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#GTBharat SHAPING VIBRANT INDIA

Consumer Pulse

Quarterly newsletter

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At a glance

During the first quarter of FY26, India's consumer market experienced a complex interplay of macroeconomic softening and micro-level volatility. Retail inflation has dropped to a six-year low, yet consumption recovery remains uneven, particularly across urban and rural segments. While lower prices typically translate into higher discretionary spending, current market behaviour suggests that consumer sentiment remains cautious and value-conscious.

Simultaneously, the India–UK Free Trade Agreement, weather anomalies, and muted demand in specific product categories are reshaping market dynamics across the fast-moving consumer goods (FMCG) and durables sectors. This month's newsletter evaluates these developments through the lens of annual results, market signals, and trade policies, offering strategic recommendations for industry stakeholders.

In the fast-moving electrical goods (FMEG) segment, weather conditions played a decisive role this quarter. IMD reported a 25–30% increase in heatwave days across India between March and June, initially boosting demand for cooling appliances like fans, refrigerators, and air conditioners. However, this momentum was partially offset by unseasonal rainfall and cyclonic disturbances in several regions during April and May, particularly in North and East India. This resulted in uneven sell-through and higher-than-expected inventory in select sub-segments, prompting players to recalibrate production strategies and capital.

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Quarter gone by

Retail inflation falls to a six-year low

India's retail inflation, measured by the Consumer Price Index (CPI), eased sharply to 2.10% in June 2025 from 2.82% in May, lowest since late 2018. Food inflation, which holds the highest weight in the CPI basket, contracted by 1.06%, reversing a 0.99% rise in May. Stabilising prices of vegetables, pulses, and edible oils led to the decline. Notably:

Vegetable inflation moderated due to improved supply and favourable arrivals.

Edible oils saw further softening, supported by the government's move in late April to cut import duties on crude sunflower and soybean oils by 10%, balancing domestic production concerns with the need to ease retail prices.

Categories like milk, cereals, and spices remained elevated, suggesting partial relief for the average consumer.

The disinflationary trend in food was accompanied by subdued core inflation. While this offers headroom for a continued accommodative stance from the RBI, it also reflects demand-side caution, particularly in rural and lower-income urban cohorts.

Importantly, while the headline number appears comfortable, the relief is uneven across categories and susceptible to weather shocks and global commodity swings, especially with monsoon unpredictability and continuing volatility in cereal procurement.

Decoding annual trends

An analysis of the annual performance of the five largest listed FMCG companies offers granular insights into the underlying demand dynamics and sectoral performance drivers.

Company	Consolidated revenue growth (YoY)	Volume growth	Key observations	Future outlook
Company A	~2–3%	Low single-digit	Weak urban demand in packaged foods and personal care; some recovery in hygiene and premium categories	Focus on product mix optimisation; cautious near-term volume out-look, premium category support expected
Company B	~2%	Low single-digit	Rural consumption envi-ronment showing signs of stabilisation	Likely to benefit from improved rural sentiment and healthcare portfolio; modest growth expected
Company C	~3–4%	Low single-digit	Resilience in non-core premium segments offsets core portfolio weakness	The company expects a gradual improvement in core categories; a sup-portive margin environ-ment in H1 FY26
Company D	~9.4%	Mid-single digit	Broad-based growth; recovery in discretion-ary foods, hygiene, and personal care	Broad-based recovery expected to continue, backed by operational efficiencies and cost tailwinds.
Company E	~17%	Mid-single-digit	Growth driven by im-proved pricing, steady demand across key product lines	Positive momentum to sustain, led by premiumisation and digital expansion initiatives

Key emerging trends for FY26

Urban slowdown

Urban demand was expected to rebound after inflation eased, but the data points to cautious consumers, especially in the middle and lower-middle income groups. Packaged food categories (like noodles, biscuits, and edible oils) saw flat or negative volume growth in urban metros, suggesting a delayed pass-through of macroeconomic relief.

