International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN : 2581-7930, Impact Factor : 5.880 , Volume 04, No. 01, January - March, 2021, pp 151-156

MEASURING FINANCIAL PERFORMANCE OF SELECTED FAST MOVING CONSUMER GOODS COMPANIES IN INDIA

Alka Khatri*
Dr. Ashok Agarwal**

ABSTRACT

Financial performance measures a firm's overall financial health over a given time frame and can also be used to examine comparable performance companies operating across the same industry. The fast-moving consumer goods (FMCG) segment is one of the largest sectors within the Indian economy. FMCG companies in India have been a strong presence with an exceptional pace of boom during the last two decades. The reason behind is the growing client incomes and rapid change in consumer tastes and preferences. Large scale production, modern retailing policies, branding, and distribution network have provided FMCGs an edge over others in raising profits. However, the presence of MNCs in the Indian market created a threat to domestic companies in the FMCG sector. Liquidity ratios are used to determine a company's ability to meet its short-term debt obligations. The present paper collects financial indicators for select FMCG Companies in India like Hindustan Unilever Ltd, Britannia Industries Ltd., Nestlé India, Amul and P&G for period of year 2016 to 2020. The study is based on the secondary data collected and Regression analysis is used to investigate the factors associated with Liquidity. The findings of the research assist company to reveal trends in short-term and long-term financial components that predict the liquidity in selected FMGC companies.

Keywords: *Financial Performance, FMCG Companies, Indian Economy, Regression ANALYSIS.*

Introduction

Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy with Household and Personal Care accounting for 50 per cent of FMCG sales in India. This industry covers household products, counter drugs, clothing, personal care, stationery and consumer electronics, etc. The fast-moving consumer goods (FMCG) market is India's fourth largest sector and has generated jobs for more than three million citizens. Increasing awareness, better connectivity and changing habits have become main drivers of development for the business. The urban segment (revenue share of about 55%) is the largest contributor to the overall revenue produced by the FMCG sector in India However, over the last few years, the FMCG market has expanded faster in rural India than in urban India. Semi-urban and rural segments are increasing at a fast rate, with FMCG goods responsible for 50% of overall rural expenditure. Fast-moving consumer products (FMCG) is the fourth largest industry in the Indian economy. There are three major divisions of the industry – food and beverage, accounting for 19 per cent of the sector; health care, accounting for 31 per cent of the share; and household and personal care, accounting for the remaining 50 per cent. The FMCG demand is projected to rise by 9-10 per cent in 2020. The urban segment of FMCG increased by 8 per cent, while its rural segment increased by 5 per cent in the quarter ended September 2019, backed by modest inflation, increased private consumption and rural wages.

With a market share of about 45 per cent, the rural segment is a major contributor to the overall revenue produced by the FMCG sector in India. Demand for premium products and services in rural areas has been on the basis of enhanced delivery systems for manufacturing and FMCG businesses. The urban segment had a market share of 55 per cent of the total revenue recorded by the FMCG sector in India.

* Research Scholar, Department of A.B.S.T., University of Rajasthan, Jaipur, Rajasthan, India.
** Associate Professor, Department of A.B.S.T., University of Rajasthan, Jaipur, Rajasthan, India.

India is a major destination for the FMCG market. And more than 100 of the country's population relies on FMCG companies to fulfill everyday requirements. Essentially, FMCG businesses run the company across a large distribution network. And the variety of fast-moving consumer goods often allows to get sales easily. Increasing awareness, better connectivity and changing lifestyles are main drivers of success for the customer sector. The emphasis on agriculture, small and medium-sized enterprises, education, health care, infrastructure and tax rebates under the Union budget 2019-20 was supposed to have a direct effect on the FMCG economy. Initiatives to increase disposable income in the hands of the common man, particularly in rural areas, would be of benefit to the sector. The phenomenal growth of the FMCG industry, especially in Tier II and III cities in India, is mainly attributable to an improvement in the standard of living of the citizens of these cities and an increase in the level of disposable income. Over the last few years, companies such as Dabur, HUL and ITC have managed to transform the face of the FMCG industry in India by utilizing state-of-the-art manufacturing technologies and a very powerful distribution chain. Companies like Colgate Palmolive and Britannia have even managed to reach the metropolitan areas of the world.

