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A Study on Liquidity and Profitability Analysis of FMCG Companies -Post COVID-19

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ABSTRACT

India was not an exception to the effects of COVID-19 on people's lives throughout the world. It influenced almost every industry, but what about our FMCG sector? The efficacy of the company can be assessed in a variety of ways, but often, financial performance is assessed by looking at ratios of liquidity, profitability, efficiency, and leverage. To determine how COVID-19 has affected the top nine FMCG businesses listed on the BSE, this research aims to assess the financial performance of those firms. The outcomes demonstrate that the FMCG sector's liquidity, profitability, and efficiency were impacted.

Keywords: Liquidity, Profitability, Financial Performance, FMCG Sector

INTRODUCTION

The FMCG sector of India is the fourth largest sector of the economy with personal care and household accounting for 50% of sales. Changes in lifestyle, awareness and easier access have been key to the growth of the FMCG sector. The urban sector contributes around 55% of the total revenue but in recent years the growth rate has been very good in rural areas of India. The retail sector market is estimated to reach $ 1.1 trillion by 2021 from $ 840 billion in 2017and the growth is expected to be 20 per cent per year. Indian rural market was mostly untapped and the rise in rural consumption is driving the FMCG growth. The rural sector contributes around 35 per cent of overall FMCG spending in India. FMCG in rural India witnessed double-digit growth in the third quarter of the financial year 2020. The FMCG sector not only contributes to the overall GDP but also creates employment opportunities for a huge population. The sector is poised for growth as income levels are increasing and people are becoming brand conscious, but the unorganized sector is falling. But due to COVID-19, the FMCG sector was also badly hit because of the lockdown like the other sectors of the economy. Seeing the potential for growth and the contribution of the FMCG sector to our economy, brings us to the question, is the FMCG sector affected by COVID-19? Or there is no impact of COVID-19 on the financial performance of FMCG companies. In this study, we will try to see the impact of COVID-19 on the financial performance of Indian FMCG companies by comparing the performance of FMCG companies.

There are different measures of performance, but we will focus on the financial performance of FMCG companies using different ratios like liquidity, profitability, efficiency, leverage, and solvency. Every economic activity has the objective of earning a profit and business being an economic activity, has the first objective of earning a profit. Profitability shows the ability of a business to earn profits from the investment. Liquidity performance is also important as it shows us how well the business can meet its short-term obligations when they are due. Liquidity crises are more dangerous and sometimes may lead to bankruptcy. While liquidity tells us about the ability of the business to meet short-term obligations, solvency tells us the long-term solvency or stability of a business. Efficiency ratios tell us how the company can use its assets to generate income.

REVIEW OF LITERATURE

Peswani Shilpa (2011), examines “the impact of Leveraged Capital Structure of a firm on its financial performance concerning two market leader FMCG companies in India.” The study is highly focused on two companies viz Britannia Industries Limited and Marico Industries Limited. The researcher observed that both 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 firms are leveraged differently, the profitability is remaining more or less the same. The sales performance of both companies has been almost the 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 than Britannia due to the benefit of a tax credit. The study concluded that the profitability of the company is not entirely dependent upon the source of financing, but in the study, it is also highly influenced by top-level management initiatives, but the universally accepted phrase “a high leveraged firm gives better return to the equity shareholders as the too 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 the market, which directly impacts the profitability of the firm, but it is highly dependent upon the source of finance for such merger and acquisition as well as repayment schedule determined by the Financial Executives of the firm. However, a study has not considered special features of the FMCG companies which highly affect the profitability of the firm like the small life span of the product, huge brand building cost and other aspects.

Aartigargii (2015), “Profitability Analysis of FMCG Sector”, the study was based on the objective, to analyse the comparative profitability of companies selected through ratio analysis and ANOVA and to reveal that the profitability of Dabur, Colgate Palmolive, and Marico was satisfactory in some aspects and of Britannia and Godrej not satisfactory in certain aspects. Therefore, companies should put more effort to strive for improved productivity and optimal utilization of available resources. Profitability in the long run contributes to the sustained growth of the company.

