

A COMPARATIVE STUDY OF NESTLE INDIA LTD. AND BRITANNIA INDUSTRIES LTD.

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ABSTRACT

Indian FMCG sector is a leading contributor in the development of Indian Economy. FMCG (Fast Moving Consumer Goods) sector mainly constituted three segments as Food & Beverages segment, Personal Care segment and Household Care segment & others. Nestle India Ltd. and Britannia Industries Ltd. is powerful firms as food processing industry type. Here, the researcher wants to compare profitability of both companies with main four components of Profitability Ratios as Net Profit Ratio, Operating Profit Ratios, Cash Profit Margin and Earnings per Share. A researcher uses t-test for hypothesis testing. Whole data analysis work would be done with secondary data as annual reports of the companies and related websites. A researcher uses ten years data from 2007-08 to 2016-17.

KEYWORDS: *Indian FMCG Sector, Profitability Ratios, t-Test, Indian Economy.*

Introduction

FMCG products are connected with peoples' living that is why; a study of these successful companies will be important and meaningful. Nestle India Ltd. and Britannia Industries Ltd. are big competitors of each other in Food & Beverages segment. Both companies are also leading in top ten Indian FMCG companies as BSE index top 100 companies of the year 2016. Nestle India Ltd. is a subsidiary of Nestle S.A. of Switzerland while Britannia Industries Ltd. is an Indian company.

The researcher had taken accounting tool as Ratio Analysis. Accounting Ratios are showing relationship between two related items. In this research paper, the researcher had selected four Profitability Ratios for calculations as (1) Net Profit Ratio, (2) Operating Profit Ratio, (3) Cash Profit Margin, and (4) Earnings per Share. The researcher had used t-test for hypothesis testing.

Literature Review

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.

Dr. Puja Archana Sahu, Dr. Padma Charan, (August, 2013), "Ratio Analysis is an Instrument – for Decision Making – A Study", said that: The practice of ratio analysis has been used by financial market participants and managers of firms for almost a century. At the present juncture, ratio analysis becomes very essential for the organization to survive in the market for a longer period. To understand the impact of financial ratio in IT sector, the researcher have opted TCS for their study. We have analyzed the accounting information of the company through ratios and construed in such a way that can be easily understood by all.

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Rallabandi Srinivasu, (January, 2014), “Fast Moving Consumer Goods Retail Market, Growth Prospect, Market Overview and Food Inflation in Indian Market - An Overview”, represents in his research paper that: The Fast Moving Consumer Goods (FMCG) sector is an important contributor to India's GDP. FMCGs constitute a large part of consumers' budget in all countries. This study is aimed at to shed light on competitive conditions prevailing in the FMCGs retail trade sector. This study also focused on the analysis of competitive within the sector, and draws lessons for competition policy. FMCG industry is characterized by a well established distribution network, low penetration levels, low operating cost, lower per capita consumption and intense competition between organized and unorganized segments. India's FMCG sector creates employment more than three million people in downstream activities. It is currently growing at double-digit rate and is expected to maintain a high growth rate. Indian buyers were a bit conservative partly due to lesser disposable income and partly due to fewer competitive and more variety of products. Food inflation could restrict consumers' demand and pricing flexibility for FMCG while lowering consumer's purchasing power that diverts purchases away from certain FMCG.

Anjali Sharma, (January, 2016), “A Comparative Study of Profitability and Liquidity between Hindustan Unilever Ltd. (HUL) and Dabur India”, represents that: In this paper, an attempt has been made to analyze the liquidity and profitability of two leading FMCG companies in India – HUL Ltd. and Dabur India, over a period of five years (2010-11 to 2014-15). FMCG sector is the fourth largest sector in the Indian economy and rapid changing consumer tastes, income and preferences has affected FMCG sector with a great pace. Liquidity and Profitability both play a crucial role in the smooth functioning of a firm. Lack of liquidity and profitability can hurdle the growth of the firm. By this study, it is observed that liquidity and profitability of Dabur India is satisfactory and enjoying its continuous growth in this sector. Whereas in HUL Ltd., profitability position is satisfactory, but liquidity position is not up to the mark level. From this study, it is concluded that in Dabur India Ltd. there is significant difference in the liquidity and profitability position of the company whereas in HUL Ltd. there is no significant difference in the liquidity and profitability position of the company. (The profitability position was strong whereas liquidity position was not satisfactory.) HUL must strengthen its short-term solvency position, so that it can meet obligations timely.

