FINANCIAL PERFORMANCE ANALYSIS OF FMCG COMPANY- A CASE STUDY

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Abstract :

FMCG industry provides a wide range of consumables and accordingly the amount of money circulated against FMCG products is also very high. The competition among FMCG manufacturers is also growing and as a result of this, investment in FMCG industry is also increasing, specifically in India, where FMCG industry is regarded as the fourth largest sector with total market size of US$20.1 billion. Fast moving consumer goods will become Rs.400,000crore industry by 2020. This study is financial performance analysis of Britannia FMCG Company. The objectives are one is to analyse the liquidity ration of the Britannia FMCG company and second is to evaluate the Profitability position of the Britannia FMCG company. From the ratio find out Proprietors' contribution to the total assets is not sufficient. Gross profit margin for the study period is not satisfactory. The company has not been controlling overhead cost to generate good gross profit. The net profit has been increasing every year and reached 8.47 in the year 2014-2015. Hence, the net profit ratios for the study periods are satisfactory level. And conclude the suggestions are current ratio should be increased to avail more credit from the lenders. Inventory management of the concern is not satisfactory

Keywords: FMCG, Britannia, Liquidity, Profitability, Ratio analysis, Financial Performance

IndexTerms **- Component,formatting,style,styling,insert.**

Introduction

Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. These products are purchased by the customers in small quantity as per the need of individual or family. These items are purchased repeatedly as these are daily use products. The price or value of the products is not very high. These products are having short life also. It may include perishable and non perishable products, durable and non durable goods. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals; consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. A subset of FMCGs is Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products. White goods in FMCG refer to household electronic items such as Refrigerators, TVs, Music Systems, etc. In 2005, the Rs.48,000crore FMCG segment was one of the fast growing industries in India.

According to the AC Nielsen India study, the industry grew 5.3% in value between 2004 and 2005. The Indian FMCG sector is the fourth largest in the economy and has a market size of US$13.1 billion. Well-established distribution networks, as well as intense competition between the organised and unorganised segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain. The middle class and the rural segments of the Indian population are the most promising market for FMCG and give brand makers the opportunity to convert them to branded products. Most of the product categories like jams, toothpaste, skin care, shampoos, etc, in India, have low per capita consumption as well as low penetration level, but the potential for growth is huge.

The Indian Economy is surging ahead by leaps and bounds, keeping pace with rapid urbanization, increased literacy levels and rising per capita income. The big firms are growing bigger and small-time companies are catching up as well.

Peswani Shilpa (2011) examining the impact of Leveraged Capital Structure of a firm on its financial performance with reference to two market leader FMCG companies in India. The study is highly focused on two companies viz Britannia Industries Limited and Marico Industries Limited. Researcher observed that both the firms are obtaining finance from different sources for their expansion project but Britannia Industries Limited bank on promoter's fund in such projects, while Marico industries depend upon debts. Though, both the firms are leveraged differently, the profitability is remaining more or less same. Sales performance of both the companies has been almost same with Compounded Average Growth Rate. Though the solvency ratio of Marico is low due to high leverage, but its return on equity shareholder's fund is higher as to Britannia due to benefit of tax credit. The study concluded that profitability of the company is not entirely depend upon source of financing, but in the study it also highly influenced by top level management initiatives, but the universal acceptable phrase "a high leveraged firm gives better return to the equity shareholders as to low leveraged firm is established in the study". The study depicts that merger and acquisition in the fast moving consumer goods company is the benchmark policy for expansion of market, which directly impact profitability of the firm, but it is highly depend upon source of finance for such merger and acquisition as well as repayment schedule determined by the financial Executives of the firm. However, study has not considered special features of the FMCG companies which highly affect profitability of the firm like small life span of the product, huge brand building cost and other aspects.

Objectives of this study

- To analyse the liquidity ratio of the Britannia FMCG company
- To evaluate the Profitability position of the Britannia FMCG company

Methods and material

This study duration will cover 2012 to 2016. Ratio analysis is a widely used tool of financial analysis. The term ratio in it refers to the relationship expressed in mathematical terms between two individual figures or group of figures connected with each other in some logical manner and are selected from financial statements of the concern. The ratio analysis is based on the fact that a single accounting figure by itself may not communicate any meaningful information but when expressed as a relative to some other figure, it may definitely provide some significant information the relationship between two or more accounting figure/groups is called a financial ratio helps to express the relationship between two accounting figures in such a way that users can draw conclusions about the performance, strengths and weakness of a firm.

Data analysis and interpretation

Table – 1: Current Ratio

Year	Current asset	Current liabilities	Ratio
2012	465.36	882.53	0.53
2013	473.09	576.90	0.82
2014	486.33	660.98	0.74
2015	603.39	811.16	0.74
2016	515.51	871.67	0.59

The above table shows that the current ratio in the year 2011-12 was 0.53 and then it increases to 0.83 in the year 2012-13, further move upwards to 0.84 in the year 2013-14 and again move downwards to 0.59 in the year 2015-16.

