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Financial appraisal of the Fast Moving Consumer Goods (FMCG) industry of India

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Abstract-

FMCG industry is one of the most important industries of the world. India's FMCG sector is the fourth largest industry in India. It provides employment for more than four million people in downstream activities. Its principal components are Household care, Personal care and Food and Beverages. The total F.M.C.G. market is of more than Rs. 200,000 Crore. Its current growth rate is in double digit and is expected to maintain a high growth rate. The financial performance is an indicator of the overall soundness of a business concern. In broader sense, financial performance refers to the degree to which financial objectives have been accomplished. It is a technique of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial performance over a given period of time. In the current study the overall financial performance of selected FMCG Companies of India is analysed using Ratio Analysis and various other statistical techniques. The study takes a fresh look at the financial performance of the FMCG sector. It will help the future investors to choose a safe investment and to identify the growth opportunities. The scope of the study is limited because it is based in secondary data using financial statements and reports published by the company.

Keywords: Financial Performance, FMCG, ratio analysis, investment

Introduction-

India is one of the largest economies in the world with a population of over one billion, in terms of purchasing power and consumer spending. A country whose middle class populace is as big as the entire populace of USA is a market which no FMCG player can afford to overlook. As the fruits of economic growth become available to the masses and more people start to move up the economic strata, the Indian market only keeps on growing. Further, with a population where the median age is only 27, consumerism is on the rise in India with growing aspiration levels. This has been further aided by government's efforts to expand financial inclusion and creation of social security nets.

FMCG is the fourth largest sector in Indian economy and provides employment to around 3 million people accounting for approximately 5% of the total factory employment in India. The sector has leading multinational companies, competition between organized and unorganized players, well established distribution network, and low operational cost. Growth in the country's FMCG sector is being fuelled by improving scenario in both demand as well as supply side.

The FMCG sector in India has grown at an average of about 11 per cent over the last decade. India's vigorous economic growth and rising household incomes are expected to increase consumer spending to US$ 4 trillion by 2025.

Rural India accounting for more than 700 million consumers and accounting for 50 per cent of the total FMCG market, there exists huge opportunity at the so called 'bottom of the pyramid'. The market in India is unevenly fragmented with half the market being dominated by unbranded, unpackaged, home-made products, operating mostly in the rural markets.

FMCG sector in India-

The Indian FMCG sector is the fourth largest sector of Indian economy with a market size of US billion. This sector has strong presence of multinational companies and is characterised by a well-established distribution network. There is intense competition between the organised and unorganised segments and low operational cost.

Review of literature-

The researcher and financial advisors have observed that profitability is the main factor to analyse and improve the financial performance of the sector. Many studies have been conducted in the field of operation and financial performance of FMCG Companies. A brief review of some of these studies has been presented.

Tawinder and Kaur (2020) in their research paper on "Economic Slowdown: An analysis of rural distress and informal sector" have laid a massive emphasis on the employability of the rural population and the informal sector workers who do not have secure jobs and are major contributors to the consumption of FMCG products. They have included the unemployment rate of the country in order to find the relation between it and the performance of the index.

Reeti Gaur, Rajinder Kaur (2018) in their research paper on the "Effect of Firm-Specific and macroeconomic conditions on corporate cash holding: Evidence from FMCG companies in India" concluded that the FMCG industry, producing products which are reasonably low in cost and have shorter shelf life. It maintained large cash reserves and a booming economy help these companies to generate more income. This showed that GDP growth has a positive influence on the cash holding of the firms. In their research, they have included the GDP figures at current prices and test the effect on the companies listed in NIFTY.

Beaver (2017) contented that standard financial ratios can predict the financial performance of firms; many subsequent studies have attempted to demonstrate the predictive value of various techniques for estimating actual business performance.

Sarvanan and Abarna (2014) conducted study on liquidity analysis of selected FMCG companies in India using ANOVA. They concluded that there is significant difference among the absolute liquid ratios of the selected companies.

