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A STUDY ON FINANCIAL PERFORMANCE OF FAST MOVING CONSUMER GOODS INDUSTRIES

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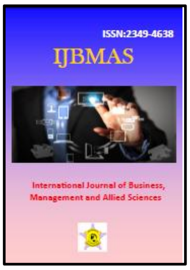

ABSTRACT

The paper focuses on financial performance of fast moving consumer goods. Fast moving consumer goods are generally low profit margin products and therefore sold in large quantities. The ultimate aim of all business is to generate profit. That is what the investors invest for, management plans for and employees execute for. Two companies may be generating the exact same amount of rupee profits; however that does not mean that they are equally profitable. This is because profit is an output measure. And jumping to a conclusion only by looking at the output and not the input that was used to generate the output would not be very prudent. Profitability ratios help in doing the same. This helps them find out how the sales are expected to move in the next quarter. The present study is conducted to analyze the comparative profitability of companies selected through Ratio Analysis and the study reveals that profitability of Colgate Palmolive, Dabur and Marico is satisfactory in some aspects and of Britannia and Godrej not satisfactory in certain aspects. Therefore the companies should put more efforts to strive for improved productivity and optimal utilization of available resources. Profitability in long run contributes to sustained growth of the company.

Keywords: FMCG, Ratio Analysis, Economic Status, Performance Leverage

1. INTRODUCTION

Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (F.M.C.G.). F.M.C.G. products are those that get replaced within a year. Examples of F.M.C.G. generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. F.M.C.G. may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. India's F.M.C.G. sector is the fourth largest sector in the economy and creates employment for more than three million people in downstream activities. Its principal constituents are Household Care, Personal Care and Food & Beverages. The total F.M.C.G. market is in excess of Rs. 85,000 res. It is currently growing at double digit growth rate and is expected to maintain a high growth rate. F.M.C.G. Industry is characterized by a well-established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between the organized and unorganized segments.

The analysis of the financial statements and interpretations of financial results of a particular period of operations with the help of 'ratio' is termed as "ratio analysis." Ratio analysis used to determine the financial soundness of a business concern. Alexander Wall designed a system of ratio analysis and presented it in useful form in the year 1909. The term 'ratio' refers to the mathematical relationship between any two inter-related variables. In other words, it establishes relationship between two items expressed in quantitative form. In financial analysis, ratio is used as an index of yardstick for evaluating the financial position and performance of the firm. It is a technique of analysis and interpretation of financial statements. Ratio analysis helps in making decisions as it helps establishing relationship between various ratios and interpret thereon. Hence this comparative study finds its relevance of undertaking for this endeavour so that we can get to know about the financial and nonfinancial attributes of the statements of the firms considered in this descriptive as well as the inferential study.

2. REVIEW OF LITERATURE

Garg Aarti (2015) in their study assessed that the financial performance of selected companies under FMCG sector from the angle of profitability. He has taken profitability ratios as" cash profit Margin, Net profit margin, Return to net worth and net operating profit ratio". He has taken the different profitability ratios suck as "Cash profit margin, Net profit margin, return to net worth & Net operating profit ratio." By this study, he come to know that there is no significant difference between the sample units lies for Net Profit margin, Net operating profit ratio, cash profit margin during the study period of selected FMCG companies.

Malhotra Shilpy (2014) stated that FMCG are products that are sold quickly and at relatively low cost. As it is a low priced and high volume area to work upon, it became really difficult for sellers to make or increase the profit margin regarding the same. The main reason for this is that due to recession and a need to save money people prefer buying cheaper brands as compared to highly expensive ones. Due to the profit margin being lower than other industries, it becomes really difficult for these FMCG companies to sustain and survive. Brands that take a proactive stance and treat the recession as an opportunity are likely to come out of the recession stronger than before. Though the profit margin made on FMCG products is relatively small, more so for retailers than the producers/suppliers, they are generally sold in large quantities. FMCG is probably the most classic case of low margin/high volume business. Reducing the investments in brand during the time of recession weakens the equity of brands and negatively impacts on shareholder value.

