

PROFITABILITY ANALYSIS: A CASE STUDY OF SELECTED FMCG COMPANIES IN INDIA

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ABSTRACT

Indian FMCG Industry is the 4th largest sector in Indian economy and the key growth drivers behind this sector are easier access, growing awareness and changing lifestyles. The revenue of FMCG sector in India reached Rs. 3.4 lakh crore (US\$ 52.75 billion) in the FY18 and is estimated to reach US\$ 103.7 billion by 2020. The increased number of MNCs in Indian Market has made the existing domestic FMCG companies to reorient its financial strategies for their survival. The present study is aimed at evaluating financial performance of selected 5 FMCG companies in India during the period 2007-08 to 2016-17.

Keywords: ITC Limited, Britannia Limited, Dabur Limited, Godrej Limited, Pidilite Limited, Net Profit Ratio, Return on Assets, Return on Capital Employed.

INTRODUCTION

The products which have a very low shelf life or the items which are consumed frequently by consumers are termed as FMCG or fast moving consumer goods and includes the products which get replaced within a year like toiletries, soap, cosmetics, detergents, tooth paste, plastic goods, paper products, packed food products, plastic goods, bulbs, glasswares, shaving cream, shampoo, batteries etc. A subset of FMCGs includes mobile phones, MP3 players, digital camera and Laptops. FMCG sector in India accounts for about 50% of households and personal care segment. The revenue share accounts about 55% of the urban sector in India. FMCG industry in India possess a well established distribution network, low per capital consumption, low operating costs, low penetration level and intense competition among the organized and unorganized segments.

Financial management has a vibrant role to play in present scenario for the development of company. Increasing corporate competition, change in technology, ethical issues regarding financial dealings, changing tax laws, volatility of inflationary situation, economic uncertainty at global level are some of the major external factors, having an imminent impact on financial manager and with an objective to create value of the company a financial manager has an important role to play in this regard. For survival of the firm, the company's financial manager must be adaptive with the changes and must have the ability to raise funds and do profitable investment which contributes towards the success of the firm and ultimately leads to the development of society.

ITC Limited: ITC Ltd. is an Indian multinational whose headquarter is located at Kolkata, West Bengal. ITC has 25 FMCG mother brands along with market capitalization of US \$45 Billion and turnover of around US \$8 Billion. The company has 2 million retail units comprising more than 200 manufacturing units and provides employment to more than 30000 employees. ITC's business includes five segments: Fast Moving Consumer Goods, Packaging & Hotels Paperboards, Information Technology and Agri-Business.

Britannia Industries Limited: With a legacy of 100 years Britannia Industries Ltd. is India's leading food industries and one of the most trusted brands whose annual revenue exceeds Rs. 9000 crores. Some most popular brands of Britannia Industries Ltd. are Good Day, Tiger, Milk Bikis, Nutri Choice, and Marie Gold. Britannia Industries Ltd. operates with 13 factories and 4 franchises selling about 1 million loaves daily in more than 100 cities and towns of India. Britannia Industries Ltd. has presence in about more than 60 countries across the world and now it exports its products to Europe, North America, South East Asia Africa and.

Dabur India Limited: With market capitalization of over Rs 48,800 crores and revenues exceeding Rs. 7680 crores, Dabur India Ltd. is one of India's leading FMCG companies. Dabur India Ltd. is world's largest Ayurvedic and Natural Health Care Company, having existence for more than 133 years. With about 250 Herbal/Ayurvedic products in its portfolio Dabur India Ltd. is world leader in ayurveda.

Godrej Consumer Products Limited: In 1951, the Company contributed by supplying Ballot boxes for our first elections in country. With the passage of time Godrej introduced Cinthol soaps, which later became second largest soap player followed by strong entry into home appliances market with refrigerator in 1958. In the beginning of 1990s, the company entered real estate industry in India with innovation and excellence and the company become partner with "Indian Space Research Organisation" on India's first mission to Mars in 2014. Godrej which

was established in 1897 is one of the fastest growing companies of India with revenue of over USD 4.1 billion and performs with a vision for 2020 to be 10 times the size of that of 2010.

Pidilite Industries Limited: Pidilite Industries Limited is committed for its quality and innovation is basically a consumer centric company. For decades, the company has been pioneering products for small to large applications, for home as well as for industry, which has the bonds more strong with people from all the angles of life. The company has diversified portfolio of products which includes adhesives, sealants, waterproofing solutions, polymers, construction chemicals to arts & crafts, industrial resins and more.

