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FINANCIAL PERFORMANCE EVALUATION OF SELECTED FMCG COMPANIES IN INDIA

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ABSTRACT:

This paper seeks to evaluate the profitability of selected FMCG companies in India. The nature of study is descriptive and analytical research. Researcher extracted secondary data from annual reports of selected FMCG companies from 2018-19 to 2022-23. Population of the study is Nifty FMCG index and researcher selected 5 FMCG companies such as HUL, ITC, BIL, GCPL and TCPL with the aid of purposive sampling technique. This study employed descriptive statistics and One-Way ANOVA to test hypotheses with the help of IBM SPSS Software Version 25. The study found that ITC has better mean NPR during study period and HUL has a stable NPR over the years with less variability. BIL has a comparatively higher ROA and ROE than other companies indicating better assets management and efficient management of equity funds. HUL and GCPL have experienced a notable decrease in their ROE. TCPL, during study period, has the lowest mean profitability ratios (i.e. NPR, ROA and ROE) than other selected companies; therefore, it needs to improve its profitability by implementing strategies that boost the profitability.

Keywords: Financial Performance, FMCG Companies, India, Profitability.

INTRODUCTION:

FMCG industry offers a diverse array of consumable goods which is contributing to a substantial circulation of funds in associated with these goods (in association with these products). The growth and intensification of competition among FMCG businesses is driving a surge in investments within the industry, particularly in India. The pursuit of long-term growth and competitive advantage in FMCG industry has propelled a greater emphasis on evaluating financial performance. Financial performance evaluation (FPE) includes liquidity analysis, solvency analysis, turnover analysis and profitability analysis. Profitability analysis is a crucial element in the comprehensive framework of evaluating financial performance, specifically focusing on assessing the capability of a company in generating profits in relation to its costs and investments. Since profitability ratios, directly linked to earnings, are essential for financial analysis since they clearly communicate information about the end goal of a corporation.

In the world of profit driven businesses, profit maximization is always the ultimate objective. The aim of computing profitability ratios is to assess the company's operational effectiveness and it's earning capacity. Profitability ratios are of interest to different stakeholders for different reasons. These ratios offer insightful information about company's financial position and capacity to satisfy a range of stakeholders. This research digs into a thorough examination of profitability of selected FMCG companies to provide valuable insights for stakeholders.

REVIEW OF LITERATURE:

1. **Anjali Sharma (2016)**[1], analyzed the liquidity & profitability of HUL Ltd. and Dabur India, from 2011-15. It was observed that liquidity & profitability of Dabur India was satisfactory and enjoying its continuous growth in this sector. Whereas, HUL's profitability was satisfactory, but liquidity position was not satisfactory. It was concluded that HUL must focus on strengthening its liquidity position to meet the obligations timely.
2. **Shailesh Rajhans and Kiranchandra Nerkar (2017)**[2], analyzed the liquidity & profitability of Britannia company using ratios from FY 2012 to FY 2016. Study exhibits that company's liquidity position need to be improved and its working capital management was not good. Debt-equity ratio was also not up to the mark and profitability ratios were in increasing trend.
3. **Dr. Vineet Singh and Priyanka Shrivas (2019)**[3]**,** analyzed the profitability of ITC Ltd., Britannia Industries Ltd., Dabur India Ltd., Godrej Consumer Products Ltd., and Pidilite Industries Ltd. Secondary data were collected from annual financial reports of these companies for a 10 years period from 2007-08 to 2016-17. Profitability was analyzed through net profit ratio (NPR), return on assets (ROA), and return on capital employed (ROCE). Study found that mean NPR of ITC Ltd. was high and mean NPR of Britannia Industries Ltd. was lowest among the chosen samples. ROA and ROCE of Dabur India Ltd. was highest and of Pidilite Industries Ltd. stood lowest. It was also found that there was a significant difference between NPR, ROA and ROCE of chosen companies.
4. **Solmaz Husain (2021)**[4], analyzed financial performance of FMCG companies viz., Britannia, ITC and HUL. Secondary data were collected from annual financial reports of these companies from 2014 to 2019. The data collected was analyzed using ratio analysis. Hypotheses were tested from ANOVA. The analysis found that ITC was top in margin ratios and EPS, HUL was on top in ROCE, and Britannia topped in leverage i.e., Debt to Assets ratio. Study revealed that no statistically significant difference found between the financial ratios.
5. **Dr. Dinesh Chandra and Ms. Nagama (2021)**[5]**,** aimed to examine financial performance of selected companies of FMCG industry of India in terms of profitability. Researcher selected three FMCG companies viz., ITC Limited, Dabur India Limited and Marico Limited. Study was based on secondary data and data had been collected for ten years from 2011 to 2020. Analyzed data with profitability ratios viz., net profit margin, return on capital employed, return on net worth, return on assets, and operating