Bagchi Bhaskar & Khamrui Basanta (2012) in their paper, had made an attempt to examine the financial performance of two leading FMCG companies in India – Britannia Industries and Dabur India, FMCG sector in India has been experiencing a phenomenal pace of growth since last decade, thanks to increasing consumer incomes and rapidly changing consumer tastes and preferences. Large scale and low cost production, modern retailing strategies, branding and maintenance of intense distribution network have given FMCGs an edge over others in raising hovering revenues. In this study, we have used various accounting ratios and statistical tools like, linear regression analysis and multiple correlation analysis. The results reveal that though Britannia Industries is passing through hard times in terms of profitability. Another FMCG major Dabur India Limited has marked its presence with significant achievements, and today commands a market leadership status.

Amsaveni.R & Gomathi.S (2013) in their study aims to analyse the fundamental analysis of BSE listed FMCG companies in India with a sample size of six companies for a period from 2006-07 to 2011-12. The objectives of the study are to conduct Fundamental analysis for BSE listed FMCG companies and the SWOT analysis for the FMCG industry. The Economic, Industry and company analysis have been made to attain the objectives of the study. From the Economic analysis, it is found that Gross National Product, Inflation, Interest rates, Exchange rate, Foreign exchange reserves, Agricultural production, Government Receipts and Expenditure has a positive growth rate during the study period. Gross Domestic Product, Gross Domestic Capital Formation, Gross Domestic Savings and Balance of Payments have a negative growth rate during the study period. The realization of the customer's growing interests and the need to meet changing lifestyle required the FMCG producing Companies to formulate customer-centric strategies. These changes have positive Impact, leading to the rapid growth in the FMCG industry. The FMCG industry plays a significant role in shaping a country's economy and development. This sector can Drive growth, enhance quality of life, create jobs and support penetration of Technology. Solvency of liquidity enables the outsiders' like, creditors, investors, Debenture holders and other parties to know the fate of their investment in the firm. For that they try to get the loan repayment capacity of the firm. Liquidity or solvency Position of a firm may be analyzed on the basis of time frame i.e. short term and long term liquidity or solvency.

Mehrotra Shweta (2013) stated that the objectives of WCM are to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short- term debt and upcoming operational expenses. Working capital management is a simple and straightforward concept of ensuring the ability of the firm to fund the difference between the short term assets and short term liabilities. Nevertheless, complete mean and approach preferred to cover all its company's activities related to vendors, customer and product. WC can solve a large portion of the firm's total assets, more than half of a typical firm's total investment is in current assets. In any industrial undertaking the major components of working capital are inventories, sundry debtors, cash and bank balances and loan and advances. Every organization whether public or private, profit oriented or not, irrespective of its size and nature of business, needs adequate amount of working capital.

Adarquah Rosca Serwaah (2013) analyses working capital management and its impact on firm profitability. The results reveal that working capital cycle significantly affects firm profitability negatively. This means that less profitable listed manufacturing firms in Ghana have longer working capital cycle. From the correlation analysis, the study also finds that inventory turnover period, account receivables collection period and account payables payment period each negatively correlates with profitability. Working capital basically refers to short-term resources available to a company for financing its day-to-day activities. Capital is a fundamental part of the overall corporate strategy in creating value for owners He found a negative relationship between gross operating income and number of days receivable, payable and inventories. Despite the findings of these authors, show that a positive relationship exists between cash conversion cycle and statistically positive significant relationship between cash conversion cycle and gross operating profit ratio.

Bagchi Bhaskar, Chakrabarti Jayanta & Roy piyal Basu (2012) conducted a study to find out the relationship between working capital management and profitability in Brazilian listed companies. The objectives of their study were to investigate if there was any difference between corporate profitability and working capital management in two separate groups of companies: working capital intensive and fixed capital intensive; and to identify the variables that most affect profitability. The findings of our study results who found a strong negative relationship between the measures of working capital management with corporate profitability using fixed effect model. Hence, the findings of our study highlights the importance of proficient working capital management to ensure an improvement in firm's profitability and this aspect must form part of the company's strategic and operational thinking in order to operate effectively and efficiently in India's new challenging economic environment.

