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LIQUIDITY PERFORMANCE ANALYSIS OF FMCG COMPANIES: A STUDY OF TEN LEADING FMCG COMPANIES IN INDIA

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ABSTRACT

In this paper, an attempt has been made to analyze the liquidity position of 10 leading FMCG companies in India. The fast moving consumer goods (FMCG) segment is the fourth largest sector in the Indian economy. FMCG sector in India has been gone through a phenomenal pace of growth during last two decades, the reason being increasing consumer incomes and rapid change in consumer tastes and preferences. Large scale and low cost of production, modern retailing strategies, branding and maintenance of intense distribution network have given FMCGs an edge over others in raising hovering revenues. Liquidity ratios are used to determine a company's ability to meet its short-term debt obligations. Investors often take a close look at liquidity ratios when performing fundamental analysis on a firm. Since a company that is consistently having trouble meeting its short-term debt is at a higher risk of bankruptcy, liquidity Ratios are a good measure of whether a company will be able to comfortably continue as a going concern. Liquidity ratios are useful in obtaining an indication of a firm's ability to meet its current liabilities, but it does not reveal how effectively the cash resources can be managed. The research paper mainly focuses on analyses of liquidity analysis of selected FMCG companies in India during period of 2005-06 to 2014-15; the tools used for analysis are mean, standard deviation, co-efficient of variation and Anova. The study found that the liquidity position of P&G and Emami is satisfactory when compare to other companies.

KEYWORDS

leading FMCG companies, liquidity performance.

INTRODUCTION

The market size of FMCG in India is estimated to grow from US\$ 30 billion in 2011 to US\$ 74 billion in 2018. Food products is the leading segment, accounting for 43 per cent of the overall market. Personal care (22 per cent) and fabric care (12 per cent) come next in terms of market share. Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the sector. FMCG Industry is characterized by a well-established distribution network, low operating cost, lower per capital consumption and intense competition between the organized and unorganized segments. The realization of the customer's growing interests and the need to meet changing lifestyle required the FMCG producing companies to formulate customer-centric strategies. These changes have positive impact, leading to the rapid growth in the FMCG industry. The FMCG industry plays a significant role in shaping a country's economy and development. This sector can drive growth, enhance quality of life, create jobs and support penetration of technology. The FMCG sector has grown at an annual average of about 11 per cent over the last decade. The overall FMCG market is expected to increase at (CAGR) of 14.7 per cent to touch US\$ 110.4 billion during 2012-2020, with the rural FMCG market anticipated to increase at a CAGR of 17.7 per cent to reach US\$ 100 billion during 2012-2025. Top 10 FMCG companies in India are HUL, Colgate, ITC, Nestle, Britannia, Marico, P&G, Dabur, Godrej and Emami.

With this background, the present study aims at analyzing the liquidity position of 10 leading FMCG companies in India. The next section of this paper states the objectives of the study. Section III is the research methodology that shapes the entire study and section IV analyses the findings of the study. This paper ends with a brief concluding remark in section V.

OBJECTIVES

1. To study growth and development of selected FMCG sector in India.
2. To evaluate liquidity position of selected FMCG sector in India.
3. Comparative analysis of the selected companies based on the given ratios.

METHODOLOGY

Sample size : 10 leading companies under FMCG sector.

Sampling method : 10 leading companies were selected on the basis of sales turnover.

DATA SELECTION

The source of data for this study was predominantly from secondary sources. The annual financial reports for the selected companies were used as a source of secondary data in order to compare and evaluate liquidity performance.

PERIOD OF STUDY

The study has been undertaken for a period of 10 years from 2005-06 to 2014-15.

TOOLS USED FOR ANALYSIS

In order to analyse liquidity performance of the selected FMCG companies, various accounting ratios and statistical tools and ANOVA were used.

HYPOTHESES FORMULATED

1. H_0 : There is no significant difference between the Current Ratio of FMCG Companies.
2. H_0 : There is no significant difference between the Quick Ratios of FMCG Companies.
3. H_0 : There is no significant difference between the Super Quick Ratios of FMCG Companies
4. H_0 : There is no significant difference between the Debt Equity Ratio of FMCG Companies.