Large-scale development, new retail policies, branding and delivery networks have given FMCGs a benefit over others in raising revenues. However, the emergence of MNCs on the Indian market has created a challenge to domestic companies in the FMCG field. Liquidity levels are used to assess the willingness of a business to satisfy its short-term debt obligations. Financial success relates to the act of carrying out financial operations. This paper gathers financial metrics for selected FMCG companies in India such as Hindustan Unilever Ltd, Britannia Industries Ltd., Nestlé India, Colgate-Palmolive and P&G for the period 2016 to 2020.

Literature Review

Before joining the empirical analysis, a brief glance at the current literature on the financial success of FMCG firms appears advisable. The following section offers a rather brief description of some of the significant studies that have been carried out so far in India on this topic. Mallik and Sur (1999) carried out a report on the control of working capital by Hindustan Lever Ltd – a well-known FMCG corporation from 1987 to 1996. The analysis revealed a very high degree of positive relationship between liquidity and profitability with the aid of relevant statistical techniques and studies. Oh, Chakraborty, K. And Sur (2015) carried out a case study with Colgate-Palmolive (India) Ltd. – a leading FMCG corporation in the Indian healthcare industry for the period 1980 to 2003-04 to examine the performance of its asset management. For the analysis of the results, a ratio analysis method, basic statistical methods such as arithmetic mean and statistical techniques such as Kendall's coefficient of concordance analysis, multiple regression analysis and multiple correlation analysis were used. The study showed that the organization struggled to respond to the demanding and dynamic climate by reducing the quality of its asset management during the post-liberalization period.

Aguiar and Reddy (2017) looked at the effect of the issuance of dividends on the market price of the selected FMCG firms. For convenience sampling, the researcher picked four companies such as ITC Ltd, Godrej Consumer Goods Ltd., Procter & Gamble and HUL. The report concluded that the FMCG industry demonstrated a rising trend in stock prices following the announcement of dividend according to the trend review. Amalendu et al. (2012) looked at the effect of liquidity on the profitability of FMCG firms in India. The FMCG industry has emerged as one of the main sectors of the Indian economy by recording an astonishing double-digit rise in revenue over the last few years. The analysis was focused on secondary data obtained from the 2001 to 2010 CMIE database. Pasupathi (2013) observed that working capital influences profitability. It analyzed the estimation of the correlation coefficient and the regression between the ratio of profitability and the ratio of working capital. Biswas et al. (2015) indicated that there was an immediate need to significantly increase the technical standard of Indian food production: collection, storage/preservation, transport, and primary technology upgrades.

Sahu (2002) noticed that liquidity plays a major role in the efficient running of the business. Illiquidity challenges the very life of the organization and contributes to corporate collapse. On the opposite, a very large amount of liquidity hinders profitability. He stated that most paper-producing firms in India have been trapped in a brutal slump and are at risk of profitability. Bhunia, (2010), noted that the liquidity situation in both companies was high, thus indicating the willingness of companies to depend more on foreign funds in terms of long-term borrowing, thus offering a lower level of security for creditors. Marimuthu (2012) observed that the sampled firms had strong results in the present and rapid ratio, except for the interest coverage ratio. It was decided that businesses could focus on their liquidity status, their receivables, and their payables, in particular on working capital. Saleem and Rehman (2011) published another report for the financial year 2004 to 2009 on selected oil and gas firms listed on the Karachi Stock Exchange. They examined the viability of ROA, ROI, and ROE, as well as the liquidity ratios, the existing fast ratio and the liquid ratio, and noticed that ROA and ROI were greatly impacted by the liquidity ratios.

