Headline: GCPL's profit margins rise even as sales growth hits note ban bump

Description: International business provided able support, with reported sales growth of 19%

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Fast moving consumer goods firms seem to have weathered the currency shortage reasonably well. Godrej Consumer Products Ltd's India sales were flat in the December quarter but it said secondary sales were up by 2% in the quarter and the situation is much better in the current quarter. Secondary sales refer to the point where the consumer buys from a retail outlet, primary sales is from the firm to a trade channel, such as a distributor.

Godrej Consumer's consolidated net sales rose by 8.9% over a year ago, which includes its India and overseas businesses. India sales growth was zero but this was also partly due to its soaps business sales growth getting hit due to a withdrawal of promotions and selective price hikes. Firms have hiked prices to pass on higher input costs, especially of palm oil intermediates. Soap sales declined by 6% while those of household insecticides and hair colour fell by 2% each. The company said its brands' volume growth declined by 3% in the quarter, against a 9% growth in the September quarter. Since India contributes to 55% of sales, it pulled down growth.

However, Godrej Consumer's international business provided able support, with reported sales growth of 19% and excluding the effect of currency movements and acquisitions, sales grew by 13%. Africa, Latin America and Europe contributed to growth but Indonesia (one-third of international sales) saw flat sales growth. Unfavourable weather and competition have hit its household insecticide sales in Indonesia, while a soft macroeconomic environment is not helping.

While business growth may have slowed down, that does not appear to have affected its margins. The India business saw Ebitda (earnings before interest, tax, depreciation and amortization) margin rise by 3.3 percentage points over a year ago, while its consolidated margins rose by one percentage point. Some of it can be attributed to the price hikes effected in soaps. The company also pointed to a better product mix, partly due to new products and acquisitions. Input costs rose at a slower pace than sales growth. Godrej Consumer's Ebitda rose by 13.7% but a sharp increase in depreciation, forex losses and higher interest costs led to only a 5% increase in profit after tax but before including exceptional items.

The sizeable jump in margins, reasonable secondary sales growth and improving conditions in the current quarter appear to have caught investors' attention. The share rose by 3.5% on Monday but is still at nearly the same level it was six months ago. An improvement in domestic sales growth, higher sales growth in Indonesia and a more stable situation for emerging markets is what investors will be watching out for. That could give Godrej Consumer the lift in performance that it needs to justify an improvement in valuations; the share already trades at 36 times its FY18 estimated earnings per share, based on analysts polled by Reuters.