Selected FMCG companies-

Britannia Industries Limited:

Britannia Industries is one of India's leading food companies with a 100 year legacy and annual revenues in excess of Rs. 9000 Cr. Britannia is among the most trusted food brands, and manufactures India's favourite brands like Good Day, Tiger, Nutri Choice, Milk Bikis and Marie Gold which are household names in India. The product portfolio includes Biscuits, Bread, Cakes, Rusk, and Dairy products including Cheese, Beverages, Milk and Yoghurt. Its products are available in all corners in India through 6 million retail outlets and reach to 60% of Indian homes.

ITC Limited:

ITC's wholly-owned subsidiary and India's leading FMCG Company. It is leader in the Indian paperboard and packaging industry. It has developed wide-reaching Agri Business in India and pioneer in farmer's empowerment. It also has eminent hotel chain in India. ITC InfoTech provides digital solution at the global level. ITC's new Consumer Goods Businesses, during the last few years have established a popular portfolio of 25 world- class Indian brands that create and retain value in India. Its world class FMCG brands including Aashirvaad, Sunfeast, Yippee!, Bingo!, B Natural, ITC Master Chef, Fabelle, Sunbean, Fiama, Engage, Vivel, Savlon, and others have garnered encouraging consumer franchise within a short span of time. Most of these brands are market leaders in their segments.

Hindustan Unilever Limited:

HUL is a subsidiary of Unilever; HUL is India's largest fast-moving consumer goods company with a history of 86 years. Nine out of ten FMCG products in Indian households use products are from HUL. The Company is employing more than 21,000 employees and total sales is of INR 45,311 crores (financial year 2020-21). It is largest leading suppliers of Food, Home Care, Personal Care and Refreshment products with sales in over 200 countries and an annual sales turnover of €53 billion in 2021.

OBJECTIVES OF THE STUDY:

- To assess the financial performance of selected companies of FMCG sector of India in terms of profitability.
- To compare the profitability of selected companies of FMCG sector of India

RESEARCH METHODOLOGY:

The study is about profitability and financial performance of selected FMCG companies listed in BSE. The selected Companies for the study are Britannia, HUL and ITC. This study is based on the secondary data obtained from the Annual reports of these companies for financial years 2014 to 2019. For more information different Journals and related Websites are also taken into consideration as and when required for the study**.** The collected data is analysed with the help of ratio analysis and ANOVA.

SOURCES OF DATA

The study is based on secondary data. Information required for the study has been collected from the Annual Reports of Britannia Industries, ITC Ltd, and Hindustan Unilever and different books, journal, magazines, and data collected from various websites. The study covers years from 2014 to 2019.

TOOLS APPLIED

In this study various tools: Financial Tools – Ratio Analysis and Statistical Tools (i.e.) Mean and ANOVA test have been used for data analysis.

Mean = *Sum of variable* / *N*

Standard Deviation (*SD*) = √Σ*X* 2 / *N* - (Σ*X*/*N*)

Coefficient of Variation (*COV*) = *SD* / *Mean* * 100

Performance appraisal –

Analysing a company's profitability is an important part of financial statement analysis. Profitability of a company measures the ability to earn more. Profitability ratios are classified into two main categories namely:

- Margin Ratio
- Rate of Return Ratio.

Margin Ratio**:** It shows the relationship between Profit and Net Sales.

Gross Margin Ratio**:** It shows the profit left after meeting the manufacturing expenses. It also reflects the efficiency of production by a firm.

Gross Margin Ratio = Gross Profit / Sales

Table.1. Gross Profit Margin (%)

Year	**Britannia Industries**	**ITC Ltd**	**HUL**
2014	34.03	63.37	47.85
2015	35.31	63.16	44.94
2016	37.07	61.31	48.93
2017	38.92	62.15	48.84

2018	39.66	61.56	50.54
2019	39.96	64.66	51.42
Mean	37.49	62.70	48.75
SD	2.44	1.27	2.27
COV	0.07	0.02	0.047

The Table.1 depicts that ITC Ltd has the highest Mean Value while Britannia Industries has lowest Mean Value in comparison to other Companies. Standard deviation of Britannia Industries is 2.44, the highest while Coefficient of Variation of Britannia Industries is maximum and ITC Ltd the minimum.

