



A STUDY ON FINANCIAL PERFORMANCE OF SELECTED FOOD PROCESSING COMPANIES IN INDIA

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Date of Receipt: 18.4.2019

ABSTRACT

Date of Acceptance: 10.5.2019

Food processing industry is considered as a sunrise industry in the world because of its large potential for growth and socio economic impact. Food processing industry has enormous significance in India's development because of the vital linkages and synergies it promotes between the two pillars of our economy *i.e.*, industry and agriculture. The study was based on secondary data and three companies namely Britannia Industries Limited, Nestle India Limited and Glaxo SmithKline Consumer Healthcare Limited were purposively selected. The study was carried out for the period of five years *i.e.* from 2013 to 2017. The liquidity position leverage position was improved for all the three companies and turnover ratios were higher. Financial position was improved for all the three companies from 2013 to 2017.

KEY WORDS: Debt, liquidity position, returns, profitability.

INTRODUCTION

Food processing industry in India was ranked fifth in terms of production, consumption and export. The food processing industry constituted around 32 per cent of the country total food market as per India brand equity foundation report (IBEF, 2017). It is considered as an important industry of Indian economy in terms of its contribution to manufacturing gross domestic product (14 per cent), employment (13 million people directly and 35 million people indirectly) and investment (US\$ 7.54 billion worth of foreign direct investment). The Indian food industry is currently valued at US\$ 39.71 billion is expected to grow at a compound annual growth rate (CAGR) of 11 percent to US\$ 65.4 billion by 2018 (ASSOCHAM). From the manufacturers point of view, it is vital to improve the financial health to remain competitive. Despite its tremendous potential, it has still not achieved its full potential. Food entrepreneurs require finance for both working capital and capital expansion needs hence these should be efficiently maintained. They should carefully utilize the available investment to earn the higher return on investment and equity. The inventory plays a vital role in the food processing sector because of the seasonality of raw material, perishability and location specificity. Since the manufacturing cycle is very short in food processing industry the good levels of inventory should be maintained in order to have a continuous manufacturing cycle. From the background stated above financial performance can be used

as a screening tool to evaluate the financial health and viability of the company.

MATERIALS AND METHODS

The study is based on secondary sources of data. Three food-processing companies listed in national stock exchange were purposively selected. The study was carried out for a period of 5 years *i.e.*, from 2013 to 2017. The data pertaining to financial information of the selected food processing companies was obtained from published annual accounts and financial statements (balance sheet and profit and loss accounts) of the respective companies from the website www.moneycontrol.com and respective company websites. Ratio analysis was used to study the financial position of the companies namely Britannia Industries Limited, Nestle India Limited and Glaxo SmithKline Consumer Healthcare Limited.

TOOLS AND TECHNIQUES OF ANALYSIS

Standard formulae were applied for computation of financial ratios of selected food processing companies as followed by earlier workers (Florenz, 2012; Guo *et al.*, 2012 and Lathamani and Ramesh, 2016))

Financial Ratio Analysis

To evaluate the financial condition and performance of the firm, the financial analysis needs certain -

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yardsticks. The yard sticks frequently used is a ratio (or) Index. Analysis and interpretation of various ratios provide better insight into the relative financial condition and performance of the selected food processing companies over time. The financial ratios employed in the classification were classified according to their primary function. The ratios used were liquidity, leverage, profitability and activity ratios.

1. Liquidity ratios

It measures the ability of the firm to meet its short-term obligations that is capacity of the firm to pay its current liabilities as and when they fall due. Thus these ratios reflect the short-term financial solvency of a firm.

A. Current ratio

The current ratio measures the short-term solvency of the firm. It establishes the relationship between current assets and current liabilities. It is calculated by dividing current assets with current liabilities.

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current assets include cash and bank balances, marketable securities, inventory, and debtors, excluding provisions for bad debts and doubtful debtors, bills receivables and prepaid expenses. Current liabilities include sundry creditors, bills payable, short-term loans, income-tax liability, accrued expenses and dividends payable.

B. Quick ratio / Acid test ratio

It is an important indicator of the firm's liquidity position and is used as a complementary ratio to the current ratio. It establishes the relationship between quick assets and current liabilities. It is calculated by dividing quick assets with the current liabilities.

$$\text{Acid test ratio} = \frac{\text{current assets-inventory}}{\text{current liabilities}}$$

Quick assets are those current assets, which can be converted into cash immediately or within reasonable short time without a loss of value. These include cash and bank balances, sundry debtors, bill's receivables and

short-term marketable securities.

2. Leverage ratios

The company's current debt paying ability and company's long term financial strengths are judged through financial leverage, or capital provided by owners and lenders. As a general rule, there has to be a proper blend of debts and owner's equity. Leverage ratios are calculated by profit and loss items by determining the extent to which operating profits are sufficient to cover the fixed charges.