Paswan Ranjit Kumar (2013) concentrates on the various accounting ratios to analyze the financial performance in terms of solvency of the selected companies. He found that liquidity plays a significant role in the successful functioning of a firm. Illiquidity threatens the very survival of the firm and leads to business failure. On the contrary, a very high degree of liquidity hampers the profitability. He observed that most of the paper producing companies in India has been caught in a vicious down cycle and facing a threat to their viability. It was concluded that the companies should concentrate on their liquidity position, receivables, and payables particularly on working capital. He found that the main objective of the study is to know the liquidity and financial performance of selected FMCG companies in India. Emami and Dabur shows a high Debt Equity ratio, it indicates that there is more investment of loan than equity. Debtors Turnover Ratio of Nestle and Colgate show the efficiency of debt management. But DTR of rest of the companies are unsatisfactory. All the companies under study except Emami and Dabur shows more use of proprietary fund in acquiring total assets.

Bagchi.B & Khamrui.B (2012) investigated the relationship between working capital management and firm profitability and to identify the variables that most affect profitability. Working capital management is considered to be a vital issue in financial management decision and it has its effect on liquidity as well as on profitability of the firm. In this study, we have selected a sample of 10 FMCG (Fast Moving Consumer Goods) companies in India from CMIE database covering a period of 10 years from 2000–01 to 2009–10. Profitability has been measured in terms of return on assets (ROA).Cash conversion cycle (CCC), interest coverage ratio, age of inventory, age of creditors, age of debtors and debt-equity ratio have been used as explanatory variables. Pearson's correlation and pooled ordinary least squares regression analysis are used in the study. The study results confirm that there is a strong negative relationship between variables of the working capital management and profitability of the firm.

3. RESEARCH PROBLEM

The research gap is the problem oriented approach to find the fit for the study to get the solution to the statement of the problem. Here the research gap is that the FMCG sector is either influenced by the explanatory factors or not since a little study has been done for this title. Also the SOP seeks to find the status of the financial performance of the selected FMCG companies in India to reveal the truth of their operational efficiency and the financial cream after the crisis of 2008.

4. RESEARCH OBJECTIVES

- To assess the financial performance of selected companies under FMCG sector from the angle of profitability.
- To compare the profitability of selected companies for the selected period to review their performances.

5. HYPOTHESIS

H0: There is no significant difference between the sample units market size which relies on Net Profit (NP) Margin, Net Operating Profit (NOP) Ratio, Cash Profit Margin, and Return on Net worth Ratio during the study period of selected FMCG Companies.

H1: There is significant difference between the sample units market size which relies on Net Profit (NP) Margin, Net Operating Profit (NOP) Ratio, Cash Profit Margin, and Return on Net worth Ratio during the study period of selected FMCG Companies.

6. RESEARCH METHODOLOGY

The present study is based on descriptive research design as we wish to establish association between share market of FMCG sector firms and various factors hypothesized to be influencing it. Descriptive research method is adopted to gather secondary data on the variables determined. The target population is the **FMCG companies** in India. A sample of 5 companies is selected by **Random sampling technique** keeping in the view the probability proportion. The study is concerned with comparative study of profitability of selected companies from FMCG industry listed in Bombay Stock Exchange. The selected Companies for the study are Colgate Palmolive, Britannia, Dabur, Marico Industries, and Godrej Industries. This study is based on the data obtained from the Annual reports of these companies for 12 financial years (2004 to 2016).The collected data is analyzed with the help of Ratio analysis and descriptive analysis.

Ratio analysis being a primary tool of financial analysis helps in assessing and evaluating financial health of the companies using various types of ratios. Ratio analysis thus provides an overall picture of financial position of the companies to the investors, regulators, stakeholders and analysts who are directly or indirectly interested in the performance evaluation of companies. Ratios help to summaries large quantities of financial data and to make qualitative judgment about the firm's financial performance. Ratios are quantitative or arithmetical expression of the relationship between two numbers. It is used as statistical yardstick to measure and compare the relationship between two variables

Table-1: Net Operating Profit Ratios of selected FMCG Companies

Years	Colgate Palmolive	Britannia Industries	Dabur India	Marico Ltd	Godrej India
2015	17.4	10.75	17.27	14.14	4.89
2014	20.34	8.6	17.69	19.48	8.59
2013	20.96	5.9	17.24	15.91	6.63
2012	20.95	5.07	15.47	13.39	13.34
2011	21.57	4.4	18.04	15.95	12.25
2010	22.93	3.54	18.29	14.77	9.39
2009	18.78	7.47	17.55	9.16	1.75
2008	17.37	8.97	17.17	10.98	13.95
2007	14.19	5.38	15.95	9.94	11.24
2006	15.18	11.71	15.66	9.98	10.75
2005	16.37	13.08	12.96	7.9	9.13
2004	14.22	12.8	9.85	7.43	8.37
Mean	18.355	8.1392	16.095	12.4192	9.19
S.D.	3.0038	3.3606	2.4594	3.7422	3.5336

From Table 1 it is found that Colgate Palmolive is having the highest NOP Margin followed by the Dabur and Marico whereas the risk factor of NOP margin it is found that Marico is having highest risky followed by Godrej and Britannia.

