

Rating Criteria –FAST MOVING CONSUMER GOODS (FMCG)

Executive Summary

The Fast-Moving Consumer Goods (FMCG) sector is a key driver of India's consumption-led economic growth and plays a significant role in shaping demand patterns, employment generation, and brand-led economic activity. The sector is strengthened by high-volume sales, low unit value products, rapid inventory turnover and extensive distribution reach. Unlike capital-intensive manufacturing industries, the performance of FMCG companies is primarily driven by consumer behaviour, brand strength, pricing strategies and supply chain efficiency. The FMCG sector stands as the fourth largest pillar of the Indian economy, heavily powered by the household and personal care segment, which alone accounts for about half of the industry's total revenue.

Over the years, the sector has shown exceptional adaptability across economic cycles, supported by the essential nature of many product categories such as food, personal care and household goods. The post-pandemic period has further accelerated structural shifts, including increased demand for health and wellness products, premiumisation and rapid growth in digital and e-commerce channels. With rising disposable incomes, favourable demographics and increasing rural penetration, the FMCG sector is expected to remain a key contributor to India's long-term growth trajectory.

The FMCG sector broadly comprises the following segments:

1. **Household and personal care:** This category focuses on products used for maintaining the home and personal hygiene.
Home care: dishwashing liquids, floor cleaners, glass cleaners, air fresheners, surface disinfectants, laundry detergents (powder and liquid), fabric softeners, bleach.
Personal care: Soaps, shampoos, conditioners, deodorants, toothpaste, shaving creams, skin lotions, cosmetics, toilet paper, diapers.
2. **Food and Beverages (F&B):** This is the largest segment of the FMCG industry, encompassing everything from fresh produce to packaged snacks.
Beverages: bottled water, carbonated soft drinks, fruit juices, tea, instant coffee, energy drinks.
Packaged foods: biscuits, crackers, potato chips, breakfast cereals, noodles, pasta.
Dairy products: milk, yogurt, butter, ghee, paneer, cheese, ice cream.
Fresh/Frozen foods: frozen vegetables, ready-to-eat meals, processed meats.
Staples: Flour, sugar, salt, cooking oils.
3. **Healthcare (over the counter or OTC) segments:** These are medicinal products that do not require a prescription from a doctor and are typically found in supermarkets or drugstores.
Pain relief: aspirin, ibuprofen, paracetamol tablets.
Digestive health: antacids, laxatives, anti-diarrheal medications.
Cold & allergy: cough syrups, throat lozenges, nasal sprays, antihistamines.
Supplements: multivitamins, minerals, herbal supplements.
First Aid: bandages, antiseptic creams, thermometers.
4. **Tobacco products:** while often regulated differently, these are classified as FMCG due to their high turnover and consumption rates.
Tobacco: cigarettes, cigars, rolling tobacco, e-cigarettes/vaping products.

Scope of the Criteria

The scope of this document is to outline the key risk parameters considered while assigning credit ratings to FMCG companies. The evaluation is based on four primary risk categories, namely Industry Risk, Business Risk, Financial Risk and Management Risk.

In addition, Environmental, Social and Governance (ESG) considerations are increasingly integrated into the assessment, given their growing importance in determining long-term competitiveness and stakeholder perception.

BWR has an established rating criteria for manufacturing companies, under which this document forms part of the broader sector-specific criteria applicable to various industries within the manufacturing sector. The detailed criteria for manufacturing companies is available on the BWR website:

www.brickworkratings.com.

A. Industry Risk:

Nature of Industry

The FMCG sector in India benefits from strong underlying fundamentals, including rising income levels, and a large and young population base, which together provide significant headroom for growth. The demand for FMCG products is relatively stable, particularly for essential goods, making the sector less cyclical compared to other industries. However, growth rates may vary across product categories depending on consumer preferences and macroeconomic conditions.