A. Debt ratio

This is employed to measure the long term solvency of the firm. To know the proportion of the interest bearing debts (also called funded debt) in the capital structure.

$$\text{Debt ratio} = \frac{\text{Total Debt}}{\text{Capital employed}}$$

The higher the ratio, the more leveraged the company and the greater its financial risk.

B. Debt equity ratio

Debt equity ratio shows the relative claims of creditors (outsiders) and owners (interest) against the assets of the firm. Thus this ratio indicates the relative proportions of debt and equity in financing the firm's assets. It can be calculated by dividing outsider funds (debt) by shareholder funds (equity).

3. Activity ratios / Turnover ratios

Activity ratios are employed to evaluate the efficiency with which the firm manages and utilizes its assets. These ratios are also called turnover ratios because they are turned over into sales. Activity ratios thus involve in the relationship between sales and assets. A proper balance between the sales and assets generally reflects that assets are managed well.

A. Inventory turnover ratio

Inventory turnover indicates the efficiency of the firm in producing and selling its products. It is calculated

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by dividing cost of goods sold by the inventory.

$$\text{Inventory turnover} = \frac{\text{sales}}{\text{inventory}}$$

The inventory turnover shows how rapidly the inventory is converted into receivables through sales. A high inventory turnover is a indicative of good inventory management. A low inventory turnover implies excessive inventory levels than warranted by products and sales activities.

B. Debtors turnover ratio

This indicates the number of times average debtors have been converted into cash during a year. It is determined by dividing the net credit sales by average debtors.

$$\text{Debtor turnover ratio} = \frac{\text{credit sales}}{\text{average debtors}}$$

A net credit sale consists of gross credit sales minus sales return. Trade debtor includes sundry debtors and bill's receivables.

Average debtors =

$$\frac{\text{Opening balance} + \text{Closing balances}}{2}$$

When the information about credit sales, opening and closing balances of trade debtors is not available then the ratio can be calculated by dividing total sales by year end balances of debtor.

$$\text{Debtor turnover ratio} = \frac{\text{Total Sales}}{\text{debtors}}$$

C. Total Assets turnover ratio

Assets are used to generate sales. The relationship between assets and sales is known as assets turnover.

$$\text{Total asset turnover} = \frac{\text{Total sales}}{\text{Total assets}}$$

Total assets turnover ratio shows the firm's ability to generate sales from all financial resources committed to total assets. It is calculated by dividing sales by total assets.

4. Profitability ratio

Profitability ratios measure a firm's ability to generate earnings relative to sales, assets and equity.

Profitability ratios include gross profit margin and net profit margin, return on investment (ROI) and return on equity (ROE) and market value to book value ratios. All of these ratios indicate how well a company is performing at generating profits or revenues relative to a certain metric.

The profitability ratio of the firm can be measured by calculating various profitability ratios. General two groups of profitability ratios are calculated.

A. Profitability in relation to sales

B. Profitability in relation to investments

A.1 Gross profit margin or ratio

It measures the relationship between gross profit and sales. It is calculated by dividing gross profit by sales.

$$\text{Gross profit margin or ratio} = \left(\frac{\text{Gross profit}}{\text{Sales}} \right) \times 100$$

Gross profit is the difference between sales and cost of goods sold. Gross profit margin reflects the efficiency with which management produces each unit of product. The high gross profit margin ratio is the sign of good management.

A.2 Net profit margin or ratio

It measures the relationship between net profit and sales of a firm. It indicates management's efficiency in manufacturing, administrating and selling the products. It is calculated by dividing profit after tax by sales.

$$\text{Net profit margin or ratio} = \left(\frac{\text{Profit after tax}}{\text{sales}} \right) \times 100$$

Net profit margin ratio indicates management's efficiency in manufacturing, administering and selling its products. It also indicates the firms capacity to withstand adverse economic conditions.

B.1 Return on investment (ROI)

It measures the relationship between earnings before interest and tax and total assets.

$$ROI = \left(\frac{\text{earnings before interest and tax}}{\text{total assets}} \right) \times 100$$

B.2. Return on equity (ROE)

It measures the relationship between profit after tax by to shareholder's equity which is given by net worth or equity.

$$ROE = \left(\frac{\text{profit after tax}}{\text{net worth (equity)}} \right) \times 100$$

Return on equity indicates how well firm has used the resources of owners.

