

**Financial Performance of Select FMCG Industries in India**

**By**

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**(14PCO003)**

**Under the guidance of**

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**Thesis submitted to**

**Avinashilingam Institute for Homes Science and Higher Education for  
Women**

**Coimbatore – 641043**

**In partial fulfilment of the requirement for the award of the Degree of  
Master of Commerce**

**April 2016**

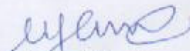
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Avinashilingam Institute for Home Science and Higher Education for Women  
Coimbatore-641043

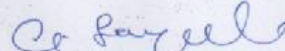
Certificate

This is to certify that the project entitled,  
"Financial Performance of Select FMCG Industries in India"  
is a bonafide of work done by,

B.Anitha  
(14PCO003)

Submitted in partial fulfilment of the requirement for the award of the Degree of  
Master of Commerce

  
Signature of the Dean

  
Signature of the Head of the Department

Viva voce examination held on \_\_\_\_\_

Signature of the Supervisor

Signature of the External Examiner

## **DECLARATION**

We hereby declare the work entitled “**Financial Performance of Select FMCG Industries in India**” is submitted in partial fulfillment of the requirements for the award of the degree of Master Of Commerce, under the supervision and guidance of Dr.Mrs.D.Geetha, Associate Professor of Commerce, Avinashilingam Institute for home science and higher education for women, Coimbatore - 641043.

PLACE:

DATE:

SIGNATURE OF THE CANDIDATE

SIGNATURE OF THE  
GUIDE

## Acknowledgement

Every work on its backdrop has the blessing of Lord Almighty. Therefore we submit our reverential gratitude on the feet of the Lord Almighty. We deem it a great pleasure to thank all those who rendered their help during the course of this study.

We are grateful to **Dr. P. Krishna Kumar**, Chancellor, Avinashilingam Institute for Home Science and Higher Education for Women, Coimbatore for providing all facilities necessary for the study.

Our special debt of gratitude to **Dr.(Mrs.) Premavathy Vijyan M.Sc., M.Ed., Dip.Spl.Edn., M.Phil., Ph.D.**, Vice Chancellor(I/C), Avinashilingam Institute for Home Science and Higher Education for Women, Coimbatore for providing the opportunity and exposure to the world of knowledge.

Our special thanks to **Dr.A.Venmathi, M.Sc., Dip.Ed, M.Phil., Ph.D.**, (Avinashilingam), Registrar (I/C), for administrative support and for providing adequate help required to carry out the work.

Our sincere thanks to **Dr. U.Jerinabi, M.Com, Dip.Ed, M.phil., Ph.D.**, Dean, Faculty of Business Administration for her valuable advice and timely encouragement to complete the project successfully.

Our sincere thanks to **Dr. (Mrs.) G.Santhiyavalli M.Com., Dip.Ed., M.phil., Ph.D.** Professor and Head of the Department of the Commerce, for giving necessary help and support for completing the project successfully.

Our heartfelt thanks are due to my guide **Dr D.Geetha, M.Com., Diploma in higher Education., M.Phil., Ph.D.**, Associate Professor, Department of Commerce for her guidance and for her timely, Valuable and patient help, affectionate support, expert suggestions and motivation throughout the project.

We are thankful to all the **Staff Members** of the Department of Commerce who rendered their help whenever required.

The researcher owe their heartfelt thanks and gratitude to the **Librarian** of the Avinashilingam Institution for Home Science and Higher Education for Women, Coimbatore.

The researcher expresses her grateful acknowledgement to her family members and special thanks to all her friends who helped her to make this study a successful one.

## CONTENTS

<b>Chapter No</b>	<b>Title</b>	<b>Page No.</b>
<b>I</b>	<b>INTRODUCTION</b>	
<b>II</b>	<b>REVIEW OF LITERATURE</b>	
<b>III</b>	<b>RESEARCH METHODOLOGY</b>	
<b>IV</b>	<b>ANALYSIS AND INTERPRETATION</b>	
<b>V</b>	<b>SUMMARY AND CONCLUSION</b>	
	<b>BLBLOGRAPHY</b>	

## **Abstract**

FMCG (Fast Moving Consumer Goods) sector plays an important role in economic development of developing countries. Financial Performance Analysis is aimed at determining financial and operational constraints of a company from the measures of accounting and financial statements. Hence, financial performance gains the basic importance for taking financial decisions effectively.

ITC limited and Hindustan Unilever Limited are the two major, Giant FMCG industries in India. They play a significant role in the development of FMCG Industries. The analysis of financial performance reflects the financial position of the company. This research study focus on the financial performance of the companies analyzing the Liquidity, Profitability, Solvency, Efficiency position and the assessment of the financial health ( Z- Score Analysis). The findings of the research study will help the FMCG industries to improve their financial performance. The financial health will be better and industry will contribute well for the development of the economy.

