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A STUDY OF INDIAN FMCG SECTOR ON THE BASIS OF LIQUIDITY PERFORMANCE

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ABSTRACT

India is one of the world's fastest growing large economies. The International Monetary Fund has projected that India's GDP will grow by 7.4% during the year 2016-17. This fastest growing economy has converted into a large market opportunity for FMCG players with a very large population and rapidly evolving consumer preferences. India represents world's 12th largest consuming country in 2010. Such a large market means immense opportunities on one hand and various challenges on the other hand. 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. That is why, the researcher has aim to find out its liquidity position of the businesses. For this reason, the researcher had taken top ten companies of Indian FMCG sector on the basis of market capitalization from BSE index top 100 companies at the end of 2016. The study period is of ten years from 2007-08 to 2016-17. Here, the researcher has used secondary data for her calculations and applied one-way ANOVA test for hypothesis testing. The researcher had selected seven Liquidity Ratios for her research work on the basis of simple random sampling method. Here, the result is rejecting null hypothesis (Ho) and accepting alternative hypothesis (H_1). Thus, we can say that, in relation to Liquidity Ratios, there is significant difference between selected FMCG companies during the study period.

Keywords: *Indian FMCG Sector, Liquidity Performance, Liquidity Ratios, Indian Economy.*

INTRODUCTION

FMCG (Fast Moving Consumer Goods) sector in India is positioned at fourth rank in the Indian economy. FMCG sector is very close to people. When a person starts her/his day, she/he needs or uses FMCG products till the day ends. FMCG products are connected with people's living; that is why; its study will be important and meaningful. FMCG sector is mainly classified in three segments as Personal Care products, Household Care products, Food & Beverages and others (OTC and tobacco products). The researcher had selected top ten

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companies of Indian FMCG sector named: (1) ITC Ltd. (2) HUL (3) Nestle India Ltd. (4) Godrej Consumer Products Ltd. (GCPL) (5) Dabur India Ltd. (6) Britannia Industries Ltd. (7) Marico Ltd. (8) GlaxoSmithKline Consumer Healthcare Ltd. (GSKCHL) (9) Colgate-Palmolive (India) Ltd. (10) Emami Ltd. 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 seven liquidity ratios for calculations and applied one-way ANOVA test for hypothesis testing.

LITERATURE REVIEW

Bavaria Rasik N., (June, 2004), "A Comparative Analysis of Profitability Vis-à-Vis Liquidity Performance in Cement Industry in India", said 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 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.

Mahesh M. Barad, (2010), "A Study of Liquidity Management of Indian Steel Industry", represented in his thesis that: This study is aimed at exploring analysis of liquidity performance of steel industry in India. The study is based on secondary data and applied Kruskal Wallis and one-way ANOVA tests. By this research study, the researcher explained with various ratios to know the position of steel industry, financial strength, liquidity position, financial efficiency and management of receivable and cash position in relation to total resources of selected units of Steel group of companies.

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, ordering 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. Puja Archana Sahu, Dr. Padma Charan, (August, 2013), "Ratio Analysis is an Instrument – for Decision Making – A Study" represents in their research paper 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.

Anjali Sharma, (January, 2016), "A Comparative Study of Profitability and Liquidity between Hindustan Unilever Ltd. (HUL) and Dabur India" says 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 in 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.

IBEF, (January, 2016), "FMCG" in the report, it describes that: IBEF described in this research report, various advantages to India, Market overview and trends, Porter's Five Forces Analysis, Strategies, Growth drivers, Opportunities to Indian market, Success stories of top companies, etc.

OBJECTIVES

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

- To analyze the liquidity position of selected companies of FMCG sector in India during the study period.
- To get deep knowledge of selected liquidity ratios of selected companies.
- To suggest an appropriate strategy for improvement of liquid efficiency and working capital management of selected companies of FMCG sector in India.

HYPOTHESES

Hypotheses of the study are as under:

- **H_o =** There would be no significant difference in Current Ratio (CR) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Current Ratio (CR) of selected FMCG companies during the study period.

- **H_o =** There would be no significant difference in Liquid Ratio (LR) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Liquid Ratio (LR) of selected FMCG companies during the study period.

- **H_o =** There would be no significant difference in Acid Test Ratio or Quick Ratio (ACT/QR) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Acid Test Ratio or Quick Ratio (ACT/QR) of selected FMCG companies during the study period.

- **H_o =** There would be no significant difference in Stock Turnover Ratio (STR) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Stock Turnover Ratio (STR) of selected FMCG companies during the study period.

- **H_o =** There would be no significant difference in Debtors Turnover Ratio (DTR) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Debtors Turnover Ratio (DTR) of selected FMCG companies during the study period.

- **H_o =** There would be no significant difference in Working Capital Turnover (WCT) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Working Capital Turnover (WCT) of selected FMCG companies during the study period.

- **H_o =** There would be no significant difference in Current Assets Turnover (CAT) of selected FMCG companies during the study period.

  H_1 = There would be significant difference in Current Assets Turnover (CAT) of selected FMCG companies during the study period.