Competitive landscape:

The FMCG sector is highly fragmented and dynamic, with the presence of multinational corporations, large domestic players, regional brands and emerging digital-first companies. This intense competition arises from the low entry barriers in certain product categories, availability of substitutes and the relatively undifferentiated nature of many products, which makes brand positioning and consumer perception critical to success. Competition in the sector is primarily centered around pricing, product innovation and distribution strength. Companies continuously introduce new products, variants and packaging formats to capture consumer attention and adapt to evolving preferences. At the same time, aggressive pricing strategies, discounts, and promotional campaigns are widely used to gain or protect market share, particularly in price-sensitive segments. The expansion of modern trade, e-commerce and quick commerce has further intensified competition by increasing product visibility and reducing switching costs for consumers. With greater access to alternatives and price comparisons, consumers are more inclined to experiment with new brands, thereby increasing churn and reducing brand loyalty. As a result, companies must continuously innovate, optimize costs and strengthen their go-to-market strategies to remain competitive.

Regulatory Risk:

Government policies and regulatory frameworks have a moderate but notable impact on the FMCG sector. Changes in indirect taxation such as GST, import duties on key raw materials and regulations related to packaging, recyclability requirements, health standards and environmental compliance can influence cost structures and operational practices. However, the sector's ability to pass on cost increases to consumers over time and the relatively non-discretionary nature of many products mitigate the overall regulatory risk.

B. Business Risk:

Market position and scale of operation:

Market position is a critical determinant of business strength, as larger companies benefit from economies of scale, stronger bargaining power with suppliers and distributors and greater financial flexibility. A well-established brand portfolio enhances customer loyalty, supports pricing power and provides resilience against competitive pressures. FMCG companies that adopt a balanced growth strategy combining organic initiatives such as product innovation and distribution expansion with inorganic strategies like acquisitions are better positioned to accelerate growth, increase market share and strengthen their overall competitive positioning. Sustained growth in scale is further supported by expansion into international markets, which helps diversify revenue streams and enhances the company's export footprint.

Operational efficiency:

This involves cost competitiveness in raw material sourcing (like palm oil or wheat) and the degree of backward integration (e.g., owning processing plants). Companies are required to continuously optimise their cost structures, manage working capital efficiently and maintain supply chain agility to respond to changing demand patterns. Increasing adoption of technology, including automation, artificial intelligence, and data analytics, has enabled companies to improve inventory management, reduce wastage and enhance overall operational efficiency. Raw material sourcing is a key component as FMCG companies are exposed to volatility in commodity prices such as crude derivatives, agricultural inputs and packaging materials. Companies with diversified sourcing arrangements, strong supplier relationships and effective procurement strategies are better positioned to manage input cost fluctuations and protect margins. The ability to pass on cost increases to consumers without significant impact on demand is an important factor influencing profitability.

Diversity of operations:

Diversification across geographies and product segments enhances business stability by reducing dependence on specific markets or categories. A balanced presence across urban, rural markets and exports across retailers, wholesalers, and corporates mitigates the impact of regional demand fluctuations, while a diversified product portfolio reduces the risks associated with changing consumer preferences and product obsolescence. Firms with diverse product lines across different categories (e.g., both F&B and Personal Care) are viewed more favorably as they can better sustain economic shocks. Companies with a mix of essential, discretionary and seasonal (both summer and winter) products, as well as premium and mass offerings, are better equipped to manage demand variability, pricing dynamics and enhance business resilience.

Product innovation:

Product innovation facilitates the creation of high-quality products that build consumer trust, a dedicated customer base and drive long-term brand loyalty. Product innovation is essential for maintaining relevance in a rapidly evolving consumer landscape. As purchasing power rises, consumers are increasingly drawn towards premium products. Companies that regularly introduce new products, adapt to changing consumer preferences and focus on emerging trends such as health and wellness, male grooming segment, premiumisation and sustainability are better positioned to drive growth. Innovation helps in product differentiation and strengthens brand equity in a highly competitive market.

Technological Risk:

Technological advancements and evolving consumer behaviour are reshaping the industry. The increasing penetration of smartphones and internet connectivity has led to rapid growth in e-commerce and direct-to-consumer (DTC) channels, while quick commerce has emerged as a key distribution model in urban markets. Companies are leveraging digital tools, data analytics and artificial intelligence to enhance consumer engagement, optimise supply chains and improve demand forecasting. At the same time, the relatively low digital penetration in certain rural areas presents untapped growth opportunities.

