A Study Of Profitability Analysis Of Selected FMCG Companies In India

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Mostly every firm is most apprehensive with its profitability. One of the most frequently used tools of financial ratio analysis is profitability ratios which are used to conclude the company's bottom line and its return to its investors. Profitability measures are important to company promoters and owners similarly. If a small business has outside investors who have put their own money into the company, the promoters certainly have to prove profitability to those investors.

Profitability ratios are considered to evaluate the firm's ability to create income. Analysis of profit is of vital concern to investors because they get revenue in the form of dividends. Profits are also vital to creditors because profit is one resource of funds for liability. Furthermore Management uses profit as a performance appraisal.

FMCG sector in India
Fast Moving Consumer Goods (FMCG) goods are all consumable items (other than groceries/pulses) that one needs to buy at regular intervals. These are items which are used daily, and so have a quick rate of consumption, and a high return. FMCG can broadly be categorized into three segments which are:

1. Household items as soaps, detergents, household accessories, etc,
2. Personal care items as shampoos, toothpaste, shaving products, etc and finally
3. Food and Beverages as snacks, processed foods, tea, coffee, edible oils, soft drinks etc.

Global leaders in the FMCG segment are Nestlé, ITC, Hindustan Unilever Limited, Reckitt Benckiser, Unilever, Procter & Gamble, Coca-Cola, Carlsberg, Kleenex, General Mills, Pepsi, Gillette etc.

The burgeoning middle class Indian population, as well as the rural sector, present a huge potential for this sector. The FMCG sector in India is at present, the fourth largest sector with a total market size in excess of USD 13 billion as of 2012. This sector is expected to grow to a USD 33 billion industry by 2015 and to a whooping USD 100 billion by the year 2025.

This sector is characterized by strong MNC presence and a well established distribution network. In India the easy availability of raw materials as well as cheap labour makes it an ideal destination for this sector. There is also intense competition between the organised and unorganised segments and the fight to keep operational costs low.

Profile of Selected companies for the study
Hindustan Unilever Limited
Hindustan Unilever Ltd was incorporated as Lever Brothers India Ltd in 1922. Two Unilever subsidiaries, Hindustan Vanaspati Manufacturing Company and United Traders, were merged with Lever Brothers India in 1956 and the merged entity was rechristened 'Hindustan Lever Ltd'. In June 2007, the company's name was changed to 'Hindustan Unilever Ltd' to reflect its global identity. Parent, Unilever holds 51.43 per cent equity in the company.

HUL made a host of acquisitions, mostly global, by parent company Unilever. Prominent among them were:

Tata Oil Mills Company was merged with HUL in 1993.

Brooke Bond Lipton India was merged with the company in 1996 after these international tea brands were earlier acquired by its parent company. The merger, also, brought Kothari General Foods, Kissan and Dollops Ice cream business into HUL's fray.

International Best Foods was acquired in 2001 subsequent to the international acquisition of Best Foods, USA by Unilever.

In 2003, HUL acquired the cooked shrimp and pasteurised crabmeat business of the Amalgam Group of Companies.

Colgate Palmolive Limited
Colgate Palmolive India Ltd., a subsidiary of Colgate Palmolive Company, USA was incorporated in 1937. It is a bluechip company engaged in the FMCG business.

The company›s 51 per cent stake is with the promoters, around 26 per cent are with individuals and around 21 per cent is with institutional investors. Currently Mr. Fabian T Gracia is the Chairman of the company.

It primarily manufactures and markets oral care products, which account for around 90 per cent of its revenues. Over the years it has also diversified into personal care and household care products. Its oral care segment includes tooth pastes/brushes/powder and whitening product. It also has a specialised range of dental therapies under the banner of Colgate Oral Pharmaceuticals. Personal care products include shower creme/gel, soaps, liquid hand wash, shave preparations, skin care, talcum powder, hair oils, shampoos etc. Its house-hold care segment has Axion dish washing paste. It markets its products under the brand names Colgate, Palmolive, Halo, Charmis and Axion.

ITC-Agro tech foods
Agro Tech Foods, erstwhile an ITC group company was incorporated in 1986. It was formerly known as ITC Agro-Tech. In 1997, ConAgra a US agro food major acquired 51.3 per cent stake in ITC Agro-Tech though CAG-Tech (Mauritius) Ltd. and renamed it as Agro Tech Foods. Agro Tech Foods is involved in the business of trading, processing as well as marketing of edible oil.

The company sells its refined edible oil under the brand name of Sundrop sunflower oil, which is the flagship brand for the company. It is available in three varieties, namely Sundrop Superlite, Nutrilite and Heart. It also sells Crystal groundnut oil and Real Gold mustard oil. Agro Tech sells unrefined mustard oil under the Sudham brand.

