



Doubling retailers' incomes through focus on beverages sector.

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By Hansa Research (Part of the R K SWAMY group)

India's aspirations are National Pride and Self-esteem as evident from several vocalizations from our Honorable Prime Minister. Towards developing our own 'markers', the aim is to reach 'Amrit Kaal' in the next 25 years. In the same pursuit, we are presenting this white paper, with focus on beverages sector. This sector has a substantial role to play towards becoming 'Outshining India'.

Some of the targets we aim to pursue through this white paper are:

- India to become the beverage capital of the world
- Bring innovation to a stagnant beverages sector
- Double retailers' incomes through focus on beverages
- Augment farmer income and undertake job creation
- Enhance investment in food processing technology
- Move from unorganized /counterfeit to formal economy
- Enhance revenue generation for the Government

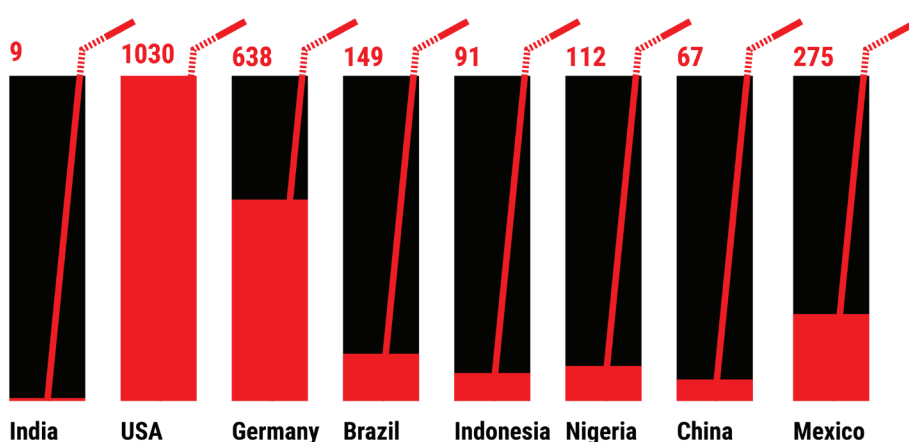
Firstly, let us introduce the beverages industry in India, with focus on Nonalcoholic ready to drink segment. This broadly includes bottled water, stills (like fruit juices, etc.) and sparkling. Currently this segment is about INR 58 thousand crore in value terms in 2022 and saw a growth of roughly 30% over 2021. The highest reach of any segment within beverages category is only 40%: out of the total number of grocery stores, bottled water is only available at 40% of the stores and sparkling beverages at 39%. Still beverages (including fruit juices, etc.) are only available at 32% of outlets in India.

There is no debate that clean water should be available across the country besides availability of stills and sparkling. This sector has much room for growth given that there is reach of other FMCG products. The worrisome part is that sale of organized sector is only 20% in overall beverages segment and balance is counterfeit or unorganized sector where there is no guarantee of cleanliness or hygiene.

Apart from playing with the health of common man, this is a big loss to the Government in terms of revenues. Our estimates suggest that Government earns less than 1% of its revenue from this sector. Even a 20% movement from unorganized to formal economy can boost Government revenue substantially.

Currently, this segment contributes to about 11% revenue of a retailer and less than 1% revenue of the Government basis our estimates. If we divide the government revenue to per person share, India's revenue per person was only INR 729 or USD 8.89 in 2019. When we compare this number to peer set we have one of the lowest revenue generation from this sector:

Revenue per person from beverages in 2019 (in USD)