Hypothesis:

An ANOVA is statistical tool. Null hypotheses have been set and used for the analysis of data. The null hypotheses are represented by H**0**. It is a negative statement which avoids biases of investigator during data collection. It also helps in drawing unbiased and accurate conclusion.

H0: $\mu 1 = \mu 2 = \mu 3$ (There is no significant relationship between Gross Profit Margin of the above Companies)

H1: $\mu 1 \neq \mu 2 \neq \mu 3$ (There is significant relationship between Gross Profit Margin of the above Companies)

Table.2. Gross Profit Margin - ANOVA Single Factor

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Britannia industries	*5*	*190.92*	*38.184*	*3.84383*
ITC ltd	*5*	*312.84*	*62.568*	*1.87507*
HUL	*5*	*244.67*	*48.934*	*6.18008*

Table.3. ANOVA Variation

ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	1493.38	2	746.6899267	188.2573	8.68E-10	3.885293835
Within Groups	47.59592	12	3.966326667			
Total	1540.976	14				

Above analysis shows that the F-value (188.2573) is more than the table value (3.88529383) therefore null hypothesis is rejected. Therefore it is concluded that there is significant relationship between Gross Profit Margin of the above FMCG Companies.

Operating Margin Ratio**:** It shows the profit left after meeting the Operating expenses. It also reflects the Operating efficiency of a firm.

Operating Margin Ratio = PBITDA/Net Sales

Table.4. Operating Profit Margin (%)

Year	**Britannia Industries**	**ITC Ltd**	**HUL**
2014	4.73	36.83	15.92
2015	5.24	38.18	16.46
2016	6.05	38.48	19.79
2017	7.96	40.08	18.99
2018	10.04	40.22	20.83
2019	13.87	42.50	19.00
Mean	7.98	39.38	18.50
SD	3.48	1.99	1.92
COV	0.44	0.05	0.10

The Table.4 depicts that ITC Ltd has the highest Mean Value while Britannia Industries has lowest Mean Value in comparison to other FMCG Companies. Standard deviation of Britannia Industries is 3.48, the highest while Coefficient of Variation of Britannia Industries is maximum and ITC Ltd the minimum.

Hypothesis:

H0: $\mu 1 = \mu 2 = \mu 3$ (There is no significant relationship between Operating Profit Margin of the above Companies)

H1: $\mu 1 \neq \mu 2 \neq \mu 3$ (There is significant relationship between Operating Profit Margin of the above Companies).

Table.5. Operating Profit Margin - ANOVA Single Factor

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Britannia industries	*5*	*43.16*	*8.632*	*12.01077*
ITC Ltd	*5*	*199.46*	*39.892*	*2.96732*
HUL	*5*	*95.07*	*19.014*	*2.60593*

Table.6. ANOVA Variation

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	*2534.774*	*2*	*1267.387007*	*216.2282*	*3.87E-10*	*3.885293835*
Within Groups	*70.33608*	*12*	*5.86134*			
Total	*2605.11*	*14*				

Above analysis shows that the F value (216.2282) is more than the table value (3.885293835) therefore null hypothesis is rejected. Therefore it is concluded that there is significant relationship between Operating Profit Margin of the above FMCG Companies.

Net Margin Ratio**:** It shows the relationship between Net profit and sales i.e. Profit left for equity shareholders as a percentage of Net sales.

Table.7. Net Profit Margin (%)

Year	**Britannia Industries**	**ITC Ltd**	**HUL**
2014	2.92	22.52	11.52
2015	3.66	23.90	11.95
2016	4.23	24.29	14.22
2017	5.79	25.42	13.53
2018	7.39	25.14	13.69
2019	10.10	25.37	12.33
Mean	5.68	24.44	12.87
SD	2.69	1.12	1.08
COV	0.47	0.05	0.08

The Table.7 depicts that ITC Ltd has the highest Mean Value while Britannia Industries has lowest Mean Value in comparison to other FMCG Companies. Standard deviation of Britannia Industries is 2.69, the highest while Coefficient of Variation of Britannia Industries is maximum and ITC Ltd the minimum.