The company has diversified into packaged food product segment under the parent ConAgra's brands - Healthy World

and Act II. Agro Tech has also launched grocery products such as Healthy World Atta and Healthy World Green dried peas.

Objective of the study
The main purpose of the study is to evaluate the profitability of the selected public sector FMCG companies of India.

Methodology of the study
• **Source of the data**
The study is based on the secondary data which are taken from the financial statements of HUL,COLGATE and ITC through prowess from 2008-09 to 2011-2012 to find out the profitability of FMCG companies. For more information different journals, News papers and related Websites are also taken into consideration as and when required for the study.

• **Hypothesis of the study**
➢ The amount of profitability Trend value of PBT as % of total income is the same.
➢ The amount of profitability Trend value of PAT as % of total income is the same.
➢ The amount of profitability Trend value of PAT as % of net worth is the same.
➢ The amount of profitability Trend value of cash profit as % of net worth is the same.

Techniques of Analysis
For the analysis of data various ratios relating to Profitability is considered. Moreover the simple statistical measures like mean and ANOVA Test is also applied for hypothesis testing. For that SS=Sum Of squares, D.F=Degree Of Freedom, MSS=Mean Sum of Squares, F cal=Calculated Value of F. and Ft =critical value of F ratio at 5% level, are calculated and mentioned in the table to draw outcome.

Net Operating Profit Ratio/PBT to Sales
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. This convention is to express (PBT) Profit before tax (PBT) as a percentage of sales.

Net Operating Profit Ratio =PBT/Sales *100
Table-1 PBT to Sales

Year	HUL	Colgate	ITC
2008	15.1	17.8	2.1
2009	13.6	18.5	3.5
2010	15	22.8	5
2011	13.9	21.7	6.3
2012	14.7	20.7	7.1
Total	72.3	101.5	24
Mean	14.46	20.3	4.8
Combined Mean		13.18667	

Table -2 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	612.79	2	306.395		
ESS	36.23	12	3.019167	101.4833	3.88
TSS	649.02				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 101.48 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that Net Operating Profit Ratio for selected companies is not the similar.

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.

Table-3
Net Profit Margin
Ratio =PAT/Sales×100

Year	HUL	Colgate	ITC
2008	12.5	14.1	1.6
2009	11.1	15.6	2.6
2010	11.6	19.9	3.8
2011	10.9	16.6	4.3
2012	11.4	15.6	5.1
Total	57.5	81.8	17.4
Mean	11.5	16.36	3.48
Combined Mean		10.44667	

Table -4 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	423.05	2	211.525		
ESS	28.1	12	2.341667	90.33096	3.88
TSS	451.5				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 90.33 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that Net Profit margin Ratio for selected companies is not the same.

Profit after Tax (PAT) to Net Worth Ratio
This ratio is a very effective measure of the profitability of any firm. This ratio measures the return on the total equity of shareholders Net Worth. This ratio is one of the important tool in financial statement analysis.

Table-5 PAT as % of net worth

Year	HUL	Colgate	ITC
2008	92.5	104.7	15.7
2009	142.7	153.3	17.3
2010	94.8	156.1	17.9
2011	88	113.4	19.4
2012	87.2	109	18.7
Total	505.2	636.5	89
Mean	101.04	127.3	17.8
Combined Mean		82.04667	

Table -6 One Way ANOVA result of selected companiess

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	32681.23	2	16340.62		
ESS	4761.352	12	396.7793	41.18313	3.88
TSS	8029.59				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 41.18 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that PAT to net worth Ratio for selected companies is not the similar.

Cash Profit to Net Worth Ratio
This ratio is effective tool to measure of the profitability after tax. This ratio measures the after tax return on the total equity of shareholders Net Worth.This ratio is also one of the important tool in analysis of shareholders return.

Table-7 cash profit as % of net worth

Year	HUL	Colgate	ITC
2008	97.7	106.1	19.5
2009	151.9	168.1	16.7
2010	100.3	165.9	17.8
2011	98.1	119.4	20.8
2012	93.7	119.1	21.7
Total	541.7	678.6	96.5
Mean	108.34	135.72	19.3
Combined Mean		87.78667	

Table -8 One Way ANOVA result of selected companies

Sources of variance	SS	D.F.	M.S.	F value	F table value
BSS	37052.34	2	18526.17		
ESS	5794.114	12	482.8428	38.36894	3.88
TSS	42846.45				

At 95% confidence level, the critical value obtained from F table is 3.88.The calculated value is 38.36 which is greater than the tabular value and falls in the rejection region. From the above analysis we can say that cash profit to net worth Ratio for selected companies is not the similar.

From the above analysis we can say that there may be a vast difference in net operating profit ratio, net profit ratio, PAT to net worth ratio and cash profit to net worth ratio of selected companies.

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