P. Rooplata, Dr. R. Sathya, (November, 2016), “A Case Study on Financial Stability of Nestle India Ltd.”, represents that: Financial performance analysis is the process of determining the operating and financial characteristics of a firm from accounting and financial statements. Nestle India Ltd. financial data has been analyzed by using liquidity ratios, activity ratios, profitability ratios and solvency ratios. The study is primarily based on secondary data taken from the CMIE, Annual reports and other relevant publications. A period of five years from 2011 to 2015 is adopted to draw the meaningful inferences. Financial position of Nestle India Ltd. is satisfactory, but decreasing due to certain external factors, so, there is a need to strengthen them and make such policies which again improve the financial position of the company.

C. R. Kothari, (2011), “Research Methodology - methods and techniques”, said in his book that: “the present book has been written with two clear objectives, viz., (i) to enable researchers, irrespective of their discipline, in developing the most appropriate methodology for their research studies; and (ii) to make them familiar with the art of using different research methods and techniques. It is hoped that the humble effort made in the form of this book will assist in the accomplishment of exploratory as well as result-oriented research studies.”

Objectives

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

- To compare the profitability performance of Nestle India Ltd. and Britannia Industries Ltd. during the study period.
- To get deep knowledge of selected profitability ratios 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:

- Ho₁:** There would be no significant difference in Net Profit Ratio (NPR) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

Ho₁: There would be no significant difference in Operating Profit Ratio (OPR) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

Ho₁: There would be no significant difference in Cash Profit Margin (CPM) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

Ho₁: There would be no significant difference in Earnings per Share (EPS) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

Alternative hypotheses of the study are as under:

H1₁: There would be significant difference in Net Profit Ratio (NPR) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

H1₂: There would be significant difference in Operating Profit Ratio (OPR) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

H1₃: There would be significant difference in Cash Profit Margin (CPM) of Nestle India Ltd. and Britannia Industries Ltd. during the study period.

H1₄: There would be significant difference in Earnings per Share (EPS) of Nestle India Ltd. and Britannia Industries Ltd. 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 t-test for hypothesis testing.

Data Analysis

Following Table No. 1 shows average ratios of top ten years of Nestle India Ltd. & Britannia Industries Ltd. with its industry average.

Table 1: Profitability Ratios

Years	Ratios							
	NPR		OPR		CPM		EPS	
	Nestle	Britannia	Nestle	Britannia	Nestle	Britannia	Nestle	Britannia
2007-08	11.35	07.30	17.26	09.25	13.40	08.41	42.92	79.95
2008-09	11.95	05.74	17.32	07.91	14.01	06.80	55.39	75.51
2009-10	12.54	03.40	17.59	03.76	14.67	04.50	67.94	48.77
2010-11	12.84	03.41	17.97	05.54	14.84	04.46	84.91	12.16
2011-12	12.49	03.71	18.10	05.77	14.48	04.65	99.73	15.63
2012-13	12.40	04.10	18.33	06.49	15.69	05.10	110.76	19.56
2013-14	11.86	05.76	18.20	08.53	15.47	06.74	115.86	30.83
2014-15	11.64	08.47	17.57	12.03	15.04	10.07	122.87	51.89
2015-16	06.64	09.59	09.63	14.45	11.07	10.69	58.42	63.61
2016-17	09.70	09.72	15.12	14.42	13.52	10.83	96.09	70.31
Average	11.34	06.12	16.71	08.82	14.22	07.23	85.49	46.82
Min. V.	06.64	03.40	09.63	03.76	13.40	04.46	42.92	12.16
Max. V.	12.84	09.59	18.33	14.45	15.69	10.83	122.87	79.95
Variance	03.52	06.31	07.02	13.95	01.80	06.79	781.41	661.87
Industry Average	13.56		18.51		15.61		32.57	