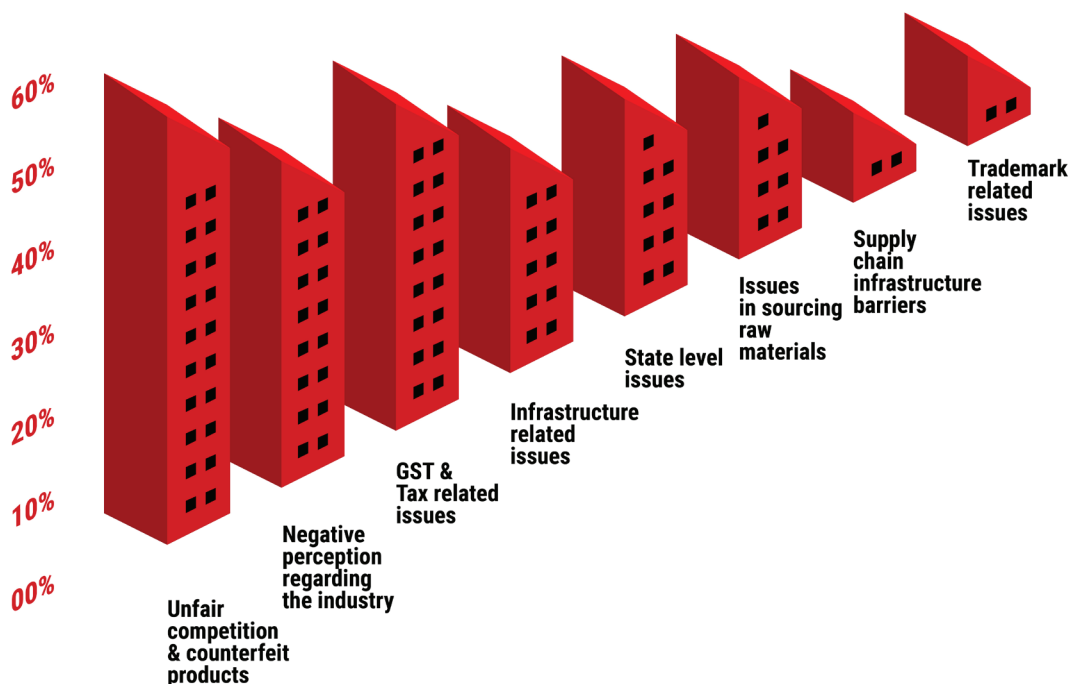


The Government revenue being dismal in India compared to peer group has several reasons. One of the key reasons for low revenue from this segment is the presence of informal retailers and counterfeit products. According to estimates, around 80 per cent of the beverages (non-alcoholic) sector is non-corporate/informal.

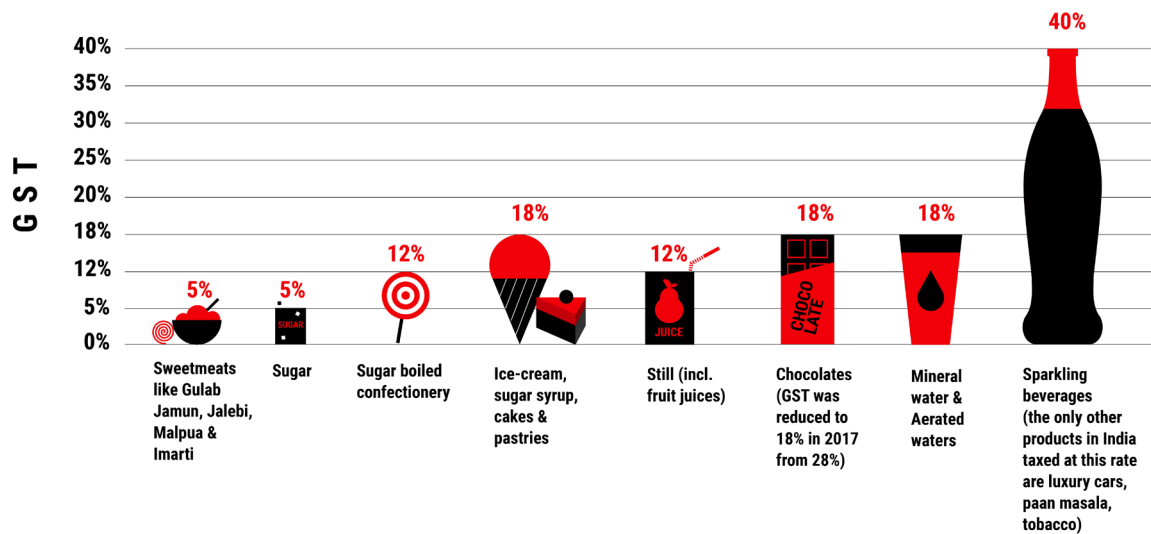
This poses several challenges:

- Revenue loss to the Government.
- Serious health hazard with no regulation on ingredients or process of manufacture / packaging / transportation.
- Low hygiene standards of unorganized production with possibilities of becoming a core for infections.
- Large informal segment hindering possible job creation.
- Unorganized sales points eating away share of organized retailer income.

Key challenges faced by companies and supply chain partners



Another key reason for low revenue from this sector is GST and tax-related issues. **Let us look at the present GST rates on beverages sector and few others key related sectors:**



The varied GST rates applicable have been formulated from past practices and understanding. However, seem counterintuitive to several objectives listed by the GOI:

From halting the obesity pandemic 2025 as one of the 10 targets in National Action Plan to being a progressive developed economy having nutrition based taxation.

As per World Poverty Clock, India has made incredible progress against poverty. The next step is to move towards nutrition.

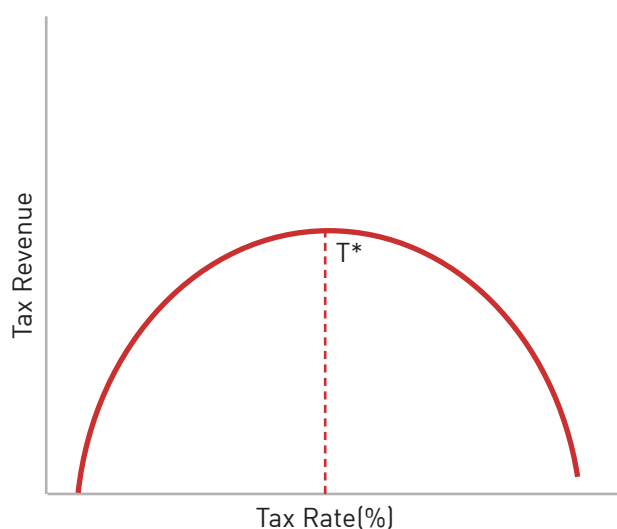
Nutrition based taxation (could be on the basis of sugar or other nutrients) will help several objectives of the GOI. Nutrition based taxation is essentially 'Low taxes for low sugar' and 'Lowest taxes for no sugar' (which use Non-Nutritive sweeteners).

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Scenario	Industry size (sparkling), INR Crore*	Tax Rate	GOI Revenue (INR Crore)	Retailer Income (INR Crore)#	Explanation
1 (CURRENT)	1000	40%	400	110	
2	1300	30%	390	143	Assuming 30% tax rate, the impact on the industry will be 30% growth, - the revenue of GOI will be at similar level. However, the retailer income will increase.
3	2000	25%	500	220	However, if we reduce the tax to 25% or 20%, the industry can grow substantially and have significant positive impact on GOI revenue. Further, retailer income has doubled.
4	2500	20%	500	275	

* Simplification for calculation purposes | ^ - Any decrease in tax is to be directly passed on the consumer as a mandate | # Assuming the income share from beverages stays at 11%.

Further, we can also seek to determine the ideal tax rate for the sector through Laffer Curve. Tax revenue reaches an optimum point, represented by T* on the graph. Beyond this point, the increase in tax rate is generating a lower utility or decreasing the revenue generation of Government. In the current context, the tax rate has definitely exceeded the T* as the high tax rate is not only hindering the growth of the sector (The high taxation has arrested any investments or innovation in the sector) but also limiting the retailer income besides looking at an overall low revenue generation.