Strategic Location and Distribution Network:

Locating processing facilities close to key agricultural sourcing regions and port infrastructure enables faster movement of goods, reduces spoilage and wastage and supports improved product quality while enhancing supply chain efficiency. A wide and efficient distribution network ensures product availability across diverse geographies and supports revenue growth. Traditionally the distribution network included only wholesalers and retailers including grocery stores, supermarkets. However, the sector is witnessing a shift towards omni-channel distribution, integrating traditional retail, modern trade, export and digital platforms. Companies that effectively leverage multiple channels and adapt to evolving consumer buying behaviour are better placed to sustain their market position.

Marketing Strategy:

FMCG companies operate in a highly competitive and cluttered marketplace where purchasing decisions are often driven by brand visibility, consumer perception, demand creation, pricing and promotional activities. As a result, companies must make sustained and significant investments in advertising, promotions, packaging and consumer engagement to maintain and enhance their market position. A well-defined marketing strategy typically integrates both traditional media channels such as television, print, outdoor

advertising and digital platforms including social media, influencer marketing, targeted online campaigns, enabling companies to reach a broader and more diverse consumer base.

C. Financial Risk:

Financial risk assessment involves analyzing the company's financial performance, capital structure, liquidity position and ability to meet its debt obligations.

i) Profitability and Return Ratios

Profitability is a key indicator of financial strength, reflecting the company's ability to manage costs, maintain pricing power and achieve operational efficiencies. FMCG companies typically benefit from relatively stable cash flows due to consistent demand for essential products. Strategic acquisitions and inorganic growth initiatives can support revenue expansion and contribute to improvement in the gross margin over time. Return ratios indicate how efficiently a company is turning its capital into profit. Some of the ratios considered by BWR when evaluating profitability and return ratios are:

Ratio	Method of Computation
PAT Margin	$\frac{\text{Profit After Tax}}{\text{Revenue}}$
Operating Margin	$\frac{\text{Operating Income}}{\text{Revenue}}$
Return on Capital Employed (ROCE)	$\frac{\text{EBIT}}{\text{Capital Employed}}$
Net Cash Accruals /Total Debt	$\frac{\text{PAT} + \text{Dep.} - \text{Dividend}}{\text{Total Debt}}$

BWR also considers Gross Margin (Gross Profit / Revenue) and EBITDA Margin (EBITDA / Revenue) as key profitability indicators. These metrics provide a more granular view of operational efficiency and input cost absorption capability, particularly relevant for FMCG companies exposed to commodity price volatility.

ii) Capital structure, leverage & Coverage ratios

The capital structure of the company is evaluated to assess the level of leverage and its impact on financial risk. Companies with moderate leverage and strong coverage ratios are considered to have a lower risk profile, as they demonstrate a higher ability to service debt obligations. In the FMCG sector, where cash flows tend to be stable, adherence to conservative financial policies is viewed positively. A low net leverage position, with net debt to operating EBITDA remaining at comfortable levels, reflects prudent financial management and enhances credit strength.

Some of the ratios considered by BWR when evaluating leverage and coverage ratios include:

Ratio	Method of Computation
Interest service coverage ratio (ISCR)	$\frac{\text{EBITDA}}{\text{Interest \& Finance Charges}}$
Debt service coverage ratio (DSCR)	$\frac{\text{PAT} + \text{Dep.} + \text{Interest Exp.}}{\text{Interest Exp.} + \text{Principal Repayment}}$

BWR also monitors the Net Debt / EBITDA ratio (Total Debt less Cash and Cash Equivalents, divided by EBITDA) as a key leverage indicator. For the FMCG sector, a Net Debt / EBITDA below 2.0x is generally considered comfortable, while levels exceeding 3.5x may signal elevated financial risk. Additionally, the Total Outside Liabilities to Tangible Net Worth (TOL/TNW) ratio is evaluated to assess overall indebtedness relative to the equity base.

iii) Liquidity Ratios

Liquidity and working capital management are critical aspects of financial risk assessment. FMCG involves high volumes and low margins, the liquidity and efficiency ratios (how fast inventory moves and how quickly debtors pay) are of paramount importance. Efficient management of inventory, receivables and payables is essential to ensure smooth operations and adequate cash flow. High inventory turnover and strong cash conversion cycles are typical characteristics of well-performing FMCG companies. Companies that consistently generate positive cash flow from operations and maintain a strong cash flow from operations to EBITDA (CFO/EBITDA) ratio exhibit a robust liquidity position. The availability of unutilised bank lines, liquid investments and access to short-term funding sources further strengthens the liquidity profile. Some of the ratios considered by BWR when evaluating liquidity ratios include:

