resulted in creating a global crisis in the FMCG industry. Impacting over 195 countries across the global, the pandemic has already created economic backdrop across the globe, thereby hinting for the next global recession.
- Strong initiatives are undertaken by different governments for containing the outbreak. However, social distancing has made a drastic negatively impact on the FMCG industry. Logistic issues, lack of adequate labors, operations limiting to production of only essential items etc. are some of the few examples most FMCG companies are facing across the globe.
- Food & beverage industry has also not been spared by the impacts of COVID-19. For instance, companies involved in manufacturing of processed food and non-perishable has seen robust increase in sales owing to the lack of availability of fresh fruits and vegetables. However, restaurants and retail food establishments are facing challenges owing to shortage of food supplies, employees and stringent government lockdowns.
- Additionally, demand for organic and natural ingredient infused food products are increasing at an exponential growth rate. For instance, companies involved in processing of fresh fruits and vegetables.
- Those FMCG industries selling necessity-driven and essential products, such as fresh food, packaged food and bottled water, are being impacted due to supply chain breakdowns, stockpiling and stockouts. The COVID-19 pandemic has resulted in a slight shift in the paradigm of what we consider to be essentials, hygiene products have entered this category, whereas industries like apparel have shifted to discretionary.
- Travel, consumer foodservice, luxury, apparel and footwear, consumer electronics, alcoholic drinks and tobacco have been severely impacted, as most companies have halted or scaled down their operations during the lockdown. However, some companies have transformed their facilities to produce products like masks, hand sanitizers, ventilators, etc., that aid the government and community in fighting the pandemic.
Extended lockdown has led to shift in consumption habits and reduced manufacturing activity will have implications on employment. Further, from implementing strategies to scale-up or re-start operations at plants and warehouses, to striking unique online and offline partnerships for last mile deliveries, FMCG companies have had to pull out all the stops to stay resilient.

Thus, Covid-19 has inevitably damaged the entire economy. It has far reaching effect on each and every sector of the economy. However, the present study confine to FMCG which shows striking good growth in essential goods demand. At the same time, the market is still limited or constraint for unnecessary goods.

References