## LIST OF TABLES

<b>Table No</b>	<b>Title</b>	<b>Page No</b>
<b>1</b>	ITC ltd and Hindustan Unilever ltd –financial ratios-liquidity ratio(2010-2015)	
<b>2</b>	ITC ltd and Hindustan Unilever ltd –financial ratio-profitability ratio(2010-2015)	
<b>3</b>	ITC ltd and Hindustan Unilever ltd –financial ratio-solvency ratio(2010-2015)	
<b>4</b>	ITC ltd and Hindustan Unilever ltd –financial ratio- efficiency ratio(2010-2015)	
<b>5</b>	ITC ltd and Hindustan Unilever ltd – financial health indicator-Z-Score Analysis (2010- 2015)	

## LIST OF EXHIBITS

<b>Exhibit No</b>	<b>Title</b>	<b>Page No</b>
<b>1</b>	ITC ltd and Hindustan Unilever ltd –financial ratios-liquidity ratio(2010-2015)	
<b>2</b>	ITC ltd and Hindustan Unilever ltd –financial ratio-profitability ratio(2010-2015)	
<b>3</b>	ITC ltd and Hindustan Unilever ltd –financial ratio-solvency ratio(2010-2015)	
<b>4</b>	ITC ltd and Hindustan Unilever ltd –financial ratio- efficiency ratio(2010-2015)	
<b>5</b>	ITC ltd and Hindustan Unilever ltd – financial health indicator- Z-Score Analysis (2010- 2015)	

# INTRODUCTION

## **CHAPTER-I**

### **INTRODUCTION**

The Current Scenario of Indian Economy has been characterized by optimistic growth and strong macro-economic fundamentals, particularly with tangible progress towards fiscal consolidation and a strong balance of Payments position. Gross Domestic Product (GDP), at current market prices, is projected at Rs. 46, 93,602 crore in 2007-08 by the Central Statistical Organization (CSO) in its Advance Estimates (AE) of GDP. While, the GDP at factor cost, at constant 1999-2000 prices, is projected to grow at 8.7 per cent in 2007-08.

The industrial sector has witnessed a moderate slowdown in the growth during the first eight months of the current fiscal, till November 2007. The growth achieved, during April-November 2007, by the industrial sectors has been 9.2 per cent. The capital goods have grown at an accelerated pace, over a high base attained in the previous years. While, the consumer durables showed a negative growth during the period, thereby forcing a visible decline in the growth of the total consumer goods basket, despite reasonable growth in the Non-Durables.

### **FMCG INDUSTRY IN INDIA**

The Indian FMCG sector is the fourth largest in the Economy and has a Market size of US\$13.1 billion. Well-established distribution networks, as well as intense competition between the organized and unorganized segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the FMCG market will reach to US\$ 33.4 billion in 2015 from US \$ billion 11.6 in 2003. The middle class and the rural segments of the Indian population are the most promising market for FMCG, and give brand makers the opportunity to convert them to branded products.

Most of the product categories like jams, toothpaste, skin care, shampoos, etc, in India, have low Per Capita Consumption as well as low penetration level, but the potential for growth is huge. The Indian Economy is surging ahead by leaps and bounds, keeping pace with rapid urbanization, increased literacy levels, and rising per capita income.

India's GDP unlike that of other emerging developing countries has a bigger consumer percentage than investment. This is because India's economic growth model has not followed the traditional export growth model of the other countries in Asia like China. India is more resilient to external shocks like the Lehman crisis and provides a more domestic orientation to growth. India has one of the fastest growing economies in the world and as the per capita income increase, consumer companies in India are reaping outsized rewards. India has a competitive consumer goods market with a number of domestic and international companies competing in multiple markets and segments. Some of the companies like HLL which is a subsidiary of the global consumer giant Unilever has become an Indian company all but in ownership. Fast Moving Consumer Goods (FMCG) companies are different from Consumer Durables companies. These Companies sell products of everyday use and are recession proof, in the sense that the products sold by FMCG Manufacturers can't be ignored even in times of Economic recessions.

### **FMCG Industry- Present Scenario**

The fast moving consumer goods (FMCG) segment is the fourth largest sector in the Indian economy. 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.

The consumer durables market is expected to reach US\$ 12.5 billion in 2015 and US\$ 20.6 billion by 2020. Urban markets account for the major share (65 per cent) of total revenues in the consumer durables sector in India. There is a lot of scope for growth from rural markets with consumption expected to grow in these areas as

penetration of brands increases. Also demand for durables like refrigerators as well as consumer electronic goods are likely to witness growing demand in the coming years in the rural markets as the government plans to invest significantly in rural electrification.

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. The rural FMCG market anticipated to increase at a CAGR of 17.7 per cent to reach US\$ 100 billion during 2012-2025. 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 consumer market. The Government of India's policies and regulatory frameworks such as relaxation of license rules and approval of 51 per cent foreign direct investment (FDI) in multi-brand and 100 per cent in single-brand retail are some of the major growth drivers for the consumer market.

### ***Rural FMCG Market of India***

The Rural FMCG Market of India is still unexplored and it provides tremendous growth opportunities. The Agriculture loan waiver announced in the Union Budget 2008, would certainly facilitate further growth of the Indian agriculture sector.

The Rural FMCG Market of India is on the verge of registering substantial expansion across the country. The Indian Rural FMCG market is mostly unorganized and it is generally dominated by small time retailers. The organized FMCG market is only confined to the urban areas of India. Rural India mostly depends on agriculture, directly or indirectly for livelihood. Further, almost 70% of Indian population lives in rural India in around 6,00,000 villages. Rural India offers tremendous growth prospects for the FMCG industry. Facilitation of better rural infrastructure like roads, telecommunication, electricity, supply chain, and transportation would propel the growth of Rural FMCG Market of India. Further, very low per capita consumption of FMCG products also provide tremendous opportunity for the growth of Rural FMCG markets in India. The FMCG sector, which offers tremendous growth prospects are Food and beverage sector, health care and personal care. Presently, rural India accounts for 34% of total FMCG

consumption, but it accounts for more than 40% consumption in major FMCG categories like as personal care, hot beverages, and fabric care.

