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FINANCIAL PERFORMANCE ANALYSIS THROUGH POSITION STATEMENTS OF SELECTED FMCG COMPANIES

Ms. Pooja Sharma[1], Mr. Abhay Grover[2]
1 Assistant Professor, Lovely Professional University, Phagwara, E-mail: poojasharma3010@gmail.com
2 Assistant Professor, Lovely Professional University, Phagwara, E-mail: abhaygrover@yahoo.co.in

Abstract: The appraisal of performance is of great importance for the capitalist firm which is being one of the prime economic institutions of a modern economy. The performance of the company can be judged through its Return or Net profit. The present study attempts to examine impact of various factors such as Net profit Margin, Operating profit ratio, Creditor turnover ratio etc. on the Return on Investment in FMCG Industry. It endeavors to know the Financial Performance of FMCG companies. Based on the results of the study, it is cogently revealed that the overall financial ratios are lead by ITC as it is the company having the most profitable business. The result also implied that only Net profit ratio have great impact on Return on Investment.
Key Words: Financial Performance, Capital Structure Ratios, Profitability Ratios

Introduction

The phrase "performance appraisal is combination of two different words the one being "performance" and other being "appraisal". The word "Performance" is used to mean the efforts extended to achieve the targets efficiently and effectively. The dictionary meaning of performance refers to "achievement". The achievement of target involves proper utilization and allocation of human, financial & natural resources. Appraisal refers to a critical review of the activities for improving performance. It takes into account the actual performance with set standards, and identifies variations and help in taking corrective actions . Performance appraisal is carried out to check if a business organization would lead to profit hence it keeps a check on the organization's profit generating capacity and operational efficiency in certain economic conditions. It's just like a medical examination of an individual, who gets his body checked up regularly to maintain it, and in the same way it's important to have a regular check on business profitability to get a good operating results thus every organization should get periodical checks ups in the form of performance appraisal which helps in taking useful steps during declining period and helps to keep an eye on the affected areas. Whereas in the growth situation it gives an organization the opportunities to further expand and at the same time improve performance. The technique of performance appraisal through financial statements is the widely used for the performance appraisal of a particular organization, as it represent the correct financial position of an organization through profit and loss account and balance sheet. As the profit and loss account of an organization represents the profitability position, on the other hand balance sheet represents the solvency position of an organization. The outcome by analyzing these financial statements is in the form of facts regarding performance, efficiency, profitability position, strength, weakness and financial efficiency. This would not otherwise have ascertained if the appraisal is not done.Heshmati (2009) examined the change in operating and financial performance of Swedish firms that were either partly or fully privatized during the period of 1989-2007. Two different methods are used to empirically investigate the performance of privatized firms. First, accounting data prior to and after the privatization are employed to measure the operating performance of privatized firms. It was found that there is no significant difference between performances under state and private ownerships. Second, a return-based event study was found useful to measure the financial performance of privatized firms, since all the firms in the sample that were privatized have used an initial public offering (IPO). This approach allows comparison to the rest of the IPOs that were launched in the same period. It was found that the

