

PROFITABILITY ANALYSIS OF FMCG SECTOR OF INDIA



Commerce

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ANOVA, Ratio Analysis

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ABSTRACT

The Indian FMCG sector is the fourth largest sector in the economy. FMCG are meant for daily and regular consumption and have a high return. FMCG product categories includes Household products such as soaps, detergents, Personal care products as toothpaste, shampoo, saving cream as well as Food and beverages products as tea, coffee, soft drinks, etc. FMCG sector in India has been experiencing a unique pace of growth since last decade, due to increasing consumer incomes and rapidly changing consumer tastes and preferences. The main purpose of a business unit is to make profit. The profitability analysis is done to know the current operating performance and efficiency of business firms. Every business should earn sufficient profits to survive and grow over a long period of time. The efficiency of a business is measured in terms of profits. Profitability ratios are calculated to measure the efficiency of a business. Profitability of a business may be measured in relation to sales and investment. The present study is conducted to analyze the comparative profitability of companies selected through Ratio Analysis and various statistical techniques such as Mean, Standard Deviation, Coefficient of Variation and ANOVA.

INTRODUCTION:

Profitability ratios measure a company's ability to generate earnings relative to sales, assets and equity. These ratios assess the ability of a company to generate earnings, profits and cash flows relative to some metric, often the amount of money invested. They highlight how effectively the profitability of a company is being managed. The profitability ratios include gross profit margin, net profit margin, return on sales, return on investment, return on equity, return on capital employed. All of these ratios indicate how well a company is performing at generating profits or revenues relative to a certain metric.

Profits are the life blood of any business without which a business cannot remain a going concern. Since the profitability ratios deal with the profits, they are as important as the profits. Profitability ratios are the tools for financial analysis which communicate about the final goal of a business. For all the profit-oriented businesses, the final goal is none other than the profits. The purpose of calculating the profitability ratios is to measure the operating efficiency of a business and returns which the business generates. The different stakeholders of a business are interested in the profitability ratios for different purposes. The stakeholders of a business include owners, management, creditors, lenders etc.

FMCG SECTOR OF INDIA:

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US\$ 13.1 billion. Fast Moving Consumer Goods (FMCG) goods are popularly named as consumer packaged goods. Items in this category include all consumables (other than groceries/pulses) people buy at regular intervals. The most common in the list are toilet soaps, detergents, shampoos, toothpaste, shaving products, shoe polish, packaged foodstuff, and household accessories and extends to certain electronic goods. These items are meant for daily of frequent consumption and have a high return. It has a strong MNC presence and is characterized by a well established distribution network, intense competition between the organized and unorganized segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage. The FMCG market is set to treble from US\$ 11.6 billion in 2003 to US\$ 33.4 billion in 2015.

REVIEW OF LITERATURE:

Kamrui (2012) have conducted the study of two major FMCG players namely ITC & HUL. They have taken in to consideration two

variables i.e. dependent & independent. The experts have done the comparison between the various profitability ratio (as independent variable) and Return on Investment (ROI as dependent variable). The study revealed that both the companies in terms of profitability & liquidity position have a significant impact on profitability. The experts have used the statistical tools like descriptive statistics and linear multiple regression. Descriptive statistics discloses that liquidity position has significant impact on profitability. Multiple regression tests confirm a higher degree of association between the liquidity and profitability.

Ganesan (2012) have done study on two public sector drug & pharmaceutical enterprises namely KALP & RDPL for the period from 1998-99 to 2009 -10. The researchers have used Ratio analysis to analyze the financial performance in terms of liquidity, solvency, profitability & financial efficiency and also various statistical measures like Mean, S.D., C.V. Linear Multiple Regression analysis & t-test. The study revealed that liquidity position was strong in case of both the companies thereby reflecting the ability of the companies to pay short-term obligations on due date. The study also concluded that financial stability ratio in case of both the companies have showed a downward trend.

Korankye (2013) have done study on 6 out of 7 companies listed on Ghana stock exchange namely Aluworks, Cocoa processing company, PZ Cussons, Unilever, Golden Web, Super paper products (now known as African Champion Industries) & Pioneer Kitchenware for the period from 2004 to 2011. The experts have used Ratio analysis and various statistical techniques like Descriptive statistics, Pearson Correlation & Regression Analysis. The study revealed that working capital cycle was negatively associated with firm profitability which indicates that profitable manufacturing firms in Ghana maintain shorter working capital cycle. The study also found that inventory turnover period, account receivables, collection period & account payable payment period each negatively correlated with profitability. The study also revealed that leverage negatively but significantly relates to profitability, interest coverage & the ratio of current to total assets have significantly positive relation with profitability.