The rural market is not homogeneous. The individual sections of this market are not too big, although the overall size is large. There are Geographical, demographical, statistical and logistical differences. Positioning and realities regarding the potential of each of these market segments differ and lie at the very core of forming the strategy for the rural markets. Gone are the days when rural consumer went to nearby city to buy 'branded products & services'. The rural consumer is growing and this is an opportunity to grab the market share for all the global players in the market – whether it is into Fast Moving Consumer Goods (FMCG) sector or retail sector (either insurance or banking).

### **MAJOR FMCG INDUSTRIES IN INDIA**

1. Hindustan Unilever Ltd.
2. ITC (Indian Tobacco Company)
3. Nestlé India
4. AMUL
5. Dabur India
6. Nirma ltd.
7. Cadbury India
8. Britannia Industries
9. Procter & Gamble Hygiene and Health Care
10. Marico Industries

## **FINANCIAL PERFORMANCE ANALYSIS:**

Financial performance analysis refers to the process of determining financial strength and weakness of the firm by establishing strategic relationship between the items of the balance sheet, profit and loss account and other operative data.

Financial analysis diagnoses the information contained in financial statements so as to judge the profitability and financial soundness of the firm. A financial analyst analyses the financial statement with various tools of analysis before commenting upon the financial health or weakness of an enterprise.

Financial performance refers to the act of performing financial activity. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Thus the term financial statement 'generally refers to two basic statements:

- The balance sheet and
- The income statement

The balance sheet shows the financial position (condition) of the firm at a given point of a time. It provides a snapshot and may be regarded as a static picture. Balance sheet is a summary of a firms financial position on a given date that Show that assets = total liability +owners equity.

The income statement (referred to in India as the profit and loss statement) reflects the performance of the firm over a period of time. However, financial statements do not reveal all the information related to the financial operations of a firm, but they furnish some extremely useful information, which highlights two important factors profitability and financial soundness. Thus analysis of financial statements is an important aid to financial performance analysis. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business.

## **COMPANY PROFILES OF ITC LTD AND HINDUSTAN UNILEVER LTD**

### **INDIAN TOBACCO COMPANY LIMITED (ITC LTD)**

**ITC Limited** is an Indian FMCG company that has head office in Kolkata. It was started in 1910 and more than 100 years of experience in FMCG industry. Company works across five different verticals that include Fast Moving Consumer Goods (FMCG), Hotels, Paperboards & Packaging, Agri Business & Information Technology. Company has more than 25000 employees that works from 60 locations in PAN India. ITC is the top producer of cigarette brands includes W.D. & H.O. Wills, Gold Flake Kings, Gold Flake Premium, Gold Flake Super Star, Navy Cut, Insignia, India Kings, and Classic etc...

#### **HISTORY OF ITC LIMITED:**

ITC Ltd is one of India's premier private sector companies with diversified presence in businesses such as Cigarettes, Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business, Packaged Foods & Confectionery, Information Technology, Branded Apparel, Greeting Cards, Safety Matches and other FMCG products. Presently, ITC has a market capitalization of nearly US \$ 15 billion and a turnover of over US \$ 4.75 billion. It employs over 21,000 people at more than 60 locations across India. ITC has been rated among the World's Best Big Companies, Asia's 'Fab 50' and the World's Most Reputable Companies by Forbes magazine, among India's Most Respected Companies by Business World and among India's Most Valuable Companies by Business Today.

ITC was incorporated on August 24, 1910 under the name of 'Imperial Tobacco Company of India Limited'. ITC had a humble beginning and in the initial days it used to operate from a leased office on Radha Bazar Lane, Kolkata. On its 16th birthday on August 24, 1926, ITC purchased the plot of land situated at 37, Chowringhee, (now renamed J.L. Nehru Road) Kolkata. Two years later company's headquarter building, 'Virginia House' came on that plot. Progressively the ownership of the company Indianised and the name of the Company was changed to I.T.C. Limited in 1974. In

recognition of the Company's multi-business portfolio encompassing a wide range of businesses, the full stops in the Company's name were removed effective September 18, 2001 and the Company was rechristened as 'ITC Limited'.

## **ITC IS INVOLVED IN FOLLOWING BUSINESSES:**

### **Cigarettes:**

ITC is the market leader in cigarettes in India and has a wide range of popular brands such as Insignia, India Kings, Classic, Gold Flake, Silk Cut, Navy Cut, Scissors, Capstan, Berkeley, Bristol and Flake in its portfolio.

### **Packaging:**

ITC's Packaging & Printing Business is the country's largest convertor of paperboard into packaging. It was set up in 1925 as a strategic backward integration for ITC's Cigarettes business. It offers a variety of value-added packaging solutions for the food & beverage, personal products, cigarette, liquor, cellular phone and IT packaging industries.

### **Hotels:**

ITC entered the hotels business in 1975 with the acquisition of a hotel in Chennai which was rechristened Hotel Chola. Today ITC-Welcomgroup with over 70 hotels is one of the foremost hotel chains in India.

### **Paperboards:**

In 1979, ITC entered the Paperboards business by promoting ITC Bhadrachalam Paperboards. ITC's Paperboards business has a manufacturing capacity of over 360,000 tones per year and is a market leader in India across all carton-consuming segments.

### **Greeting, Gifting & Stationery:**

ITC's stationery brands "Paper Kraft" & "Classmate" are widely distributed brands across India. The Paperkraft designer stationery range consists of notepads & multi subject notebooks in hard, soft covers & multiple binding formats including spirals, wireos etc. ITC's Greeting & Gifting products include Expressions range of greeting cards and gifting products.

