'Plastic ban to have minimal impact on listed FMCG firms'

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NEW DELHI : India's move to ban certain single-use plastic (SUP) items will have minimal impact on the financials of listed entities in the fast moving consumer goods (FMCG) category, analysts at Kotak Institutional Equities said in a note on Monday.

The Centre banned manufacturing, imports, distribution and sale of single-use plastic items across the country, effective 1 July. Items in the list include ear buds with plastic sticks, plastic sticks for balloons, plastic flags, candy sticks, ice-cream sticks, polystyrene decoration, plastic plates, cups, glasses, cutlery such as forks, spoons, knives, straws, etc.

For listed packaged consumer goods makers, exposure to such products largely includes items such as straws etc.

Analysts at Kotak Institutional Equities said a possible extension of the ban to other single-use plastic items such as sachets, pouches, wrappers and laminated tubes in the medium term could impact volumes or profitability of many consumer good categories, especially for the lower-priced stock keeping units.

The share of plastics used for these banned single-use plastic items is less than 2-3%, they added.

India has the dubious distinction of being the fifth highest country in terms of generation of plastic waste, with a discharge of 3.5 million tonne in FY20. On a per capita basis, India's plastic waste generation has almost doubled over FY2016-20.

"The current ban covers items which have a low utility and high littering potential. These are not widely used by large consumer companies and hence will have a limited impact for now. Amongst the banned items, plastic straws which are used with low value packs of juices and beverages (by companies like Dabur 2.5% sales) could see an increase in cost from Rs0.25-0.30 to Rs1-1.25 per unit as they switch to imported paper straws," the analysts said.

Meanwhile, cigarette companies have already migrated to bio-degradable plastic wraps and hence may not witness an incremental impact.

The ban on single-use plastic came into effect despite companies extensively lobbying the government to delay the transition, citing costly alternatives and their lack of easy availability.

Meanwhile, several FMCG companies said they have started production of items with paper straws. Last week companies such as Parle Agro and Dabur India told Mint that were moving ahead with plans to replace plastic straws with those made of paper. Dabur India has commenced production of Real juice packs with integrated paper straws, it said.

However, some companies had also warned of "staggered" supplies of imported paper straws. That's because India has a constraint when it comes to manufacturing of paper straws and as a result companies are relying on imports to meet demand.

The environment ministry formed a task force across all states and Union territories to check the illegal manufacture, import, stocking, distribution, sale and use of banned single-use plastic items.

Analysts at Kotak Institutional Equities added that single-use plastic aside, fast moving companies rely significantly on non-rigid plastic packs especially to package items such as biscuits, instant noodles, tea, detergent powders, shampoos, milk, edible oils, etc.

Any restrictions on those could wreck havoc to company margins, they said.

"We note that price point packs (low unit packs; primarily have plastic packaging) account for about 30% of overall volumes for companies such as HUL and about 50-60% for Britannia. Replacement of plastic with environment-friendly substitutes could increase packaging costs meaningfully especially in case of sachets; thus, any broad-based ban on single use plastic in the medium term could impact volumes as well as profitability of the sector," they added.