Premiumisation as a resilient growth lever

- Despite subdued volume growth, categories such as premium personal care, health beverages, and value-added foods are growing faster than mass-market segments.
- Consumers continue to trade up in specific categories (health, hygiene, indulgence) while cutting back on discretionary and non-essential mass products.

Brands will likely deepen their premium portfolios and selectively reprice or relaunch mass SKUs to stay relevant across the consumption barbell.

Early but uneven signs of rural recovery

- Rural demand, after several quarters of stagnation, is showing incipient signs of recovery, especially for players with a strong rural distribution network.
- However, the rebound is not broad-based—price-sensitive categories still struggle, and recovery is more visible in health, naturals, and essentials.

Urban consumption fatigue in essentials

- Urban demand appears to have plateaued, especially for staples and affordable personal care products. This is despite lower inflation, suggesting persistent caution in middle-income households.
- Discretionary spends remain selective, and the premium end continues to outperform.
- To reignite urban demand, smaller packs, combo offers, and targeted promotions may be needed to reposition urban SKUS.

Inflation cooling boosts margin comfort

- The June CPI of 2.1% provide temporary input cost relief, especially in categories dependent on oils and agri-inputs.
- A few FMCG companies reported improvement in gross margins. However, companies remain cautious due to global supply chain fragility and erratic weather.

Companies will likely channel these gains into brand investments, innovation, and price corrections, rather than across-the-board discounts.

Innovation and GTM agility driving share gains

- Players who expanded into newer adjacencies (e.g., ready-to-eat, wellness, plant-based) or activated modern trade and e-commerce more effectively saw better topline growth, driven by portfolio mix, pricing power, and digital shelf strategy.

Investment in omnichannel execution, supply chain digitisation, and D2C capabilities will be key to navigating the fragmented consumption rebound.

Portfolio rationalisation and focused bets

- A quiet theme emerging across boardrooms is rationalising SKUs, focusing on core categories, profitable innovations, and digital-first launches.
- Companies are pulling back on low-performing lines, especially in discretionary personal care or niche health lines.
- FMCG firms are also evolving their engagement with traditional retailers, rationalising their portfolios to ensure the right mix of SKUs per outlet.

E-commerce and quick commerce to drive selective volume uptick

E-commerce and quick commerce (Q-comm) have emerged as meaningful demand channels for impulse, premium, and trial SKUs, especially in urban centres. Players increasingly use Q-comm platforms to test new products, drive repeat usage, and clear slow-moving SKUs during end-of-quarter pushes. Due to impulse buying and smaller, premium pack formats, beverages, personal care, and snacks are gaining traction via Q-comm. Staples like detergents, edible oils, and cooking staples remain predominantly sold through traditional trade and modern retail.