Mohmad and Syediii (2016), “Liquidity & profitability performance analysis of selected telecom companies” The study aims to analyze the liquidity and profitability performance of selected Indian telecom companies (Bharti Airtel, and Vodafone India). They used ratios and indicators to measure the performance and identify the financial health status of the companies. The profitability ratios show that the return on assets was higher in Vodafone than that of Bharti Airtel which means the former has a higher rate of profits. And in terms of return on equity also Vodafone has performed far better than Bharti Airtel.

In this study we shall use the accounting ratios which are used in most of the studies and the period of the study shall also increase and include data post covid-19 pandemic to know its effect.

Objectives

1. To evaluate the liquidity analysis of FMCG companies.
2. To analyse the profitability analysis of the FMCG sector in India.

Methodology

The study is based on secondary data and data is extracted from the financial statements of the four FMCG companies in India in terms of convenient sampling method these companies are Britannia Industries Ltd, Adani Wilmar Ltd., Jubilant Food Works Ltd., and Godrej Agrovet Ltd. The study is based on four years of financial data i.e., from 2020 to 2023.

DATA ANALYSIS AND INTERPRETATION

LIQUIDITY RATIOS

1. CURRENT RATIO

Table no. 1 calculations of the current ratio

Company/ Years	Britannia Industries Ltd	Adani Wilmar Ltd	Jubilant Food Works Ltd	Godrej Agrovet Ltd	**AVG**
2019-20	1.45	0.99	1.19	1.02	**1.16**
2020-21	1.21	0.94	0.95	1.20	**1.08**
2021-22	0.93	1.28	1.04	1.13	**1.10**
2022-23	1.15	1.30	0.65	1.05	**1.04**
AVG	**1.19**	**1.13**	**0.96**	**1.10**	

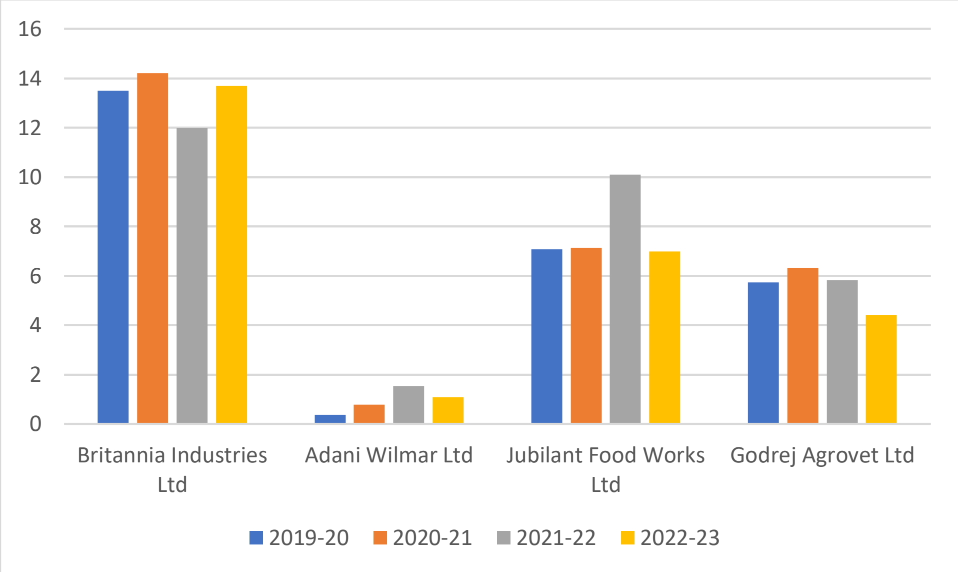

Figure 1: Current ratio of Selected FMCG companies

The above-given table and chart show the value of the Current ratio of selected FMCG companies for the study period. The average value of the ratio in Britannia Industries Ltd. 1.19 is times which is the highest value of the ratio among selected companies. The average value of Current the ratio for Adani Wilmar Ltd. Is 1.13 times. In Jubilant Food Works Ltd. With the value of 0.96 times of Current ratio that is the lowest value for the same ratio during the study period among selected sample companies. The Godrej Agrovet Ltd. Depicts the value of the average Current ratio for the current study as 1.1 times.