**Safety Matches:**

ITC's brands of safety matches include iKno, Mangaldeep, VaxLit, Delite and Aim. The Aim is the largest selling brand of Safety Matches in India. ITC also exports premium brands to markets such as Europe, Africa and the USA.

**Lifestyle Retailing:**

ITC entered the Lifestyle Retailing business with the Wills Sport range of international quality relaxed wear for men and women in 2000. The Wills Lifestyle chain of exclusive stores later expanded its range to include Wills Classic formal wear (2002) and Wills Club life evening wear (2003).

**Food:**

ITC made its entry into the branded & packaged Foods business in August 2001 with the launch of the "Kitchens of India" brand. In 2002 it expanded into Confectionery, Staples and Snack Foods segments. ITC's brand in Food category include: Kitchens of India, Aashirvaad, Sunfeast, Mint-O, Candyman, and Bingo!.

**Agri Exports:**

ITC's International Business Division (IBD) is the country's second largest exporter of Agri-products. ITC exports Feed Ingredients (Soyameal), Foodgrains (Rice, Wheat, Pulses), Coffee & Spices, Edible Nuts, Marine Products, and Processed Fruits.

**COMPANY PROFILE**

Chairman	:	Yogesh Chander Deveshwar
Director	:	Krishnamoorthy Vaidyanath
Director	:	Sunil Behari Mathur
Date of Establishment	:	24-08 1910
Revenue	:	5353.55 (USD in Millions)
House Name	:	MNC Associate – ITC
Market Cap	:	2652359.4242336 (Rs. in Millions)
Corporate Address	:	West Bengal

## **HINDUSTAN UNILEVER LIMITED (HUL LTD)**

**Hindustan Unilever** is placed at first position in the list of top 10 FMCG companies of India. Company was started in 1932 and has head office in Mumbai. It is owned by Unilever because Unilever has 67% share of HUL. Company has huge distribution network and cover 2 million retail outlets in PAN India. More than 16,000 employees are associated with the company and working with a mission to produce quality Foods, beverages, cleaning agents and personal care products at economical cost.

### **HISTORY**

Hindustan Unilever (HUL) is India's largest Fast Moving Consumer Goods Company, with leadership in Home & Personal Care Products and Foods & Beverages. HUL's brands, spread across 20 distinct consumer categories, touch the lives of two out of three Indians. In the summer of 1888, visitors to the Kolkata harbour noticed crates full of Sunlight soap bars, embossed with the words 'Made in England by Lever Brothers'. With it, began an era of marketing branded Fast Moving Consumer Goods (FMCG). Soon after followed Lifebuoy in 1895 and other famous brands like Pears, Lux and Vim. Vanaspati was launched in 1918 and the famous Dalda brand came to the market in 1937.

In 1931, Unilever set up its first Indian subsidiary, Hindustan Vanaspati Manufacturing Company, followed by Lever Brothers India Limited (1933) and United Traders Limited (1935). These three companies merged to form HUL in November 1956; HUL offered 10% of its equity to the Indian public, being the first among the foreign subsidiaries to do so. Unilever now holds 52.10% equity in the company. The rest of the shareholding is distributed among about 3, 60,675 individual shareholders and financial institutions.

The erstwhile Brooke Bond's presence in India dates back to 1900. By 1903, the company had launched Red Label tea in the country. In 1912, Brooke Bond & Co. India Limited was formed. Brooke Bond joined the Unilever fold in 1984 through an international acquisition. The erstwhile Lipton's links with India were forged in 1898.

Unilever acquired Lipton in 1972, and in 1977 Lipton Tea (India) Limited was incorporated.

Pond's (India) Limited had been present in India since 1947. It joined the Unilever fold through an international acquisition of Chesebrough Pond's USA in 1986.

Since the very early years, HUL has vigorously responded to the stimulus of economic growth. The growth process has been accompanied by judicious diversification, always in line with Indian opinions and aspirations. The 1990s also witnessed a string of crucial mergers, acquisitions and alliances on the Foods and Beverages front. In 1992, the erstwhile Brooke Bond acquired Kothari General Foods, with significant interests in Instant Coffee. In 1993, it acquired the Kissan business from the UB Group and the Dollops Icecream business from Cadbury India.

HUL products are a household name in India. Its brands across categories touch lives of over 700 million Indian consumers every day. That means roughly two-third of Indian population uses HUL products. The two biggest strengths of HUL are: its leading brands and extensive distribution network.

**a) Brands:**

HUL has around 35 major brands most which are leaders in their individual categories. In the year 2008 AC Nielsen-Brand Equity list of 100 Most Trusted Brands Annual Survey featured 16 HUL brands. HUL consistently has highest number of brands in top 50 or top 10 Indian brand's list.

**b) Distribution Channel:**

HUL products are manufactured in over 40 factories across India. Over 2000 suppliers and associates are involved in its operations. The giant HUL distribution network comprises of around 4000 redistribution stockists and 6.3 million retailer outlets. The wide-spread distribution network reaches almost entire urban India and around 250 million rural consumers. With the introduction of 'Hindustan Unilever Network' in 2003 – HUL is trying its hand at 'Network Marketing'. Lately, HUL's Shakti program (website: [www.hllshakti.com](http://www.hllshakti.com)) which supports rural women to become entrepreneurs and sell HUL products in villages increases the reach of HUL and provides it a unique capability to tap the still unexplored bottom-of-the-pyramid opportunities.