The normal current ratio is 2:1. The above table shows current ratio is less than 2% in all the years. This shows that the company is not enjoying credit worthiness

Table - 2: Liquid Ratio

Year	Liquid assets	Liquid liabilities	Ratio
2012	83.08	882.53	0.09
2013	141.6	576.90	0.25
2014	119.47	660.98	11.00
2015	257.65	811.16	0.32
2016	131.50	871.67	0.15

The above table shows the liquid ratio of the Britannia Industries for the study periods 2012 to 2016. All the years the Acid Test ratios are below than the normal ratio (i.e.) 1:1 except the years 2013 & 2014. Hence the firm is controlling its stock position because there linear relationship between current ratio and liquid ratio

Table-3: Debt- Equity Ratio

Year	Outsider's funds	Proprietor's funds	Ratio
2012	28.15	23.89	1.18
2013	194.47	23.91	8.13
2014	4.62	23.99	0.19
2015	4.30	23.99	0.18
2016	3.35	24.00	0.14

The above table shows the debt equity relationship of the company during the study period. It was 1.18 in the 2012 and then it increased to 8.13 in the next year 2013. From the year 2014 onwards it is on the decreasing trend.

In all the years the equity is less when compared with borrowings. Hence the company is not maintaining its debt position

Table- 4: Proprietary Ratio

Year	Proprietor's funds	Total assets	Ratio
2012	23.89	548.19	0.04
2013	23.91	833.17	0.03
2014	23.99	858.08	0.03
2015	23.99	1239.92	0.02
2016	24.00	1703.51	0.01

The above table shows the proprietary ratio during the study period. In all the years the owner's contribution to the total assets is fluctuating. All the years the proprietor's contribution in to the total assets is less.

Table – 5: Gross Profit Ratio

Year	Gross Profit	Net Sales	100	Ratio
2012	279.23	4974.19	100	5.61
2013	371.53	5615.49	100	6.62
2014	596.62	6307.39	100	9.46
2015	771.50	7175.99	100	10.75
2016	1131.82	7947.90	100	14.24

The above table indicates low gross profit margin which mean that the company has not made a reasonable profit in all the study period. It is not keeping the overhead cost in control

Table-6: Net Profit Ratio

Year	Net profit	Net sales	100	Ratio
2012	186.74	4974.19	100	3.75
2013	233.87	5615.49	100	4.16
2014	369.83	6307.39	100	5.86
2015	622.41	7175.99	100	8.67
2016	749.09	7947.90	100	9.43

The above table shows the relationship between net profit and net sales during the study periods 2012-2016. The net profit has been increasing every year and reached 8.67 in the year 2014-2015. Hence, the net profit ratios for the study periods are satisfactory level.

Table – 7: Operating Ratio

Year	Operating Cost	Net Sales	100	Ratio
2012	4699.75	4974.19	100	94.48
2013	5254.12	5615.49	100	93.56
2014	5723.35	6307.39	100	90.74
2015	6429.97	7175.99	100	89.60
2016	6823.20	7947.90	100	85.85

The above table shows that the operating ratios of the Britannia Industries. The operating ratios of the company are very high hence it indicates the higher operating expenditure has been incurred.

Table – 8: Operating Profit Ratio

Year	Operating Profit	Net Sales	100	Ratio
2012	279.23	4974.19	100	5.61
2013	371.53	5615.49	100	6.62
2014	596.62	6307.39	100	9.46
2015	771.50	7175.99	100	10.75
2016	1131.80	7947.90	100	14.24

The operating profit ratios of the company are increasing trend. The ratios are increasing year by year. Hence it has been maintaining good operating profit ratio

Table – 9: Debtors Turnover Ratio

Year	Sales	Debtors	Ratio
2012	5032.81	52.14	96.52
2013	5615.40	77.12	72.81
2014	6307.39	53.69	117.48
2015	7344.79	70.98	103.48
2016	8176.82	106.70	76.63

The above table indicates the relationship between the net sales and sundry debtors. Higher debtor turnover ratio is good because higher debtor turnover ratio means, more fastly, we are collecting money. Hence the liquidity position will become stronger. In the above table indicates the higher debtor turnover ratio hence the company collects the dues from the debtors very fast so as to be strong in the liquidity.

Table – 10: Fixed Asset Turnover Ratio

Year	Net sales	Fixed assets	Ratio
2012	4974.19	379.09	13.12
2013	5615.49	451.68	12.43
2014	6307.39	545.66	11.56
2015	7175.99	525.95	13.64
2016	7947.90	639.39	12.43

From the above table it is clear that the net sales have been increasing or higher than the fixed assets during the study periods. The ratios are in increasing trend.