Based on the above literatures, it is found that earlier literature did not focused on detail liquidity analysis (aggregate as well as component wise) of Indian FMCG companies and liquidity and profitability relationship is a controversial issue; it is difficult to generalize the results because each industry has its own rules and regulations. In this context, it makes sense to look at how liquidity affect on profitability of selected Indian FMCG companies.

Research Methodology

The present paper collects financial indicators for select FMCG Companies in India like Hindustan Unilever Ltd, Britannia Industries Ltd., Nestlé India, Amul and P&G for period of year 2016 to 2020. The study is based on the secondary data collected and Regression analysis is used to investigate the factors associated with Liquidity. HUL is one of India’s oldest FMCG companies. It is a subsidiary of Unilever, a British-Dutch company. HUL has served over 2 billion customers for over 87 years. HUL has over 35 brands across 20 categories. Britannia Industries is one of the oldest food-producing companies in the country. It was established in 1892 in Kolkata with an initial investment of merely Rs. 295. Their products are available in more than 5 million retail outlets. Colgate-Palmolive (India) Limited is India’s leading provider of scientifically proven oral care products. The range includes toothpastes, toothpowder, toothbrushes, and mouthwashes under the ’Colgate’ brand. Procter & Gamble, also known as P&G, is the biggest consumer goods company in the world. It mainly manufactures laundry and cleaning supply products as well as products in the cosmetics and personal care sector. Nestle is a transnational food and beverage company headquartered in Switzerland. In India, Nestle dates back to 1912 when it began operations. Nestle sells a plethora of products including beverages, bottled water, milkshakes, breakfast cereals, instant foods, performance, and health care nutrition, etc.

Result

The data for the study is gathered from the 5 FMCG companies, named HUL, P&G, Nestle, Britannia and Colgate. The data than presented for the purpose of analysis in comparative form with their mean, standard deviation, and coefficient of variation in table 1 and table 2 for liquidity and profitability ratios as under:

Table 1: Liquidity Ratios

Current Ratio (%)						Quick Ratio (%)						Inventory Turnover Ratio (times)					
	HUL	**P&G**	**Nestle**	**Britannia**	**Colgate**		**HUL**	**P&G**	**Nestle**	**Britannia**	**Colgate**		**HUL**	**P&G**	**Nestle**	**Britannia**	**Colgate**
2016	1.46	2.51	1.68	1.3	0.93	**2016**	1.08	2.32	1.12	0.97	0.58	**2016**	12.29	19.49	9.96	20.7	14.22
2017	1.32	1.04	2.01	1.74	0.87	**2017**	0.99	0.73	1.43	1.25	0.57	**2017**	13.5	13.08	9.78	13.96	13.61
2018	1.31	1.54	2.64	1.91	1.08	**2018**	1.03	1.33	2.03	1.52	0.85	**2018**	14.64	19.86	11.09	15.65	18.47
2019	1.37	1.66	2.55	1.9	0.96	**2019**	1.08	1.35	2.03	1.48	0.72	**2019**	15.78	14.49	11.7	14.58	17.95
2020	1.32	2.23	1.78	1.43	1.16	**2020**	1.03	1.89	1.18	1.14	0.82	**2020**	14.71	14.64	9.64	17.34	15.24
Mean	**1.36**	**1.80**	**2.13**	**1.66**	**1.00**	**Mean**	**1.04**	**1.52**	**1.56**	**1.27**	**0.71**	**Mean**	**14.18**	**16.31**	**10.43**	**16.45**	**15.90**
SD	**0.06**	**0.58**	**0.44**	**0.28**	**0.12**	**SD**	**0.04**	**0.61**	**0.45**	**0.23**	**0.13**	**SD**	**1.33**	**3.13**	**0.91**	**2.70**	**2.20**
CV	**4.62**	**32.39**	**20.66**	**16.78**	**11.77**	**CV**	**3.68**	**39.72**	**28.64**	**18.18**	**18.45**	**CV**	**9.38**	**19.20**	**8.73**	**16.43**	**13.82**