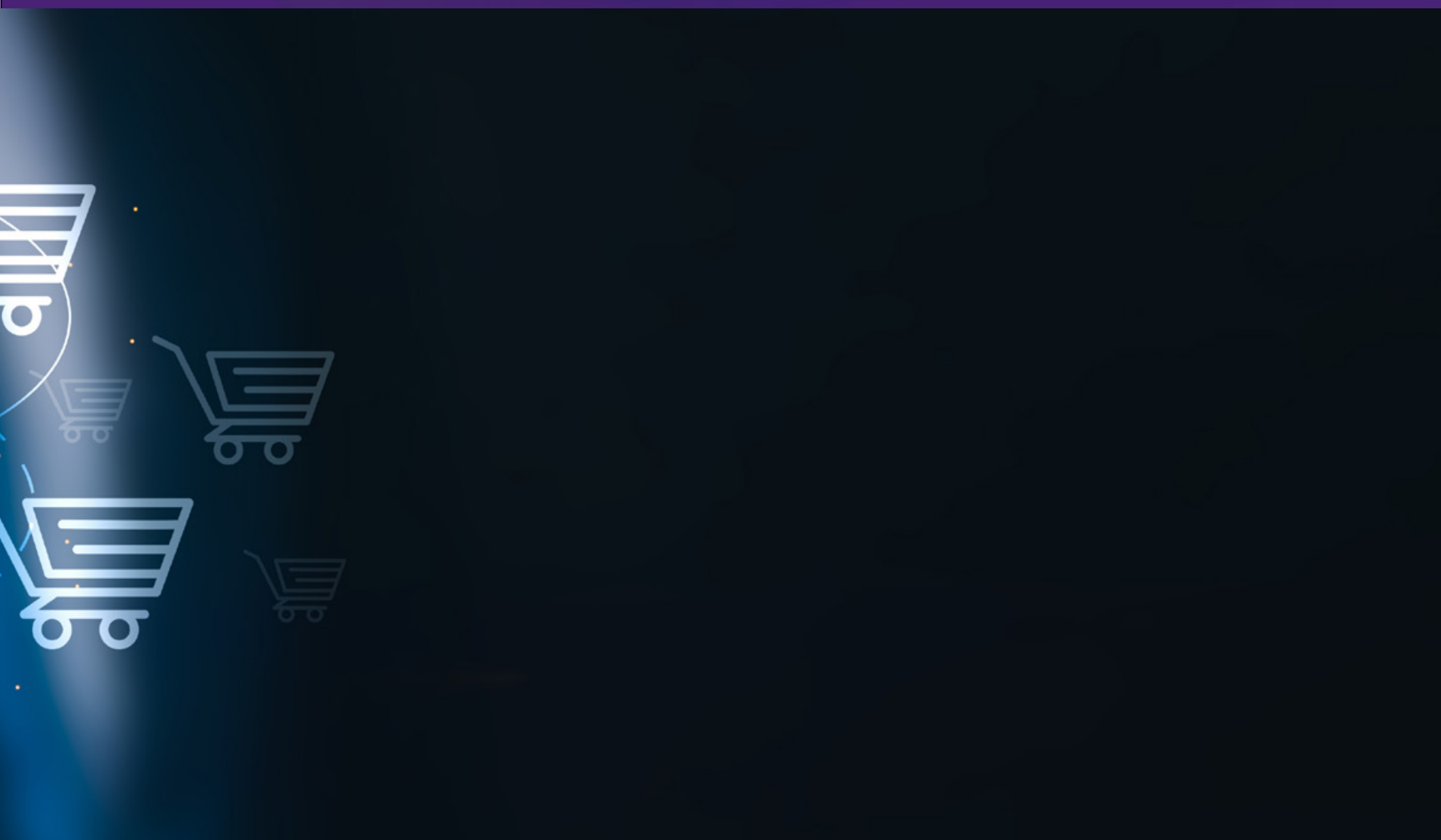
West Asia tensions affect supply chain strategies

Geopolitical tensions in West Asia are raising freight costs and input volatility, prompting FMCG firms to reassess global sourcing strategies and build cost buffers through localisation and supplier diversification.

India-UK Free Trade Agreement: A strategic turning point

The India–UK Free Trade Agreement (FTA), announced in May 2025 after several years of negotiations, is a significant policy milestone for the consumer sector. It brings both opportunities and risks across the value chain.

Category	UK exports to India (Tariff cuts)	Indian exports to the UK (Trade incentives)
Alcohol & Beverages	Tariff reduction of 50% over five years on premium spirits and wines	Easier market access for Indian whisky and non-alcoholic beverages
Packaged Foods & Confectionery	Duty cut on chocolates, cheese, cereals	Indian processed foods (tea, coffee, snacks, condiments) to benefit from lower NTBs
Personal Care	Reduction in duties on premium cosmetics, grooming products	Ayurvedic and herbal beauty products to gain UK market access
Apparel & Lifestyle (gems, jewellery, textile)	Lower duties on UK-branded apparel and accessories	Textile exporters to gain from RoO relaxation and sustainability benchmarks



Implications for the Indian consumer market

India's broad foresight for this FTA has been extremely strategic. India targets phased tariff reductions vis-à-vis immediate market access, ensuring that domestic priorities for high-quality global products continue alongside the maintenance of long-term competitiveness.