2. QUICK RATIO

Table no. 2 Calculations of the Quick Ratio

Company/ Years	Britannia Industries Ltd	Adani Wilmar Ltd	Jubilant Food Works Ltd	Godrej Agrovet Ltd	**AVG**
2019-20	1.16	0.48	1.06	0.64	**0.84**
2020-21	0.91	0.37	0.8	0.67	**0.69**
2021-22	0.61	0.67	0.86	0.53	**0.67**
2022-23	0.87	0.63	0.84	0.46	**0.70**
AVG	**0.89**	**0.54**	**0.89**	**0.58**	

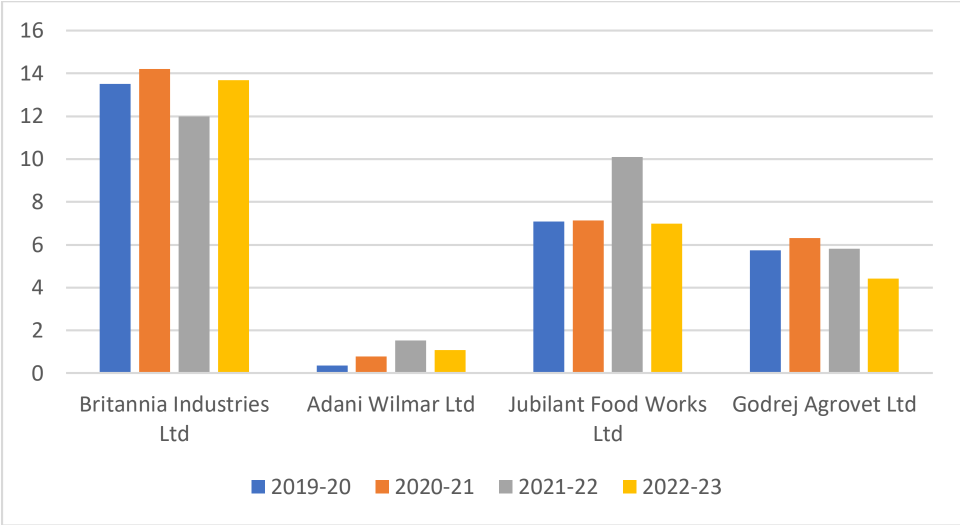

Figure 2: Quick ratio of Selected FMCG companies

The above-given table and chart describe the value of the Quick ratio for the selected sample companies for the study period. There is a tie between Britannia Industries Ltd. And Jubilant Food Works Ltd. The highest value for the Quick ratio with the value of 0.89 times and the other two selected companies Adani Wilmar Ltd. And Godrej Agrovet Ltd. had an average value of Quick ratio was 0.54 times and 0.58 times particularly. The lowest Quick ratio can be seen in Adani Wilmar Ltd. During the study period.

Profitability Ratios

1. NET PROFIT RATIO

Table no. 3 Calculations of the ROCE

Company/ Years	Britannia Industries Ltd	Adani Wilmar Ltd	Jubilant Food Works Ltd	Godrej Agrovet Ltd	**AVG**
2019-20	13.5	0.37	7.08	5.73	**6.67**
2020-21	14.21	0.78	7.14	6.32	**7.11**
2021-22	11.98	1.54	10.1	5.82	**7.36**
2022-23	13.69	1.09	6.99	4.41	**6.55**
AVG	**13.35**	**0.95**	**7.83**	**5.57**	