BRIEF PROFILE OF SELECTED FMCG COMPANIES

	HUL	Colgate	ITC	Nestle	Britannia	Marico	P& G	Dabur	Godrej	Emami
Founded(year)	1932	1937	1910	1961	1892	1991	1964	1884	1897	1974
Headquarters	Mumbai, Maharashtra, India	Mumbai, Maharashtra, India	Kolkata, WB, India	Haryana India	Bangalore, Karnataka, India	Mumbai, Maharashtra, India	Mumbai, Maharashtra, India	Ghaziabad (UP), India	Mumbai, Maharashtra, India	Kolkata, WB, India
Founders	Unilever Plc	William Colgate		Henri Nestlé, Charles Page, George Page			William Procter James Gamble	Dr. S.K. Burman	<ul style="list-style-type: none"> • Ardeshir Godrej • Pirojsha Burjorji Godrej 	<ul style="list-style-type: none"> • R S Agarwal • R S Goenka • Amit FMS
Products	<ul style="list-style-type: none"> • Foods • beverages, • cleaning agents • personal care products • Water purifiers. 	<ul style="list-style-type: none"> • Cleaning agents • Personal care products 	Consumer goods	<ul style="list-style-type: none"> •Baby food, •coffee, •dairy products, •breakfast cereals, •confectionery, •bottled water, • ice cream, • pet foods 	<ul style="list-style-type: none"> • Bakery products, • dairy products, 	<ul style="list-style-type: none"> • Edible Oil, • Hair Oils, • Skin Care, • Fabric Care, 	<ul style="list-style-type: none"> • Cleaning agents • Personal care products 	<ul style="list-style-type: none"> • Health Care • Personal Care • Oral Care • Food Home Care 	Consumer goods	<ul style="list-style-type: none"> • Hair care, • skin creams, • soaps and lotions, • talcum powder, • Ayurvedic health care products
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ANALYSIS AND FINDINGS

This section deals with behavior of liquidity of the selected FMCG companies using accounting and statistical measures.

LIQUIDITY RATIOS

Liquidity ratios indicate whether a company has the ability to pay off short-term debt obligations (debts due to be paid within one year) as they fall due. Generally, a higher value is desired as this indicates greater capacity to meet debt obligations.

1. Current Ratio
2. Quick Ratio
3. Super Quick Ratio
4. Debt Equity Ratio

	Current Ratio	Quick Ratio	Super Quick Ratio	Debt-Equity Ratio
Formula	$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$	$\frac{\text{QUICK ASSETS}}{\text{CURRENT LIABILITIES}}$	$\frac{(\text{CASH} + \text{BANK})}{\text{CURRENT LIABILITIES}}$	$\frac{\text{DEBTS}}{\text{EQUITY CAPITAL}}$
Std. Ratio	2:1	1:1	0.5:1	

TABLE 1: CURRENT RATIO OF SELECTED COMPANIES IN FMCG SECTOR SINCE 2005-06 TO 2014-15

Year	HUL	Colgate	ITC	Nestle	Britannia	Marico	P& G	Dabur	Godrej	Emami
2005-06	0.71	0.88	1.27	0.70	1.82	0.38	2.01	0.19	0.71	2.76
2006-07	0.74	0.91	1.37	0.66	2.07	0.32	1.95	0.16	0.84	2.36
2007-08	0.69	0.81	1.39	0.66	2.09	0.32	1.94	0.16	0.92	2.26
2008-09	1.01	1.01	1.44	0.60	2.40	0.25	2.30	0.11	2.19	1.28
2009-10	0.84	1.10	0.92	0.62	1.48	0.42	2.13	0.20	1.38	2.42
2010-11	0.86	1.13	1.09	0.61	1.77	0.34	2.45	0.14	1.01	2.71
2011-12	0.83	1.09	1.12	0.54	2.07	0.26	2.17	0.12	1.46	1.73
2012-13	0.76	1.07	1.22	0.65	1.87	0.35	2.40	0.15	1.29	1.72
2013-14	0.74	0.85	1.25	0.54	2.33	0.23	2.32	0.10	0.73	1.85
2014-15	0.75	0.80	1.45	0.50	2.90	0.17	2.23	0.08	0.90	1.80
MEAN	0.79	0.96	1.25	0.61	2.08	0.31	2.19	0.14	1.14	2.09

Source: Computed with the help of figures from annual reports of respective companies

It is found that P&G, Emami & Britannia having the highest Current Ratio followed by the ITC, Godrej, Colgate, HUL, Nestle, Marico & Dabur. P&G and Emami & Britannia are on to the benchmark of the standard ratio, while ITC and Godrej have satisfactory ratio of (1:1), Whereas Colgate, HUL, Nestle, Marico & Dabur have very poor Current Ratio.

ANOVA					
Source of Variation	SS	DF	MS	F	F Crit
Between Companies	50.23232	9	5.581369	80.40842	1.985595
Within companies	6.247147	90	0.069413		
Total	56.47947	99			

The sample units lie for Current Ratio is significant at 5% level of significance (F-value is more than F-critical value) which indicates that the Current Ratio of selected companies differs significantly. Therefore, null hypothesis is rejected.