The above table revealed that the quick ratio of Nestle company is higher with all other companies and out of 5 companies except the HUL all others are having Current ratio above than their ideal ratio that is 1.5:1. The CV of the company is also not very high showing less chances of variability. The above table revealed that the current ratio of Nestle company is higher with all other companies and all 5 companies are having quick ratio above than their ideal ratio that is 1:1. The CV of the company is also not very high showing less chances of variability. The above table revealed that the Inventory turnover ratio of Britannia company is higher with all other companies and out of 5 companies the minimum inventory ratio is in Nestle revealing that the product is slow mover and replaced less times in a year. The CV of the company is also very high showing more chances of variability in both Nestle and Britannia company.

Table 2: Profitability Ratios

Net Profit Ratio (%)						Return on Assets (%)						Asset Turnover Ratio (%)					
	HUL	**P&G**	**Nestle**	**Britannia**	**Colgate**		**HUL**	**P&G**	**Nestle**	**Britannia**	**Colgate**		**HUL**	**P&G**	**Nestle**	**Britannia**	**Colgate**
2016	17.37	17.03	6.88	9.42	13.85	**2016**	29.71	19.55	9.26	24.42	29.66	**2016**	223.13	114.77	134.45	259.12	214.14
2017	15.79	18.64	10.04	10.02	14.5	**2017**	30.43	37.3	13.61	22.82	24.99	**2017**	216.18	200.01	135.52	227.65	172.32
2018	15.16	15.25	12.24	10.18	16.07	**2018**	30.53	26.28	16.64	20.48	26.26	**2018**	201.32	172.25	135.95	201.06	163.34
2019	15.79	14.22	14.23	10.7	17.37	**2019**	33.78	25.68	19.86	19.85	29.52	**2019**	213.96	180.57	139.61	185.43	169.9
2020	17.37	14.42	15.92	13.5	18.04	**2020**	34.37	23.68	27.9	20.46	31.35	**2020**	197.86	164.18	175.24	151.47	173.77
Mean	**16.30**	**15.91**	**11.86**	**10.76**	**15.97**	**Mean**	**31.76**	**26.50**	**17.45**	**21.61**	**28.36**	**Mean**	**210.49**	**166.36**	**144.15**	**204.95**	**178.69**
SD	**1.01**	**1.89**	**3.55**	**1.60**	**1.80**	**SD**	**2.14**	**6.59**	**7.03**	**1.94**	**2.63**	**SD**	**10.58**	**31.76**	**17.49**	**40.94**	**20.21**
CV	**6.22**	**11.85**	**29.91**	**14.83**	**11.25**	**CV**	**6.75**	**24.86**	**40.26**	**8.98**	**9.29**	**CV**	**5.03**	**19.09**	**12.13**	**19.98**	**11.31**

The above table revealed that the Net profit ratio of HUL company is higher with all other companies and out of 5 companies while the minimum is in case of Britannia, but in case of all companies it is above 10%. The CV of the Nestle company is also very high showing more chances of variability. The Return on Assets of HUL company is higher with all other companies and all 5 companies are having this ratio above than 17% which is a good sign, But the CV of the Nestle company is also very high showing high chances of variability. The Assets Turnover ratio of HUL company is higher with all other companies, followed by Britannia company. The CV of all the companies are also very low showing less chances of variability.

Since in all the companies there is a sign of up and down to measure the financial performance the relation between the Profitability and liquidity is measured with the following hypothesis:

H_1: There is a significant change in liquidity and profitability ratios in selected FMCG companies during 2016-2020.