OBJECTIVES OF THE STUDY

1. To calculate and compare Net Profit ratio of selected FMCG companies from 2007-08 to 2016-17.
2. To calculate and compare Return on Assets of selected FMCG companies from 2007-08 to 2016-17.
3. To calculate and compare Return on Capital Employed of selected FMCG companies from 2007-08 to 2016-17.

HYPOTHESIS OF THE STUDY

1. H₀: There is no significant difference between Net Profit ratios of selected FMCG companies
H_a: There is a significant difference between Net Profit ratios of selected FMCG companies
2. H₀: There is no significant difference between Return on Assets of selected FMCG companies
H_a: There is a significant difference between Return on Assets of selected FMCG companies
3. H₀: There is no significant difference between Return on Capital Employed of selected FMCG companies
H_a: There is a significant difference between Return on Capital Employed of selected FMCG companies

RESEARCH METHODOLOGY

1. **Sample Selection:** To evaluate the financial performance of FMCG companies, 5 Indian FMCG companies have been selected namely – ITC Limited, Britannia Industries

Limited, Dabur India Limited, Godrej Consumer Products Limited and Pidilite Industries Limited.

- 2. Source of Data:** The study is based completely on secondary data and the data has been gathered from respective sites of the company.
- 3. Period of study:** The study aims at evaluating the financial performance of 10 leading FMCG companies in India. The study is conducted for a period of 10 years from 2007-08 to 2016-17.
- 4. Tools of Analysis:** To analyze the data, Net Profit ratio, Return on Assets and Return on Capital Employed are computed along with ANOVA.

ANALYSIS & INTERPRETATION

Net Profit ratio, Return on Assets and Return on Capital Employed of all the five FMCG companies under study have been examined with the assistance of tabular representation, followed by ANOVA.

Table 1.1: Net Profit Ratio

Year	ITC Ltd.	Britannia Industries Ltd.	Dabur India Ltd.	Godrej Consumer Products Ltd.	Pidilite Industries Ltd.
2007-08	0.22	0.07	0.15	0.17	0.12
2008-09	0.21	0.06	0.16	0.15	0.08
2009-10	0.22	0.03	0.15	0.20	0.15
2010-11	0.24	0.03	0.14	0.17	0.13
2011-12	0.25	0.04	0.12	0.20	0.12
2012-13	0.25	0.04	0.14	0.14	0.14
2013-14	0.27	0.06	0.14	0.14	0.12
2014-15	0.27	0.09	0.14	0.15	0.11
2015-16	0.27	0.10	0.16	0.15	0.15

2016-17	0.26	0.10	0.19	0.18	0.16
Average	0.25	0.06	0.15	0.16	0.13

Table 1.1 reveals a comparative analysis of net profit ratio of all the ten companies under study.

Net profit ratio of ITC Ltd. has shown an average of 0.25:1. Highest net profit ratio of 0.27:1 was marked in the three consecutive years i.e. from 2013-14 to 2015-16 and lowest ratio of 0.21:1 was marked in the year 2009-10.

Net profit ratio of Britannia Industries Ltd. stood at an average of 0.06:1 for a period of 10 years. The company witnessed highest net profit ratio of 0.10:1 from 2015-16 to 2016-17 whereas, lowest ratio of 0.03:1 was observed from 2009-10 to 2010-11.

Dabur India Ltd. has witnessed highest net profit ratio of 0.19:1 in 2016-17 whereas, lowest ratio of 0.12:1 was observed in 2011-12. The company's net profit ratio stood at an average of 0.15:1.

In case of Godrej Consumer Products Ltd. highest net profit ratio of 0.20:1 was observed in 2009-10 and 2011-12 whereas, lowest net profit ratio of 0.14:1 was observed from 2012-13 to 2013-14. Net profit ratio of the company stood at an average of 0.16:1.

Net profit ratio of Pidilite Industries Ltd. stood at an average of 0.13:1 wherein, highest net profit ratio of 0.16:1 was observed in 2016-17 and lowest net profit ratio of 0.08:1 was observed in 2008-09.

