



A STUDY ON PROFITABILITY ANALYSIS ON SELECT FOOD COMPANIES IN INDIA

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ABSTRACT

In business, one of the most important decisions is the investment decision. Investment decision is concerned with the investment in current assets and fixed assets. Hence, the required capital can be divided into two categories, i.e., fixed capital and working capital. Fixed capital is a capital which is required for establishment of a business. Ratios are useful tool for various stakeholders like management, financiers, shareholders and creditors etc. Various types of ratios include liquidity ratios, profitability ratios, solvency ratios are the parameters that has been used to determine the financial performance of the companies. Food industry is one of the major sector in India where it involves one of the major role in the GDP of the Indian economy. The main purpose of the paper is to analyse the profitability and efficiency position of the selected food companies in India for the period from 2017-18 to 2022-23.

Keywords: Business, Food industry, Indian economy.

INTRODUCTION

Finance, the process of raising funds or capital for any kind of expenditure. Consumers, business firms, and governments often do not have the funds available to make expenditures, pay their debts, or complete other transactions and must borrow or sell equity to obtain the money they need to conduct their operations. Savers and investors, on the other hand, accumulate funds which could earn interest or dividends if put to productive use. These savings may accumulate in the form of savings deposits, savings and loan shares, or pension and insurance claims; when loaned out at interest or invested in equity shares, they provide a source of investment funds. Finance is the process of channelling these funds in the form of credit, loans, or invested capital to those economic entities that most need them or can put them to the most productive use. The institutions that channel funds from savers to users are called financial intermediaries. They include commercial banks, savings banks, savings and loan associations, and such nonbank institutions as credit unions, insurance companies, pension funds, investment companies, and finance companies.

STATEMENT OF THE PROBLEM

Managing the financial needs and operations of any business is very crucial to the management of the company because it has an effect on both profits and liquid assets of the firm. The part of the finance which enables an enterprise to conduct its day-to-day operations is called the working capital. It analyses short term assets and liabilities carefully in order to manage the firm's liquidity. It helps managers to operate the firm by making cash available to pay for short-term and long-term debt. It also helps in meeting expenses for 6 effective daily operations. So, an optimal level of working capital must be maintained to

keep to a trade-off between return and risk. Even though several studies on working capital management were undertaken, in both developed and underdeveloped countries, this study adds to the literature by examining the issue of the working capital covering liquidity, solvency and profitability management.

REVIEW OF LITERATURE

Bhunia (2007) has studied liquidity management of public sector Iron and Steel enterprises in India. The study found that the actual values of working capital lower than the estimated value of working capital for both companies under study and poor liquidity position in case of both companies. **Singh (2008)** found that the size of inventory directly affects working capital and its management. The study suggested that inventory was the major component of working capital, and needed to be carefully controlled. **Ramachandran and Janakiraman, (2009)** analysed the relationship between working capital management efficiency and earnings before interest and tax of the paper industry in India. The study revealed that cash conversion cycle and inventory days had negative correlation with earnings before interest and tax. While accounts payable days and accounts receivable days related positively with earnings before interest and tax. **Sharma and Kumar (2011)** took a sample data of 263 non-financial BSE 500 firms listed on Bombay stock exchange from year 2000-2008 and used OLS Multiple Regression model as analysis technique. The results show positive and significant relationship of profitability and working capital management. Inventory of number of days and number of days accounts payable are having negative correlation with profitability while number of days accounts receivable and cash conversion cycle is positively related with profitability showing that in Indian companies, stretching of number of days accounts receivables and cash conversion cycle would be profitable. **Amsaveni and Gomathi (2013)** analysed the fundamental analysis of BSE listed FMCG companies for a period 2006-07 to 2011-2012. Researcher has studied economic, industry and company analysis and found that from economic analysis, GNP, Inflation, Interest rates, Exchange rate foreign exchange reserves, Agricultural Production, Government Receipts and expenditure has a positive growth rate during the study period and gross domestic product, gross domestic capital formation savings and balance of payments has negative growth rate during the study period.

OBJECTIVE OF THE STUDY

1. To study the trends in selected food companies.
2. To analyse and evaluate the profitability and efficiency position with respect to selected food companies.

METHODOLOGY

The research methodology used for the study that has focused on the profitability and working capital turnover of the selected food companies. The study purely relies on the secondary data. The collected data has been analysed through the ratios like gross profit ratio, net profit ratio, operating profit ratio, debtors turnover ratio, asset turnover ratio, working capital turnover ratio.

Period of study

The study covers a period of five years of monthly data from 2018-19 to 2022-23.

Tools used for the study

- Trend analysis
- Profitability ratios- Gross profit ratio, Net profit ratio, Operating profit ratio

ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

A ratio analysis is a quantitative analysis of information contained in a company's financial statements. Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency.