THE LAFFER CURVE

Also, it is a daunting task for any startup to gain profitability in such a high taxed sector. Beside increase in Government revenue, decline in taxation will provide an impetus to an otherwise stagnant sector.

GOI, by only making one change of GST reduction can create a conducive environment for the economy to grow. This is a win-win situation for all:

- **Government gets higher revenue**
- **Sector opens up for investment and innovation**
- **Increase of farmer income – contract farming gives higher revenue**
- **Increase in jobs – people moving to organized economy**
- **Due to taxation policy being nutrition based, per capita consumption of healthier beverages will increase**
- **Increase in retailer income – growth in organized sector from unorganized sales points, gets new price points and new product options**
- **Increase in exports – we have the capability to become the beverage capital of the world.**

Some of the facts supporting above points are:

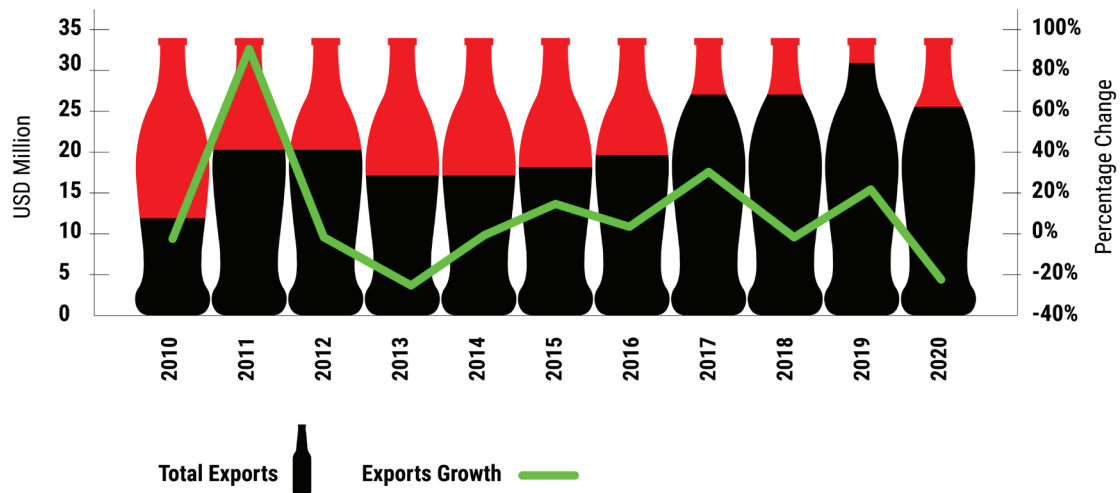
- India is the largest producer of milk, sugar and second-largest producer of several fruits and vegetables in the world, which is a raw material in the production of non-alcoholic beverages. It is the topmost producer of bananas, mangoes, lime, lemon and papaya. With abundant raw materials, the country has a natural advantage in the manufacturing of non-alcoholic beverages.
- In India, estimates by the Ministry of Food Processing and Industries (MoFPI) show that around 25 per cent to 30 per cent of fruits and vegetables are wasted in the supply chain due to inadequate processing and logistics facilities, including lack of refrigerated storage, supply chain delays at interstate borders, poor transport and underdeveloped marketing channels. By sourcing directly from farmers, many non-alcoholic beverage companies contribute to an increase in farmers' incomes and welfare @ \$.

- Further, Foreign investment inflows are below one per cent in this sector and exports are much behind for a core produce of raw materials for this sector. Exports were worth USD29.89 million in 2020.
- For every INR1 crore of output produced in the non-alcoholic beverage sector, a total of 8.9 additional jobs are created in the economy due to both the direct as well as indirect impact. In terms of jobs, the non-alcoholic beverage sector, directly and indirectly, generated 2,78,970 jobs in 2018-19, which is 0.06 per cent of the national employment. Employment in the entire beverage industry increased from 127,816 in 2010-11 to 161,065 in 2017-18, but it is still below potential as processing is still low
- While exports of this sector has grown, the rate of growth has been moderate to low.