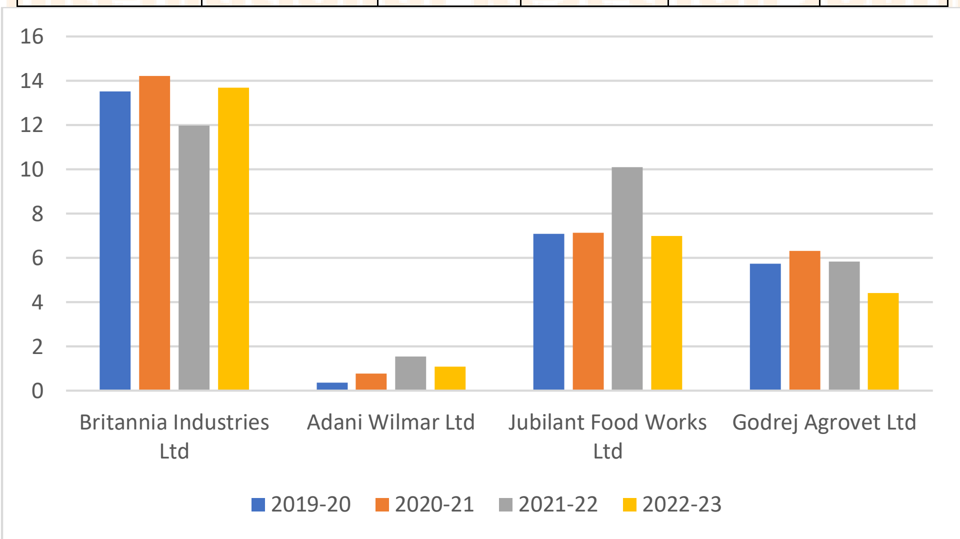

Figure 3: Net Profit Ratio of Selected FMCG Companies

The above table and chart show the value of the Net profit ratio for the selected firms during the study period. The highest average value of the ratio can be seen in Britannia Industries Ltd. with a value of 13.35% and the in reverse the lowest average value of the ratio was 0.95% in Adani Wilmar Ltd. The average value of the Net profit ratio in Jubilant Food Works Ltd. was 7.83% and for Godrej Agrovet Ltd. was 5.57% respectively for the study period.

2. RETURN ON CAPITAL EMPLOYED

Table no. 4 Calculations of the ROCE

Company/ Years	Britannia Industries Ltd	Adani Wilmar Ltd	Jubilant Food Works Ltd	Godrej Agrovet Ltd	**AVG**
2019-20	38.79	22.54	22.36	22.72	**26.60**
2020-21	60.59	25.93	15.93	20.15	**30.65**
2021-22	72.25	19.65	19.7	24.36	**33.99**
2022-23	57.73	17.28	17.28	19.99	**28.07**
AVG	**57.34**	**21.35**	**18.82**	**21.81**	

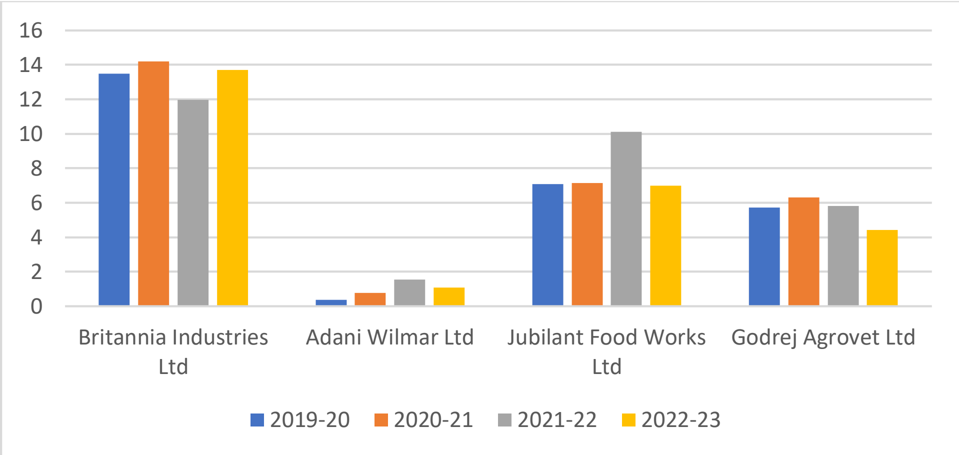

Figure 4: ROCE of Selected FMCG Companies

Table no 4 and the chart given above depict the values of Return on Capital Employed by the selected companies for the study period. The highest value of the ROCE ratio was 57.34% in Britannia Industries Ltd. during the study period and the lowest value for the same ratio was 18.82% in Jubilant Food Works Ltd. The value of the ROCE ratio was 21.35% and in Godrej Agrovet Ltd. the value of the same ratio was slightly higher with a value of 21.81. for the study period.

CONCLUSION

It is evident that most of the FMCG companies performed well for the period of study which is a good sign and most of the companies had shown good profitability but companies will need to improve their leverage to get the benefits of equity trading. There was an impact of COVID-19 on FMCG companies which is clear from their performances as liquidity, profitability and efficiency decreased during FY 2021.

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