cumulative returns for the privatized firms are significantly different to private counterparts. Overall results, however, showed that the privatization in Sweden was not as successful as it might have been expected and in comparison with those in other countries.Sangmi (2010) made an attempt to evaluate the financial performance of the two major banks operating in northern India .This evaluation has been done by using CAMEL Parameters, the latest model of financial analysis. Through this model, it was highlighted that the position of the banks under study was sound and satisfactory so far as their capital adequacy, asset quality, Management capability and liquidity was concerned.Malik (2011) investigated the determinants of profitability in insurance companies of Pakistan. The study examined the effects of firm specific factors (age of company, size of company, volume of capital, leverage ratio and loss ratio) on ROA. A key indicator of insurance companies profitability is return on assets (ROA), defined as the before tax profit divide by total assets (TA). Profitability was dependant variable while age of company, size of company, volume of capital, leverage and loss ratio) are independent variables. The sample in this study included 35 listed life and non-life insurance companies which cover the period of 2005-2009. Secondary data obtained from the financial statements (Balance sheet and Profit/Loss account) of insurance companies, financial publications of State Bank of Pakistan and Insurance Year Book that was published by Insurance association of Pakistan (IAP). The findings showed that there is no relationship between profitability and age of the company and there is significantly positive association between size of the company and profitability. The result also showed that the volume of capital is significantly and positively related to profitability. Loss ratio and leverage ratio showed negative but significant relationship with profitability.Bagchi and Khamrui (2012) examined the financial performance of two leading FMCG companies in India – Britannia Industries and Dabur India, over a period of ten years (2000-01 to 2009-10). FMCG sector in India has been experiencing a phenomenal pace of growth since last decade. 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, various accounting ratios and statistical tools like, linear regression analysis and multiple correlation analysis were used. The results revealed that though Britannia Industries was passing through hard times in terms of profitability, Dabur India was enjoying its enhanced performance and continuous growth in the sector.Aspal and Malhotra (2013) evaluated the financial performance of Indian public sector banks excluding State Bank Group for the period of 2007-11. The study found that Bank of Baroda was at the first position with overall composite ranking average of 6.05 due to its better performance in the areas of liquidity and asset quality, closely followed by Andhra Bank with average of 6.15 because of its strength in the spheres of management efficiency, capital adequacy and asset quality. United Bank of India holds the bottom most rank with average of 14.60 due to management inefficiency, poor assets and earning quality. The study recommends that United Bank of India has to improve its management efficiency, assets and earning quality. Similarly Bank of Maharashtra should improve its liquidity position and management efficiency.Ranjit (2013) made an attempt to know the solvency position of selected FMCG companies in India. The data collected from the annual reports from 2005-06 to 2010-11 from the selected six FMCG companies in India. The study analyzed the financial performance in terms of solvency of the selected companies. The statistical tools like Average, Standard Deviation and Co-efficient of variation have been applied. ITC, Emami, Dabur and Colgate have been able to repay its debt during the study. The result of 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 showed the efficiency of debt management. But DTR of rest of the companies are unsatisfactory. All the companies under study except Emami and Dabur showed more use of proprietary fund in acquiring total assets. Debt to Total Assets ratio of Emami and Dabur showed that more assets of the company were financed through debt.

NEED OF STUDY. The performance of the company can be judged through its Return or Net profit. There is rich literature providing useful insights to earnings related issues of Indian industry but very few researchers have made efforts to measure financial performance of FMCG sector. The studies done earlier mainly focused on performance measured by ratios in FMCG Industry but hardly any study was there which showed the impact of various factors on return on investment in FMCG sector. Therefore, this study attempted to examine various factors which have significant effect on the return on investment in FMCG Industry. Thus the basic need of this study is to fill the gap that earlier existed and was not taken into account.

RESEARCH OBJECTIVES

1) To study the profitability and financial position of selected FMCG companies

2) To study the impact of various factors such as Net profit Margin, Operating profit ratio, Creditor turnover ratio etc. on Return on Investment.

HYPOTHESIS
H0: There is no significant impact of various factors on Return on Investment of selected FMCG companies

RESEARCH METHODOLOGY

The present study is based on secondary data. The data has been collected from capitaline, a database by Capital Markets. Indian companies considered for this study are listed on NSE (National Stock Exchange) as on 31st March 2014. The sample size consists of top 5 FMCG companies as per NSE weightage or ratings. The study used the data for a period of 5 years from 2009-2013. Step-wise regression technique was used to calculate the significance of each independent variable in predicting or explaining the dependent variable. The calculated ratios were analyzed by using trend analysis technique. The graphs or charts were also used as per requirement for analysis purpose.