This widens access to a high-value market for Indian consumer brands, especially benefiting labour-intensive sectors like textiles, footwear, chemicals, gems, and jewellery. Reducing trade barriers in the UK will strengthen the competitiveness of Indian exports, enabling broader market access and supporting the agriculture and MSME sectors.

UK brands, backed by a legacy of quality and global appeal, may also challenge domestic incumbents, particularly in indulgence and lifestyle categories. For Indian brands, therefore, this necessitates a sharper focus on innovation—not just in product development, but also in packaging, branding, and consumer engagement—to protect and grow their share. As an alternative, Indian companies may consider joint ventures, co-branded offerings, or technology partnerships with UK players to bolster their product portfolios, enhance R&D capabilities, and tap into new consumer segments, since the FTA also opens doors for strategic collaboration.

Implications for UK consumer brands

On the UK side, premium segments from Scotch whisky to high-end automobiles benefit from reduced tariffs.

The FTA unlocks a high-growth market for UK consumer brands, particularly in categories such as chocolates, baked goods, and soft beverages. India's large and aspirational urban consumer base offers substantial potential for scale, especially for heritage or differentiated brands entering the country tariff-free. However, the success of these will need to be strategised carefully to ensure localisation.

Adapting to Indian taste profiles, price sensitivities, and regional preferences will be critical. Hence, JVs, co-branded strategies may be a win-win for Indian and UK companies. This will also ensure that UK companies can navigate India's multilayered regulatory ecosystem smoothly with Indian partnerships/JVs. While the FTA simplifies tariff barriers, non-tariff factors such as foreign exchange regulations, corporate tax implications, repatriation strategies, and regulatory regime (including food safety standards, labelling norms, and state-specific regulations) still require careful structuring and evaluation to ensure smooth market entry and sustainable operations.

Key recommendations for FY26

01 FMCG companies

- Shift from price-led to volume-led growth: With input costs easing, companies should focus on value recovery via targeted pricing resets, especially in staples and low-ticket items.
- Double down on rural go-to-market strategy: Expand presence via micro-distributors, rural-specific SKUs, and regional marketing. Digitally enabled demand forecasting can reduce last-mile inefficiencies.
- Prepare for premium disruption: Innovate in premium and mid-premium segments to counter potential market erosion from UK-origin brands post-FTA.
- Sustainability as a differentiator: Invest in clean labels, ethical sourcing, and traceability, particularly for brands with UK or EU expansion ambitions.

02 Retailers and e-commerce platforms

- Leverage D2C partnerships with UK brands eyeing India post-FTA, creating curated premium experiences in digital storefronts.
- Optimise product mix by integrating more private labels and value packs targeting frugal urban consumers

