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Double whammy inflation hitting FMCG sector with low sales and high input cost

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With the prices of key raw materials touching new highs, FMCG companies registered a 16.2 per cent rise in their cost of raw material within three months ending March even though its sales growth stagnated to mere five per cent, ASSOCHAM Eco Pulse (AEP) stated.

According to AEP on “Inflation hit FMCG sector”, the sales of major FMCG players has been considerably low as the inflation across the commodities has affected the consumer goods segment.

The net sales registered a marginal increase of 5.76 per cent for the period January-March 2008 on sequential quarter basis. FMCG majors Godrej and Marico registered a decline of 0.88 per cent and 8.28 per cent, while HUL and Dabur posted a 15.72 per cent and 16.47 per cent increase in their total income on sequential quarter basis.

The spiraling prices of essential commodities have impacted the companies’ bottom line. The sector witnessed a decline of 15.38 per cent in their net profits on sequential q-o-q basis putting pressures on their volume growth, which grew by only 5.76 per cent in Q4 2007-08. The big dampener, rising input costs of wheat and milk, has shown no sign of relief. Price rise of key inputs in FMCG sector like wheat and milk rose to 1.13 per cent and 9.13 per cent in Q4 from 0.38 per cent and 8.84 per cent in Q3 respectively.

The rise in the prices of fuel and power cost from 0.65 per cent in Q3 to 5.06 per cent in Q4 in 2007-08 have also contributed to the increased input costs.

Company name	Sequential quarter (Q4 over Q3, FY2007-08) comparison of top FMCG companies (in percent)				
	Total Income	Net Profit	Advertisement expenses	Wage cost	Consumption of raw materials
HUL	15.72	-39.67	-215.07	9.8	24.44
Marico	-8.28	-11.1	13.4	18.29	3.58
Dabur India Ltd.	16.47	-5.55	12.62	48.71	28.6
Godrej	-0.88	-5.11	23.26	0.6	8.54

Source: Company results

Despite a 15.7 per cent growth in its total income, HUL reported a decline of 39.41 per cent in its net profit after tax in the fourth quarter as compared to Q3 of the FY 2007-08.

Rising wage costs have also hit the bottom line of the FMCG companies. Net profit margins of Marico and Dabur India Ltd. recorded a decline of -11.1 per cent and -5.55 per cent on sequential quarter basis owing to the rise in their wage costs by 18.29 per cent and 48.71 per cent respectively.

The intense competition in FMCG sector makes advertising as an important expense. Godrej Consumer Products Ltd. (GPCL) has registered a 23.26 per cent increase in the advertising and sales promotion activities on sequential quarter basis. With the increasing input costs and advertising expenses, the company registered a decline of 5.11 per cent in its net earnings.