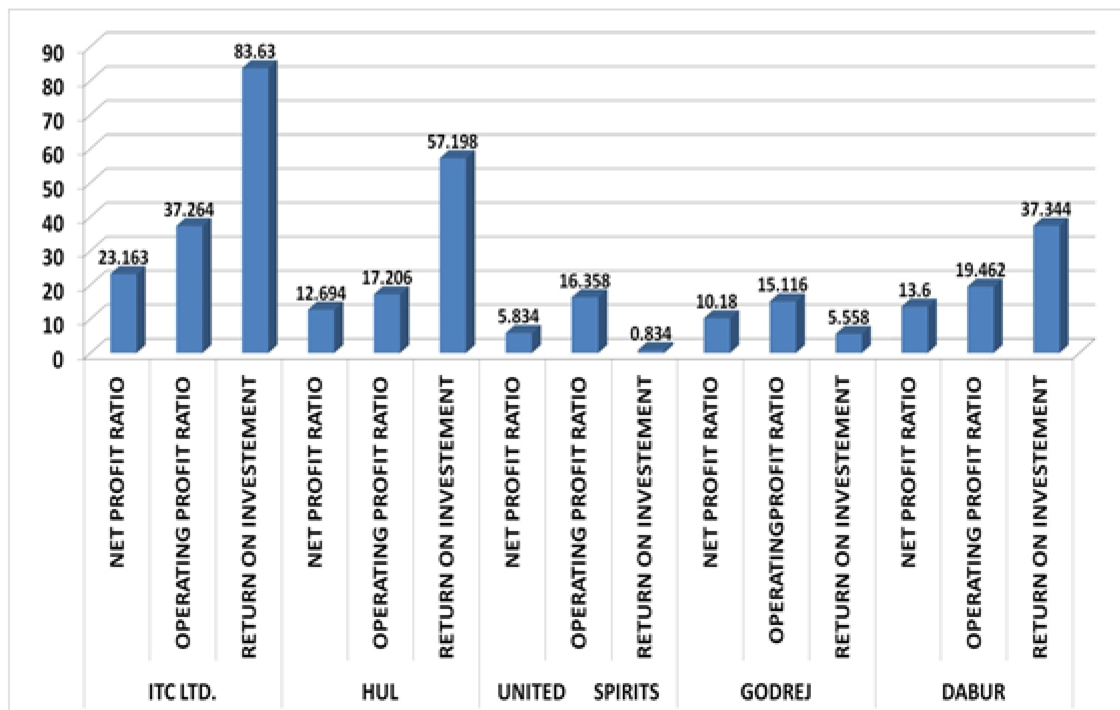
FINDINGS & RECOMMENDATIONS

The study aims to examine the impact of various factors on Return on Investment of selected FMCG companies in India. The hypothesis was tested using Multiple Regression Analysis at 5% level of significance.
I.) PROFITABILITY ANALYSIS OF SELECTED COMPANIES
In the present study, the following ratios have been selected for analyzing profitability of selected companies.
NET PROFIT RATIO (NPR) = (NET PROFIT/SALES) * 100
OPERATING PROFIT RATIO = (COST OF GOODS SOLD + OPERATING EXPENSES) / NET SALES * 100
RETURN ON INVESTMENT (ROI) = NET PROFIT BEFORE INTEREST AND TAXES/CAPITAL EMPLOYED)
The calculated ratios of selected five companies are shown in the following table

COMPANIES	RATIOS	2009	2010	2011	2012	2013	AVERAGE
ITC LTD.	NET PROFIT RATIO	20.90	22.37	23.24	24.50	24.80	23.162
	OPERATING PROFIT RATIO	34.73	36.98	37.33	38.54	38.74	37.264
	RETURN ON INVESTEMENT	52.05	97	93.22	89	86.88	83.63
HUL	NET PROFIT RATIO	12.35	12.58	11.68	12.16	14.7	12.694
	OPERATING PROFIT RATIO	15.94	17.2	16	16.67	20.22	17.206
	RETURN ON INVESTEMENT	65.46	54.43	47.35	43.22	75.53	57.198
UNITED SPIRITS	NET PROFIT RATIO	7.25	7.62	6.05	4.52	3.73	5.834
	OPERATING PROFIT RATIO	16.99	18.18	17.22	15.29	14.11	16.358
	RETURN ON INVESTEMENT	3.17	1.73	0.82	-0.56	-0.99	0.834
GODREJ	NET PROFIT RATIO	8.46	10.06	9.93	14.64	7.81	10.18
	OPERATINGPROFIT RATIO	13.77	15.71	14.64	19.61	11.85	15.116
	RETURN ON INVESTEMENT	4.42	4.54	4.47	10.1	4.26	5.558
DABUR	NET PROFIT RATIO	14	14	14	13	13	13.6
	OPERATING PROFIT RATIO	19.48	20.04	20.7	17.75	19.34	19.462
	RETURN ON	40.7	49.17	34.05	31.25	31.52	37.344

	INVESTEMENT	3					

Figure 1
COMPARATIVE ANALYSIS OF PROFITABILITY RATIOS OF SELECTED FMCG COMPANIES



Net Profit ratio (NPR) shows the relationship between net profit and sales. Higher the ratio exhibits the better profitability position of the enterprise. The above graph shows that the ITC Company is having highest NPR and Operating profit ratios amongst all other companies. The higher ratio indicates the efficiency of management in manufacturing, selling, administrative and other activities of the firm. It also implied that the capacity of ITC is high to face the adverse economic conditions such as price competition, Low demand etc. ITC ltd. is having highest return on investment in comparison to rest of the companies. This ratio is one of the most important ratios used for measuring the overall efficiency of a firm. As the primary objective of the company is to increase its earnings, this ratio indicates the extent to which the company is able to achieve its objective. The high ratio of ITC ltd. indicates the higher return to shareholders. This ratio is of great importance for present and prospective shareholders as well as management of the company. Therefore, it is suggested that the investors can invest into ITC ltd. as it provides maximum return to shareholders.

II.) ANALYSIS OF FINANCIAL POSITION OF SELECTED COMPANIES

The financial position can be analyzed with the help of capital structure or solvency ratios. The various ratios are calculated for the last five years to judge its long term solvency.

