

'GST good for economy, organized sector in long term'

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As the fast-moving consumer goods (FMCG) industry gears up for the introduction of Goods and Services Tax on 1 July, some glitches are expected but those will be transient, said Saugata Gupta, managing director and chief executive of Marico Ltd. In an interview, Gupta said Marico would pass on the benefits of GST to customers. Edited excerpts:

Have you done the calculations and in general the beliefs that the GST will benefit FMCG companies, the large ones. Would you pass on the benefits there?

I believe the way the government has treated the four slabs, it is both revenue neutral for the government, it's inflation proof for the consumers and there are certain cases, obviously we will pass on the benefit to the consumers. I believe that over the long-term it provides level playing field for organised players. It gives much more simplified way of doing business. There are enough opportunities for optimising networks and supply chain where there are current inefficiencies because of the fact that there are some restrictions, interstate sale and other things, which will go. So overall long-term, it's good for the economy, good for organized players. There would be some

INTERVIEW



Saugata Gupta, chief executive and MD of Marico.

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short-term hiccups but that is something which is going to be very transient.

How long will the hiccup last. Do you expect this disruption to last long?

There is a trade destocking that is happening across, in most of the sectors. I guess there will be a cut-off from 30 June to 1 July. It might take some time for business to come back as usual.

As far as we are concerned, our preparedness should be that—obviously it will take couple of days to change over to new systems but within the first three days of July as the GST kicks in, we should be in a position to procure from all our vendors, ensure that we are able to do transfers of stock and able to invoice to all our distributors.

I think the immediate environment to ecosystem; obviously we are ensuring that there is 100% preparedness. Further down the chain especially in wholesale and trade, there would be continue to be some disruptions. But having said that, over the medium-term organized players will benefit. It is good for the consumers, it is good for the government because we believe that the compliances will increase and the tax collections will increase and business in terms of supply chain and other networks will become simpler.

But in the near term, the likely impact on Q1 and Q2?

Right now it is difficult to give a perspective because all depends on what happens in the last 10 days.

Quarter one; obviously

there would be an impact, especially in June. As far as Q2 is concerned, it depends on how soon things get back into normal business operations. I believe that depends obviously on how quickly some of the trade gears up to the new system, new regime.

I do not see post July when GST kicks in, there is a consumption loss. There will obviously a onetime supply chain network loss.

However, over the medium-term I think some of the channels like wholesalers and all have to rediscover their business model and companies with much more direct distribution will have less reason to worry than people who have significant amount of wholesale distribution.

Where does all this leave you? You guided for

8-10% volume growth in FY18. Will that be hit at all in H1?

I think so. As I said that we do not have a complete visibility of Q2 right now, the level when things get back to normal but having said that if the way the monsoon is, food inflation continues to be low, economic growth is decent. I believe strongly that we should be able to deliver that in the second half of the year.

Will you make up for the lost ground in the second half?

No, I am talking of delivering 8-10% in terms of second half. I do not know how much you can make up because it will be very difficult to make up some of the losses which have happened in the first half of the year. Having said that I believe things will get back to normal, hopefully, sometime towards the end of Q2.

Is there a downside risk to your 8-10% volume growth guidance for FY18?

I would think so but as I said it is too early and all I can tell you is there is some stress as far as quarter is concerned, in terms of June when there has been significant disruption in business across all sectors but we are pretty confident that once things get back to normal, the second half will be back to normal and once GST comes in there could be potential advantages for certain players in terms of who have more direct distribution, who are more organized and who are much more prepared for GST and transitioning into GST in a smother manner.