## COMPANY PROFILE

Chairman	:	Harish Manwani
Director	:	Aditya Narayan
Director	:	S. Ramadorai
ED (Finance & IT) and CFO	:	P B Balaji
Executive Director (Sup. Chain)	:	Pradeep Banerjee
Date of Establishment	:	17-10 1933
Revenue	:	4687.34 ( USD in Millions )
Market Capital	:	1953494.10057025 (Rs. in Millions)
Corporate Address	:	East Mumbai

### **NEED OF THE STUDY:**

The main purpose of conducting research is to understand the financial performance of ITC and Hindustan Unilever Limited. The study focuses upon the financial health of the companies, which would enable the customers, investors to make appropriate decisions.

### **RESEARCH OBJECTIVES ARE**

- To evaluate the financial performance of the companies (Hindustan Unilever Ltd & ITC Ltd.
- To assess the financial health of these companies

## **SCOPE OF THE STUDY**

- This study aims at assessing the profitability position of FMCG Industry in India. The study could help the company as well as the investors to understand its financial efficiency. It aims to help the management to find out its financial problems at present and the specific areas in the business, which might need some effort for more effective and efficient utilization of its resources.
- The research study offers a wide scope for the FMCG industries (ITC ltd and Hindustan Unilever ltd) to improve the financial performance. There is scope to increase the efficiency in management of all assets and liabilities.
- There is a good scope for enhancement of financial health after implementing the suggestions given by research study.

## **LIMITATIONS OF THE STUDY**

The research had made a attempt to analyze the financial performance of ITC ltd and Hindustan Unilever ltd .The limitations of the study are,

- The findings are based on the collected secondary data only and
- The financial statements are prepared from the published annual report of the companies only.

## **CHAPTERIZATION SCHEME**

The First chapter deals with the introduction. It gives an idea about the economic development, growth of industries and FMCG industries. It gives the introduction about the financial performance analysis, objectives, profile and history of select FMCG industries. (ITC Ltd and Hindustan Unilever Ltd.)

The Second chapter summarizes the —review of literature. Under this a brief description of earlier studies related to the research is given.

The Third chapter describes the research methodology, which includes details regarding the sources of data, need for analysis, scope of the study, tools used for analysis of data, etc.,

The Fourth chapter provides the analysis and interpretations under which the data collected through the secondary sources are interpreted.

The Fifth chapter presents the summary of findings and conclusions.

# REVIEW OF LITERATURE

## CHAPTER -II

### REVIEW OF LITRATURE

A review of literature is a test of a research work, which includes the current knowledge including substances, findings as well as theoretical and methodological contributes to a particular topic. It helps to determine the nature of the research. The review of literature related to the research study are thoroughly scrutinized and presented here.

**Abdi dufera,(2010),”financial performance evaluation ( A case study of Awash International Bank(AIB))”** Its main objective was to compare and examine empirically the performance of the first private commercial bank in Ethiopia, i.e. Awash International Bank (AIB) in comparison with industry average with respect to liquidity; profitability, credit risk, solvency and efficiency for the period of 2003-2009.The results show that the AIB is improving overtime considerably in these liquidity, efficiency and solvency measures during the period.

**Anurag.B. Singh, MS. Priyanka Tandon (2007- 2012)” a study of financial performance : a comparative analysis of SBI and ICICI Bank** The aim of the study is to examine the financial performance of SBI and ICICI Bank, public sector and private sector banks respectively. The research study is descriptive and analytical in nature. The data used for the study was entirely secondary in nature. The present study is conducted to compare the financial performance of SBI and ICICI Bank on the basis of ratios such as credit deposit, net profit margin etc. The period of study is from the year 2007-08 to 2011-12. The study found that SBI is performing well and financially sound than ICICI Bank. But in the context of deposits and expenditure ICICI bank was managed efficiently than SBI.

**Bhaskar Bagchi, Basanta Khamrui (2012)” Financial Performance of FMCG Companies in India: A Comparative Study between Britannia Industries and Dabur India”** In this study, they have used various accounting ratios and statistical tools like, linear regression analysis and multiple correlation analysis. The results reveal that, though Britannia Industries is passing through hard times in terms of profitability, Dabur India is enjoying its enhanced performance and continuous growth in the sector.

**S. Christina Sheela, K. Karthikeyan (2012), Financial Performance of Pharmaceutical Industry in India using DuPont Analysis** This study attempts basically to measure the financial performance of the Pharmaceutical Industry taking top three companies like Cipla, Dr. Reddy's Laboratories, Ranbaxy for the period 2003-2012. DuPont analysis (ROI and ROE) is an important tool for judging the operating financial performance. It is an indication of the earning power of the firm. DuPont Model is based on analysis of Return on Equity (ROE) & Return on Investment (ROI). The return on equity check divides performance into three components: Net Profit Margin, Total Asset Turnover, and the Equity Multiplier. Return on Investment consists of Assets Turnover and Profit Margin. The return on investment consists of Assets Turnover (Operating Income X Total Assets) and Profit Margin (EBIT X Operating Income). From the study it is found that Cipla pharmaceutical financial performance is high and this is followed by Dr. Reddy's Laboratories and then by Ranbaxy Pharmaceutical. The three companies are significant. In conclusion, ROE & ROI is the most comprehensive measure of profitability of a firm.

**Khatik S.K, Varghese Titto (2013) —Financial analysis of steel authority of India limited (SAIL)** In this study, financial analysis is used to analyze whether an entity is stable, solvent, liquid or profitable enough to invest money in it. For analysis of the financial position of the SAIL, gross profit ratio, net profit and operating ratio, productivity, investment and solvency ratios are calculated.

