

A Tale of Two Markets

Decoding the Disconnect Between the FMCG Index and On-the-Ground Business Reality in India

Nifty FMCG Index

Business Fundamentals



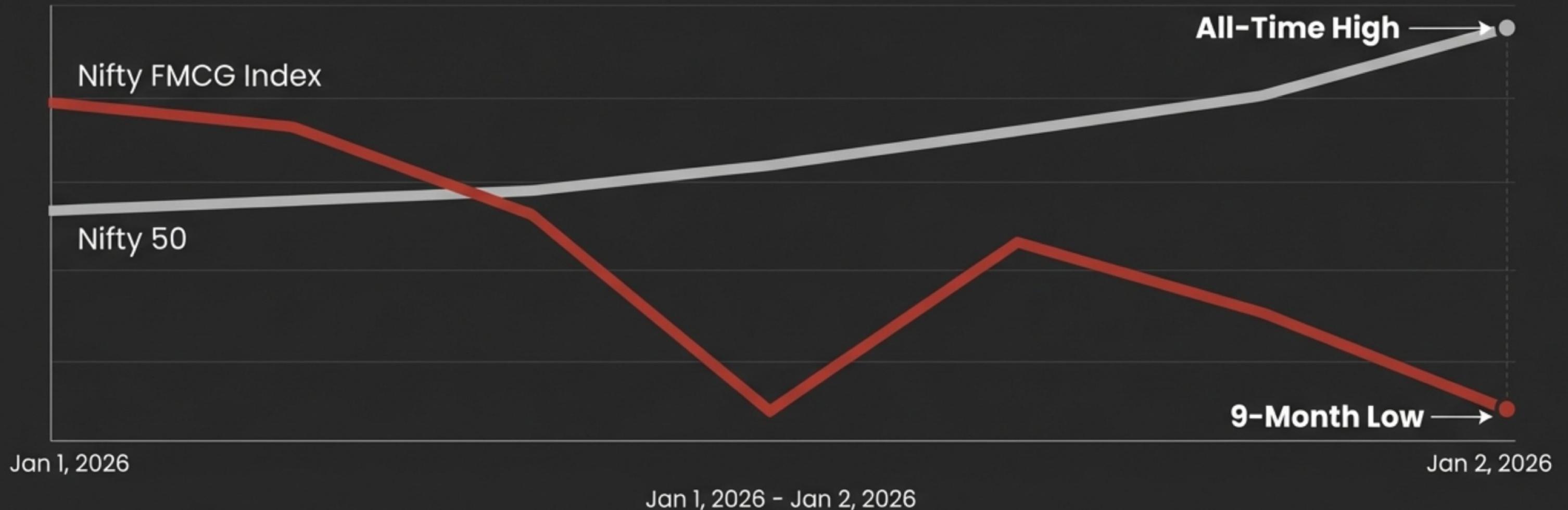
The Paradox: A Defensive Sector in an Unexpected Dive

-4%

The Nifty FMCG index plunged over 4% across two trading sessions, hitting its lowest level in nine months.

The Only Loser

On January 2, the FMCG index was the only sectoral benchmark trading in negative territory, slipping over 1% while the broader Nifty 50 and Sensex hit fresh all-time highs.



Diagnosing the Cause: A Heavyweight Stock Under Unprecedented Pressure

The index's sharp decline was almost entirely driven by a severe, concentrated sell-off in a single heavyweight stock: **ITC Ltd.**



-14% Stock Decline

ITC shares plummeted over 14% in just two trading sessions, hitting a 52-week low.