Ratio	Method of Computation
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	$\frac{\text{Total Current Assets} - \text{Total Inventory}}{\text{Total Current Liabilities}}$
Working Capital Cycle	Debtor days + Inventory Days – Payable Days

iv) Financial Flexibility

Financial flexibility is also an important consideration, reflecting the company's ability to raise funds in times of need. Funds are often required for marketing campaigns or to acquire smaller, trending D2C brands. Companies with strong relationships with financial institutions, access to capital markets and support from parent or group entities are better positioned to manage financial stress. Additionally, companies engaged in import of raw materials or export of finished goods are exposed to foreign currency risk and any adverse movement in exchange rates may impact profitability. The ability to monetize non-core assets and generate additional liquidity provides an added cushion in adverse scenarios.

FMCG entities are evaluated based on their operational structures, broadly categorized into asset-heavy and asset-light models. Asset-Heavy entities control their manufacturing and upstream supply chains, yielding superior gross margins through vertical integration and economies of scale, though their net profitability and Free Cash Flow (FCF) yields are often constrained by high depreciation and substantial capital reinvestment needs. Conversely, Asset-Light entities outsource production to focus on brand building and R&D, while this structure compresses gross margins due to third-party manufacturing costs, it provides highly resilient operating (EBITDA) margins because of low fixed overheads. Consequently, Asset-Light peers typically demonstrate structurally superior asset turnover and elevated return ratios (ROE/ROCE) driven by a significantly optimized and suppressed capital base.

D. Management and Corporate Governance

The quality of management and corporate governance practices is a critical factor in determining the overall credit profile of an FMCG company. BWR's assessment focuses on the experience, track record and strategic vision of the management team, as well as its ability to adapt to changing market conditions. Companies with a history of consistent performance, prudent financial management and effective execution of business strategies are viewed more favourably.

Corporate governance practices, including transparency in financial reporting, adherence to regulatory requirements, and ethical business conduct, play a significant role in building stakeholder confidence. Any instances of governance lapses, regulatory non-compliance, or lack of transparency can have a negative impact on the credit assessment.

The management's ability to respond to external challenges such as changes in consumer behaviour, technological disruptions, and regulatory developments is also evaluated. Effective capital allocation decisions, particularly in areas such as brand building, capacity expansion, and technology adoption, reflect the long-term sustainability of the business. Additionally, succession planning and the presence of a strong second line of management are important in mitigating key-man risks and ensuring continuity of operations.

Environmental, Social and Governance:

In addition to the risks discussed above, BWR believes that Environmental, Social, and Governance factors are increasingly important in the FMCG sector, given growing consumer awareness and regulatory emphasis on sustainability. Environmental factors include responsible sourcing of raw materials, reduction in plastic usage, waste management practices and efforts to minimise carbon footprint. Social factors encompass product quality, consumer health and safety and responsible marketing practices. Governance factors relate to ethical conduct, regulatory compliance and transparency in operations.

Companies that proactively integrate ESG principles into their business models are likely to benefit from enhanced brand reputation, stronger consumer trust and improved long-term sustainability. Conversely, failure to address ESG risks can result in regulatory penalties, reputational damage and financial implications.

Group or Parent Support: In cases where the FMCG company is part of a larger group, the willingness and ability of the parent or affiliate companies to provide financial, operational or strategic support is examined. The strength of such linkages enhances overall management credibility.

Conclusion

BWR analyses FMCG entities based on a comprehensive evaluation of industry dynamics, business fundamentals, financial strength and management quality. While the sector benefits from stable demand and strong growth potential, it is also exposed to risks arising from intense competition, input cost volatility and evolving consumer preferences. Companies that demonstrate strong brand equity, diversified operations, efficient supply chains and prudent financial management are better positioned to sustain growth and maintain robust credit profiles. The final rating reflects the combined impact of all these factors and their interaction over the medium to long term.

This is the first criterion document, so no prior version or reference link exists.

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