profit margin. Study found that ITC was performed better than the other chosen companies throughout the study period when taking into account all five profitability ratios combined.

A thorough review of the previous studies showed that studies were focusing on financial performance of FMCG companies. After covid pandemic a very less studies have been done considering the profitability evaluation of FMCG sector and thus, the study "Financial Performance Evaluation of Selected FMCG Companies in India" seeks to evaluate profitability of FMCG companies which assist in investment decisions by providing real-time data. For this purpose, five FMCG companies are selected for study and applied analytical research to evaluate profitability of these companies.

SCOPE OF THE STUDY:

The functional scope is to evaluate financial performance focusing on the profitability of selected FMCG companies through ratios. For this purpose, five FMCG companies have been selected from Nifty FMCG index (viz., Hindustan Unilever Limited, ITC Limited, Britannia Industries Limited, Godrej Consumer Products Limited, and Tata Consumer Products Limited).

SIGNIFICANCE OF THE STUDY:

For various stakeholders in the business and economic environment the study has significant importance. Firstly, it offers insightful information to financial analysts and investors who want to make well-informed choices on how best to allocate capital in the FMCG industry. In addition, for policymakers and industry regulators, it also provides a basis for developing efficient policies that could boost the overall financial health and sustainability of the FMCG sector.

OBJECTIVE OF THE STUDY:

This study aimed to evaluate financial performance of selected FMCG companies by focusing on their profitability in particular. This research looks at the profitability metrics such as net profit ratio, return on assets, and return on equity.

HYPOTHESES OF THE STUDY:

1. Ho: There is no significant difference between net profit ratio of selected FMCG companies.
2. Ho: There is no significant difference between return on assets of selected FMCG companies.
3. Ho: There is no significant difference between return on equity of selected FMCG companies.

METHODOLOGY:

Research design	The nature of study is descriptive and analytical research. Secondary data is collected from various sources like Companies' annual reports and websites to enhance the present study.
Population	Nifty FMCG Index.
Sampling method	Purposive sampling has been used to select the samples.
Sample Size	Following 5 FMCG Companies are selected as study samples based on the market capitalization: 1. Hindustan Unilever Limited (HUL). 2. ITC Limited. 3. Britannia Industries Limited (BIL). 4. Godrej Consumer Products Limited (GCPL). 5. Tata Consumer Products Limited (TCPL).
Period of study	2018-19 to 2022-23.
Parameters of the study	The following profitability ratios are selected as parameters of the study: (a) Net Profit Ratio (NPR or NP Ratio). (b) Return on Assets (ROA). (c) Return on Equity (ROE)
Statistical tools used	Descriptive Statistics and One-Way ANOVA have been used and calculated through IBM SPSS software version 25.

DATA ANALYSIS AND INTERPRETATION:

Table 1: NPR (%) of selected FMCG companies

Year	HUL	ITC	BIL	GCPL	TCPL
2018-19	15.79	27.70	10.71	30.90	11.98
2019-20	17.37	33.18	13.51	21.55	9.20
2020-21	17.29	28.65	14.22	19.58	8.66
2021-22	17.23	26.72	11.99	21.28	11.17
2022-23	16.84	28.40	13.70	19.74	11.13
Mean	**16.91**	**28.93**	**12.82**	**22.61**	**10.43**
Standard Deviation (s.d.)	0.65	2.49	1.45	4.72	1.42