Singla (2013) have made an attempt to compare the financial performance of Steel Authority of India (SAIL) and TATA Steel Ltd. For analyzing financial performance of selected units, experts have used analysis of working capital and analysis of profitability. The experts have used Ratio Analysis. The study revealed that

performance of TATA steel Ltd is better than SAIL. The Net Profit of TATA Steel was greater than that of SAIL & also the inventory management of the TATA steel Ltd. is better than that of SAIL.

OBJECTIVES OF THE STUDY:

- To assess the financial performance of selected companies of FMCG sector of India in terms of profitability.
- To compare the profitability of selected companies of FMCG sector of India

RESEARCH METHODOLOGY:

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 Britannia, Dabur, and Marico. This study is based on the secondary data obtained from the Annual reports of these companies for 5 financial years 2012-13 to 2015-16. For more information different Journals and related Websites are also taken into consideration as and when required for the study. The collected data is analyzed with the help of ratio analysis and ANOVA.

HYPOTHESIS:

There is no significant difference between the sample units lies for Operating Profit Margin, Gross Profit Margin, Net Profit Margin, Return on Capital Employed, Return on Net worth and Return on Assets Ratio during the study period of selected FMCG Companies.

INTERPRETATION AND ANALYSIS:

Operating Profit Margin

Operating profit is the excess of operating revenues over operating cost. Operating profit margin ratio is a better indicator of operational efficiency and managerial efficiency than the net profit ratio.

Table: 1(A) Operating Profit Margin

Year	Dabur	Britannia	Marico	Company Average
2011-12	17.47	5.61	13.74	12.27
2012-13	17.34	6.61	15.32	13.09
2013-14	16.95	9.45	15.16	13.85
2014-15	17.27	10.75	14.14	14.05
2015-16	19.10	14.24	17.02	16.79
Mean	17.626	9.332	15.076	14.01
SD	0.85	3.44	1.28	1.86
CV (%)	4.80	36.88	8.46	16.71

Table:2(A) shows, a Gross Profit Ratio is observed in Dabur (16.22), which is more than even industry average. C.V. of Gross Profit Ratio of Dabur (5.65%) and Marico (8.21%), which shows more consistency during the study period because C.V. of company as a whole is 18.22 %.

Table: 2(B) One Way ANOVA of selected companies

Source of Variation	SS	df	MS	F calculated value	P-value	F table value
Between Groups	170.73273	2	85.36866	19.25651	0.00018	3.885294
Within Groups	53.19884	12	4.433237			
Total	223.93162	14				

From the Table :2(B), we can found that F calculated value (Fc) is greater than F table value (Ft) at 2 df and at 5% level of significance. It is found that the sample units lies for Gross Profit Margin is significant at 5% level of significance (p<.05) which indicates that the Gross Profit Margin of selected companies differ significantly. Therefore null hypothesis is rejected.

Net Profit Margin

This ratio measures overall firm's ability to turn each rupee of sales into profit. It indicates efficiency with which a business is managed.

Table: 3(A) Net Profit Margin

Year	Dabur	Britannia	Marico	Company Average
2011-12	12.32	3.75	11.35	9.14
2012-13	13.58	4.16	12.59	10.11
2013-14	13.80	5.86	15.67	11.78
2014-15	14.04	8.67	11.64	11.45
2015-16	16.33	9.42	14.18	13.31
Mean	14.014	6.372	13.086	11.16
SD	1.46	2.58	1.82	1.95
CV (%)	10.38	40.47	13.89	21.58

Table :3(A) shows that Net Profit Margin ratio is more satisfactory in Dabur (14.014) as the ratio is more than the company as a whole. It C.V. of Net Profit Margin ratio of all selected companies except Britannia (40.47%) shows more consistency than the company as a whole (21.58%) during the study period.

Table: 3(B) One Way ANOVA of selected companies

Source of Variation	SS	df	MS	Fcalculated value	P-value	F table value
Between Groups	173.8986	2	86.94929	21.60503	0.000105	3.885294
Within Groups	48.29392	12	4.024493			
Total	222.1925	14				

From the Table :3(B), we can found that F calculated value (Fc) is greater than F table value (Ft) at 2 df and at 5% level of significance. It is found that the sample units lies for Net Profit Margin is significant at 5% level of significance (p<.05) which indicates that the Net Profit Margin of selected companies differ significantly. Therefore null hypothesis is rejected.

Return on Capital Employed

This ratio measures the overall performance of a business from the point of view of profitability. This ratio indicates how well the management has utilized the funds supplied by the owners and creditors. This ratio measures the earning power of the net assets of the business.

Table: 4(A) Return on Capital Employed

Year	Dabur	Britannia	Marico	Company Average
2011-12	40.99	52.98	25.49	39.82
2012-13	41.92	44.39	20.36	35.56
2013-14	45.27	66.20	31.39	47.62
2014-15	40.98	59.82	29.67	43.49
2015-16	41.32	67.10	36.54	48.32
Mean	42.096	58.098	28.69	42.96
SD	1.81	9.54	6.11	5.82
CV (%)	4.31	16.41	21.31	14.01

Table:4(A) shows during the study period, average of the Return on Capital Employed ratio is higher in Britannia (58.098%). The standard deviation of Return on Capital Employed Ratio is high in Britannia (9.54). The coefficient of variation of Return on Capital Employed Ratio of Dabur (4.31%) is below the company average (14.01%), which shows more consistency during the study period.