RESEARCH METHODOLOGY

The researcher has been used simple random sampling for selecting liquidity 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: Liquidity Ratios

Ratios	Average Ratios										Industry Average
	ITC	HUL	Nestle	GCPL	Dabur	Britannia	Marico	GSKCHL	Col-Pal	Emami	
CR	02.17	01.07	01.20	01.17	01.39	01.41	01.83	01.84	00.96	01.99	01.50
LR	01.06	00.64	00.66	00.74	00.89	00.70	01.08	01.61	00.69	01.75	00.98
ATR	01.36	00.71	00.71	00.71	01.00	00.93	01.01	01.56	00.81	01.64	01.04
STR	06.30	10.23	11.45	08.64	09.49	15.82	06.22	08.93	18.05	14.21	10.93
DTR	32.19	33.67	94.78	46.07	19.10	86.05	29.47	34.46	87.84	24.89	48.85
WCT	04.92	50.18	17.54	24.52	09.60	10.63	06.75	03.05	45.43	03.52	17.61
CAT	01.78	03.40	04.93	03.11	02.93	05.93	02.90	01.74	04.27	03.21	03.42

(*Source: knowledeportal of saurashtra university)

INTERPRETATION

- **CR:** If we compare all average ratios of CR, then we found that ITC Ltd. has ranked first, followed by Emami Ltd. and GSKCHL.
- **LR:** If we compare all average ratios of LR, then we found that Emami Ltd. has ranked first, followed by GSKCHL and Marico Ltd.
- **ATR:** If we compare all average ratios of ATR, then we found that Emami Ltd. has ranked first, followed by GSKCHL and ITC Ltd.
- **STR:** If we compare all average ratios of STR, then we found that Colgate-Palmolive (India) Ltd. has ranked first, followed by Britannia Industries Ltd. and Emami Ltd.
- **DTR:** If we compare all average ratios of DTR, then we found that Nestle India Ltd. has ranked first, followed by Colgate-Palmolive (India) Ltd. and Britannia Industries Ltd.
- **WCT:** If we compare all average ratios of WCT, then we found that HUL has ranked first, followed by Colgate-Palmolive (India) Ltd. and GCPL.
- **CAT:** If we compare all average ratios of CAT, then we found that Britannia Industries Ltd. has ranked first, followed by Nestle India Ltd. and Colgate-Palmolive (India) Ltd.

HYPOTHESIS TESTING

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

Table 2: One-way ANOVA of selected Liquidity Ratios

Ratios	Calculated Value (F)	Table Value (Ft)	F > Ft or F < Ft	Ho or H_1
CR	06.24	1.99	F > Ft	H_1
LR	07.35	1.99	F > Ft	H_1
ATR	06.21	1.99	F > Ft	H_1
STR	45.65	1.99	F > Ft	H_1
DTR	14.56	1.99	F > Ft	H_1
WCT	02.22	1.99	F > Ft	H_1
CAT	20.48	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 6.24 (CR), 7.35 (LR), 6.21 (ATR), 45.65 (STR), 14.56 (DTR), 2.22 (WCT) and 20.48 (CAT). Thus, in relation to Liquidity 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

- **CR:** All selected companies represent mixed trend during the study period. ITC Ltd., Marico Ltd., GSKCHL and Emami Ltd. have higher ratios compared to its industry average.
- **LR:** All selected companies represent mixed trend during the study period. ITC Ltd., Marico Ltd., GSKCHL and Emami Ltd. have higher ratios compared to its industry average.
- **ATR:** All selected companies represent mixed trend during the study period. ITC Ltd., GSKCHL and Emami Ltd. have higher ratios compared to its industry average.
- **STR:** All selected companies represent mixed trend during the study period. Nestle India Ltd., Britannia Industries Ltd., Colgate-Palmolive (India) Ltd. and Emami Ltd. have higher ratios compared to its industry average.
- **DTR:** All selected companies represent mixed trend during the study period. Nestle India Ltd., Britannia Industries Ltd., and Colgate-Palmolive (India) Ltd. have higher ratios compared to its industry average.
- **WCT:** All selected companies represent mixed trend during the study period. HUL, GCPL, and Colgate-Palmolive (India) Ltd. have higher ratios compared to its industry average.
- **CAT:** All selected companies represent mixed trend during the study period. Nestle India Ltd., Britannia Industries Ltd., and Colgate-Palmolive (India) Ltd. have higher ratios compared to its industry average.

SUGGESTIONS OF THE STUDY

Colgate-Palmolive (India) Ltd. should reduce its current liabilities by pay off them for increasing current ratio. Marico Ltd. and ITC Ltd. shows lower stock turnover ratio compared to other companies. Thus, they should apply changes in methods of inventory usages and may increase the production for more sales. Nestle India Ltd., Britannia Ltd. and Col-Pal (India) Ltd. represent very high debtors' turnover ratio. This is not a good sign for these companies. They have to change its collection policies. GSKCHL, Emami Ltd. and ITC Ltd. represent low working capital turnover. Thus, the companies have to take steps for optimum use of working capital in its sales. The companies have to pay off its current liabilities.

CONCLUSION

As liquidity performance, selected companies have good working capital management and liquidity position which leads them as top companies in BSE index list. However, there are various internal and external factors which affect the liquidity 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 seven Liquidity 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 liquidity efficiency of companies. The further research may apply different ratios other than Liquidity ratios. The further research may apply different test of hypothesis.

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