₹72,000 Crore M-Cap Erosion

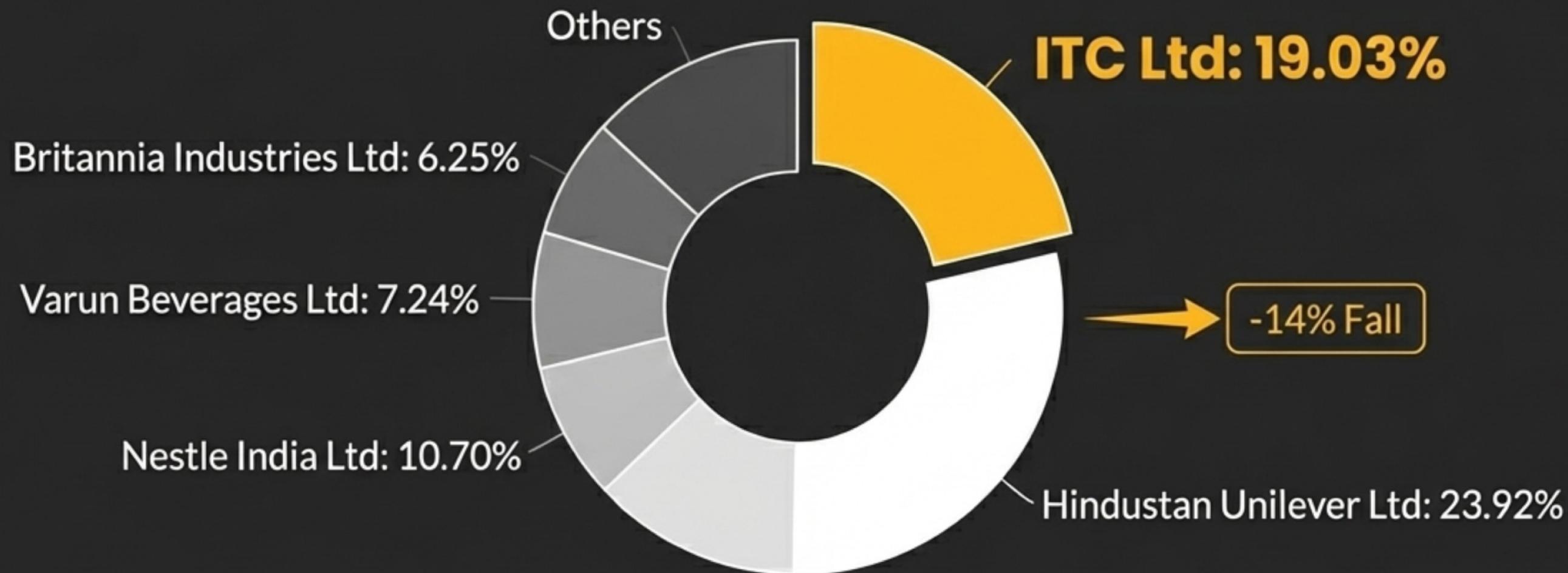
The company's market capitalization shrank by over ₹72,000 crore as a result of the sell-off.



Trigger Event

The sell-off was a direct reaction to the finance ministry's notification of amendments to the Central Excise Act, which imposes a significantly higher excise duty on cigarettes effective February 1. The duty will range from ₹2,050 to ₹8,500 per 1,000 sticks, levied over and above the 40% GST.

The Outsized Impact: How One Stock Pulled an Entire Index Down



With a weight of over 19%, ITC's precipitous 14% fall had a disproportionate negative impact on the entire index. This event masked the performance of the broader group of FMCG companies. Other tobacco-linked stocks like Godfrey Phillips India and VST Industries also faced pressure.

The Pivot: Looking Beyond the Index to On-the-Ground Reality

While the stock market narrative was dominated by a single company's regulatory shock, the fundamental story for the broader FMCG sector is one of **operational stabilization** and renewed optimism.



1. Operational Stabilization

Post-GST 2.0 disruptions have ended, unlocking supply chains.



2. Demand Revival

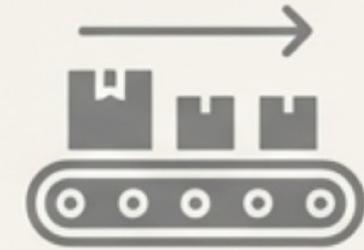
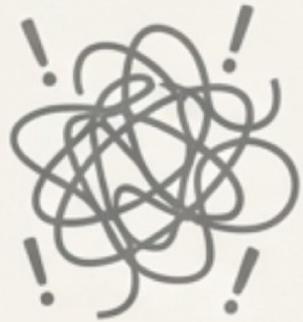
A strategic shift to volume-led growth is underway, powered by a rural recovery.



3. Strategic Evolution

Companies are adapting with premiumization and new channel strategies.

Foundation #1: GST 2.0 Normalization Unlocks the Supply Chain



The Initial Challenge

The rollout of GST 2.0, while aimed at boosting consumption by lowering taxes on essentials, caused short-term pain. Companies faced repricing of stock, packaging changes, and inventory confusion.

The Result

Distributors and retailers slowed orders, leading to a temporary production slowdown across the sector.

Current State: 'Back to Business as Usual'

Three months later, operations have fully normalized.

