

## RECENT DEVELOPMENTS OF INDIAN RURAL MARKET 2016-17

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### Introduction

According to the third annual edition of Accenture Research, “Masters of Rural Markets: From Touch points to Trust points - Winning over India's Aspiring Rural Consumers,” rural consumers are particularly aspiring or striving to purchase branded, high quality products. Consequently, businesses in India are optimistic about growth of the country's rural consumer markets, which is expected to be faster than urban consumer markets. The report highlights the better networking among rural consumers and their tendency to proactively seek information via multitude sources to be better informed while making purchase decisions. Importantly, the wider reach of media and telecommunication services has provided information to India's rural consumers and is influencing their purchase decisions. In line with general trend, rural consumers are evolving towards a broader notion of value provided by products and services which involves aspects of price combined with utility, aesthetics and features, and not just low prices.

The hinterlands in India consist of about 650,000 villages. These villages are inhabited by about 850 million consumers making up for about 70 per cent of population and contributing around half of the country's Gross Domestic Product (GDP). Consumption patterns in these rural areas are gradually changing to increasingly resemble the consumption patterns of urban areas. Some of India's largest consumer companies serve one-third of their consumers from rural India. Owing to a favourable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive investment opportunity for private companies.

### Market size

India's per capita GDP in rural regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025

### Recent Developments

Following are some of the major investments and developments in the Indian rural sector.

- The Ministry of Rural Development is expecting to achieve its annual targeted length of 48,812 kilometers of rural roads by March 31, 2017 under the Pradhan Mantri Gram Sadak Yojana (PMGSY), which has reached a completion stage of 67.53 per cent (32,963 kms) as on January 27, 2017.

- The National Bank for Agriculture and Rural Development (NABARD) plans to provide around 200,000 point-of-sale (PoS) machines in 100,000 villages and distribute RuPay cards to over 34 million farmers across India, to enable farmers to undertake cashless transactions.
- Magma Fincorp, a Kolkata-based non-banking finance company (NBFC) plans to expand its operations in South India, with specific focus on rural and semi-urban markets to help the company grow rapidly.
- The Ministry of Textiles has signed memorandum of understanding (MoU) with 20 e-commerce companies, aimed at providing a platform to artisans and weavers in different handloom and handicraft clusters across the country to help them sell their products directly to the consumer.
- The Ministry of New and Renewable Energy (MNRE) has an annual target of setting up one lakh family size biogas plants to the states and union territories for FY 2016-17.
- Indian Institute of Technology-Madras (IIT-M) has entered into a three-year partnership with Nokia Networks to create technology solutions which will enhance broadband connectivity in rural India.
- The United Economic Forum (UEF), an organisation that works to improve socio-economic status of the minority community in India, has signed a Memorandum of Understanding (MoU) with Indian Overseas Bank (IOB) for financing entrepreneurs from backward communities to set up businesses in Tamil Nadu. As part of the agreement, entrepreneurs who have been chosen by the UEF, will get term loan / working capital requirements from the bank. The UEF will appoint mentors to guide entrepreneurs for successful implementation of the project, with both IOB & UEF periodically monitoring the progress of the project.
- Tata Motors, India's biggest automobile company by revenues, plans to aggressively expand its network with a focus on rural markets. The company is aiming to more than triple its network to 1,500 over the next three years from 460 now, making it the biggest such expansion by a passenger vehicle maker in the country so far.

Rural FMCG market (US\$ billion)



### Rural Segment Quickly Catching Up

- The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is estimated to cross US\$ 100 billion by 2025
- The rural FMCG market is anticipated to expand at a CAGR of 17.41 per cent to US\$ 100 billion during 2009–25
- Rural FMCG market accounts for 40 per cent of the overall FMCG market in India, in revenue terms
- Amongst the leading retailers, Dabur generates over 40-45 per cent of its domestic revenue from rural sales. HUL rural revenue accounts for 45 per cent of its overall sales while other companies earn 30- 35 per cent of their revenues from rural areas

### Government Initiatives

The Government of India has planned various initiatives to provide and improve the infrastructure in rural areas which can have a multiplier effect in increasing movements of goods, services and thereby improve earnings potential of rural areas subsequently improving consumption.

