Financial Analysis of Retail, Wholesalers, Manufacturing Sectors – An Overview

* Dr. Yashoda. Asst Professor, Dept of Commerce, Smt Indira Gandhi Govt First Grade Women’s College, SAGARA.

Abstract

This paper looks at analysing financial statements manufacturing, retail and wholesale sector companies. The 21st century retail is a compendium and cutting edge of knowledge that is taking this industry to compete on a global level. Today, there are a number of forces like increasing competition, growth of online retailing that is leading to global expansion of major retail chains like Walmart and Metro to name a few. There has been so much development due to the explosion in customer level data, retail practitioners, analysts and policy makers. The main concern for retailers is to understand the expectations of the customers and the shopping experiences that have changed over the years which has made retailers to change the way the strategies are formulated and implemented. Today, there is a huge disposable income and the consumers have moved beyond basic needs. Retailers are formulating the idea about delivering quality experience along with the product offering. The retailers are of the opinion that it is their duty to sell products and generate profits for the organization. But for the end consumers, it is the experience of the customer that has an impact in terms of relationship building and repeat purchase. The wholesale and retail industry is an integral part of every industry supply chain in the world. The wave of digital shopping poses a significant threat to the brick-and-mortar formats of the retail industry, however no decline in the retail market in brick-and-mortar stores indicates the existing demand from customers for physical experience. The wholesale and retail industry as a whole is very important to the world economic growth. By 2022, The Business Research Company expects the wholesale and retail market to grow to $76 trillion. The wholesale and retail market consists of sales of wholesale and retail services and related goods by entities (organizations, sole traders and partnerships) that provide the service of making goods available to consumers in convenient quantities and locations. Retailers are independent organizations in the distribution channel for consumer goods that buy goods from wholesalers or direct from manufacturers, break bulk, store goods, display goods for sale either physically or online, and sometimes deliver. Wholesalers are independent organizations in the distribution channel for consumer goods that buy in bulk, store goods, break bulk and sell primarily to retailers, professional authorities or to other wholesalers rather than to consumers. Manufacturing has emerged as one of the high growth sectors in India. Prime Minister of India, Mr Narendra Modi, launched the ‘Make in India’ program to place India on the world map as a manufacturing hub and give global recognition to the Indian economy. Government aims to create 100 million new jobs in the sector by 2022.

Key words: Manufacturing, quantities, Retailers, wholesalers, financial.

Introduction

Both retailers and wholesalers take ownership of the goods and so bear the risk of carrying inventory. They also reduce the total number of transactions required for the process of transferring goods from manufacturers to consumers. Direct sales by manufacturers is included in retail. We exclude manufacturer sales through their own stores in manufacturing market. Following the recession and the ‘credit crunch’ that preceded it, anyone in business is aware getting finance is difficult,
even for healthy companies. For small manufacturers it may be particularly challenging, although hopefully with time, things will ease. To assist you, a range of options are listed below. They outline common sources of funding, together with initiatives and incentives available to financially benefit manufacturing businesses. We have provided some links and definitely suggest further. One of the larger challenges manufacturers can face is effectively managing inventory.

Not holding enough inventory can result in stock-outs and missed sales opportunities. On the other hand, holding too much inventory can result in increased carrying costs and risk of obsolescence. Manufacturers need to stay on top of and monitor their inventories at all times to ensure they are building the right product at the right time. They should also look for ways to reduce the manufacturing cycle time; from sourcing raw materials to completing finished product. The shorter this time, the less inventory that has to be carried. Manufacturers that are able to turn over their inventory more frequently, are able to quickly respond to changes in the market and demand. They are also able to minimize the working capital they need for their business. Keeping inventory fresh reduces risk (should the market change directions or the overall economy slow down). The manufacturing industry is very competitive, which puts pressure on product pricing and can result in low bottom-line profit margins. It is critical that businesses in this industry operate as efficiently as possible. This includes effectively managing capital equipment, ensuring that you have the right equipment for the job, that the equipment is utilized 95%+ of the time and that it is well maintained. It also includes utilization of subcontract manufacturers for certain types of work that require special equipment. Maintaining good controls over indirect spending is also important. These indirect spending areas include: people, utilities, rent, supplies and insurance. Maintaining highly productive employees is key. Taking the time to hire the right people for the right position is critical. Also, ensuring they are well trained, motivated, have clear expectations and that they are delivering the desired results for the company. Reviewing insurance coverages on a regular basis is also important. Making sure you have the right insurance for your business today and into future and working with your insurance carrier to do everything you can to reduce your risk of loss with solid business processes. Many businesses in this industry have significant rent expense for buildings. Business owners need utilize their building efficiently and ensure unused space is not excessive. This will help keep rent expense, property taxes, insurance and utility costs at a minimum. While a wholesaler sells goods to the businesses, as they purchase goods to sell it further. On the other hand, a retailer targets final consumer and sells goods to them.