RESULTS AND DISCUSSIONS

Financial Performance of Britannia Industries Limited from 2013 to 2017

Table1. Financial performance of Britannia Industries Limited from 2013 to 2017

Year	Current ratio	Quick ratio	Debt ratio	Inventory turnover ratio	Debtors turnover ratio	Total assets turnover ratio	Operating profit margin (%)	Net profit margin (%)	Return on investment (%)	Return on equity (%)
2013	0.82	0.44	0.23	16.94	72.81	3.34	6.59	4.16	21.98	36.75
2014	0.9	0.51	0.00025	17.19	117.48	3.42	8.69	5.86	29.71	43.33
2015	1.91	0.9	0.00039	20.76	101.1	2.91	12.32	8.67	35.90	50.37
2016	1.06	0.77	0.00021	20.7	74.49	2.59	14.25	9.43	36.93	44.06
2017	1.84	1.29	0.00014	13.96	66.56	2.28	14.89	10.03	33.89	32.68

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Information regarding financial particulars from 2013 to 2017 were obtained from balance sheet and profit loss account of Britannia Industries Limited. The financial ratios were computed and presented in Table 1.

A perusal of Table 1 shows that the current ratio values of the company were 0.82, 0.9, 1.91, 1.06 and 1.84 in 2013, 2014, 2015, 2016 and 2017 respectively. The quick ratios from 2013 to 2017 were 0.44, 0.51, 0.9, 0.77 and 1.29 respectively. This infers that liquidity position of the company has improved from 2013 to 2017. The debt ratios of the company were 0.23, 0.00025, 0.00039, 0.00021 and 0.00014 from 2013 to 2017 respectively indicating that the company dependency on outside lenders is very less and majorly dependent on owner's capital. The inventory turnover ratios from 2013 to 2017 were 16.94, 17.19, 20.76, 20.7 and 13.96 respectively. The inventory turnover ratios indicated that on an average the 18 times in a year *i.e* for every 20 days the inventory is converted into receivables. The debtor's turnover ratios were 72.81, 117.48, 101.1, 74.49 and 66.56 in 2013, 2014, 2015, 2016 and 2017 respectively. This indicated that the average debtor's turnover is 86 times. The total assets turnover ratios from 2013 to 2017 were 3.34, 3.42, 2.91, 2.59 and 2.28 respectively. This indicated the decreasing trend.

The profitability ratios in relation to sales *i.e.*, operating profit margin and net profit margin were 6.59 and 4.16 in 2013, 8.69 and 5.86 in 2014, 12.32 and 8.67 in 2015, 14.25 and 9.43 in 2016, 14.89 and 10.03 per cent in 2017 respectively. This revealed that the net profit margin and the operating profit margins of the company were increased from 2013 to 2017.

The return on investment ratios from 2013 to 2017 were 21.98, 29.71, 35.90, 36.93 and 33.89 per cent in 2013, 2014, 2015, 2016 and 2017 respectively. The return on equity ratios were 36.75, 43.33, 50.37, 44.06 and 32.68 per cent from 2013 to 2017 respectively. This indicated that return on investment ratios of the company were increased from 2013 to 2016 and decreased in 2017, while return on equity increased till 2015 then decreased till 2017.

Financial performance of Nestle India Limited from 2013 to 2017

Information regarding financial particulars from 2013 to 2017 were obtained from balance sheet and profit loss account of Nestle India Limited. The financial ratios were computed and presented in Table 2.

From the Table 2 it is inferred that the current ratios were 1.71, 1.45, 1.68, 2.01 and 2.64 in 2013, 2014, 2015, 2016 and 2017 respectively, the quick ratios from 2013 to 2017 were 1.16, 0.83, 1.12, 1.43 and 2.03 respectively. This showed that liquidity position of the company was improved from 2013 to 2017. The debt ratios of the company from 2013 to 2017 were 0.33, 0.01, 0.01, 0.01 and 0.23 respectively indicating the company dependency on outside lenders is very marginal.

The inventory turnover ratios from 2013 to 2017 were 12.37, 11.67, 9.96, 9.78 and 11.09 respectively. It was indicated that the inventory turnover was on an average 10.9 times inventory was converted into receivables *i.e.*, for 33 days. The debtors turn over ratios of the company were 108.00, 99.44, 104.25, 94.19, and 112.51 from 2013 to 2017 respectively indicated that the on an average debtor's turnover was 103 times. The total assets turnover ratio from 2013 to 2017 were 1.53, 1.83, 1.46, 1.49, and 1.51 respectively. This indicated that the total assets turnover ratio increased from 2013 to 2014, declined till 2016 and slightly increased in 2017.

Table 2 Financial performance of Nestle India Limited from 2013 to 2017.