Hypothesis**:**

H0: $\mu\mathbf{1} = \mu\mathbf{2} = \mu\mathbf{3}$ (There is no significant relationship between Net Profit Margin of the above Companies)

H1: $\mu\mathbf{1} \neq \mu\mathbf{2} \neq \mu\mathbf{3}$ (There is significant relationship between Net Profit Margin of the above Companies)

Table.8. Net Profit Margin - ANOVA Single Factor

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Britannia Industries	5	31.17	6.234	6.78023
22.52	5	124.12	24.824	0.47303
11.52	5	65.72	13.144	0.92328

Table.9. ANOVA Variation

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	882.931	2	441.4655	161.9752	2.08E-09	3.885293835
Within Groups	32.70616	12	2.725513333			
Total	915.6372	14				

Above analysis shows that the F value (161.9752) is more than the table value (3.885293835) therefore null hypothesis is rejected. Therefore it is concluded that there is significant relationship between Net Profit Margin of the above FMCG Companies.

Rate of Return Ratios:

It reflects the relationship between profit earned and the total investments of a firm

Return on Capital Employed (ROCE): It shows the relationship between Operating Profits and Capital Employed.

Table.10. Return on Capital Employed - ROCE (%)

Year	**Britannia Industries**	**ITC Ltd**	**HUL**
2014	13.9	45.1	93.4
2015	19.1	47.2	99.6
2016	25.8	48.1	121.8
2017	40.0	47.7	141.6
2018	43.9	45.3	140.6
2019	46.0	45.5	108.1
Mean	31.5	46.5	117.5
CAGR (%)	27%	0.16%	3%

The Table depicts that HUL has the highest mean in terms of Return on Capital Employed followed by ITC Ltd and Britannia Industries. The Compounded Annual Growth Rate (CAGR %) of Britannia Industries is maximum.

Hypothesis:

H0: $\mu\mathbf{1} = \mu\mathbf{2} = \mu\mathbf{3}$ (There is no significant relationship between Return on Capital Employed of the above Companies)

H1: $\mu\mathbf{1} \neq \mu\mathbf{2} \neq \mu\mathbf{3}$ (There is significant relationship between Return on Capital Employed of the above Companies)

Table.11. Return on Capital Employed - ANOVA Single Factor

SUMMARY					
Groups	*Count*	*Sum*	*Average*	*Variance*	
13.9	5	174.8	34.96	140.663	
45.1	5	233.8	46.76	1.648	
93.4	5	611.7	122.34	356.138	

Table.12. ANOVA Variation

ANOVA						
Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	22478.07	2	11239.034	67.64404	2.92E-07	3.885293835
Within Groups	1993.796	12	166.1496667			
Total	24471.86	14				

Above analysis shows that the F value (67.64404) is more than the table value (3.885293835) therefore null hypothesis is rejected. Therefore it is concluded that there is significant relationship between Return on Investment of the above FMCG Companies.

Earnings per Share (EPS): It shows the relationship between profit after tax and number of equity shares outstanding

Table.13. Earnings per Share (EPS)

Year	**Britannia Industries**	**ITC Ltd**	**HUL**
2014	11.2	6.5	10.5

2015	16.7	8.0	11.9
2016	21.7	9.6	14.7
2017	33.0	11.1	16.4
2018	47.9	12.0	16.9
2019	70.1	12.3	19.0
Mean	33.4	9.9	14.9
CAGR (%)	44%	14%	13%

The Table depicts that Britannia Industries has the highest Mean Value while, ITC Ltd has lowest Mean Value in comparison to other Companies. The Compounded Annual Growth Rate (CAGR %) of Britannia Industries is maximum followed by ITC Ltd and HUL.