**K. Kumutha Devi Ms. C. V. Uma Maheswari (2015), Comparative analysis: A Study on Financial Performance of Cipla Ltd & Aurobindo Pharma Ltd** This study aims to measure the financial performance of the Pharmaceutical Industry taking top companies like Cipla Ltd, Aurobindo Pharma Ltd for the study, the period 2009-2010 to 2013-2014. In order to achieve the goals, they have measured the short term solvency, long term solvency and profitability. It is found that Cipla Ltd shows high profitability than Aurobindo Pharma Ltd and higher level of consistency is noticed in Cipla Ltd.

**Manoj Kumara. N, Abhilasha (2015), A critical analysis of financial performance evaluation of an Indian automobile companies** Financial Performance Analysis is aimed at determining financial and operational constraints of a company from measures of accounting and financial statements. The researcher attempt to high light low

and high performance of liquidity, profitability, solvency and firm financial stability. The research paper exclusively focuses on the private sector, automobile industry published financial information. The study doesn't compare with any other industry and other sector. This research paper will help stakeholders to know the actual results of Indian automobile industry to make an investment decision.

**Mr.D. Nidhyanth, Ms.C.Aarthi(2007)“A Study on Financial Performance of Sakthi Sugar Ltd, Sivagangai Unit”** The objectives of the study is to find out that the profitability, cost of goods sold and company's overall financial performance . Based on the five years balance sheet and profit and loss account suitable suggestions were given by the researcher for a better stability and cost effectiveness of the company.

**Rooh Ollah Arab, Seyed Saadat Masoumi and Azadeh Barati (2015),** this study examines the financial performance of identified units in the steel industry in India in terms of financial ratios such as Liquidity, Solvency, Activity and Profitability position. A group of companies listed in the stock exchanges in India namely, Tata Steel Ltd., Jindal Steel & Power Ltd., J S W Steel Ltd., Bhutan Steel Ltd. and Steel Authority of India Ltd. are selected for this study. To evaluate the impact of selected variables on the financial performance of identified units in the steel industry, ANOVA-Test analysis is used. The ratios calculated and evaluated in this study include; Current Ratio, Quick Ratio, Absolute Cash Ratio, Debt Equity Ratio, Total Assets to Debt Ratio, Interest Coverage Ratio, Total assets Turnover Ratio, Inventory Turnover Ratio, Debtors Turnover Ratio, Creditors Turnover Ratio, Gross Profit Ratio and Net Profit ratios . Financial Margin, Operating Ratio, Return on Investment and Earning per Share.

**MR.S.Sabarimuthan, MS.V. Jenifer (2008- 2011)” A study on financial performance of kaleeswarar mills B unit of National Textile Corporation limited was conducted** The objective of the study includes the profitability, cost of goods sold , other expenses, overall financial performance and Short term-long term position of the company. Based on the five years balance sheet and profit and loss account suitable suggestions were given by the researcher for a better soundness and cost effectiveness of the company.

**N.Sabarisudha (2011- 2013),” A study on financial performance of ING VYSYA BANK LIMITED was conducted** The objectives of the study is to analyse the financial performance of the ING VYSYA BANK LIMITED and to analyse the profitability and solvency position of the bank The statistical tools used in the study is ratio analysis. In this current economic scenario ING VYSYA BANK is performing in an outstanding manner. It has consistent profit for the last 4 years and it is performing well in the banking sector.

**V.Vijayalakshmi and M.Srividya (2014) had conducted a study on financial performance of pharmaceutical industry in India** The objective of the study is to analyze the profitability position of select Pharmaceutical Companies in India and analyze the factors influencing the profitability of select Pharmaceutical Companies in India. The analysis practically reveals that, gross profit ratio, operating ratio, return on equity capital, and earnings per share, have significant effect on the net profit ratio of the select Pharmaceutical companies during the study period. However, profitability of these companies during the study period is satisfactory. There was fluctuation in the profitability but it did not affect the operations of the company to a great extent. If the Pharmaceutical Industry has to perform well, it has to invest more capital and has to do more sales. Only then it will improve its performance level.

**M.Vikram Singh (2012) conducted “A study on financial performance analysis” (with reference to kesoram cement company ltd).**The objective of the study is to understand the financial position, know the liquidity and profitability position. The data was collected from secondary sources. The statistical tools used in the study are ratio analysis, comparative balance sheet, common size balance sheet and trend analysis. The findings of the study show that the financial position of kesorem cement is not satisfactory and they should take effort to attain a good position.

# RESEARCH METHODOLOGY

## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

The research methodology is the way to solve the research problem systematically. It may be understood that how research is done scientifically and systematically. The analysis includes various steps that are generally adopted by a researcher for analyzing their problem. In Research Methodology, researcher always tries to search answer for the given question systematically in their own way and find out all the answers till conclusion. If research does not work systematically on a problem, there would be less possibility to find out the final result. The financial analysis was concerned with Hindusthan Unilever Limited and ITC Limited. The analysis was made on the secondary data, which was obtained from the published sources for a period of 6 years from 2010 to 2015. The collected data was analyzed with the help of tools like Ratio analysis and Z- Score analysis.

#### **Research Gap:**

After scrutinizing thoroughly the various related reviews of literature on financial performance analysis of companies in manufacturing sector and services sector in different time periods, research studies on certain aspects of Hindusthan Unilever Limited and ITC Limited was very few only. After finding out, this research gap, a research study to compare the financial performance and financial health of Hindusthan Unilever Limited and ITC Limited was carried out during 2015. The financial performance was analyzed for two FMCG industries for the period 2010-2015. For achieving the best result, a research design and the main research objectives were framed.