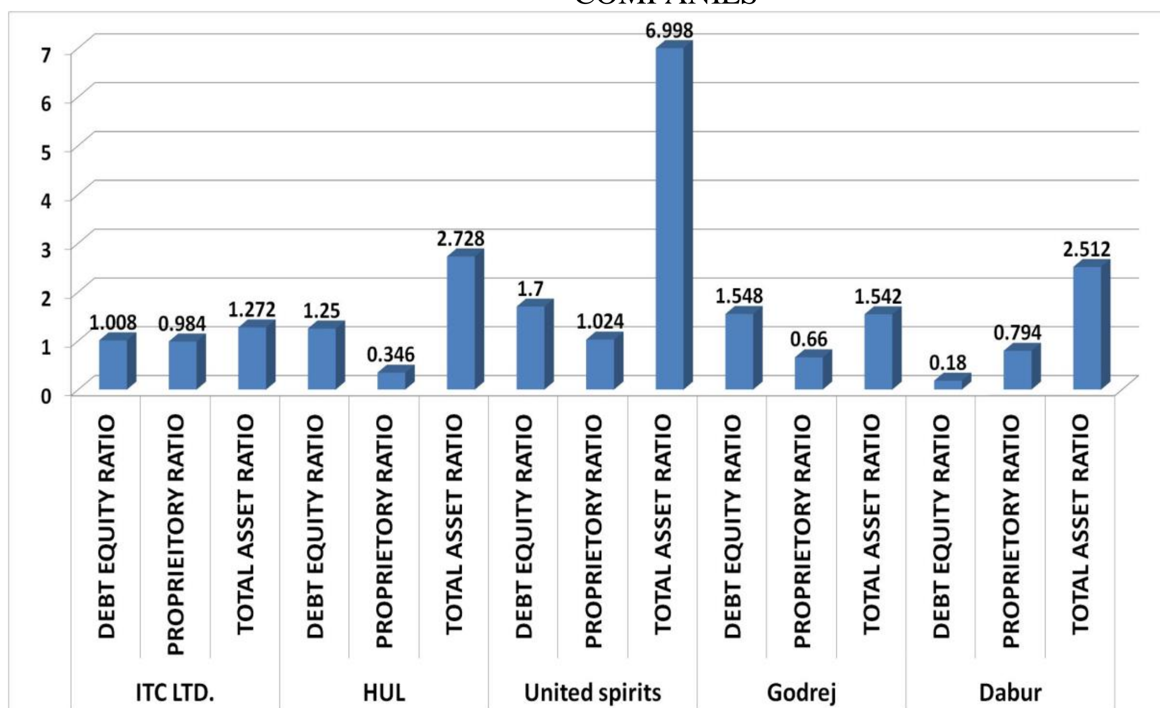
TABLE 2
CAPITAL STRUCTURE RATIOS OF SELECTED FMCG COMPANIES

COMPANIES	RATIOS	2009	2010	2011	2012	2013	AVERAGE
ITC LTD.	DEBT EQUITY RATIO	1.01	1.00	1.01	1.01	1.00	1.008
	PROPRIEITORY RATIO	0.98	0.99	0.98	0.98	0.99	0.984
	TOTAL ASSET RATIO	1.12	1.28	1.32	1.32	1.32	1.272
	DEBT EQUITY RATIO	1.20	1	1.33	1.28	1.44	1.25

HUL	PROPRIETORY RATIO	0.28	0.34	0.33	0.45	0.33	0.346
	TOTAL ASSET RATIO	2.80	2.32	2.46	2.87	3.19	2.728
United spirits	DEBT EQUITY RATIO	1.63	1.73	1.71	1.73	1.70	1.7
	PROPRIETORY RATIO	0.79	0.58	1.34	1.17	1.24	1.024
	TOTAL ASSET RATIO	6.90	6.97	6.98	6.73	7.41	6.998
Godrej	DEBT EQUITY RATIO	1.75	1.65	1.84	1.27	1.23	1.548
	PROPRIETORY RATIO	0.41	0.46	0.51	0.91	1.01	0.66
	TOTAL ASSET RATIO	1.26	1.06	1.14	2.10	2.15	1.542
Dabur	DEBT EQUITY RATIO	0.13	0.17	0.2	0.22	0.18	0.18
	PROPRIETORY RATIO	0.82	0.86	0.64	0.8	0.85	0.794
	TOTAL ASSET RATIO	2.72	3.32	1.89	2.32	2.31	2.512

Figure 7

COMPARATIVE ANALYSIS OF CAPITAL STRUCTURE RATIOS OF SELECTED FMCG COMPANIES



Total asset ratio is the relationship between turnover (i.e. sales) and total assets of an enterprise. The above graph shows that UNITED SPIRITS Company is having highest total asset ratio, debt-equity ratio and proprietary ratio amongst all the companies. It indicates that the company has utilized a large amount of total assets for operating activities and more of its assets are funded by its own capital or proprietors fund. Debt-equity ratio expresses that the own capital and debt capital invested in the business. From the above graph it is interpreted that UNITED SPIRITS Company is using more of debt than capital in their business in comparison with all other companies. So, it is risky for the investors to invest in this company.

