

# Ceylon Cold Stores June profit swells on higher consumer spend amid hyperinflation

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- **Offers evidence of full pass through of escalating costs as margins firmed up**
- **Provides insights into how to navigate to blunt impacts coming from weakening disposable incomes**

Ceylon Cold Stores PLC kicked off what could be a tumultuous earnings season to report some solid top and bottom line performances as galloping inflation which gripped the country since March appears to have driven up what the consumers spend on their staples at stores although what they get in return has become far less.

The consumer foods juggernaut with one of the largest retail chains in the country reported revenues of Rs.30.3 billion for the three months to June 30, 2022, the group's first final quarter, logging a robust 67 percent growth.

The group reported earnings of 97 a share or Rs.919.3 million in the April - June period compared to Rs.111.2 million in the corresponding period last year. The current period profit also includes the first tranche of the Surcharge Tax which was estimated at Rs.249 million.

Ceylon Cold Stores share ended on Friday at Rs.27.30, Rs.1.30 or 5.0 percent higher. The surge in revenues at the group could be attributed to the fast shift in consumer spending to food staples during the three months as they were compelled to cut down heavily on other needs and discretionary items when their purchasing power waned substantially in the face of the worst economic crisis.

Another reason could be the full pass through of the higher costs which resulted in higher shelf prices which grew manifold from the start of March. The group's direct costs rose by 63 percent, slightly below the pace at which its revenue grew in the same period, helping to keep its margins intact. "In responding to the sharp increase in the input costs of raw and packing materials and resultant pressure on margins, the business undertook Maximum Retail Price (MRP) increases in selected SKUs," Ceylon Cold Stores Chairman Krishan Balendra said towards the end of May. Further, despite the interruptions to travel due to the persistent fuel shortage, people managed to make more trips to supermarkets bypassing the grocery stores as they were assured of goods as the big retailers managed to restock the merchandise in their shelves despite challenges they themselves were facing.

"The retail sector is expected to be somewhat insulated from the ongoing macro-economic

challenges, given that essential and household items constitute a large portion of the average consumer basket,” Balendra said in his annual letter to the shareholders. Reflecting the above phenomenon, Keells supermarkets generated revenues of Rs.24.4 billion in the three months, up substantially by 61.6 percent from the same period in 2021. This unit reported a net profit of Rs.398.1 million, rising from Rs.54.4 million a year ago. The group had 128 retail outlets by the end of March, being the third largest supermarket chain operating in Sri Lanka.

Meanwhile, the group’s food and beverage manufacturing division reported revenues of Rs.6.6 billion, more than double the Rs.3.2 billion reported in the same period a year ago. The manufacturer of Elephant House branded carbonated soft drinks, plain and flavoured milk, fruit drinks, energy drinks, water and an expansive array of frozen confectionaries said they expect the short to medium term to become challenging with pressure on margins and people losing disposal incomes in the face of the hyperinflation, dollar shortages which has led to challenges in sourcing ingredients.

As a result and also based on the recent trends witnessed, the group will expand its products in small pack sizes which offer lower price points to respond to the fast decline in consumer affordability. John Keells Holdings PLC has 70.66 percent stake in Ceylon Cold Stores.