Table-2: Net Profit Margin Ratios of selected FMCG Companies

Years	Colgate Palmolive	Britannia Industries	Dabur India	Marico Ltd	Godrej India
2015	14.03	8.67	14.04	11.64	10.23
2014	14.87	5.83	13.49	14.73	8
2013	15.45	4.12	13.32	12.41	6.45
2012	16.03	3.71	12.17	11.14	13.73
2011	17.34	3.42	14.27	13.29	12.04
2010	20.07	3.38	15.03	11.65	9.22
2009	16.21	5.75	15.44	7.35	2.09
2008	15	7.31	15.06	9.06	14
2007	11.82	4.86	14.41	8.39	10.68
2006	11.79	8.48	14.04	9.4	9.16
2005	11.42	9.25	11.99	7.72	9.59

2004	11.2	8.16	9.26	6.8	8.87
Mean	14.6025	6.0783	13.5433	10.2983	9.505
S.D.	2.7076	2.2123	1.7209	2.5396	3.2133

From Table 2 it is found that Colgate Palmolive having the highest NP Margin followed by the Dabur and Marico whereas the risk factor of NP margin it is found that Godrej is having highest risky followed by Colgate Palmolive and Marico.

Table-3: Cash Profit Margin Ratios of selected FMCG Companies

Years	Colgate Palmolive	Britannia Industries	Dabur India	Marico Ltd	Godrej India
2015	16.75	8.22	15.30	12.44	-1.48
2014	15.78	7.14	14.59	15.91	2.68
2013	18.36	5.13	14.97	12.02	4.07
2012	17.7	4.51	14.9	12.33	10.21
2011	18.54	4.15	15.58	11.75	2.52
2010	21.87	6.65	15.88	13.51	1.85
2009	17.41	5.74	15.97	10.25	-0.8
2008	15.43	7.86	16.16	10.49	10.12
2007	12.94	6	15.67	10.89	6.9
2006	14.49	9.73	15.45	12.17	5.73
2005	13.67	10.43	13.38	8.44	12.31
2004	13.72	9.7	10.71	8.25	11.8
Mean	16.3883	7.105	14.88	11.5375	5.4925
S.D.	2.5717	2.1138	1.5128	2.1042	4.7884

From Table 3 it is found that Colgate Palmolive having the highest CP Margin followed by the Dabur and Marico whereas the risk factor of CP margin it is found that Godrej is having highest risky followed by Colgate Palmolive and Britannia.

Table-4: Return to Net Worth Ratios of selected FMCG Companies

Years	Colgate Palmolive	Britannia Industries	DaburIndia	Marico Ltd	Godrej India
2015	72.56	50.37	32.64	23.26	8.97
2014	79.26	43.33	35.33	29.25	8.34
2013	101.46	36.74	37.05	21.54	5.95
2012	102.54	35.9	37.09	29.94	16.49
2011	104.82	32.19	46.29	36.11	12.36
2010	129.78	29.4	58.04	41.11	8.01
2009	134.17	22.6	51.2	38.64	1.85
2008	142.84	26.07	61.58	51.17	10.32
2007	57.1	17.51	62.52	62.4	20.54
2006	50.76	26.67	42.22	35.65	21.8
2005	45.36	33.54	43.78	33.76	24.84
2004	44.21	27.56	37.65	30.94	25.18
Mean	88.7383	31.8233	45.4492	36.1475	13.7208
S.D.	35.6061	9.01465	10.5523	11.4588	7.8233

From Table 4 it is found that Colgate Palmolive having the highest Return on Net Worth followed by the Dabur and Marico whereas the risk factor of Return on Net Worth it is found that Colgate Palmolive is having highest risky followed by Marico and Dabur.

