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AN EVALUATION OF PROFITABILITY PERFORMANCE OF TOP TEN COMPANIES OF INDIAN FMCG SECTOR

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ABSTRACT

An Indian FMCG (Fast Moving Consumer Goods) sector has ranked fourth in the economy of India with a total market size in excess of USD 20.1 billion. This sector is related with the life of people. Thus, it is very important to know how Indian FMCG works, how it can be grow up, how its current financial performance, how the sector will help in increasing economy scale of India, etc. That is why, the researcher aims to find out the profitability performance of Indian FMCG sector .The researcher has taken top ten companies of Indian FMCG sector on the basis of market capitalization from BSE index top 100 companies. The study is based on secondary data and time period is of ten years. The researcher has been used simple random sampling method for selecting Profitability Ratios and applied one-way ANOVA test for hypothesis testing. Here, the result is rejecting null hypothesis (Ho) and accepting alternative hypothesis (H_1). Thus, we can say that, in relation to Profitability Ratios, there is significant difference between selected FMCG companies during the study period.

KEYWORDS: *Indian FMCG Sector, Profitability Performance, Financial Soundness, EPS, CPM.*

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Introduction

With a population of over 1 billion, India is one of the largest economies in the world in terms of purchasing power and consumer spending. India is among the world's youngest countries with a median age of 26.7 years as compared to 37.2 years in the U.S. and 36.3 years in China. This has converted into a large market opportunity for FMCG players with a very large population and rapidly evolving consumer preferences. FMCG sector is one of the important contributors of the Indian economy. This sector has shown an extraordinary growth over past few years, in fact it witnessed growth during recession period also. Here, the researcher has taken top ten companies of Indian FMCG sector as ITC Ltd., HUL, Nestle India Ltd., Godrej Consumer Products Ltd. (GCPL), Dabur India Ltd., Britannia Industries Ltd., Marico Ltd., GlaxoSmithKline Consumer Healthcare Ltd. (GSKCHL), Colgate-Palmolive (India) Ltd. and Emami Ltd. For calculations, the researcher has been taken four Profitability Ratios as Net Profit Ratio (NPR), Operating Profit Ratio (OPR), Cash Profit Margin (CPM), and Earnings per share (EPS) for the study.

Literature Review

Bavaria Rasik N., (June, 2004), "A Comparative Analysis of Profitability Vis-à-Vis Liquidity Performance in Cement Industry in India", represented in his thesis that: Telecommunication, petroleum, coal, fertilizers, iron, steel and cement etc. are the key infrastructure sectors of India. Cement industry also plays a significant role, in the rapid growth and development of a country, because cement is a pre-requisite of all construction activities. The researcher has selected 17 companies as the sample for this study. For the purpose of analyses, all the selected companies have been classified into five regions: The

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Eastern region, The Western region, The Northern region, The Southern region and Rest of the regions. The researcher used secondary data here. The researcher used secondary data here. The researcher applied ANOVA test, Chi-square test, Z-test and T-test. The management should try to adopt cost reduction techniques in their companies and should reduce power and fuel consumption by using low as content coal, lignite and agro waste products. The labor productivity should be increased by adopting modern manufacturing process – Dry process and productivity based wage policy should be implemented by the cement companies. Moreover, the use of computer should be increased in such a way that it does not prevent employment opportunity. The concept of "Work Organization" should be adopted by the cement companies. The best way to tide over the liquidity problems of the undertakings is to improve their profitability. Companies should revise the ways, besides, managing the working capital effectively of maximizing overall return on investment. This is considered essential because the cash flow of any concern rest, primarily, on the profitability and amounts set a part for depreciation and other non-cash charges.

Mr. R. V. Keshwara, (January, 2009), "A Study of Financial Performance of Aluminum Industry in India", said that: The present study describes the financial performance of aluminum industry in India. The Indian Aluminum Industry is blessed with an abundant supply of quality bauxite, the key raw material, at a very low cost. India has the fifth largest bauxite deposits, accounting for 7.5% of the global deposits. But its installed capacity is only 3% of the global capacity – there is enough scope for India to become a favorite location for building alumina refineries and smelters. For ascertaining financial performance of aluminum industry in India, five leading companies of aluminum industry having a large plant have been selected. The period of the study is seven years from 2000-01 to 2006-07. Secondary data would be used for analysis. Adopting various techniques such as ratio analysis, trend analysis has made analysis of selected units. The management should try to adopt cost reduction techniques for increasing productivity of the industry. The companies should try to utilize their production capacity fully and reduce their operating expenses. The government should also set the relative norms for aluminum industry.