Hypothesis:

H0: $\mu 1 = \mu 2 = \mu 3$ (There is no significant relationship between Earnings per share of the above Companies)

H1: $\mu 1 \neq \mu 2 \neq \mu 3$ (There is significant relationship between Earnings per share of the above Companies)

Table.14. Earnings per Share (EPS) - ANOVA Single Factor

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
Britannia Industries	5	189.4	37.88	468.182
ITC LTD	5	53	10.6	3.215
HUL	5	78.9	15.78	7.057

Table.15. ANOVA Variation

Source of Variation	*SS*	*Df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	2099.068	2	1049.534	6.580783	0.011767	3.885293835
Within Groups	1913.816	12	159.4846667			
Total	4012.884	14				

Above analysis shows that the F value (6.580783) is more than the table value (3.885293835) therefore null hypothesis is rejected. Therefore it is concluded that there is significant relationship between Earnings per share of the above FMCG Companies.

***Debt–Asset Ratio*: ** It measures the total Debt of a company as a percentage of its total Capital Employed.

Table.16. Debt –Asset Ratio

Year	**Britannia Industries**	**ITC Ltd**	**HUL**
2014	0.66	0.07	0.25

2015	0.60	0.06	0.22
2016	0.41	0.07	0.30
2017	0.16	0.06	0.27
2018	0.11	0.06	0.23
2019	0.07	0.06	0.29
Mean	0.34	0.06	0.26
CARG (%)	-35%	-0.96%	3.4%

The Table.17 depicts that Britannia Industries has the highest Mean Value while, ITC Ltd has lowest Mean Value in comparison to other Companies. The Compounded Annual Growth Rate (CAGR %) of all FMCG Companies are Negative except HUL.

***Hypothesis*:**

H0: $\mu\mathbf{1} = \mu\mathbf{2} = \mu\mathbf{3}$ (There is no significant relationship between Debt–Asset Ratio of the above Companies)

H1: $\mu\mathbf{1} \neq \mu\mathbf{2} \neq \mu\mathbf{3}$ (There is significant relationship between Debt–Asset Ratio of the above Companies)

Table.17. Debt Asset Ratio -ANOVA Single Factor

SUMMARY				
Groups	*Count*	*Sum*	*Average*	*Variance*
0.66	5	1.35	0.27	0.05155
0.07	5	0.31	0.062	0.00002
0.25	5	1.31	0.262	0.00127

Table.18. ANOVA: Variation

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.13888	2	0.06944	3.942468	0.048299	3.885293835
Within Groups	0.21136	12	0.017613333			
Total	0.35024	14				

Above analysis shows that the F value (3.942468) is more than the table value (3.885293835) therefore null hypothesis is rejected. Therefore it is concluded that there is significant relationship between Debt–Asset Ratio of the above FMCG Companies.

CONCLUSION-

The current study on five leading FMCG companies has been conducted to examine the profitability, liquidity and sustainability of the Leading FMCG Companies by using Ratio Analysis during the period 2014 to 2019 (six years). The study reveals that:

- In terms of Margin Ratios: Gross Profit, Operating Profit and Net Profit ITC are in the top position.
- In terms of Rate of Return Ratios: Return on Capital Employed HUL is on the top position.
- Structural Ratios include both Leverage and Coverage Ratios, In terms of Leverage Britannia is in the top position for both Debt Equity and Debt–Asset Ratios.
- In terms of Interest Coverage ITC is in the top position. Under Valuation Ratios: Britannia is in the top position in terms of Earnings per Share while HUL in Dividend per Share and min Price Earnings Ratio.
- Composite Performance shows that ITC is in better position in comparison to other FMCG Firms.
- The study depicted that though ranking of ratios are different, but there is no statistically significant difference between the financial ratios.

Limitations of the study-

The main limitations of the study are as follows:

I. The study is related to FMCG Sector of India only.

II. The study is based on secondary data derived from annual reports as well as web-sites of selected FMCG units.

III. This study is restricted to 6 years and only three units as compared to population the sample size is too small. Hence results of the study cannot be generalized.

IV. The ratio analysis has its own limitations. The same also applies to the present study.

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