

# FMCG trade, industry brace for choppy GST 2.0 transition

**TAXING SWITCH.** Distributors want manufacturers to provide credit notes, price protection and inventory adjustments to guard against short-term losses

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The fast-moving consumer goods (FMCG) trade is in flux ahead of the September 22 roll-out of the new GST rates, with distributors and retailers seeking credit notes, price protection and inventory adjustment to guard against losses on shift to the new tax regime.

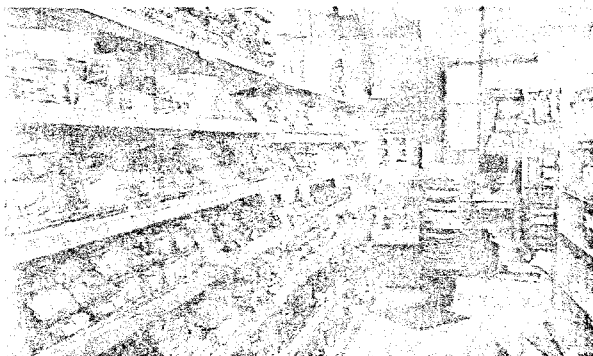
The industry is bracing for short-term disruptions and trade-related issues as the complexity of the supply chain — with large volumes of stocks lying with distributors and retailers — adds to the uncertainty.

Cautious about being saddled with higher-taxed goods, trade players have cut inventory to 5-6 days and are holding back on fresh purchases until the new MRP becomes clear.

"The benefit of the reduced GST will likely be passed on to consumers within a month or month-and-a-half. With no clarity on the interim period, I have reduced inventory to 5-6 days," said Praful Punamchand Jain, an FMCG distributor in Maharashtra.

Distributors warn that it could take at least 45 days to exhaust the old inventory and for companies to implement the new MRP rates.

Ganeshraam, a distributor in Tamil Nadu, said: "Distributors will start reducing inventories. However, large volume companies will be in



**STOCK CAUTION.** To avoid getting stuck with higher-taxed goods, traders have trimmed inventory to 5-6 days and are holding back fresh buys until the new MRP is clarified

a position to bring down the old stock to zero. Medium-size and nominal turnover companies will not be able to do that. We have asked manufacturers to take up any loss of distributors."

## TRANSPARENT SHIFT

The All India Consumer Products Distributors Federation (AICPDF) has written to FMCG companies seeking mechanisms such as credit notes, price protection and inventory adjustment.

Dhairiyashil Patil, National President, AICPDF, told *businessline*: "No one was expecting a GST reduction on such a wide range of FMCG products and, hence, companies affected by the inventory position because of this transition could range from 30 per cent to 80 per cent. We have asked companies to ensure there is transparent, fair and uniform implementation across channels... and to clearly

communicate with us on how the left-over inventory will be handled."

FMCG majors are, meanwhile, seeking clarity on being able to affix new price stickers on older stocks for sale post September 22 but they admit that the transition will be bumpy.

Sudhir Sitapati, MD and CEO, Godrej Consumer Products, said: "There will, of course, be some short-term disruptions... It will take a little time before new MRP flows into the market. By early or mid-next month, consumers will start seeing reduced prices on FMCG products. September may, therefore, be somewhat choppy, with pipeline changes and stock adjustments, but this is temporary."

## PASSING ON DISCOUNTS

Other players are also preparing for the shift. Mayank Shah, Vice-President, Parle Products, said: "Food

products like biscuits are high sales velocity items with low shelf-life. So, we believe in such categories distributors and retailers will be left with stocks bought just a few days before the transition date. For such stocks, companies will be passing on discounts or issuing credit notes to the trade channel."

Angshu Mallick, MD and CEO, AWL Agri Business Ltd, added: "Benefits will be passed on to consumers through a combination of reduced MRP and increase in grammage... We are also gearing up with new packaging material reflecting the new MRPs from next week, which can be sold from September 22."

Prashant Peres, MD, South Asia, Kellanova, wrote in a LinkedIn post: "We've already begun producing stocks with reduced MRPs, ensuring families experience the benefits right at the shelf."

## ALTERNATIVES

Industry experts say companies are also considering practical alternatives such as "buy one, get one" offers and discounts to pass on benefits, given the challenges of relabelling products, dealing with very low price points, and goods already in transit.

A report by Motilal Oswal Financial Services noted: "While there may be some near-term trade-related challenges, we view these steps as structural changes that will boost consumption."