Company Confirmations:

Leaders at **Parle Products**, **Emami**, **Zydus Wellness**, and **Dabur** confirm inventory levels are stable, supply chains are smooth, and revised packs are fully available.

Deep Dive: How the Sector Overcame GST Transition Hurdles

Then: The Transition Disruption



Inventory Hesitation

Distributors were reluctant to block working capital in old-priced stock, fearing devaluation.



Kirana Store Challenges

Small retailers struggled with 'odd pricing' (e.g., ₹4.70, ₹9.80) which caused billing and change-management issues.



Production Slowdown

Companies were forced to curtail manufacturing due to uneven demand and channel destocking.

Now: The Stabilized Environment



Full-Capacity Manufacturing

Most manufacturing units are operating at peak capacity, signaling strong confidence in anticipated demand.



Return to Popular Price Points

Companies have recalibrated pricing, returning to familiar points like ₹5, ₹10, and ₹20, often by increasing pack weight instead of cutting MRP.



Expected Payoff

Industry leaders anticipate the full benefits of GST rationalization will become visible in the January-March quarter sales.

Foundation #2: The Strategic Shift to Volume-Led Growth

With stabilizing commodity costs and easing inflation, FMCG companies are pivoting from price hikes to driving revenue through higher sales volumes—a sign of strengthening consumer demand.

Price-Led



Volume-Led

Executive Outlook for 2026

- Companies are projecting **high single-digit volume growth** for the year.
- Dabur India is targeting **mid-to-high single-digit growth**.



If I had to look ahead to 2026, **a large part of growth is likely to be volume-led... you should see much healthier volume growth.**

- Manish Tiwary (CMD, Nestlé India)

Underlying Drivers



Benign Inflation

Retail inflation saw a sharp decline in October and November, boosting household sentiment.



"Sober" Commodity Costs

Palm oil prices have cooled, giving companies margin flexibility to focus on volume over price.

Rural India is Leading the Consumption Recovery

Key Data (NIQ, September Quarter)

Analysis

 Rural demand continues to outperform urban markets, supported by stable incomes and government policies that have steadied the rural economy.

 Urban demand growth is increasingly driven by modern trade and e-commerce channels.

Rural FMCG Volume Growth

+7.7%



Rural FMCG
Volume Growth

Urban FMCG Volume Growth

+3.7%



Urban FMCG
Volume Growth

Executive Confirmation

“Demand fundamentals remain strong, rural recovery is gaining momentum...”



Saugata Gupta
(CEO, Marico Ltd.)

“Rural demand continues to grow ahead of urban India.”



Rehan Hasan
(Sales Head, Dabur India)

Foundation #3: Evolving Strategy for a Changing Consumer

Beyond operational recovery, leading FMCG companies are capturing growth by adapting to two powerful shifts in consumer behavior and market structure.



1. Value-Led Premiumization

Consumers are increasingly prioritizing quality, features, and wellness benefits over pure price, creating opportunities in higher-margin segments.



The Modern Consumer



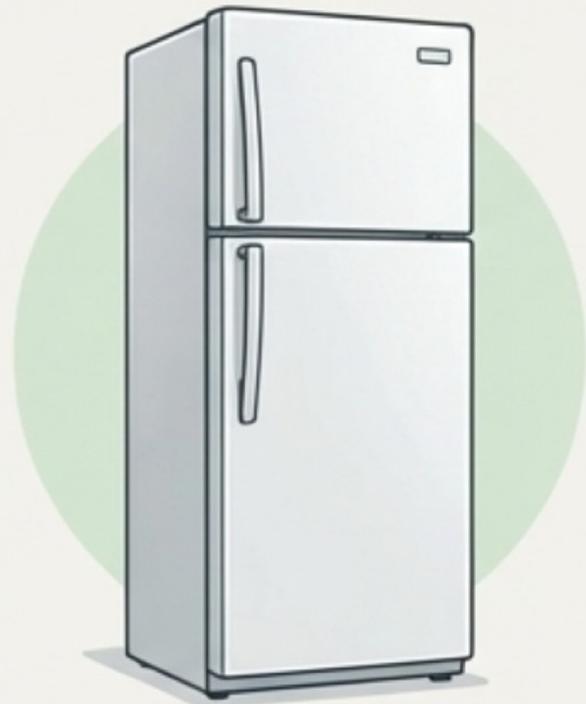
2. The Rise of New Channels

Quick commerce (Q-commerce) and modern trade are reshaping urban distribution models and buying habits.