- The Government has introduced various reforms in the Union Budget 2017-18 to uplift the rural markets. Some of the key highlights of the Budget are:
- Rs 187,223 crore (US\$ 28.08 billion) has been allocated towards rural, agriculture and allied sectors.
- The Allocation for Pradhan Mantri Awas Yojana-Gramin has been increased from Rs 15,000 crore (US\$ 2.25 billion) to Rs 23,000 crore (US\$ 3.45 billion) in the year 2017-18 with a target to complete 10 million houses for the houseless by the year 2019.
- The pace of roads construction under Pradhan Mantri Gram Sadak Yojana (PMGSY) has been accelerated to 133 kms per day as against an average of 73 kms per day during the years 2011-14.
- The allocation to the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has been Rs 48,000 crore (US\$ 7.2 billion) in the year 2017-18, which is the highest ever allocated amount.
- The Government of India is looking to install Wi-Fi hotspots at more than 1,000 gram panchayats across India, under its ambitious project called Digital Village, in order to provide internet connectivity for mass use, as well as to enable delivery of services like health and education in far-flung areas.
- In the Union Budget 2017-18, the Government of India mentioned that it is on course to achieve 100 per cent village electrification by May 1, 2018.
- The Government of India has sought Parliament's approval for an additional expenditure of Rs 59,978.29 crore (US\$ 8.9 billion), which will be used to support the government's rural

jobs scheme, building rural infrastructure, urban development and farm insurance.

- The Government of India plans to integrate villages with country's economic mainstream by purchasing around 80,000 mini-buses, which will connect over 125,000 villages to markets and thereby provide access to better job and education prospects.
- Prime Minister Mr Narendra Modi has launched the National Rurban Mission with the aim of enabling cluster based development and creating smart villages which will complement the smart cities initiative.
- The Government of Gujarat plans to undertake several steps to promote micro, small and medium enterprises (MSMEs) in the state, including setting up a separate department for this segment and providing dedicated industrial estates for MSMEs.
- The Union Government plans to build 2.23 lakh km of roads in the rural areas and has proposed a total spending of Rs 27,000 crore (US\$ 4.05 billion) until March 2017.
- E-commerce players like Flipkart, Snapdeal, Infibeam and mobile wallet major Paytm have signed Memoranda of Understanding (MoUs) with the government to reach rural areas by connecting with the government's common service centres (CSCs) being setup in villages as part of the 'Digital India' initiative.
- With the increasing demand for skilled labour, the Indian government plans to train 500 million people by 2022, and is looking out for corporate players and entrepreneurs to help in this venture. Corporate, government, and educational organisations are joining in the effort to train, educate and produce skilled workers.
- The Union Cabinet has cleared the Pradhan Mantri Krishi Sinchae Yojana (PMKSY), with a proposed outlay of Rs 50,000 crore (US\$ 7.5 billion) spread over a period of five years starting from 2015-16. The scheme aims to provide irrigation to every village in India by converging various ongoing irrigation schemes into a single focused irrigation programme. The Government of India aims to spend Rs 75,600 crore (US\$ 11.34 billion) to supply electricity through separate feeders for agricultural and domestic consumption in rural areas. This initiative is aimed at improving the efficiency of electricity distribution and thereby providing uninterrupted power supply to rural regions of India.

### Road Ahead

As is the trend with urban India, consumers in the rural regions are also expected to embrace online purchases over time and drive consumption digitally. The rural regions are already well covered by basic telecommunication services and are now witnessing increasing penetration of computers and smartphones. Taking advantage of these developments, online portals are being viewed as key channels for companies trying to enter and establish themselves in the rural market. The Internet has become a cost-effective means for a company looking to overcome geographical barriers and

broaden its reach.

Market research firm Nielsen expects India's rural FMCG market to reach a size of US\$ 100 billion by 2025. Another report by McKinsey Global Institute forecasts the annual real income per household in rural India to rise to 3.6 per cent 2025, from 2.8 per cent in the last 20 years.

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