

'We should stop being bullish or bearish about consumption like we are about stock markets'

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Saugata Gupta, managing director and chief executive officer, Marico Ltd; Vinita Bali, former MD and CEO, Britannia Industries Ltd, and Rama Bijapurkar, a consumer economy expert, do not see significant long-term issue when it comes to demand. Edited excerpts from an interview:

You did not report a very bad quarter at all with 8% volume growth. But zoom out from your company into the economy itself and tell us if you are witnessing something that is definitely worrisome either in the rural or in the urban demand space?

Gupta: If you look at the complete year, it started off much better. The first quarter obviously had a lower base of the previous year, which was the goods and services tax (GST) transition. Having said that I think what we witnessed is that rural was outpacing urban for at least two-three quarters. We had a slowdown starting sometime in February and March.

At the same time, there are some changes in the urban sector where I think wholesale as a channel is shrinking a little post GST. So, therefore, the companies with direct rural distribution and innovation premiumization at the top end are likely to succeed over the long-term.

Have you seen this kind of rural distress before? We have had a series of farmer marches to Delhi. The rural distress talk has been far more widespread and consistent over the last couple of years than I have seen in many past years. Does this just look like a temporary cyclical slowdown or is this worse?

Gupta: If I look at it, there is a marginal slowdown. There are some liquidity concerns in the channel. But as I said, I think sometimes we tend to get over optimistic and over pessimistic.

So I would say yes we will wait and watch and let us see how this year pans out. In my opinion, I think it is a little bit temporary as opposed to a significant long term issue and I am sure that post elections one of the priorities of the new government will be to handle it. Some steps had already been taken in the last few quarters.

What are you observing? You sit on the boards of so many companies. You have even observed them from the outside. Is this a passing slowdown or should we be very concerned?

Bijapurkar: It is not as good as everyone would like it to be and it is not as bad as everybody is making it out to be. I mean there is some notional number. Your market is very different from my market and it is some notional number. So, for the same voices that you have actually produced



(From left) Saugata Gupta, managing director and chief executive officer, Marico; Vinita Bali, former MD and CEO, Britannia Industries; and Rama Bijapurkar, consumer economy expert.

Hindustan Unilever (HUL) has said we have delivered a strong performance this quarter despite moderation. Nestle has said market momentum remains strong, volumes are tracking as expected. Dabur says we will continue to invest. You are not hearing gloom and doom from Saugata Gupta. So I think the first point is that there are winners and there are losers, there are some who steadily hold the course and there are some who don't.

I think we have had good quality growth and that is the general sentiment of people in the business. It is not on the back of cost inflation-led price increases. No one has taken three price increases in the same year to get a revenue number. It is not on the back of imprudent credit. It is less formal.

There has to be structural changes in terms of improving productivity, supply chain efficiencies, which can lead to better returns for farmers: Gupta

Informal credit has actually decreased. It is not on the back of buy one get two free marketing and it is across the price spectrum. It is not on the back of stimulus like a Pay Commission stimulus and so on. So, I think the growth you are seeing is good core growth and there is a very good base from there for it to

go up.

Is there trouble? Of course there is trouble. If you look at the occupations structures of India they are either predator and shopkeepers or the labours, there is not much demand for labour or they are in agriculture and I think all sectors are hurting but I would agree with Saugata.

That it is a passing discomfort and not anything seriously worrisome?
Bijapurkar: Yes, we should stop being bullish and bearish about consumption like we are about the stock markets.

Normally when a political class responds with an income transfer, we have not seen this kind of one

party saying we have to transfer ₹2,000 to every family with one acre, they are responding to a real pain and the counter, which could be of course competitive, speaking about an even more amount of money, so what we are trying to guess is whether there is a genuine fall in demand at lower levels. As an observer and a former practitioner how are you looking at the current talk of slowdown? In autos and two-wheelers, it is severe, it is contractionary, in fast moving consumer goods, we see it in bits and pieces. Pidilite was a giant that year after year gave us double digit growth. This time it is 2.5% and what Saugata Gupta is telling us is that February and March were bad suddenly. Your thoughts?

Bali: It is quite evident that there has been a slowdown in the last quarter and I think we have to be fairly circumspect when we look at these numbers. To some extent, this should not have come as the kind of surprise that it did because the indications were already there. We have talked a lot about rural wages and the rural economy. The thing is that rural wages have contracted in the last year.

In the April 2018 report published by Reserve Bank of India (RBI), they broke down rural incomes from 2002 to 2007, which was a nominal increase of 4-5%.

The increase from 2008 to 2013 prompted by NREGA (National Rural Employment Guarantee Act 2005) was double digit in the range of 13-14%. From 2014 there has been a contraction. So it comes as no surprise that rural wages are down. Minimum support prices in the last five years have been lower than they have ever been before. So the rural economy is stressed.

The second fact is that if we were to look

at the MSMEs, which account for about 45% of total manufacturing, as a result of both demonetization and GST, the MSME sector is hurting. They employ about 120 million people, so there has been a contraction there.