Table: 4(B) One Way ANOVA of selected companies

Source of Variation	SS	df	MS	F calculated value	P-value	F table value
Between Groups	2167.92	2	1083.96	24.70657	5.56569E-05	3.885294
Within Groups	526.4248	12	43.86873			
Total	2694.117	14				

From the Table :4(B), we can find that F calculated value (Fc) is greater than F table value (Ft) at 2 df and at 5 % level of significance. It is found that the sample units lies for Return on Capital Employed is significant at 5% level of significance (p<.05) which indicates that the Return on Capital Employed of selected companies differ significantly. Therefore null hypothesis is rejected.

Return on Net Worth

This ratio shows relationship between net profit and shareholders' investment. It measures the efficiency with which shareholders funds are employed in the business.

Table: 5(A) Return on Net Worth

Year	Dabur	Britannia	Marico	Company Average
2011-12	35.56	35.90	29.94	33.80
2012-13	37.16	36.74	21.54	31.81
2013-14	35.33	43.33	29.25	35.97
2014-15	32.64	50.37	23.26	35.42
2015-16	32.71	44.05	27.01	34.59
Mean	34.68	42.078	26.2	34.32
SD	1.96	5.93	3.68	3.86
CV (%)	5.66	14.10	14.06	11.27

From the Table :5(A), it becomes clear that Return on Net worth is higher in Britannia. This means Britannia company makes efficient utilization of shareholders fund in to the business. The CV of Return on Net worth of Dabur (5.66%) is less than CV of company as a whole (11.27%), which shows more consistency during the study period.

Table: 5(B) One Way ANOVA of selected companies

Source of Variation	SS	df	MS	F calculated value	P-value	F table value
Between Groups	631.2528	2	315.6264	17.98691	0.000245	3.885294
Within Groups	210.5707	12	17.54756			
Total	841.8235	14				

From the Table : 5(B), we can find that F calculated value (Fc) is greater than F table value (Ft) at 2 df and at 5 % level of significance. It is found that the sample units lies for Return on Net Worth is significant at 5% level of significance (p<.05) which indicates that the Return on Net Worth of selected companies differ significantly. Therefore null hypothesis is rejected.

Return on Assets

Return on Assets measures the profitability and efficiency of an enterprise. Assets generate income. So, it judge the earning of the company in relation to assets. This ratio shows how the assets at the disposal of management of company have been used to generate income.

Table: 6(A) Return on Assets

Year	Dabur	Britannia	Marico	Company Average
2011-12	7.48	43.54	18.28	23.10

2012-13	9.15	53.24	30.89	31.09
2013-14	10.91	71.17	30.6	37.56
2014-15	13.30	103.03	36.32	50.88
2015-16	16.32	141.71	20.13	59.39
Mean	11.43	82.54	27.24	40.40
SD	3.48	40.09	7.71	17.09
CV (%)	30.45	48.57	28.31	35.78

From the Table :6(A) we can say that the average Return on assets ratio is higher in Britannia (82.54%). This ratio indicates that there is efficient utilization of assets in Britannia to generate revenue. CV of Return on Assets of Britannia (48.57%) is more than CV of Return on Assets of company as a whole (35.78%), which shows less consistency during the study period.

Table:6(B) One Way ANOVA of selected companies

Source of Variation	SS	df	MS	F calculated value	P-value	F table value
Between Groups	13939.18	2	6969.591	12.45298	0.001182	3.885294
Within Groups	6716.068	12	559.6724			
Total	20655.25	14				

From the Table :6(B), we can find that F calculated value (Fc) is greater than F table value (Ft) at 2 df and at 5 % level of significance. It is found that the sample units lies for Return on Assets is significant at 5% level of significance (p<.05) which indicates that the Return on Assets of selected companies differ significantly. Therefore null hypothesis is rejected.

CONCLUSION:

It can be concluded from the above ratios that the performance of Dabur and Marico in terms of Operating Profit ratio, Net Profit Margin ratio and Gross Profit ratio showed a very good performance. From the above study, it is also concluded that, in terms of Return on Capital Employed, Return on Net Worth and Return on Assets is concerned, the performance of Britannia is better as compared to Dabur and Marico. There is significant difference between the companies in Operating Profit ratio, Net Profit Margin, Gross Profit Margin, Return on Capital Employed, Return on Net Worth and Return on Assets. The study also reveals that there is efficient and profitable utilization of shareholders fund and assets in to the business in Britannia.

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