To measure the differences between the companies the ANOVA with the Liquidity and profitability is measured with the SPSS software, and the results are as under:

Table 3: ANOVA Analysis

Descriptive

		N	Mean	Std. Deviation	Std. Error
CR	HUL	5	1.36	.063	.028
	P&G	5	1.80	.582	.260
	Nestle	5	2.13	.440	.197
	Britannia	5	1.66	.278	.124
	Colgate	5	1.00	.118	.053
	Total	25	1.59	.509	.102
QR	HUL	5	1.04	.038	.017
	P&G	5	1.52	.605	.271
	Nestle	5	1.56	.446	.200
	Britannia	5	1.27	.231	.103
	Colgate	5	.71	.131	.058
	Total	25	1.22	.459	.092
ITR	HUL	5	14.18	1.331	.595
	P&G	5	16.31	3.132	1.401
	Nestle	5	10.43	.910	.407
	Britannia	5	16.45	2.701	1.208
	Colgate	5	15.90	2.197	.983
	Total	25	14.65	3.068	.614
ROA	HUL	5	31.7640	2.14340	.95856
	P&G	5	26.4980	6.58817	2.94632
	Nestle	5	17.4540	7.02653	3.14236
	Britannia	5	21.6060	1.94018	.86767
	Colgate	5	28.3560	2.63356	1.17776
	Total	25	25.1356	6.67838	1.33568
ATR	HUL	5	210.4900	10.58055	4.73177
	P&G	5	166.3560	31.76169	14.20426
	Nestle	5	144.1540	17.48576	7.81987
	Britannia	5	204.9460	40.94494	18.31113
	Colgate	5	178.6940	20.21369	9.03983
	Total	25	180.9280	34.84999	6.97000
NPR	HUL	5	16.2960	1.01360	.45329
	P&G	5	15.9120	1.88541	.84318
	Nestle	5	11.8620	3.54816	1.58678
	Britannia	5	10.7640	1.59615	.71382
	Colgate	5	15.9660	1.79653	.80343
	Total	25	14.1600	3.09787	.61957

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
CR	Between Groups	3.717	4	.929	7.405	.001
	Within Groups	2.510	20	.125		
	Total	6.227	24			
QR	Between Groups	2.516	4	.629	4.932	.006
	Within Groups	2.551	20	.128		
	Total	5.067	24			
ITR	Between Groups	127.685	4	31.921	6.504	.002
	Within Groups	98.153	20	4.908		
	Total	225.838	24			
ROA	Between Groups	638.139	4	159.535	7.381	.001
	Within Groups	432.280	20	21.614		
	Total	1070.420	24			
ATR	Between Groups	15102.186	4	3775.546	5.376	.004
	Within Groups	14046.342	20	702.317		
	Total	29148.528	24			
NPR	Between Groups	138.536	4	34.634	7.547	.001
	Within Groups	91.787	20	4.589		
	Total	230.323	24			

The above analysis revealed the significant differences between the selected FMCG companies for all selected ratios of profitability and liquidity (as $p<0.05$). further the mean value suggest that the liquidity is more in Nestle and Profitability is more in the HUL having significantly good performance.

Conclusion

The present study aimed to explain the factors for diversification and the effect of diversification on financial health of diversified businesses. For research, the study centered on five conglomerates in the fast-moving consumer goods (FMCG) market. The key data consisted of the Liquid Ratio being the Present Ratio, the Fast Ratio and the Product Turnover Ratio including the Profitability Ratio of the Yield on Assets, the Return on Assets, and the Net Benefit Ratio. The study found that the overall financial health of the FMCG firms was adequate. In other terms, diversification has contributed to sound financial results by businesses. Not all the businesses under review have done fairly well on all of the ratios tested. However, others have reliably done well on most fronts, whilst some have displayed uniformly poor outcomes relative to others. The analysis revealed the significant differences between the selected FMCG companies for all selected ratios of profitability and liquidity. Further the mean value suggest that the liquidity is more in Nestle and Profitability is more in the HUL having significantly good performance.

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