In this way, these two business forms are one of the important intermediaries of the marketing channel. In the absence of these two links, the whole chain will get disturbed. Today, we are going to describe the significant differences between wholesale and retail.

**Objective:**

This paper intends to explore (a) to present Indian evidence on empirical-based classification of financial ratios, and (b) to examine the intertemporal stability/change of classification of ratios so obtained for the 20 year period of 2000-2016. The study has obtained eleven factors: (i) return on investment, (2) sales efficiency, (3) equity intensiveness, (4) short-term liquidity, (5) current asset intensiveness of manufacturing, retail and wholesale sector companies.
Indian Manufacturing Sector in India Industry

The Gross Value Added (GVA) at basic current prices from the manufacturing sector in India grew at a CAGR of 5 per cent during FY16 and FY20 as per the annual national income published by Government of India. The sector’s GVA at current prices was estimated at US$ 397.14 billion in FY20PE.

Business conditions in the Indian manufacturing sector continue to remain positive. The manufacturing component of IIP stood at 129.8 during FY20. Strong growth was recorded in the production of basic metals (10.8 per cent), intermediate goods (8.8 per cent), food products (2.7 per cent) and tobacco products (2.9 per cent). India’s Index of eight core industries stood at 131.9 in FY20.

Merchandise export decreased 4.78 per cent y-o-y to reach US$ 314.31 billion in FY20.

Investments

With the help of Make in India drive, India is on a path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India's market of more than a billion consumers and an increasing purchasing power.

Cumulative Foreign Direct Investment (FDI) in India’s manufacturing sector reached US$ 88.45 billion during April 2000-March 2016.

India has become one of the most attractive destinations for investment in the manufacturing sector. Some of the major investments and developments in this sector in the recent past are:

- In May 2016, Sterling and Wilson Solar Limited (SWSL) bagged an Engineering Procurement Construction (EPC) contract in Australia for Rs 2,600 crore (US$ 368.85 million).
- In March 2016, Oricon Enterprises entered into a joint venture agreement with Italy-headquartered Tecnocap Group to set up a new company, Tecnocap Oriental, for manufacturing lug caps.
- In September 2016, Mumbai got its first metro coach manufactured by state-run Bharat Earth Movers (BEML) under the 'Make-in-India' initiative.
- In October 2016, Berger Paints India Ltd, a Kolkata-based company, acquired 95.53 per cent stake of STP Ltd (STPL), which is primarily into waterproofing and protective coatings.
- In September 2016, OnePlus launched its smart TVs in the Indian market.
- In August 2016, Vivo planned to invest around Rs 3,500 crore (US$ 480 million) in India into capacity expansion.
- Capacity utilisation in India’s manufacturing sector stood at 69.1 per cent in the second quarter of 2016-20.

Government Initiatives

The Government of India has taken several initiatives to promote a healthy environment for the growth of manufacturing sector in the country. Some of the notable initiatives and developments are:
In May 2016, Government increased FDI in Defence manufacturing under the automatic route from 49 per cent to 74 per cent.

In March 2016, the Union Cabinet approved financial assistance to the Modified Electronics Manufacturing Clusters (EMC2.0) Scheme for development of world class infrastructure along with common facilities and amenities through Electronics Manufacturing Clusters (EMCs).

As per the Ministry of Statistics and Programme Implementation (MOSPI) report on Payroll Reporting in India, number of new subscribers* under Employees’ Provident Fund Scheme reached 4,01,949 in March 2016.

Under the Pradhan Mantri Kaushal Kendras, 73 lakh people were trained during 2016-20 while 723 Pradhan Mantri Kaushal Kendras were established till Jan 2016.

As of February 2016, there were 14,602 Industrial Training Institutes (ITI) present in India. (Accessed on March 06, 2016).

In August 2016, the Government permitted 100 per cent FDI in contract manufacturing through the automatic route.

Under Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 1.0, 19.85 lakh candidates were trained, out of which 2.62 lakh (13.23 per cent) got placements. Under PMKVY 2.0 (2016-2016), which was launched in October 2016, about 52.12 lakh candidates received training and 12.60 lakh (24.18 per cent) got jobs by June 2016.

In February 2016, the Union Cabinet passed National Policy on Electronics (NPE), envisaged to create a US$ 400 billion electronics manufacturing industry in the country by 2025. 32 per cent growth rate has been targeted globally in next five years.

Under the Make in India initiative, Government aims to increase the share of the manufacturing sector to country’s GDP to 25 per cent by 2025.

Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Government of India increased export incentives available to labour intensive MSME sectors by 2 per cent. In April 2016, Government extended FTP for one more year, up to March 31, 2021.