### **Research Objectives are**

- To evaluate the financial performance of the companies (Hindustan Unilever Ltd & ITC Ltd).
- To assess the financial health of these companies.

To achieve this Research Objectives, a Research Design was framed.

### **Research Design**

A research design is a blue print or a plan of action that has to be prepared by the researcher before starting his work. It is an advance planning of the methods to be adopted for collecting the relevant data and the techniques to be used in analysis, keeping in view the objectives of the research and availability of time. The research design selected for the study on financial performance was analytical design and it is a fact finding investigation with adequate interpretation. It is the simplest type of research. It focuses on particular aspects of dimensions of the problem. The main characteristics of this method are that the researcher has no control over the variables they can only report what has happened or what is happening.

### **Research Study Area**

The research study was conducted in Indian leading FMCG industries. The upcoming trend shows that all the sectors are fluctuating but the FMCG industry had been developing steadily. This development will help all sectors for the growth of the economy. Hence a research study was conducted in the area of Indian manufacturing sector, Indian FMCG industry. The research study will help the industries to improve their financial performance and develop.

### **Period of the Study**

The study was conducted for a period of 6 years from 2010 to 2015.

### **Methods of sampling**

FMCG industry plays a vital role in the consumer goods sector. Efficient financial performance of FMCG industry contributes to the fast growth of manufacturing industry. Hence a research study on major FMCG industries (Hindusthan Unilever Limited and ITC Limited) was undertaken.

### **Sampling design:**

The sample of the research is two giant FMCG companies. The research was conducted on the financial performance of Hindusthan Unilever Limited and ITC Limited. Hindustan Unilever is placed at first position in the list of top 10 FMCG companies of India. ITC is also one of the leading FMCG company of India. Hence, they were selected as sample.

### **Sources of Data:**

Data was collected from secondary sources.

### **Secondary Data:**

The secondary data is that which had already been collected by some and already processed. The sources of secondary data are annual reports, websites, magazines, articles etc.,

### **TOOLS USED FOR RESEARCH:**

- Ratio Analysis
- Z- Score Analysis

### □ **Ratio Analysis:**

Ratio analysis is used as a tool for analyzing the financial information, contained in the balance sheet and profit and loss accounts, for a more meaningful understanding of the financial position and performance of a firm. The relationship between two accounting figures, expressed mathematically, is known as a financial ratio. A ratio helps the analyst to make qualitative judgment about the firm's financial position and performance.

Several ratios can be calculated from the accounting data contained in the financial statements. In view of the requirements of the various ratios, ratios are classified into the following four important categories.

- A. Liquidity ratios
- B. Profitability ratios
- C. Solvency ratios
- D. Efficiency ratios

#### **A. Liquidity**

Liquidity ratios measure the ability of a firm to meet its current obligations as they become due. A firm should ensure that it does not suffer from lack of liquidity, and also that it does not have excess liquidity. The failure of a company to meet its obligations due to lack of sufficient liquidity, will result in a poor creditworthiness, loss of creditors' confidence, or even in legal tangles resulting in the closure of the company.

A very high degree of liquidity is also bad; idle assets earn nothing. The firm's funds will be unnecessarily tied up in current assets. Therefore it is necessary to strike a proper balance high liquidity and lack of liquidity. The most common ratios used to assess liquidity are:

- a) Current ratio
- b) Quick ratio
- c) Absolute liquid ratio

**i. Current Ratio:**

The current ratio is calculated by dividing current assets by current liabilities. Current ratio is a measure of the firm's short term solvency. It indicates the availability of current assets in rupees for every one rupee of current liability. A ratio of greater than one means that the firm has more current assets than current claims against the, Current ratio of 2 to 1 or more is considered satisfactory. Current ratio represents a margin of safety for creditors.

**ii. Quick Ratio:**

Quick ratio also known as acid-test ratio establishes a relationship between quick assets and the current liabilities. Cash is the most liquid asset. It is calculated by dividing quick assets by current liabilities. (Quick Assets = Current assets – Inventory). The Acid – test ratio measures the firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. A quick ratio of 1 to 1 is considered to represent a satisfactory liquidity condition. It is an important index of the firm's liquidity.

**iii. Absolute Liquid Ratio:**

Although receivables, debtors and bills receivable are generally more liquid than inventories, yet there may be doubts regarding their realization into cash immediately or in time. Hence, some authorities are of the opinion that the absolute liquid ratio should also be calculated together with current ratio and acid test ratio. So they exclude even receivables from the current assets and find out the absolute ratio.

Absolute Liquid Ratio can be calculated by cash + bank+ short term securities divided by current liability.

**B. Profitability Ratios:**

Profitability ratios are the ratios which measure a firm's overall effectiveness as revealed by the returns generated on sales and investment

## **General Profitability Ratios:**

- i. Gross Profit Ratio
- ii. Net Profit Ratio
- iii. Operating or Expenses Ratio.
- iv. Operating Profit Ratio
- v. Cash Profit Ratio

### **i. Gross Profit Ratio:**

Gross profit Ratio measures the relationship to net sales and is usually represented as a percentage. It is a good measure of profitability. The gross profit ratio indicates the extent to which selling price of goods per unit may decline without resulting in losses on operation. Higher the gross profit, better the result.