(**Source:** Researchers' computation)

Table 1 presents that with a mean NPR of 28.93%, ITC is comparatively the most profitable and attractive firm. GCPL (22.61%), HUL (16.91%), BIL (12.82%) and TCPL (10.43%) are the next most profitable businesses. ITC has maintained comparatively a high level of profitability. HUL has a relatively stable NPR with an increase in NPR from 15.79% in 2018-19 to 16.84% in 2022-23. GCPL has an NPR of 30.90% in 2018-19 but notably decreased to 19.74% in 2022-23. Though BIL's NP ratio declined from 14.22% in 2020-

21 to 11.99% in the next year, it has shown a better recovery of NPR by reaching at 13.70% in 2022-23. TCPL has comparably lowest mean NPR than other companies.

Table 2: ROA (%) of selected FMCG companies

Year	HUL	ITC	BIL	GCPL	TCPL
2018-19	33.79	17.86	19.85	26.33	8.21
2019-20	34.37	20.12	20.46	17.00	4.34
2020-21	11.68	18.21	23.73	15.91	4.61
2021-22	12.64	20.05	22.89	16.65	6.23
2022-23	13.87	22.80	24.76	14.33	6.09
Mean	**21.27**	**19.81**	**22.34**	**18.05**	**5.90**
Standard Deviation (s.d.)	11.72	1.97	2.11	4.75	1.55

(**Source:** Researchers' computation)

A higher ROA suggests a more lucrative and efficient business. Table 2 reveals fluctuating ROA figures across the selected companies and years. BIL has a higher mean ROA of 22.34% compared to other companies, shows positive assets management to generate returns. HUL stands next to BIL in mean ROA of 21.27% but it has a higher standard deviation implying a relatively wide range of ROA values. ROA of ITC Limited has decreased from 20.12% to 18.21% in 2020-21, subsequently ROA of ITC increased in next two years indicating improved efficiency in utilizing assets to generate profits. GCPL's ROA has fallen from 26.33% in 2018-19 to 14.33% in 2022-23. TCPL has the lowest mean ROA of 5.90% signaling potential issues in assets management.

Table 3: ROE (%) of selected FMCG companies

Year	HUL	ITC	BIL	GCPL	TCPL
2018-19	78.81	21.51	27.78	35.63	9.25
2019-20	83.90	23.64	34.72	23.01	4.83
2020-21	16.77	22.09	53.02	19.25	5.52
2021-22	18.08	24.52	66.73	18.84	7.53
2022-23	19.84	27.74	67.25	16.13	7.45
Mean	**43.48**	**23.90**	**49.90**	**22.57**	**6.91**
Standard Deviation (s.d.)	34.64	2.46	18.12	7.70	1.76

(**Source:** Researchers' computation)

Table 3 displays HUL has the highest ROE of 83.90% in 2019-20 and dropped significantly in 2020-21 to 16.77% and started to increase in following years. ROE of Britannia company has an increasing trend over the years and has comparatively a higher mean ROE of 49.90%. ITC and GCPL also show good mean ROE figures. ITC Limited's ROE was slightly decreased in 2020-21, but in the following years the company showed a continuous improvement in its ROE. GCPL's ROE was at peak in 2018-19 and experienced a decline from 2019-20 to 2022-23. Tata consumer products limited has very lower ROE compared to other companies and showed a notable decline from 9.25% in 2018-19 to 4.83% in 2019-20.

Table 4: ANOVA Results computed through SPSS software
(5% Level of significance):

Ratio	Companies	F value	p-value	Decision
NPR	HUL	42.696	.000	Ho Reject
	ITC			
	BIL			
	GCPL			
	TCPL			
ROA	HUL	6.516	.002	Ho Reject
	ITC			
	BIL			
	GCPL			
	TCPL			
ROE	HUL	4.701	.008	Ho Reject
	ITC			
	BIL			
	GCPL			
	TCPL			

The above ANOVA results divulges that all H_0 are failed to accept since the p-value < α at 0.05. This indicates a statistically significant difference between the profitability ratios (i.e. net profit ratio, return on assets, and return on equity) of selected FMCG companies.