INFERENTIAL: ANOVA TESTS

NET OPERATING PROFIT RATIO

This ratio measures the efficiency of operations of the company. This ratio is designed to give attention on the net profit margin arising from the business process before tax is deducted. The formula is to express this ratio is profit before tax (PBT) as a percentage of sales.

H0: There is no significant difference between the samples units lies for Net Operating Profit during the study period of selected FMCG Companies.

H1: There is no significant difference between the samples units lies for Net Operating Profit (NOP) Ratio during the study period of selected FMCG Companies.

Table-5

ANOVA	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	842.950	4	210.738	19.225	0.000
Within Groups	548.085	55	10.962		
Total	1391.035	59			

It is found that the sample units lies for Net Operating Profit (NOP) Margin is significant at 5% level of significance ($p<0.05$) which indicates that the Net Operating Profit Margin of selected companies differ significantly. Therefore null hypothesis is rejected.

NET PROFIT MARGIN RATIO

This ratio shows the relationship between net profits to sales. The net profit is overall measures of a firm's ability to turn each rupee of sales into profit. It indicates the efficiency with which a business is managed.

H0: There is no significant difference between the samples units lies for Net Profit Margin during the study period of selected FMCG Companies.

H1: There is no significant difference between the samples units lies for Net Profit Margin Ratio during the study period of selected FMCG Companies.

Table-6

ANOVA	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	538.153	4	134.538	19.722	0.000
Within Groups	341.095	55	6.822		
Total	879.248	59			

It is found that the sample units lies for Net Profit (NP) Margin is significant at 5% level of significance ($p<0.05$) which indicates that the Net Profit Margin of selected companies differs significantly. Therefore null hypothesis is rejected.

CASH PROFIT MARGIN RATIO

The net profits of a firm are affected by the amount/method of depreciation charged. Further, depreciation being non-cash expense, it is better to calculate cash profit ratio. This ratio measures the relationship between cash generated from operations and the net sales.

H0: There is no significant difference between the samples units lies for Cash Profit Margins during the study period of selected FMCG Companies.

H1: There is no significant difference between the samples units lies for Cash Profit Margins Ratio during the study period of selected FMCG Companies.

Table-7

ANOVA	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	645.520	4	161.380	9.875	0.000
Within Groups	817.082	55	16.342		
Total	1462.602	59			

It is found that the sample units lies for Cash Profit (CP) Margin is significant at 5% level of significance (p<0.05) which indicates that the Cash Profit Margin of selected companies differs significantly. Therefore null hypothesis is rejected.

RETURN TO NET WORTH RATIO

Net Profit (After Tax)/Shareholders Capital +Retained Earnings.

This ratio is useful as a measure of how well a company is utilizing the shareholders' investment to create returns for them, and can be used for comparison purposes with competitors in the same industry.

H0: There is no significant difference between the samples units lies for Return on Networth ratio during the study period of selected FMCG Companies.

H1: There is no significant difference between the samples units lies for Return on Networth ratio during the study period of selected FMCG Companies.

Table-8

ANOVA	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	21522.254	4	5380.564	8.909	0 .000
Within Groups	30196.369	55	603.927		
Total	51718.624	59			

It is found that the sample units lies for Return on Net Worth is significantly differ at 5% level of significance (p<0.05) which indicates that the Return on Net Worth of selected companies differs significantly. Therefore null hypothesis is rejected.

7. FINDINGS

- Colgate Palmolive is having the highest Net Operating Profit Margin followed by the Dabur and Marico whereas the risk factor of NOP margin it is found that Marico is having highest risky followed by Godrej and Britannia.
- Colgate Palmolive having the highest Return on Net Worth followed by the Dabur and Marico whereas the risk factor of Return on Net Worth it is found that Colgate Palmolive is having highest risky followed by Marico and Dabur.
- Colgate Palmolive having the highest Cash Profit Margin followed by the Dabur and Marico whereas the risk factor of CP margin it is found that Godrej is having highest risky followed by Colgate Palmolive and Britannia.
- Colgate Palmolive having the highest Net Profit Margin followed by the Dabur and Marico whereas the risk factor of NP margin it is found that Godrej is having highest risky followed by Colgate Palmolive and Marico. Etc.

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