PROFITABILITY RATIOS

Profitability ratios are class of financial metrics that are used to assess a business's ability to generate earnings relative to its associated expenses. For most of these ratios, having a higher value relative to a competitor's ratio or relative to the same ratio from a previous period indicates that the company is doing well. The following are the profitability ratios taken to analyse the financial performance of the selected companies.

1. Gross profit ratio
2. Net profit ratio
3. Operating profit ratio

GROSS PROFIT RATIO

This ratio measures the marginal profit of the company. This ratio is also used to measure the segment revenue. A high ratio represents the greater profit margin and it is good for the company.

YEAR	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	MEAN	STANDARD DEVIATION
COMPANIES							
HINDUSTAN UNILEVER	22.48	23.66	25.86	25	24.93	24.386	1.323397144
ITC LIMITED	44.29	43.9	45.44	41.17	38.12	42.584	2.946426649
NESTLE INDIA	24.49	24.6	23.84	21.39	21	23.064	1.736182594
BRITANNIA INDUSTRY	16.82	17.65	18.74	20.57	17.31	18.218	1.492136053
TATA CONSUMER PRODUCTS	18.9	16.79	13.72	12.54	14.85	15.36	2.523816554

(Source: Compiled from secondary data of the company 2018 – 2023)

Table depicts the gross profit ratios of the companies for the period from 2017-18 to 2021-2022. This table shows that ITC Limited having the highest gross profit ratios when compared to other companies with the mean of 42.584 and the company seems to be maintaining greater profit margin. Then Hindustan Unilever and Nestle India have ss indicating that the company's performance in maintaining adequate profit margin is low.

NET PROFIT RATIO

This ratio measures the overall profitability of company considering all direct as well as indirect cost. A high ratio represents a positive return in the company and the company is better.

NET PROFIT RATIOS OF FIVE COMPANIES

YEAR	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	MEAN	STANDARD DEVIATION
COMPANIES							
HINDUSTAN UNILEVER	15.16	15.8	17.38	17.3	17.22	16.572	1.02377732
ITC LIMITED	27.62	27.7	33.17	28.65	26.72	28.772	2.551679839
NESTLE INDIA	14.23	15.91	15.6	13.94	13.72	14.68	1.003867521
BRITANNIA INDUSTRY	10.18	10.7	13.5	14.21	11.99	12.116	1.737046344
TATA CONSUMER PRODUCTS	16.99	12.07	8.83	8.6	11.45	11.588	3.389973451

(Source: Compiled from secondary data of the company 2018 – 2023)

Table depicts the net profit turnover ratios for the companies Hindustan Unilever, ITC Limited, Nestle India, Britannia Industry, TATA Consumer Products for the period from 2017-2018 to 2021-2022. From the table it is clear that ITC Limited and Hindustan Unilever are having the maximum net profit ratio with the mean of 28.772 and 16.572 as compared to other companies under study, indicating that these companies are bringing much efficiency in operations. Whereas companies like Nestle India, Britannia Industry, TATA Consumer Products are having lowest level of Net profit ratios indicating lesser efficiency in their operation.

OPERATING PROFIT RATIO

The operating profit margin ratio indicates how much profit a company makes after paying for variable costs of production such as wages, raw materials, etc. It is also expressed as percentage of sales and then shows the efficiency of a company controlling the costs and expenses associated with business operations.

OPERATING PROFIT RATIOS OF FIVE COMPANIES

YEAR	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	MEAN	STANDARD DEVIATION
COMPANIES							
HINDUSTAN UNILEVER	22.54	23.73	26.13	25.24	25.12	24.552	1.41508657
ITC LIMITED	38.25	38.46	39.24	34.12	33.6	36.734	2.655763544
NESTLE INDIA	25.47	25.65	25.07	22.71	21.89	24.158	1.733470507
BRITANNIA INDUSTRY	16.83	17.67	19.34	21.32	18.31	18.694	1.730875501
TATA CONSUMER PRODUCTS	15.59	12.77	14.12	12.83	14	13.862	1.15424001

(Source: Compiled from secondary data of the company 2018– 2023)

Table depicts the operating profit ratios for the companies Hindustan Unilever, ITC Limited, Nestle India, Britannia Industry, TATA Consumer Products for the period from 2017-2018 to 2021-2022. From the table it is clear that ITC Limited and Hindustan Unilever are having maximum operating ratio with the mean of 36.734 and 24.552 as compared to other companies under study, indicating that these companies are bringing much efficiency in operations whereas companies like Nestle India, Britannia Industry, TATA Consumer Products are having lowest operating profit ratio indicating lesser efficiency in their operations.