The Premiumization Play: Quality and Value Drive Selective Growth

Consumers are demonstrating a pronounced preference for "value-led premiumisation"—choosing products that offer superior quality, enhanced features, or better long-term value, even at a higher price.

Case in Point: Consumer Durables



Overall consumption for durables slowed in 2025...

Godrej Appliances
maintained double-digit growth



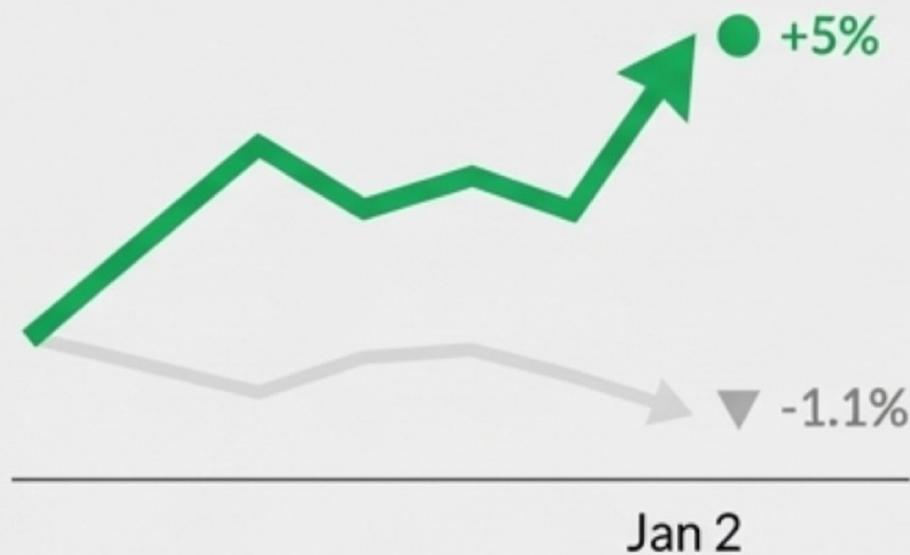
...but premium segments showed strong performance.

Broader FMCG Impact

- This trend boosts margins for adaptable brands and is expected to be a key growth driver in 2026.
- Urban consumers are showing a higher uptake of premium offerings.

Pockets of Resilience: The Outperformers

Amid the sector-wide index gloom, several companies with resilient portfolios and focused strategies have bucked the trend.



+5% Share Price Surge on January 2, a day the broader FMCG index fell 1.1%.

Why: Fueled by positive analyst upgrades and robust quarterly updates on ayurvedic product demand. Its health and personal care portfolio is less exposed to staple food volatility.

Bikaji Foods

Maintained steady demand post-festive period through its strong position in ethnic snacks and strategic inventory management.

Zydus Wellness

Demonstrated strength driven by wellness trends and a focus on branded growth.

The 2026 Outlook: A Convergence of Favorable Tailwinds

The Indian FMCG sector is entering 2026 with a strong foundation for a sustained recovery, supported by multiple positive factors.



“For the broader FMCG industry, 2026 is shaping up to be a more favourable year.”

- Harsha Vardhan Agarwal (Vice Chairman, Emami)

Key Takeaways

1.

The Index Plunge is a Concentrated, Event-Driven Shock.

The Nifty FMCG's 4% drop was caused by a regulatory-driven sell-off in heavyweight ITC, not systemic weakness across the sector.

2.

On-the-Ground Fundamentals are Strong and Improving.

The sector has successfully navigated GST 2.0 disruptions. Supply chains are normalized and manufacturing is at full capacity, signaling strong demand confidence.

3.

The Future Growth Story is Volume-Led and Strategically Nuanced.

Growth in 2026 will be driven by a return to volume growth, a resilient rural consumer, and companies successfully adapting to premiumization and the rise of new commerce channels.

The Real Signal is in the Shopping Cart, Not Just the Stock Ticker



The recent market volatility highlights a critical disconnect. The stock index reacted to a short-term, regulatory risk for a single sub-segment.

For 2026, the most reliable indicators of performance will be found in the operational execution and strategic agility of companies on the ground.

However, the true, long-term health of India's FMCG sector is revealed by its **underlying fundamentals**: normalized supply chains, strengthening volume growth, and robust consumer sentiment.