Table 1.2: Return on Assets

Year	ITC Ltd.	Britannia Industries Ltd.	Dabur India Ltd.	Godrej Consumer Products Ltd.	Pidilite Industries Ltd.
2007-08	0.18	0.16	0.27	0.26	0.13
2008-09	0.17	0.14	0.24	0.18	0.09
2009-10	0.18	0.09	0.25	0.20	0.16
2010-11	0.20	0.10	0.20	0.17	0.15
2011-12	0.21	0.11	0.16	0.17	0.15

2012-13	0.22	0.14	0.21	0.12	0.18
2013-14	0.22	0.20	0.22	0.13	0.16
2014-15	0.22	0.25	0.21	0.13	0.15
2015-16	0.20	0.24	0.21	0.15	0.19
2016-17	0.19	0.23	0.19	0.14	0.18
Average	0.20	0.17	0.22	0.17	0.15

Table 1.2 reveals a comparative analysis of return on assets of all the ten companies under study.

Return on assets of ITC Ltd. has shown an average of 0.20:1. Highest return on assets of 0.22:1 was marked in the three consecutive years i.e. from 2012-13 to 2014-15 and lowest ratio of 0.17:1 was marked in the year 2008-09.

Return on assets of Britannia Industries Ltd. stood at an average of 0.17:1 for a period of 10 years. The company witnessed highest return on assets of 0.25:1 in 2014-15 whereas, lowest ratio of 0.09:1 was observed in 2009-10.

Dabur India Ltd. has witnessed highest return on assets of 0.27:1 in 2007-08 whereas, lowest ratio of 0.16:1 was observed in 2011-12. The company's return on assets stood at an average of 0.22:1.

In case of Godrej Consumer Products Ltd. highest return on assets of 0.26:1 was observed in 2007-08 whereas, lowest return on assets of 0.12:1 was observed in 2012-13. Return on assets of the company stood at an average of 0.17:1.

Return on assets of Pidilite Industries Ltd. stood at an average of 0.15:1 wherein, highest return on assets of 0.19:1 was observed in 2015-16 and lowest return on assets of 0.09:1 was observed in 2008-09.

Table 1.3: Return on Capital Employed

Year	ITC Ltd.	Britannia Industries Ltd.	Dabur India Ltd.	Godrej Consumer Products Ltd.	Pidilite Industries Ltd.
2007-08	0.36	0.27	0.64	0.58	0.19
2008-09	0.33	0.27	0.47	0.31	0.12
2009-10	0.40	0.15	0.60	0.35	0.23
2010-11	0.43	0.22	0.43	0.28	0.27
2011-12	0.45	0.36	0.33	0.27	0.29
2012-13	0.45	0.41	0.45	0.21	0.35
2013-14	0.46	0.61	0.43	0.23	0.30
2014-15	0.43	0.70	0.40	0.24	0.28
2015-16	0.43	0.66	0.41	0.25	0.35
2016-17	0.33	0.48	0.32	0.24	0.33
Average	0.41	0.41	0.45	0.30	0.27

Table 1.3 reveals a comparative analysis of return on capital employed of all the ten companies under study.

Return on capital employed of ITC Ltd. has shown an average of 0.41:1. Highest return on capital employed of 0.46:1 was marked in 2013-14 and lowest ratio of 0.33:1 was marked in 2008-09 and 2016-17.

Return on capital employed of Britannia Industries Ltd. stood at an average of 0.41:1 for a period of 10 years. The company witnessed highest return on capital employed of 0.70:1 in 2014-15 whereas, lowest ratio of 0.15:1 was observed in 2009-10.

Dabur India Ltd. has witnessed highest return on capital employed of 0.64:1 in 2007-08 whereas, lowest ratio of 0.32:1 was observed in 2016-17. The company's return on capital employed stood at an average of 0.45:1.

In case of Godrej Consumer Products Ltd. highest return on capital employed of 0.58:1 was observed in 2007-08 whereas, lowest return on capital employed of 0.21:1 was observed in 2012-13. Return on capital employed of the company stood at an average of 0.30:1.

Return on capital employed of Pidilite Industries Ltd. stood at an average of 0.27:1 wherein, highest return on capital employed of 0.35:1 was observed in 2012-13 and 2015-16. Lowest return on capital employed of 0.12:1 was observed in 2008-09.