02

FMEG - Realigning growth with responsibility amid climate extremes

Overview

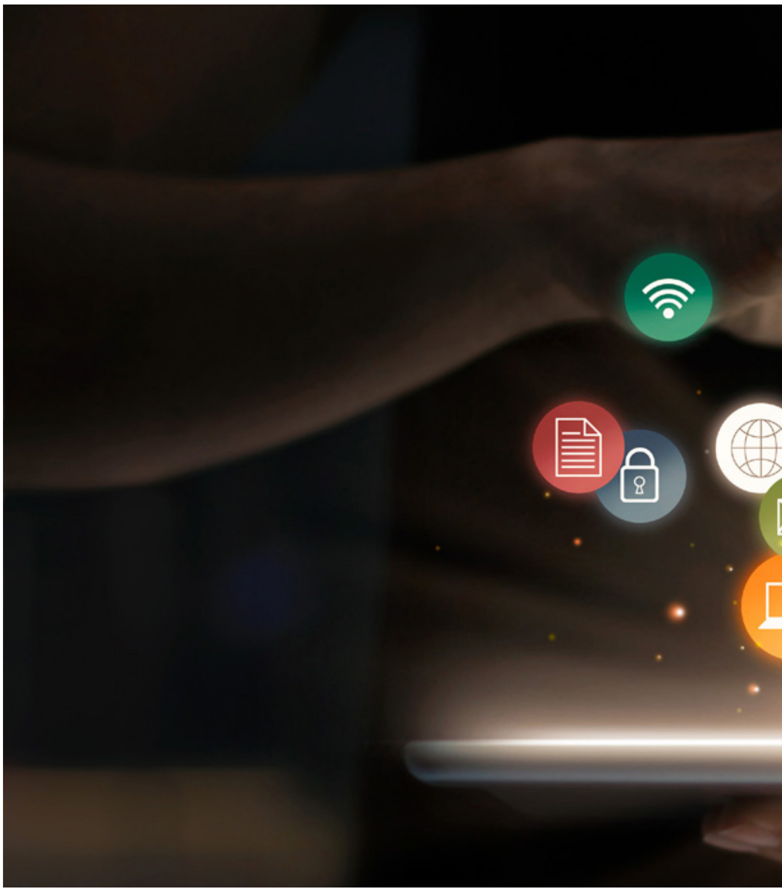
The FY25 summer season for FMEG has sharply contrasted with early optimism. The India Meteorological Department (IMD) projected a 25–30% rise in heatwave days between March and June, fueling strong demand in March–April and lifting cooling products—like air conditioners and refrigerators—to 15–20% year-on-year growth. Many manufacturers entered Q1 FY26 with elevated base orders and inventory levels, anticipating sustained heat-driven demand.

That momentum was disrupted by unseasonal rainfall and cyclonic disturbances in April and May across North and East India. These dampened foot traffic and slowed discretionary purchases—especially in fans, coolers, and small electricals—resulting in just 0–3% YoY growth in that sub-segment and visible inventory pile-ups in Q4 FY25.

April sales for AC dropped over 20% YoY, while refrigerator demand fell 10%, due to cooler temperatures and intermittent rains across South, East, and Northeast India. Regionally, in cities like Patna, appliance sales plummeted, AC, cooler, and refrigerator volumes fell by 40–75%, driven by milder nighttime temperatures and cautious consumer sentiment.

Looking ahead, IMD has issued alerts for above-normal July rainfall in Central India, which may further influence consumer behaviour and sales of cooling and weather-sensitive appliances. These evolving patterns underscore the dual challenge for FMEG players: navigating climate-induced demand volatility while aligning product, inventory, and sustainability strategies more tightly than ever.

As climate unpredictability becomes a structural business reality, the FMEG sector finds itself at the intersection of demand uncertainty and environmental accountability. ESG (Environmental, Social, and Governance) imperatives now play a more central role in future-proof operations and align with consumer preferences and evolving regulatory frameworks. With production footprints growing and product lifecycles becoming shorter, sustainability considerations are gaining urgency across the value chain.



Demand patterns

- **Air conditioners:** Sales saw a sharp uptick in late March and early April, driven by advance buying amid heatwave alerts. However, heavy rains in north India caused a sales lull in key markets in May. Nonetheless, channel checks indicate sufficiently healthy primary sales to sustain production at stable levels through Q1 FY26.
- **Refrigerators:** These segments have remained resilient, with double-digit value growth, led by urban semi-premium and mid-tier demand. Rural and Tier 3 markets remained weak, downtrading to single-door models and deferred purchases.
- **Fans and coolers:** This segment was most impacted in Q4 and early Q1, particularly due to untimely rains and mild evening temperatures. Inventory build-up in April has led to production slowdowns or cutbacks across multiple players.