@Apple farmers in the supply chain of the non-alcoholic beverage companies got a 20 per cent higher yield per hectare following training by beverage companies, 5 per cent higher prices and earned 59 per cent more income per harvest season, vis-à-vis their counterparts located in the same district.

\$ As mentioned by our honorable Prime Minister in Tumkur, augmenting fruit sales of Indian farmers will help farmers, boost food storage and transportation, etc.

Non-alcoholic beverage Sector Exports from India



Critique of the paper from consumer lens.

Consumers in India are best understood in their own stead. While there are several studies available on best approaches towards taxation, with global influences and opinions, we have to understand the best approach for India. Several policies encouraged as 'best approaches' have not been successful in India to change consumer behavior. Hence, we are not only losing out on revenue growth but also passing the tax burden to be poorest sections of our society in the current scenario. This further encourages counterfeit options. This is also deterring investments and thus leading to opportunity loss for growth in formal economy and job creation.

Consumers should be encouraged to consume healthier products through awareness building programs, labelling, etc. Companies may be encouraged through a subsidy policy to produce healthier products. Beverage companies and their associations should actively participate in government initiatives like the "Eat Right Campaign" of the FSSAI. Hence the better option is to raise consumer awareness and positive interventions/support for nutritious products where government and beverage companies can work together.

"It is important for India to study all examples but design its own policies."

CONCLUSION

Organized sector growth helps industry and economy grow. Sin taxes are impacting the poorest in our country and have not been successful in impacting consumer behavior. A moderate tax rate will help shift the consumer to healthier and safer to consume products; increase retailer's incomes and generate more revenue for the government through sale of healthier products at an attractive price point and will help propel the ecosystem forward.

The India Economic Survey has spoken of India's desire to move from 'food security to nutrition security'. Nutrition Security implies physical, economic, and social access to balanced diet, clean drinking water, safe environment, and health care (preventive and curative) for every individual. Access, Awareness and Affordability are the key tenets which should be prioritized from a policy-making standpoint. Nutrition should be clearly stated as an important input and output parameter for judging development and should not be treated as trickle down beneficiary of economic and industrial development. This also aligns with the UN Sustainable Development Goal 2 which seeks sustainable solutions to end hunger in all its forms by 2030 and to achieve food security. The aim is to ensure that everyone everywhere has enough good-quality food to lead a healthy life. Achieving this Goal will require better access to food and the widespread promotion of sustainable agriculture.

India aspires to be a global leader in food processing and non-alcoholic beverages is a core component of the food processing industry. The top four challenges to the growth of this sector are (a) unfair competition from the unorganized sector and counterfeit products (b) negative perception regarding the industry (c) GST and "Sin tax" and (d) infrastructure related issues.

The Food Safety Regulator is in the process of identifying HFSS foods (Foods high in Fat, Salt and Sugar) and it is recommended that fiscal policies should be aligned to this approach to ensure the growth of the food sector in India and also reduce the unfair incidence of tax burden on the poorest population. The Food and Agriculture Organization (FAO) recognizes "sustainable food systems" as a system that delivers food security and nutrition for all in such a way that the economic, social and environmental biases to generate food security and nutrition for future generations are not compromised. This means that: – It is profitable throughout (economic sustainability); – It has broad-based benefits for society (social sustainability); and – It has a positive or neutral impact on the natural environment (environmental sustainability).

Organized sector growth helps industry and economy grow. Sin taxes are impacting the poorest in our country and have not been successful in impacting consumer behavior. A moderate tax rate will help shift the consumer to healthier products, increase retailer's incomes and generate more revenue for the government through sale of healthier products at an attractive price point. This will help achieve the objective of 'Doubling Retailers Income'.

Consumers will benefit by getting hygienic and safe to consume products. Retailers will see a higher share pulled from unorganized retail thereby increasing their turnover. Government will see an enhanced revenue and will help propel the ecosystem forward..

India should adopt this strategy in line with the Governments goal of Eat Right.

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