Road Ahead

India is an attractive hub for foreign investments in the manufacturing sector. Several mobile phone, luxury and automobile brands, among others, have set up or are looking to establish their manufacturing bases in the country.

The manufacturing sector of India has the potential to reach US$ 1 trillion by 2025. The implementation of the Goods and Services Tax (GST) will make India a common market with a GDP of US$ 2.5 trillion along with a population of 1.32 billion people, which will be a big draw for investors.

With impetus on developing industrial corridors and smart cities, the Government aims to ensure holistic development of the nation. The corridors would further assist in integrating, monitoring and developing a conducive environment for the industrial development and will promote advance practices in manufacturing.
Wholesale And Retail Market Coverage

The Business Research Company covers markets overall in the wholesale and retail market providing global market numbers, market growth, market-specific drivers and restraints, trends, and other market specific information. The wholesale and retail market is segmented in the following manner:

- **1. Retail**
  The retail market consists of sales of goods to consumers by entities (organizations, sole traders and partnerships) that provide the service of making goods available to consumers in convenient quantities and locations. Retailing involves buying from wholesalers or direct from manufacturers, breaking bulk, displaying goods for sale either physically or online, and sometimes delivery. Wholesalers are independent organizations in the distribution channel that buy in bulk and sell to resellers rather than to consumers. Both retailers and wholesalers take ownership of the goods and so bear the risk of carrying inventory. They also reduce the total number of transactions required for the process of transferring goods from manufacturers to consumers.

  - 1.1. Motor Vehicle and Parts Dealers
  - 1.2. Food and Beverage Stores
  - 1.3. Gasoline Stations
  - 1.4. Miscellaneous Store Retailers

- **2. Wholesale**
  The wholesale market consists of sales by wholesalers. These entities (organizations, sole traders and partnerships) wholesale merchandise including the outputs of agriculture, mining, manufacturing, and certain information industries, such as publishing. Wholesale trade comprises purchasing, storing and selling merchandise to retailers or to other wholesalers and providing related services such as breaking bulk. This industry includes wholesale agents and brokers who arrange the purchase or sale of the goods owned by others, on a fee or commission basis. Wholesale industry also includes business to business electronic markets and platforms and agents that will facilitate for wholesale trade. The industries in this sector does not own or handle the products they sell.

  - 1. Non-Durable Goods Merchant Wholesalers
  - 2. Wholesale Electronic Markets and Agents and Brokers
  - 3. Durable Goods Merchant Wholesalers

**Financial analysis of Retail, Wholesalers, Manufacturing Big picture**

The conventional wisdom on the relationship of firm growth with its size and age is typically based on the studies in developed economies. In contrast, this study analyses the firm growth patterns for an emerging economy, namely India. It uses a balanced panel of 392 manufacturing firms over the years 1989–1990 to 1992–1993 to explore unobserved heterogeneity among firms. Results indicate that age positively influences growth, which is the opposite of the result obtained in previous studies. The current size negatively impacts growth as in earlier studies. Results also indicate that smaller and older firms grow faster than their counterparts. Size effect is larger in food industry while the age effect is larger.
in non-metal industry. Study indicates that factors one, two, three, ten and eleven - return on investment, sales efficiency, equity intensiveness, interest coverage, and long-term capitalization - are quite consistent as factor loadings for two-thirds or more ratios are greater than 0.70 in at least three years and factors seven and nine - activity and financial structure - are least consistent. Financial ratios with highest loadings with respective factors in all years are as follows

<table>
<thead>
<tr>
<th>Factor</th>
<th>Financial Ratio</th>
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<tbody>
<tr>
<td>1 Return on investment</td>
<td>1. PBDIT/TTA</td>
</tr>
<tr>
<td>2 Sales efficiency</td>
<td>2. PAT/NS</td>
</tr>
<tr>
<td>3 Equity intensiveness</td>
<td>3. RCF/TNW *</td>
</tr>
<tr>
<td>4 Short-term liquidity</td>
<td>4. QA/FEXP</td>
</tr>
<tr>
<td>5 Current asset intensiveness</td>
<td>5. INV/CA</td>
</tr>
<tr>
<td>6 Cash position</td>
<td>6. CASH/CL</td>
</tr>
<tr>
<td>7 Activity</td>
<td>7. INV/COP</td>
</tr>
</tbody>
</table>