Table- 11: Working Capital Turnover Ratio

Year	Net sales	Net Working Capital	Ratio
2012	4974.19	-339.57	-14.65
2013	5615.49	-26.55	-211.51

2014	6307.39	-157.79	-39.97
2015	7175.99	4.71	1523.56
2016	7947.90	94.74	94.74

The above table shows negative WCTR for the last three years which means inefficient use of working capital in operation and very high working capital turnover ratio for the year 2012 which also shows the company is not good position it shows company is operating with high short-term debt obligations

Stock Turnover Ratio:

Table- 12: Inventories Turnover Ratio

Year	Sales	Inventory	Ratio
2012	5032.81	382.28	13.17
2013	5615.40	331.49	16.94
2014	6307.39	366.86	17.19
2015	7344.79	345.74	21.24
2016	8176.82	384.01	21.29

The above table shows the high inventory turnover ratio for the study period, which means it is a signal of efficiency, since inventory usually, has a rate of return of zero. Hence the company is efficiently utilizing its inventories.

Table - 13: Creditors Turnover Ratio

Year	Purchase	Creditors	Ratio
2012	3,193.06	1124.15	2.84
2013	3,539.83	849.86	4.17
2014	3,835.34	986.36	3.89
2015	4,356.44	1222.07	3.56
2016	4643.10	1363.75	3.40

The above table indicates the creditor's turnover ratio. The ratio for the study periods has been fluctuating and is low; hence it indicates quick payment of dues to the creditors.

Findings

- The current ratio is less than the required ratio of 2:1 hence the company should take steps to improve the current ratio so as to enjoy credit worthiness.
- The company is controlling its stock position by maintaining liquid ratio below than the normal ratio of 1:1.
- Proprietors' contribution to the total assets is not sufficient.
- Gross profit margin for the study period is not satisfactory. The company has not been controlling overhead cost to generate good gross profit.
- The net profit has been increasing every year and reached 8.47 in the year 2014-2015. Hence, the net profit ratios for the study periods are satisfactory level.
- The company should take steps to minimize operating expenses so as to increase the gross profit or operating profit. The operating expenses are very high.
- The operating profit ratios of the company are increasing trend. The ratios are increasing year by year. Hence it has been maintaining good operating profit ratio.
- Debtor's turnover ratio of the company being very low which indicates the firm is collecting its dues from the debtors frequently. The collection of dues is very fast; hence it has been maintaining its liquidity position.
- Sales have been increasing or higher than the fixed assets for all the study periods.
- Working capital for the last three years is negative which means inefficient use of working capital in operation and very high working capital turnover ratio for the year 2011 which also shows the company is not good position it shows company is operating with high short-term debt obligations.
- Inventory turnover ratio shows the efficiency of the concern in maintaining inventory level or sales.

Suggestions

- The current ratio of the company should be increased so as to enjoy credit worthiness.
- The firm is not properly maintains borrowings hence it should increase its equity so as to minimize interest. Borrowings attract interest which in turn affects the profitability of the concern. Hence the concern should take steps to minimize borrowings.
- Proprietors' contribution to the total assets is not sufficient. Hence proprietors' contribution should be increased so as to avoid interest expenses which in turn affect the profitability of the concern.
- Gross profit margin for the study period is not satisfactory. The company has not been controlling overhead cost to generate good gross profit. Hence, company should take steps to control overhead expenses.
- The net profit ratios for the study periods are satisfactory level.
- The company should take steps to minimize operating expenses so as to increase the gross profit or operating profit. The operating expenses are very high.
- The operating profit ratios of the company are increasing trend. The ratios are increasing year by year. Hence it has been maintaining good operating profit ratio.
- Debtor's turnover ratio of the company being very low which indicates the firm is collecting its dues from the debtors frequently.
- Sales have been increasing or higher than the fixed assets for all the study periods.

- Working capital of the company has been very low; hence the company should take steps to increase the same. Inventory turnover ratio shows the efficiency of the concern in maintaining inventory level or sales.
- The concern pays its dues to the creditors quickly.

Conclusion

On studying the financial performance analysis of Britannia Industries for a period of five years from 2011-12 to 2015-16, the study reveals that the financial performance is better. However it needs to minimize the operating expenses to get high net profit. Current assets should be increased, Overhead expenses should be minimized so as to increase the gross profit and the proprietor's contribution also increased. Sales turnover has to be improved by checking expenses that influences the sales. The equity position has to be improved. Current ratio should be increased to avail more credit from the lenders. Inventory management of the concern is not satisfactory. Working capital of the concern is being negative which is due to more borrowings or liabilities. It should be checked and find solution.

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