



The Fast Moving Consumer Goods (FMCG) sector of Hemas which closed the year with a turnover of Rs 6.6Bn encompasses the key product categories of personal care, personal wash, and home care.

The industry is an extremely dynamic one with growth driven by higher disposable income, new channels and an ever increasing choice of new products for consumers to choose from. Whilst this has contributed to high growth rates in the last few years (especially in rural demand), there is evidence that the prevailing economic climate and increase in cost of living have dampened growth. For the year under review, the industry saw double digit growth, driven by categories like skin care, hair care and feminine hygiene, whilst growth in traditional categories remained in single digits. A key concern for local manufacturers is the availability of spurious products that are not registered under the Cosmetics, Devices & Drugs Authority (CDDA), but, are freely available in cosmetic stores. This impacts our fragrance business in particular, and we hope that authorities will act on representations made to them to assure consumers of quality products, and protect the interests of local manufacturers.

After a challenging first half, where revenue growth was slowing and margins were dipping, the Sector did well to recover and drive momentum with increased brand building activities, which resulted in a year on year revenue growth of 13.7%. Sector profitability was significantly impacted due to the higher prices of imported raw material, in particular distilled fatty acids, the key ingredient in the manufacture of soap, which accounts for a significant portion of FMCG revenues. The impact was partially reversed towards the end of the year with world commodity prices coming off their peak levels. However, this was negated by the unexpected and rapid depreciation of the Sri Lankan rupee which declined by 13% over the two months ending 31st March 2012. Despite this, the sector closed the year with a profit of Rs. 575Mn, a year on year growth of 10.7%.

Baby Cheramy our flagship brand continues to lead the market in the baby care space. During the year the brand increased penetration through a strong advertising and promotions campaign, enabling the growth momentum to continue from the previous year. Whilst the brand did well to increase share in certain segments (especially soap), it has more to do in evolving segments, like Diapers, which are dominated by imported offerings.

Kumarika hair oil was the key driver of revenue growth for the FMCG division during the year with the launch of two new variants. The brand also re-launched its shampoo, offering consumers a unique product on a 'naturals' platform in distinctive modern packaging. These initiatives significantly contributed to revenue growth, with the brand growing twice as fast as the category.

The brand has also achieved a measure of success in the Bangladesh market since its launch in 2007. Encouraged by the positive response we commenced manufacturing the product locally in Bangladesh to further enhance competitiveness.

Clogard our oral care brand consists of toothpaste, toothbrushes and mouthwash. Clogard launched a new multi vitamin variant during the year. Clogard is in continuous partnership with the Sri Lanka Dental Association, the Peradeniya Dental Faculty and other universities, supporting them and involving itself in research and development into dental hygiene.

Diva washing powder sales increased significantly over the year with the introduction of 'Diva Whitening Powder'. The success of brand building and product improvement efforts were evident with the brand crossing the Rs 1Bn sales mark. Diva was recognised at the SLIM (Sri Lanka Institute of Marketing) Brand Excellence Awards 2011, with the Bronze award for "Best New Entrant of the Year".

Fems sanitary napkins was re-launched last year with enhanced quality and product features, which has led to significant gains in market share during the year. Growth in this category remains robust and the company is in the process of developing a long term plan to increase its presence in this market

Velvet toilet soap continued to gain popularity strengthening its position in the adult toilet soap category. The brand has seen continual growth since the re-launch of the product last year and

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closed the year with its sights set on becoming the second largest brand of adult toilet soap. The brand also extended its footprint, launching a liquid hand wash which was well received, especially in modern trade.

Channel focus being a key priority for successful execution, we have begun featuring more of our products in cosmetics outlets and beauty salons as well as strengthening our presence in the modern trade.

Our FMCG sector was awarded in 2011, the Gold award in the manufacturing medium scale segment for excellence in quality at the Sri Lanka National Quality Awards Ceremony, the Quest for Excellence award at the Global Performance Excellence Awards organized by the Asia Pacific Quality Organization and four awards at the SLIM - NASCO (National Sales Congress) Awards.

Evolving consumer needs coupled with the rapid growth of the modern trade present both opportunities and challenges to business growth. We continue to work diligently towards strengthening our existing product portfolio and identifying new opportunities to expand our product offerings. We aim to implement a realignment of the product/brand portfolio within the business whilst relentlessly challenging ourselves to improve product quality in line with consumer expectations. This is expected to result in a suite of brands and products more aligned to the evolving consumer in prospering, post-war Sri Lanka.