TABLE 2: QUICK RATIO OF SELECTED COMPANIES IN FMCG SECTOR SINCE 2005-06 TO 2014-15

Year	HUL	Colgate	ITC	Nestle	Britannia	Marico	P& G	Dabur	Godrej	Emami
2005-06	0.13	0.68	0.63	0.37	0.52	1.21	1.85	0.52	0.20	1.92
2006-07	0.20	0.72	0.64	0.27	0.52	0.91	1.77	0.63	0.34	1.76
2007-08	0.18	0.67	0.62	0.32	0.75	1.46	1.73	0.62	0.35	1.87
2008-09	0.59	0.86	0.66	0.27	0.69	1.55	2.05	1.02	1.73	0.84
2009-10	0.48	0.91	0.43	0.30	0.56	1.44	1.94	0.71	0.96	1.96
2010-11	0.48	0.89	0.53	0.27	0.52	1.65	2.22	0.88	0.58	2.15
2011-12	0.53	0.78	0.56	0.22	0.36	1.52	1.94	0.88	0.93	1.42
2012-13	0.47	0.85	0.66	0.39	0.58	1.27	2.10	0.97	0.78	1.38
2013-14	0.54	0.59	0.68	0.25	0.47	0.81	2.08	0.66	0.39	1.41
2014-15	0.59	0.53	0.87	0.25	0.72	0.87	2.06	0.54	0.58	1.45
MEAN	0.42	0.75	0.63	0.29	0.57	1.27	1.97	0.74	0.68	1.62

Source: Computed with the help of figures from annual reports of respective companies

It is found that P&G, Emami, Marico having the highest Quick Ratio followed by the Colgate, Dabur, Godrej, ITC, Britannia, HUL & Nestle. P&G, Emami and Marico are on to the benchmark of the standard ratio, whereas all other companies have very poor Quick ratio.

ANOVA					
Source of Variation	SS	DF	MS	F	F Crit
Between Companies	26.89915	9	2.988795	51.40605	1.985595
Within companies	5.232683	90	0.058141		
Total	32.13184	99			

The sample units lie for Quick Ratio is significant at 5% level of significance (F-value is more than F-critical value) which indicates that the Quick Ratio of selected companies differs significantly. Therefore, null hypothesis is rejected.

TABLE 3: SUPER QUICK RATIOS OF SELECTED COMPANIES IN FMCG SECTOR SINCE 2005-06 TO 2014-15

Year	HUL	Colgate	ITC	Nestle	Britannia	Marico	P& G	Dabur	Godrej	Emami
2005-06	0.04	0.16	0.01	0.37	0.07	0.15	0.31	0.12	0.08	0.02
2006-07	0.04	0.14	0.02	0.27	0.15	0.07	0.03	0.13	0.09	0.05
2007-08	0.04	0.08	0.01	0.32	0.12	0.03	0.03	0.11	0.07	0.03
2008-09	0.04	0.08	0.02	0.27	0.09	0.06	0.02	0.05	0.09	0.06
2009-10	0.23	0.03	0.01	0.30	0.04	0.02	0.03	0.05	0.05	0.16
2010-11	0.24	0.61	0.11	0.27	0.05	0.05	0.47	0.18	0.11	0.95
2011-12	0.23	0.45	0.10	0.22	0.03	0.08	0.45	0.30	0.45	0.77
2012-13	0.25	0.52	0.27	0.39	0.08	0.04	0.42	0.32	0.43	0.84
2013-14	0.26	0.32	0.15	0.25	0.07	0.17	0.53	0.25	0.14	0.84
2014-15	0.11	0.27	0.15	0.25	0.15	0.14	0.86	0.10	0.32	0.97
MEAN	0.15	0.27	0.08	0.29	0.08	0.08	0.32	0.16	0.18	0.47

Source: Computed with the help of figures from annual reports of respective companies.

It is found that Emami, P&G, Nestle having the highest Super Quick Ratio followed by the Colgate, Godrej, Dabur, HUL, ITC, Britannia & Marico. Emami is on to the benchmark of the standard ratio, whereas all other companies have very poor Super Quick Ratio

ANOVA					
Source of Variation	SS	DF	MS	F	F crit
Between Companies	1.430762	9	0.158974	4.285818	1.985595
Within companies	3.338365	90	0.037093		
Total	4.769127	99			

It is found that the sample units lie for Super Quick Ratio is significant at 5% level of significance (F-value is more than F-critical value) which indicates that Super Quick Ratio of selected companies differs significantly. Therefore, null hypothesis is rejected.