*Source: knowledgeportal of saurashtra university

**Industry Average is calculated by averages of top ten FMCG companies

Interpretation

- **NPR:** If we compare average ratios of NPR, then we found that Nestle India Ltd. has 11.34% which is higher than Britannia Industries Ltd. as 6.12%. Nestle India Ltd. and Britannia Industries Ltd. both are showing mixed trend during the study period.

- **OPR:** If we compare average ratios of OPR, then we found that Nestle India Ltd. has 16.71% which is higher than Britannia Industries Ltd. as 8.82%. Nestle India Ltd. and Britannia Industries Ltd. both are showing mixed trend during the study period.
- **CPM:** If we compare average ratios of CPM, then we found that Nestle India Ltd. has 14.22% which is higher than Britannia Industries Ltd. as 7.23%. Nestle India Ltd. and Britannia Industries Ltd. both are showing mixed trend during the study period.
- **EPS:** If we compare average ratios of EPS, then we found that Nestle India Ltd. has 85.49% which is higher than Britannia Industries Ltd. as 46.82%. Nestle India Ltd. shows increasing trend except the year 2015-16 during the study period while Britannia Industries Ltd. shows mixed trend during the study period.
- If we see the industry average, then Nestle India Ltd. shows good profitability position while Britannia Industries Ltd. shows lower ratios except Earnings per Share.

Hypothesis Testing

Following Table No.2 represents t-test of selected Profitability Ratios:

Table 2: T-test of selected Profitability Ratios

Ratios	Calculated Value (F)	Table Value (Ft)	F > Ft or F < Ft	Ho or H ₁
NPR	5.23	2.179	F > Ft	H ₁
OPR	5.40	2.179	F > Ft	H ₁
CPM	7.52	2.179	F > Ft	H ₁
EPS	3.20	2.179	F > Ft	H ₁

Above table represents the table value 2.179 at 5% level of significance. Here, calculated values of selected ratios are higher than the table value as 5.23 of NPR, 5.40 of OPR, 7.52 of CPM, and 3.20 of EPS. Thus, in relation to Profitability Ratios, there is significant difference between Nestle India Ltd. & Britannia Industries Ltd. during the study period. As a result, our null hypothesis is rejected and alternative hypothesis is accepted.

Findings of the Study

- **NPR:** If we compare average ratios of NPR with its industry average, then we found that Nestle India Ltd. has 11.34% which is near to the industry average as 13.56% while Britannia Industries Ltd. has high difference than Nestle India Ltd. as 6.12%.
- **OPR:** If we compare average ratios of OPR with its industry average, then we found that Nestle India Ltd. has 16.71% which is near to the industry average as 18.51% while Britannia Industries Ltd. has high difference than Nestle India Ltd. as 8.82%.
- **CPM:** If we compare average ratios of CPM with its industry average, then we found that Nestle India Ltd. has 14.22% which is near to the industry average as 15.61% while Britannia Industries Ltd. has high difference than Nestle India Ltd. as 7.23%.
- **EPS:** If we compare average ratios of EPS with its industry average, then we found that Nestle India Ltd. has 85.49% and Britannia Industries Ltd. has 46.82% which both have higher from industry average as 32.57%.
- If we see the overall financial performance of both companies, then Nestle India Ltd. have better sound financial position than Britannia Industries Ltd.

Suggestions of the Study

If Britannia Industries Ltd. will do research or refer the strategies and concepts of Nestle India Ltd., then it may get higher financial position than previous years. Thus, Britannia Industries Ltd. has to refer the strategies of other successful companies and change their profitability performance.

Conclusion

As profitability performance, Nestle India Ltd. and Britannia Industries Ltd. 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 only two companies. So, the reason of rejecting null hypothesis may be the size of sample selected in this study work.

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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