Year	Current ratio	Quick ratio	Debt ratio	Inventory turnover ratio	Debtors turnover ratio	Total assets turnover ratio	Operating profit margin (%)	Net profit margin (%)	Return on investment (%)	Return on equity (%)
2013	1.71	1.16	0.33	12.37	108	1.53	18.84	12.27	27.15	47.16
2014	1.45	0.83	0.01	11.67	99.44	1.83	18.24	12.11	30.88	42.06
2015	1.68	1.12	0.01	9.96	104.25	1.46	9.99	6.89	13.43	19.99
2016	2.01	1.43	0.01	9.78	94.19	1.49	15.67	10.05	21.23	30.74
2017	2.64	2.03	0.23	11.09	112.51	1.51	19.29	12.24	26.22	35.82

The profitability ratios in relation to sales *i.e.*, operating profit margin and net profit margin were 18.84 and 12.27, 18.24 and 12.11, 9.99 and 6.89, 15.67 and 10.05, 19.29 and 12.24 per cent from 2013 to 2017 respectively indicating that the operating profit margin and net profit margin of the company decreased till 2015 and increased from 2016 to 2017.

The return on investment ratios of the company were 27.15, 30.88, 13.43, 21.23 and 26.22 per cent from 2013 to 2017 respectively indicating that the return on investment increased from 2013 to 2014, decreased in 2015 and increased till 2017. The return on equity ratios of the company from 2013 to 2017 were 47.16, 42.06, 19.99, 30.74 and 35.82 per cent respectively indicating that the return on equity decreased from 2013 to 2015 and increased till 2017.

Financial Performance of GlaxoSmithKline Consumer Healthcare Limited from 2013 to 2017

Information regarding financial particulars from 2013 to 2017 were obtained from balance sheet and profit loss account of GlaxoSmithKline Consumer Healthcare Limited. The financial ratios were computed and presented in Table 3.

The results presented in the Table 3 shows that the current ratios of the company from 2013 to 2017 were 1.86, 1.87, 1.96, 2.07 and 2.59 respectively. The quick ratios of the company were 1.53, 1.59, 1.68, 1.81 and 2.3 respectively. This indicated the liquidity position *i.e.*, current

ratios and quick ratios of the company showed increasing trend from 2013 to 2017. The debt ratios of the company from 2013 to 2017 were 0 indicating that company was not dependent on lenders and dependent on owner's capital only.

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Table 3. Financial performance of GlaxoSmithKline Consumer Healthcare Limited from 2013 to 2017

Year	Current ratio	Quick ratio	Debt ratio	Inventory turnover ratio	Debtors turnover ratio	Total assets turnover ratio	Operating profit margin (%)	Net profit margin (%)	Return on investment (%)	Return on equity (%)
2013-14	1.86	1.53	0	8.62	28.31	1.25	20.43	13.7	25.49	32.09
2014-15	1.87	1.59	0	11.95	16.26	1.55	20.89	13.86	29.81	37.22
2015-16	1.96	1.68	0	9.24	13.75	1.12	20.66	13.55	22.14	27.62
2016-17	2.07	1.81	0	9.33	12.17	1	24.51	15.94	23.48	28.09
2017-18	2.59	2.3	0	8.64	12.42	0.85	25.42	16.47	20.43	21.03

The inventory turnover ratios of the company from 2013 to 2017 were 8.62, 11.95, 9.24, 9.33 and 8.64 respectively indicated that on an average inventory turnover was 9.5 times a year *i.e.*, for every 38 days' inventory was being converted into receivables. The debtor's turnover ratios of the company from 2013 to 2017 were 28.31, 16.26, 13.75, 12.17 and 12.42 respectively indicated that on an average the debtor's turnover was 16.5 times. The total assets turnover ratios from 2013 to 2017 were 28.31, 16.26, 13.75, 12.17 and 12.42 respectively indicating the decreasing trend from 2013 to 2016 and slightly increased in 2017 from 2016.

The profitability ratios related to sales *i.e.*, operating profit margin and net profit margin from 2013 to 2017 were 20.43 and 13.7, 20.89 and 13.86, 20.66 and 13.55, 24.51 and 15.94, 25.42 and 16.47 per cent respectively. This indicated that the operating profit margin and net profit margin increased from 2013 to 2014, declined in 2015 and increased till 2017.

The return on equity ratios were 25.49, 29.81, 22.14, 23.48 and 20.43 per cent in 2013, 2014, 2015, 2016 and 2017 respectively. The return on equity ratios from 2013 to 2017 were 32.09, 37.22, 27.62, 28.09 and 21.03 per cent respectively. It is inferred that the profitability ratios related to investment *i.e.*, return on investment and return on equity were increased from 2013 to 2014, declined in 2015, increased in 2016 and declined in 2017.

CONCLUSIONS:

Liquidity position of three companies was improved from 2013 to 2017. The company's dependency on outside lenders was very less.. Inventory turnover and

turnover was higher for all the three companies. Net profit margin and operating profit margin were increased for Britannia Industries Limited and showed varying trend in Nestle India Limited, GlaxoSmithKline Consumer Healthcare Limited. Return on investment and return on equity showed varying trend in all companies.

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