TABLE 4: DEBT-EQUITY RATIO OF SELECTED COMPANIES IN FMCG SECTOR SINCE 2005-06 TO 2014-15

Year	HUL	Colgate	ITC	Nestle	Britannia	Marico	P& G	Dabur	Godrej	Emami
2005-06	0.04	0.02	0.01	0.04	0.02	0.81	0.00	0.05	0.06	0.01
2006-07	0.04	0.02	0.02	0.01	0.01	0.91	0.00	0.05	1.02	0.33
2007-08	0.04	0.03	0.02	0.00	0.14	1.09	0.00	0.03	0.89	0.10
2008-09	0.04	0.02	0.01	0.00	0.03	0.84	0.00	0.19	0.12	0.12
2009-10	0.23	0.01	0.01	0.00	1.08	0.66	0.00	0.14	0.01	1.49
2010-11	0.24	0.00	0.01	0.76	0.95	0.57	0.00	0.23	0.05	0.41
2011-12	0.23	0.00	0.00	0.58	0.05	0.49	0.00	0.21	0.09	0.27
2012-13	0.25	0.00	0.00	0.50	0.30	0.33	0.00	0.15	0.09	0.15
2013-14	0.26	0.00	0.00	0.01	0.01	0.21	0.00	0.02	0.00	0.06
2014-15	0.11	0.00	0.00	0.01	0.00	0.08	0.00	0.06	0.00	0.02
MEAN	0.15	0.01	0.01	0.19	0.26	0.60	0.00	0.11	0.23	0.29

Source: Computed with the help of figures from annual reports of respective companies.

It is found that all the FMCG companies above have DEBT-EQUITY RATIO below 1. Debentures/lenders money is said to be safe.

ANOVA					
Source of Variation	SS	DF	MS	F	F crit
Between Companies	2.935719	9	0.326191	4.509289	1.985595
Within companies	6.510382	90	0.072338		
Total	9.446101	99			

It is found that the sample units lie for Debt Equity Ratio is significant at 5% level of significance (F-value is more than F-critical value) which indicates that Debt Equity Ratio of selected companies differs significantly. Therefore, null hypothesis is rejected.

FINDINGS OF THE STUDY

1. The current ratio in FMCG industry was acceptable (1:1). The average ratio of P&G (2.19), Emami (2.09) & Britannia (2.08) was highest among all the FMCG companies. The average ratio of P&G, Emami & Britannia followed by ITC (1.25), Godrej (1.14), Colgate (0.96), HUL (.79), Nestle (0.61), Marico (0.31) & Dabur (0.14).
The average current ratio of Colgate, HUL, Nestle, and Marico & Dabur is not satisfactory as Current ratio is below one.
The ratio was always more or less two times in P&G, Emami & Britannia indicated efficient utilization of current assets.
2. The quick ratio of FMCG industry of India shows fluctuating trend during the study period. The quick ratio was the highest in P&G, Emami and Marico. The average ratio of P&G (1.97), Emami (1.62) & Marico (1.27) followed by Colgate (0.75), Dabur (0.74), Godrej (0.68), ITC (0.63), Britannia (0.57), HUL (0.42) & Nestle (0.29).
Among all the companies, the lowest ratio is seen in the Britannia, HUL & Nestle.
As a convention quick ratio of 1:1 is considered satisfactory. Hence P&G, Emami & Marico are in much better position to meet its short term obligations.
3. The Super quick ratio of FMCG industry of India shows fluctuating trend during the study period. The Super quick ratio was the highest in Emami & P&G. The average ratio of Emami (0.47) & P&G (0.32), followed by Nestle (0.29), Colgate (0.27), Godrej (0.18), Dabur (0.16), HUL (0.15), ITC (0.08), Britannia (0.08), & Marico (0.08).
Among all the companies, the lowest ratio is seen in the ITC, Britannia, & Marico.
As a convention quick ratio of 0.5:1 is considered satisfactory. Emami is in much better position.
4. The debt equity ratio of FMCG Companies was below 1 for all years under study period. A ratio of 1:1 may be usually considered to be satisfactory ratio

SUGGESTIONS AND CONCLUSION

The FMCG Companies are suggested to be in tune with standards regarding liquidity ratios to be more efficient. HUL, Nestle, Marico and Dabur should at least reach acceptable Current Ratio (1:1). Colgate, Dabur, Godrej, ITC, Britannia, HUL, & Nestle should reduce inventory value to reach acceptable Quick Ratio. All Companies are suggested to improve Super Quick Ratio

Lack of liquidity may affect seriously the continuity of the company activities. Companies may adopt various suitable measures like reducing inventory turnover time, credit period to debtors, offering some kind of offers to the debtors for speeding the collections from them, etc to improve its liquidity.

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