Hypothesis Testing on Net Profit ratio (ITC Limited, Britannia Industries Limited, Dabur India Limited, Godrej Consumer Products Limited, Pidilite Industries Limited)

To test whether there is a significant difference between Net Profit ratios of selected five FMCG companies the following hypothesis is framed and tested through ANOVA at 95% confidence level.

H₀: There is no significant difference between Net Profit ratio of all the five companies under study.

H_a: There is a significant difference between Net Profit ratio of all the five companies under study.

ANOVA: Single Factor				
SUMMARY				
<i>Groups</i>	<i>Count (Years)</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
ITC	10	2.46	0.246	0.000516
Britannia	10	0.62	0.062	0.000751
Dabur	10	1.49	0.149	0.000343
Godrej	10	1.65	0.165	0.000517
Pidilite	10	1.28	0.128	0.000551

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	0.1767	4	0.044175	82.48444	3.99E-20	2.578739
Within Groups	0.0241	45	0.000536			
Total	0.2008	49				

Since the calculated value is more than table value H_0 is rejected and H_a is accepted. Hence, it can be said that there is a significant difference between net profit ratio of all the five companies under study.

Hypothesis Testing on Return on Assets (ITC Limited, Britannia Industries Limited, Dabur India Limited, Godrej Consumer Products Limited, Pidilite Industries Limited)

To test whether there is a significant difference between Return on Assets of selected five FMCG companies the following hypothesis is framed and tested through ANOVA at 95% confidence level.

H_0 : There is no significant difference between Return on Assets of all the five companies under study.

H_a : There is a significant difference between Return on Assets of all the five companies under study.

ANOVA: Single Factor				
SUMMARY				
<i>Groups</i>	<i>Count (Years)</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
ITC	10	1.99	0.199	0.000343
Britannia	10	1.66	0.166	0.003604
Dabur	10	2.16	0.216	0.000982
Godrej	10	1.65	0.165	0.001761
Pidilite	10	1.54	0.154	0.000827

ANOVA						
<i>Source of Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Between Groups	0.02754	4	0.006885	4.579146	0.003457	2.578739
Within Groups	0.06766	45	0.001504			
Total	0.0952	49				

Since the calculated value is more than table value H_0 is rejected and H_a is accepted. Hence, it can be said that there is a significant difference between return on assets of all the five companies under study.

Hypothesis Testing on Return on Capital Employed (ITC Limited, Britannia Industries Limited, Dabur India Limited, Godrej Consumer Products Limited, Pidilite Industries Limited)

To test whether there is a significant difference between Return on Capital Employed of selected five FMCG companies the following hypothesis is framed and tested through ANOVA at 95% confidence level.

H_0 : There is no significant difference between Return on Capital Employed of all the five companies under study.

H_a : There is a significant difference between Return on Capital Employed of all the five companies under study.

ANOVA: Single Factor

SUMMARY				
Groups	Count (Years)	Sum	Average	Variance
ITC	10	4.07	0.407	0.002468
Britannia	10	4.13	0.413	0.037423
Dabur	10	4.48	0.448	0.010573
Godrej	10	2.96	0.296	0.011649
Pidilite	10	2.71	0.271	0.005366

ANOVA

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	0.24534	4	0.061335	4.544755	0.003614	2.578739
Within Groups	0.60731	45	0.013496			
Total	0.85265	49				

Since the calculated value is more than table value H_0 is rejected and H_a is accepted. Hence, it can be said that there is a significant difference between return on capital employed of all the five companies under study.

CONCLUSION

On the basis of above study, the following conclusions can be made:

1. Net Profit ratio of ITC Limited stood highest during the study period whereas, that of Britannia Industries Limited stood lowest. Hence, Britannia Industries Limited must take necessary steps to increase its Net Profit.
2. Dabur India Limited is having highest return on assets whereas Pidilite Industries Limited is having lowest return on assets of the lot. Therefore, Pidilite Industries Limited must utilize its assets in more effective way in order to increase its return on assets.

3. Dabur India Limited is having highest Return on Capital Employed whereas Pidilite Industries Limited is having lowest Return on Capital Employed of the lot. Therefore, Pidilite Industries Limited must take necessary steps to increase its Return on Capital Employed.
4. There is a significant difference between net profit ratio of all the five companies under study.
5. There is a significant difference between return on assets of all the five companies under study.
6. There is a significant difference between return on capital employed of all the five companies under study.

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