So whether one looks at individual consumption or at the pace of government spending or at the rate of gross capital formation or exports, all three of these have been stressed in the last quarter and certainly the quarter before that and we are seeing that impact.

Is it all doom and gloom? The answer is no. As Bijapurkar already alluded to as did Saugata Gupta, we have to say okay, what are some of the structural and systemic things that have to happen to provide that stimulus whether it is to further decrease in interest rates or anything else but I think those are the four key areas to look at.

With regard to net asset creation we did a previous Election Exchange on that and that showed that corporate India has created far less net assets in the last five years than it did in previous bunches of five years. So much of their assets are blocked in non-performing assets and they are not creating anything, so that also meant less jobs. Is there a shift in pattern? As incomes grow, you spend less on food and that may explain part of the rural surplus and fall in food prices. That is one explanation that agri surplus is because every year agriculture can grow at 3% but the food needs of the population itself is not growing at the same pace. They are buying something else, so is there a structural shift in rural demand itself? Are more rural areas becoming semi-urban?

Gupta: I would think that there are issues that are there on supply chain inefficiencies, on productivity and agriculture as

opposed to food consumption if you look at our overall urban, there are enough opportunities for people moving from unbranded to branded, looking at better quality.

So I think it is the issue of getting the inefficiencies under system, the middlemen and other things. I don't think there is enough opportunities to upgrade in food moving from basic crops to cash crops and other items and there is enough opportunities in demand internally or as exports.

However, there has to be a structural change in terms of improving productivity, technology and the supply chain efficiencies, which can lead to better returns for the farmers and I don't think it is a question of demand.

From the experience that you have from various companies, is one good monsoon enough to turn at least the FMCG economy?

Bijapurkar: There is no FMCG economy. Today if your airfares have gone up it will come at the cost of something else. So you are seeing massive cross category competition and if you look at the consumer as a whole, electronics and phones are going to come out of soaps and other such stuff. That is how it is going to be.

So you are saying this is a satiated demand?

Bijapurkar: I am not saying that, I am saying that talking about FMCG demand itself does not make sense. If you are looking at total consumption, I am saying that things are looking bad, 20% of India has always been seriously poor.

To you other question they are disinvesters, they have always been subsidised, agriculture has always not been profitable because of the bulk of farmers.

Is this other quintile seeing more distress?

Bijapurkar: Yes so the top 20% have enough money, enough surplus, as I have said often if they are not buying cars it is exactly like corporate India—there are more rating upgrades than there are downgrades I am told. So, they do have money they are just not investing, these people do have money they are not spending.

Obviously there is long-term stuff of whether they will spend on electric cars or whether they will spend on Uber but if I take it all as transportation, I am saying they have money.

Is it a technology disruption and not an economy issue?

Bijapurkar: They have money, they may not have growth as much as they possibly can but they have enough money to buy cars.

What about the second, third quintiles?

Bijapurkar: The second, third and fourth quintiles are just about 5-6% surplus. If you have inflation, they get wiped out. If you have lower growth and income they just about balance. If you look at the

sentiment surveys of the RBI, people are saying I don't want to spend as much because I am waiting and watching. I think that is what the surveys actually say.

So, the news for you is that the top 20% actually who make or break it, the balance for certain companies is absolutely true.

The bottom 20% has been a dissaver and they do qualify for subsidies of all kinds. So today everybody is in sort of pause mode, it is doing worse. The only way incomes can increase is if there is more economic activity or if government gives you money and both of them have not happened in recent times as much as possible.

What has been your experience, you said you have seen rural areas in recent times show more distress?

Bali: As we have said, people will spend money a) if they have money to spend and b) if they feel good about themselves, about the economy and so on. I think what we are also seeing is that wherever people can perhaps postpone a decision they are postponing. We are not seeing it as much as low unit price, high velocity products, which is what we were talking about earlier. Also it is question of what happens and how we interpret it is a question both of historical performance as well as expectation.

A 7-8% volume growth traditionally or typically in India, if you add to that 5-6% inflation actually created the double-digit revenue growths that we saw for a long time.

Now a 7-8% growth in volume also says that there are 2 things that are happening. One is per capita consumption is certainly going up and we are also bringing in new users because that is how you would explain a volume growth.

Pricing is an issue. I think we are seeing low inflation and that is part of the reason why the rural economy is so depressed because your food inflation and my food inflation is the farmers' income.

So, there are many things that are happening simultaneously. At the end of the day if consumption is to be boosted and our growth for a long time has been consumption-led growth and it should be because in most categories we are both under-penetrated and under-marketed too

which is reflected in our per capita consumptions across most categories.

I think two things have to happen. One is consumers have to feel good and they will feel good if we are creating jobs, if they have more money to spend and the second is the boost or the stimulus gets provided in an economy as a result of greater and greater government spending and we have seen that is also in the recent past actually coming down.

So there is a whole confluence of factors and they have to be addressed both structurally, systemically as well as from the point of view of short-term stimuli for growth.

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