Production realignment and category prioritisation

Contrary to earlier expectations of aggressive production scale-up, the industry modulates capacity utilisation. Most leading players have adopted a cautious build-to-stock approach, and rather than a broad-based production ramp-up, companies shifted to calibrated manufacturing, prioritising:

- De-stocking existing inventory through a selective promotional push
- Focusing on high-margin, energy-efficient models (like inverter-based air conditioners and BLDC fans)
- Delaying non-essential capex in weather-dependent segments such as lighting and basic appliances

ESG: A catalyst for operational and strategic resilience

The FMEG sector's growth has traditionally been driven by volume, but sustainability and responsibility will define leadership going forward. While top players commit to net-zero targets and renewable energy integration across operations and supply chains, the path forward is complex. Companies are launching recycling programs, adopting recycled materials in product design, and building capacity for regulatory compliance, but the challenge lies in moving from fragmented initiatives to integrated ESG systems.

A growing area of focus is regulatory preparedness. India's Extended Producer Responsibility (EPR) rules and SEBI's Business Responsibility and Sustainability Reporting (BRSR) mandate structured, data-backed ESG disclosures. This demands more than check-box reporting; it requires product traceability, formal recycling infrastructure, supplier compliance mechanisms, and internal data governance frameworks that can withstand third-party assurance.

On the ground, operational progress is visible. Several players have achieved zero-waste-to-landfill certifications, implemented solar power and water conservation initiatives, and enhanced energy-efficiency standards across plants and products. These sustainability measures reduce the environmental footprint and improve resilience, cost-efficiency, and brand equity.

At the same time, the focus of ESG reporting is shifting from qualitative to quantitative. Narrative disclosures are giving way to verifiable metrics, with global alignment and independent assurance becoming the new norm. Supplier audits, material traceability, and strengthened codes of conduct are increasingly embedded into procurement and production practices.

E-waste generation

The short lifecycle of FMEG products contributes to a growing volume of electronic waste. Without effective collection and recycling systems, valuable materials are lost, and environmental risks increase. Addressing this requires industry-led take-back programs and responsible disposal mechanisms to ensure compliance and reduce long-term ecological impact.

Resource circularity

The sector's reliance on finite raw materials, such as rare earth elements, stresses ecosystems considerably. Adopting circular economy principles, including recycled content and modular product designs, reduces extraction pressures and promotes sustainable material use.

Carbon emissions

Manufacturing, logistics, and in-use product energy consumption emissions remain significant. Companies are now setting science-based targets and investing in clean energy, energy-efficient processes, and low-emission product design to align with national and global climate goals.

Product & consumer safety and accessibility

Ensuring safe and inclusive product design is vital. This includes electrical safety, chemical exposure controls, and accessible features for diverse users. With increased regulatory scrutiny around recalls and digital privacy, companies must proactively manage product governance and transparency in smart appliance ecosystems.

Our recommendations for staying ahead on ESG transformation

FMEG companies must shift from reactive compliance to proactive ESG leadership to build long-term resilience and meet growing stakeholder expectations. Key areas of focus include:

Establish a strong baseline

- Conduct detailed ESG diagnostics to identify gaps and opportunities
- Map greenhouse gas, water, and waste footprints across operations and product life cycles

Establish a strong baseline

- Develop a clear ESG roadmap, aligned with business goals and net-zero targets
- Integrate ESG into sourcing, supply chains, and product development through due diligence and materiality assessments

Strengthen governance and communication

- Ensure credibility through third-party assurance on ESG disclosures
- Stay ahead of regulations with expert guidance on BRSR, EPR, and global reporting frameworks
- Communicate transparently with consumers, investors, and regulators to build trust and brand equity

By embedding ESG into their core strategy, not just reporting, companies can unlock competitive advantages, access sustainable capital, and future-proof their operations.

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