Shivubhai C. Vala, (February, 2011), "A Comparative Study of Profitability Vis-à-Vis Liquidity of Co-operative Milk Producers' Unions of Gujarat State", said that: Profitability and liquidity are the basic requirements for the survival of an enterprise and for the prosperity of employees and for the welfare of the customers and the society at large and also for the development of the economy. The implicit question posed here is: Are the co-operative dairies capable enough by the required profitability and liquidity to survive against the encroachment of private dairies at present and in future under the delicencing policy of government for dairy industry which has come into existence after 1991 due to New Industrial and Economic policy of 1991 granting to the industries liberalization, privatization and globalization. The secondary data is to be used for the calculation.

Dr. Shailesh N. Ransariya, and Dr. Butalal C. Ajmera, (March, 2012), "Financial Performance of Indian Corporate Sectors During Pre and Post Mergers and Acquisitions", represent in their article that: The Indian corporate sector has experienced a major restructuring through mergers and acquisitions, with the changes ought about by the Industrial Policy Resolution of June 1991. In today's globalized economy, mergers and acquisitions (M&A) are being increasingly used the world over, for improving competitiveness of companies through gaining greater market share, oadening the portfolio to reduce business risk, for entering new markets and geographies, and capitalizing on economies of scale, etc. The present study is mainly based on secondary data. In order to evaluate financial performance, Ratio Analysis, standard deviation and 't' test have been used as tools of analysis.

Dr. Monica Tulsian, (March-April, 2014), "Profitability Analysis (A Comparative Study of SAIL & TATA Steel)", represented in her article: The main purpose of a business unit is to make profit. The profitability analysis is done to throw light on the current operating performance and efficiency of business firms. It should be duly noted that net income figure alone is not very helpful in determining the efficiency and performance of the business firm unless it is related to some other figures such as sales, cost of goods sold, operating expenses, capital invested, etc. Thus, the profitability ratios are calculated to enlighten the end result and comparison of business firms which is the sole criterion of overall efficiency of business concern.

Mehul B. Shah, (May, 2015), "A Financial Ratio Analysis Hindustan Unilever Ltd. (HUL)", said that: The purpose of the study is to know about the Hindustan Unilever Limited (HUL) to study the growth of the HUL. The data required for the paper has been taken from 'www.hul.com.', 'www.moneycontrol.com'. The data would be of five years 2009-10 to 2013-14.In the next step, Ratios, Mean, Standard Deviation, Correlation Coefficient for the data of company has been calculated. The FMCG segment is the fourth largest sector in the Indian economy. The study conducted is based on the ratio analysis, t-test which helped to analyze the performance of the companies in Indian FMCG industry.

Objectives

For the study, following are the objectives to be taken by the researcher:

- To analyze the profitability of selected companies of FMCG sector in India during the study period.
- To get deep knowledge of selected profitability indicators of selected companies.
- To suggest an appropriate strategy for improvement of financial soundness of selected companies of FMCG sector in India.

Hypotheses

Null hypotheses of the study are as under:

H_o: There would be no significant difference in Net Profit Ratio (NPR) of selected FMCG companies during the study period.

H_o: There would be no significant difference in Operating Profit Ratio (OPR) of selected FMCG companies during the study period.

H_o: There would be no significant difference in Cash Profit Margin (CPM) of selected FMCG companies during the study period.

H_o: There would be no significant difference in Earnings per Share (EPS) of selected FMCG companies during the study period.

Alternative hypotheses of the study are as under:

H_1 There would be significant difference in Net Profit Ratio (NPR) of selected FMCG companies during the study period.

H_1 There would be significant difference in Operating Profit Ratio (OPR) of selected FMCG companies during the study period.

H_1 There would be significant difference in Cash Profit Margin (CPM) of selected FMCG companies during the study period.

H_1 There would be significant difference in Earnings per Share (EPS) of selected FMCG companies during the study period.

Research Methodology

The researcher has been used simple random sampling for selecting profitability ratios. The researcher has been used secondary data from various annual reports of selected companies and websites. The study period is of ten years duration: from 2007-08 to 2016-17. The researcher has been calculated data with accounting tool as Ratio Analysis. The researcher has been used one-way ANOVA test for hypothesis testing.

Data Analysis

Following Table 1 shows average ratios of top ten years of selected companies with its industry average.