FINDINGS:

1. Study found that ITC Limited has a higher mean NPR of 28.93%. It has maintained consistently higher NPR than other chosen companies over the years. GCPL has experienced a notable decline from 30.90% in 2018-19 to 19.74% in 2022-23. Though it has the second highest mean NPR but also has the highest variability of 4.72% signifying more fluctuations in NPR than other chosen companies. HUL has a stable NPR over the study period and less variability (0.65%) than other chosen companies. Britannia's NPR has varied but has generally increased, indicating varying performance over the years. Being last in mean NPR, TCPL has shown slight improvement in NPR from 8.66% in 2020-21 to 11.13% in 2022-23.

2. Study reveals that BIL has a higher mean ROA of 22.34% compared to other companies. HUL stands next to BIL in mean ROA of 21.27% but has a higher standard deviation of 11.72%. ITC has shown improvement in ROA from 17.86% in 2018-19 to 22.80% in 2022-23. Whereas, GCPL has a substantial

decline in ROA from 26.33% in 2018-19 to 14.33%. in 2022-23. TCPL's ROA signaling a very weaker assets management to generate returns with a lowest mean ROA of 5.90%.

3. It has found that HUL's ROE has dropped significantly from 78.81% (in 2018-19) to 19.84% (in 2022-23). It has a mean ROE of 43.48% with a higher s.d. of 34.64%. BIL has comparatively a higher mean ROE of 49.90%, whereas, TCPL has the lowest mean ROE of 6.91%. Study discovered that ITC has shown improved ROE of 27.74% (in 2022-23) from 21.51% (in 2018-19) and a relatively lower standard deviation in ROE than HUL, BIL and GCPL. ROE of GCPL has fluctuated, reaching a peak of 35.63% in 2018-19 and a low of 16.13% in 2022-23, averaging 22.57% with a s.d. of 7.70% indicating moderate fluctuations.

SUGGESTIONS:

1. Companies with consistent high NPR like ITC may continue their strategies, focusing on sustaining and increasing their profitability. GCPL with fluctuating NPR may need to address the reasons behind the fluctuations and adjust the business strategies. Also suggested that with lower mean NPR, TCPL and BIL need to explore ways to rise its profitability.
2. BIL company with a high mean ROA and high mean ROE, indicates efficient assets management and efficient earning capacity out of equity funds than other selected companies, may focus on sustaining and increasing their ROA and ROE. As HUL and GCPL experienced a notable decline in ROA and ROE during the study period, need to focus on proper assets management and enhance their ROA and ROE by increasing profits via increasing revenue and reducing expenses.
3. As TCPL has the lowest mean profitability ratios (i.e. NPR, ROA and ROE) than other selected companies, therefore, it is recommended to improve its profitability by implementing strategies that enhance the efficiency and effectiveness of core business operations, cost management and revenue growth.

CONCLUSION:

This study has provided valuable insights into profitability performance of selected FMCG companies. Generating profits is considered essential for raising money from investors and for the business's survival. As per the findings, investors and stakeholders may consider ITC from view point of NPR, as it has comparatively a higher NPR. Due to its stable NPR, HUL is a safer investment particularly appealing to investors who prioritize risk aversion. BIL with a high mean ROA indicates efficient assets management and with high mean ROE indicates efficient management at making profits from its owners' funds. HUL and GCPL have witnessed a notable drop in both ROA and ROE during study period, emphasizing the need to focus on effective assets management and work hard towards improvement of both financial metrics. TCPL need to assess the factors contributing to the low profitability performance in terms of NPR, ROA and ROE.

In conclusion, study's findings highlight the importance of continuous monitoring and flexible strategies in the ever-changing FMCG sector. FMCG companies are encouraged to identify and address factors influencing their financial performance, learn from successful periods and take measures to overcome challenges.

LIMITATIONS OF THE STUDY:

1. Considered only five years financial data of only five companies from 2018-19 to 2022-23.
2. Evaluated financial performance of FMCG companies focusing only on profitability ratios.

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