III.) Impact of Various factors (Net profit Margin, Operating profit, Capital structure, Creditor turnover ratio etc.) on Return on Investment

The Impact of key factors on Return on Investment is analyzed with the help of Regression Analysis. We took Return on Investment as dependent variable and Net profit (NP), Operating profit ratio, Creditor turnover ratio (CTR) etc. as independent variable. As there is variation in the calculated data, we applied LOG to remove such variation and then we applied step-wise regression techniques with the help of SPSS. Therefore the regression equation is formed as:

$$Y = a + b1X1 + b2\,X2 + b3\,X3 + b4\,X4 + b5\,X5 + b6\,X6 + b7\,X7 + E$$

Where, Y = Return on Investment (ROI); X1 = Net profit ratio (NPR); X2 = Debt Equity ratio (Capital structure); X3= Creditor Turnover Ratio (CTR); X4= Operating profit ratio; X5= Proprietary ratio; X6= Total Asset Ratio; X7 = Debtor turnover ratio (DTR); E = Error; a = Intercept; b1, b2 = Regression Co-efficient

Table 3

REGRESSION ANALYSIS

Model	R	R Square	Adjusted R^2	Std. Error	F- Test	p-value
Regression	.925	.855	.807	.36832493	17.729	.024*

*Significant at $p<0.05$

a. Predictors: (Constant), NP

b. Dependent Variable: ROI

Table 4

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-2.659	.927	-	-2.867	.064
NPR	3.575	.849	.925	4.211	.024*

a. Dependent Variable: ROI

Table 5

Excluded Variables

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Debt Equity ratio	-.139[a]	-.513	.659	-.341	.873
	CTR	-.047[a]	-.176	.876	-.124	.989
	Operating profit ratio	-.412[a]	-1.166	.364	-.636	.345
	Proprietary ratio	-.313[a]	-2.023	.180	-.820	.995
	Total Asset Ratio	.258[a]	.573	.624	.376	.307
	DTR	.365[a]	1.568	.257	.743	.599

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.659	.927	-	-2.867	.064
	NPR	3.575	.849	.925	4.211	.024*

a. Predictors in the Model: (Constant), NPR

The above analysis shows that only net profit ratio have an impact on Return on Investment. As the significant value is less than 0.05, therefore our null hypothesis is rejected for net profit that there is no significant effect of net profit on Return on Investment. The overall model is significant as the p- value is 0.024. The value of R is 0.925 which shows high positive relationship between Independent variable and dependent variable i.e. NPR. The value of R2 is 0.855 which indicates that the 85.5% of variance is explained by these factors. It implied that approximately 14% variance will be explained by the rest of the factors which we have not considered in the present study due to the major limitation of less time. The above table shows the result that only Net profit ratio have great impact on Return on Investment, as the p- value of Dividend (0.024) which is significant at 5% level of significance. But other factors do not have any impact on ROI. Due to complexity of inter-correlations, the variance explained by certain variables will change when new variables enter into equation. Therefore, the step-wise regression technique removes weakened variables.

Debt Equity ratios, CTR, Operating profit ratio, Proprietary ratio, Total Asset Ratio, DTR are weakened variables. Hence these factors are removed from the equation. As the significant value is more than 0.05, therefore our null hypothesis is accepted that there is no significant effect of Debt Equity ratios, CTR, Operating profit ratio, Proprietary ratio, Total Asset Ratio, DTR on Return on Investment.

CONCLUSION

The operating profit ratio of ITC is the highest among all the companies which shows that ITC has got a good performance as the as net profit is considered while on the other hand Godrej has the lowest operating profit ratio furthermore these ratios have a great impact on the shareholders decision as the higher the operating profit the higher will be the shareholders interest to invest in the company hence the company ITC will have edge over the other companies. The companies apart from ITC have to improve in all spheres and have to frame good policies as regards to different factors which shape the performance and financial position of the company. The result also implied that only Net profit ratio have great impact on Return on Investment, as the p- value which is significant at 5% level of significance. But other factors do not have any impact on ROI.

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