Table 1: Profitability Ratios

Ratios	Average Ratios										Industry Average
	ITC	HUL	Nestle	GCPL	Dabur	Britannia	Marico	GSKCHL	Col-Pal	Emami	
NPR	16.96	12.33	11.34	15.81	14.87	06.12	12.43	12.77	15.36	17.60	13.56
OPR	25.18	16.37	16.71	20.30	18.90	08.82	16.64	19.49	20.12	22.55	18.51
CPM	18.99	13.29	14.22	16.85	16.04	07.23	13.56	14.49	17.09	24.35	15.61
EPS	09.43	14.53	85.49	14.91	04.09	46.82	05.51	98.51	29.19	17.25	32.57

*Source: knowledeportal of Saurashtra University

Interpretation

- **NPR:** If we compare all average ratios of NPR, then we found that Emami Ltd. has ranked first, followed by ITC Ltd. and GCPL.
- **OPR:** If we compare all average ratios of OPR, then we found that ITC Ltd. has ranked first, followed by Emami Ltd. and GCPL.

- **CPM:** If we compare all average ratios of CPM, then we found that Emami Ltd. has ranked first, followed by ITC Ltd. and Col-Pal (India) Ltd.
- **EPS:** If we compare all average ratios of EPS, then we found that GSKCHL has ranked first, followed by Nestle India Ltd. and Britannia Industries Ltd.

Hypothesis Testing

Following Table 2 represents one-way ANOVA test of selected Profitability Ratios:

Table 2: One-way ANOVA of selected Profitability Ratios

Ratios	Calculated Value (F)	Table Value (Ft)	F > Ft or F < Ft	Ho or H_1
NPR	22.14	1.99	F > Ft	H_1
OPR	24.22	1.99	F > Ft	H_1
CPM	30.74	1.99	F > Ft	H_1
EPS	30.57	1.99	F > Ft	H_1

Above table represents the table value 1.99 at 5% level of significance. Here, calculated values of selected ratios are higher than the table value as 22.15 of NPR, 24.22 of OPR, 30.74 of CPM, and 30.57 of EPS. Thus, in relation to Profitability Ratios, there is significant difference between selected FMCG companies during the study period. As a result, our null hypothesis is rejected and alternative hypothesis is accepted.

Findings of the Study

- **NPR:** All selected companies represent mixed trend during the study period. ITC Ltd., GCPL, Dabur India Ltd., Col-Pal (India) Ltd. and Emami Ltd. have higher ratios compared to its industry average.
- **OPR:** ITC Ltd. shows increasing trend during the study period except the year 2008-09. Except ITC Ltd., all selected companies represent mixed trend during the study period. ITC Ltd., GCPL, Dabur India Ltd., GSKCHL, Col-Pal (India) Ltd. and Emami Ltd. have higher ratios compared to its industry average.
- **CPM:** All selected companies represent mixed trend during the study period. ITC Ltd., GCPL, Dabur India Ltd., Col-Pal (India) Ltd. and Emami Ltd. have higher ratios compared to its industry average.
- **EPS:** HUL and Nestle India Ltd. show increasing trend except the year 2015-16 during the study period. GlaxoSmithKline Consumer Healthcare Ltd. shows increasing trend except the last year during the study period. Except these three companies, other companies represent mixed trend during the study period. Nestle India Ltd. and GSKCHL have higher ratios compared to its industry average.

Suggestions of the Study

ITC Ltd. depicts high operating profit ratio compared to net profit ratio as comparing with other companies. So, for this purpose, the company has to change cost reduction techniques and to reduce operating expenses. As compared to other companies, ITC Ltd., GCPL, Dabur India Ltd., Col-Pal (India) Ltd. and Emami Ltd. have strong profitability efficiency. Thus, other companies should learn from their policies and strategies for getting more profits. For EPS, every company should refer policies of Nestle India Ltd. and GSKCHL.

Conclusion

As profitability performance, selected companies have efficient profit earning capacity which leads them as top companies in BSE index list. However, there are various internal and external factors which affect the profitability performance of selected companies.

Limitations of the Study

The researcher has been used secondary data. Thus, the limitations of secondary data affect the above study. The researcher has been used only four Profitability Ratios, if these ratios will be changed, the result will also be changed. The researcher has been used ratio analysis for calculating ratios. Thus, the limitations of ratio analysis are also the limitations of this paper. This research work is done with sample size of ten companies. So, the reason of rejecting null hypothesis may be the size of sample selected in this study work. Thus, these selected companies may be less representative of whole Indian FMCG sector.

Scope for Further Research

The further research may select different types of ratios for measuring profitability efficiency of companies. The further research may apply different ratios other than Profitability ratios. The further research may apply different test of hypothesis.

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