the eleven factors exhibit a little similarity with the traditional classification of ratios, viz. liquidity, activity, profitability and leverage. An empirically-based classification of ratios, such as obtained in this study, is more comprehensive and reliable than any ad hoc classification. For example, in place of one classification of liquidity ratios, we have obtained three factors describing different dimensions of a firm's liquidity position. These factors are: short-term liquidity, current asset intensiveness and cash position. Similarly, in this study, four factors capture the financial dimensions commonly classified under leverage ratios. They are financial structure (comprising both long-term and short-term relationships), interest coverage, long-term capitalization and equity intensiveness. Furthermore, three factors - return on investment, sales efficiency and equity intensiveness - are obtained in place of single traditional classification of profitability ratios. We have also obtained a factor which we have described as activity. However, it may be noted that some of the ratios traditionally categorised under activity ratios are included under the sales efficiency factor. In this study a separate factor - earnings appropriation - has also been isolated. Thus an important insight from this study is that ratios grouped traditionally have different correlation structures in reality. Given below is the list of most commonly used financial ratios under the traditional classification with factor names to which they are assigned in this study and the number of years in which factor loadings were greater than 0.70. Inter-temporal Stability of Financial Patterns As discussed earlier, we have used three statistical methods to examine the intertemporal stability of financial ratio patterns. Provides correlation coefficients of factor loadings in each factor for the pairs of years, viz., 1965-66 with 1969-70; 1965-66 with 1979-80; 1965-66 with 1983-84; 1965-66 with 1984-85; 1969-70 with 1979-80; 1969-70 with 1983-84; 1969-70 with 1984-85; 1979-80 with 1983-84; 1979-80 with 1984-85; and 1983-84 with 1984-85. A study of correlation coefficients indicates that factors one, three and nine - return on investment, equity intensiveness and financial structure - are reasonably stable across the period 1965-66 to 1984-85. On the contrary, factors four and seven - short-term liquidity and activity - are least stable. Factors two, five, six, eight, ten and eleven - sales efficiency, current asset intensiveness, cash position, earnings appropriation, interest coverage and long-term capitalization do not reveal any discernible pattern as correlation coefficients are negative in some periods while positive in others.

A note of caution may be sounded, however. The use of correlation coefficient results for assessing the intertemporal stability of financial patterns is afflicted by at least three limitations: First, the number of observations (factor loadings of
ratios) could be very low to provide any meaningful interpretation of correlation coefficients. For example, in this study factors six, eight and eleven have less than six observations each. Second, the correlation results do not account for the magnitudes of factor loadings. Low factor loadings in a year can have strong co-movement with high factor loadings in another year resulting in a high correlation coefficient. For instance, factor six in 1970 has low factor loadings as compared to factor loadings in 1984. Third, signs of factor loadings has no alternate method which overcomes problems of signs and magnitudes of factor loadings is the percentage of mean of absolute deviations to mean of absolute values of factor loadings. Table 3 contains these results. Examination of results reveal that factors one, three and nine - return on investment, equity intensiveness and financial structure - were quite stable while factor two - sales efficiency - exhibited some degree of stability. Other factors did not show any discernible pattern.

Conclusion

The Indian economy exhibited resilience in an uncertain global environment dominated by the worsening of the slowdown in economic activity in several parts of the world. Benefiting from an unusually strong rebound in agricultural production, India's real GDP growth accelerated to 5.4 per cent during 2001-02 as against a deceleration to 4.0 per cent in 2000-01 from 6.1 per cent in 1999-2000. Foodgrains output touched a record high of 211.3 million tonnes in 2001-02 while the production of non-foodgrains increased significantly, except for sugarcane. Stocks of foodgrains touched 51.02 million tonnes at the end of March 2002, well above thrice the prevailing norm. On the other hand, industrial production suffered a pronounced and fairly wide-spread deceleration, led by a marked slowdown in the manufacturing sector. Wholesale banking in India is set for a period of sharp growth. Revenues from wholesale banking activities are likely to more than double over the next five years as infrastructure investment, expansion by Indian companies overseas, and further “Indianization” of multinational businesses, among other trends, drive new business. Foreign players and the country’s domestic banks, however, will find themselves in a tough commercial environment and must overcome a range of challenges if they are to maintain, or assume, a leading position in the market.

Capital goods and crude petroleum production recorded absolute declines. Real GDP originating in the services sector rose by 6.2 per cent in 2001-02, up from 5.0 per cent in 2000-01, reflecting an improved performance of financial services, particularly financing, insurance, real estate and business services. India is the fifth largest and preferred retail destination globally. The country is among the highest in the world in terms of per capita retail store availability. India’s retail sector is experiencing exponential growth with retail development taking place not just in major cities and metros, but also in tier II and III cities. Healthy economic growth, changing demographic profile, increasing disposable income, urbanisation, changing consumer tastes and preferences are some of the factors driving growth in the organised retail market in India. Thus, with the expansion in the market share of organised retail, Indian Retail sector will achieve the estimated projections in next 2-3 years. Improving economy, changing demographic profile, increasing disposable incomes in hands of the middle class, brand awareness and growing urbanization along with rising discretionary spends are the main growth drivers in the organized retail market in India.
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