WORKING CAPITAL TURNOVER RATIO

Working capital of a concern is directly related to sales. The current assets like debtors, bills receivables, cash, stock etc, change with the increase or decrease in sales. Working capital turnover ratio indicates the velocity of the utilisation of net working capital. This ratio measures the number of times the working capital is turned over in course of a year. This ratio also measures the efficiency with which the working capital is being used by a firm. A higher ratio indicates efficient utilisation of working capital and a low ratio indicates otherwise.

WORKING CAPITAL TURNOVER RATIOS OF FIVE COMPANIES

YEAR COMPANIES	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	MEAN	STANDARD DEVIATION
HINDUSTAN UNILEVER	16.14	14.41	16.05	18.54	15.43	16.114	1.521653706
ITC LIMITED	2.83	2.3	1.71	2.24	3.07	2.43	0.534088008
NESTLE INDIA	4.03	7.85	8.13	-5932.39	42.45	-1173.986	2660.074314
BRITANNIA INDUSTRY	6.98	7.4	11.68	18.68	-54.41	-1.934	29.70939043
TATA CONSUMER PRODUCTS	2.32	2.36	2.6	2.93	3.14	2.67	0.357770876

(Source: Compiled from secondary data of the company 2018 – 2023)

Table depicts the working capital turnover ratio for the companies for the period from 2017-2018 to 2021-2022. From the table it is that TATA Consumer Product and ITC Limited having a minimum working capital turnover ratio with 2.67 and 2.43, compared to other companies under study, indicate that this company is bringing much efficiency in operations. Whereas companies like Nestle India and Britannia Unilever are having lowest working capital turnover ratio indicating lower efficiency in this operation.

DEBTORS TURNOVER RATIO

A concern may sell goods on cash as well as on credit. Debtor's turnover ratio measures how quickly a company collects bills from its customers. It is an indicator of how efficient a company's credit policies are & indicates the level of investment in receivables needed to maintain the firm's sales level.

DEBTOR TURNOVER RATIO OF FIVE COMPANIES

YEAR	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	MEAN	STANDARD DEVIATION
COMPANIES							
HINDUSTAN UNILEVER	4.36	13.6	14.71	15.78	14.64	12.618	4.680333321
ITC LIMITED	16.76	14.79	19.51	19.7	24.45	19.042	3.646418791
NESTLE INDIA	60.47	69.79	67.45	89	94.02	76.146	14.54700416
BRITANNIA INDUSTRY	7.96	6.41	6.99	8.2	9.75	7.862	1.280339799
TATA CONSUMER PRODUCTS	23.17	22	27.37	26.75	26.26	25.11	2.374626286

(Source: Compiled from secondary data of the company 2018 – 2023)

Table depicts the debtor's turnover ratios for the companies for the period from 2017-18 to 2021-22. From the table it is clear that Nestle India and TATA Consumer Products have maximum debtor turnover ratio with a mean of 76.146 and 25.11 respectively as compared to other companies under study, indicating that these companies are bringing much efficiency. Whereas companies like Hindustan Unilever, ITC Limited, Britannia Industry are having lowest debtor's turnover ratio indicating lesser efficiency in their operations.

ASSET TURNOVER RATIO

This ratio provides a measure of overall investment efficiency by totalling the joint impact of both short-term and long-term assets.

ASSET TURNOVER RATIO OF FIVE COMPANIES

YEAR	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	MEAN	STANDARD DEVIATION
COMPANIES							
HINDUSTAN UNILEVER	2.1	2.14	2.03	1.04	0.73	1.608	0.670201462
ITC LIMITED	65.12	64.46	60.63	0.62	0.77	38.32	34.3895631
NESTLE INDIA	1.46	1.62	1.77	1.83	1.97	1.73	0.196341539
BRITANNIA INDUSTRY	2	12.49	17.34	14.58	15.65	12.412	6.080416926
TATA CONSUMER PRODUCTS	2.35	2.14	1.79	1.76	1.94	1.996	0.248656389

(Source: Compiled from secondary data of the company 2018 – 2023)

Table depicts the Assets turnover ratio for the companies for the period from 2017-18 to 2021-22. From the table it is clear that ITC Limited and Britannia Industries is having maximum asset turnover ratio with the mean of 38.32 and 12.412 respectively as compared to other companies under the study indicating that these companies are bringing in more efficiency in operation. Whereas companies like Hindustan Unilever, Nestle India, TATA Consumer Products are having lowest asset turnover ratio indicating lesser efficiency in their operations.

CONCLUSION

The study made it possible to establish a relation between working capital management and firm's profitability. With the rigorous analysis, the study has concluded that all components of working capital namely Gross profit ratio, Net profit ratio, Operating profit ratio, working capital turnover ratio, Debtors turnover ratio, Asset turnover ratio have strong impact on profitability and the result is substantiated by the early researches. Discussion brings the need of efficient working capital management. Researchers are in consensus that profitability of the firm is more ensured with better working capital management.

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