### **ii. Net profit Ratio:**

Net Profit Ratio indicates net margin on sales. It is given by the following equation.  $\text{Net Profit Ratio} = (\text{Net Profit} / \text{Sales}) * 100$

### **iii. Operating or Expenses Ratio:**

This ratio is complimentary to Net Profit Ratio. The more the net profit, the less the Operating Ratio. Operating costs include the cost of direct material, direct labor and other overheads, viz., are generally excluded from operating costs. A comparison of the Operating Ratio will indicate whether the cost efficiency is high or low in the figure of sales. The lesser ratio depicts the efficiency of the management.

### **iv. Operating Profit ratio:**

This ratio is calculated by dividing operating profit by sales. Operating profit is calculated as:  $\text{Operating profit} = \text{Net sales} - \text{Operating Cost}$

Or,  $\text{Operating profit} = \text{Net profit} + \text{Non- operating Expenses} - \text{Non operating income.}$

So,  $\text{Operating profit Ratio} = (\text{operating profit divided by sales}) * 100.$

### **v. Cash Profit Ratio:**

The net profits of a firm are affected by the amount\method of depreciation charged. Further, depreciation being non-cash expense, it is better to calculate cash profit ratio. This ratio measures the relationship between cash generated from operations and the net sales. Thus,  $\text{Cash profit ratio} = (\text{cash profit divided by Net sales}) * 100.$

### **C. Solvency Ratio:**

#### **i. Debt –Equity Ratio:**

The Debt Equity is determined to analyze the soundness of the long term financial policies of the organization. It is also known as —Internal External Equity Ratio□. It is calculated by Debt Equity Ratio = Total long term debt / Shareholders funds.

#### **ii. Proprietary ratio:**

This ratio is also called as equity ratio. It establishes a relationship between shareholder’s funds to total assets of company. Equity Ratio is calculated by dividing shareholders fund by total assets.

#### **iii. Proprietary fund:**

This ratio establishes the relationship between fixed and shareholder’s fund, i.e., share capital plus reserves, surplus and retained earnings. This ratio can be calculated by fixed asset (After depreciation) by shareholders ‘fund. It is also called as fixed asset to net worth ratio.

### **D. Activity/Efficiency Ratios:**

They are primarily used for studying a firm’s working capital situation. A well-managed firm should have good activity ratios.

#### **i. Working Capital Turnover Ratio:**

The working capital turnover ratio indicates whether or not working capital has been effectively used in making sales.

Working capital turnover = Sales / Net current assets

#### **ii. Inventory Turnover Ratio:**

This ratio is also known as Stock Turnover Ratio. It establishes the relationship between costs of goods sold or net sales during the given period and the average amount of stock held during the period. This ratio reveals the number of times finished stock is turned over during a given accounting period. Higher the ratio, the better it is. It shows

that finished stock is rapidly turned over sales. On the other hand, a low stock turnover ratio is not desirable, because it reveals the accumulation of stock.

### **iii. Debtors Turnover Ratio:**

This ratio indicates the velocity of debt collection of a company. In other words it shows the number of times average debts turnover during a year. A higher debtor turnover ratio indicates a more efficient management towards debtors and low ratio implies inefficient management of debtors.

#### **□ Z-Score Analysis:**

New York University Stern Finance Professor, Edward Altman, developed the Altman Z-score formula in 1997. In 2012, he released an update version called the Altman Z-score plus, that can be used to evaluate both public and private companies, both manufacturing and nonmanufacturing companies and both U.S and non U.S companies. Investors can use Altman Z-score to help determine whether they should buy or sell a particular stock if they are concerned about the underlying company's financial strength. The Altman Z-score can be used to evaluate corporate credit risk. The Altman Z-score, is based on five financial ratios that can be calculated from data on a company's annual report.

The Altman Z- score is calculated as follows:

$$\mathbf{Z\text{-}Score = 1.2x1+1.4x2+3.3x3+0.6x4+1.0x5}$$

Where,

X1= Working Capital / Total Assets

X2= Retained Earnings / Total Assets

X3= Earnings before Interest and Tax / Total Assets

X4= Market Value of Equity/ Total Liabilities

X5= Sales / Total Assets

A score below 1.8 means the company is probably headed for bankruptcy, while companies with scores above 3.0 are not likely to go bankrupt and their financial health is good. The higher or lower the score, the higher or lower is the likelihood of bankruptcy

**ANALYSIS AND  
INTERPRETATION**

## **CHAPTER-IV**

### **ANALYSIS AND INTERPRETATION**

Analysis is an examination of data and facts to uncover and understand the cause-effect relationship, thus providing basis for problem solving and decision making. Interpretation is the act of explaining, reframing or otherwise showing researcher's own understanding of something. The financial data collected from ITC Ltd and Hindustan Unilever Ltd is analyzed by applying relevant tools.

- I. To evaluate the financial performance of the companies (Hindustan Unilever Ltd & ITC Ltd), the ratio analysis was applied. The ratios used are,
  1. Liquidity ratios
  2. Profitability ratios
  3. Solvency ratios
  4. Efficiency ratios
- II. To assess the financial health of the companies, Z- Score analysis was computed.

## I. Analysis of financial performance of selected companies

### LIQUIDITY RATIOS

TABLE NO 1

(In Times)

Year	ITC ltd			Hindustan Unilever ltd		
	Current Ratio	Liquid Ratio	Absolute liquid Ratio	Current Ratio	Liquid Ratio	Absolute liquid Ratio
2010	1.41	0.28	0.06	0.57	0.17	0.04
2011	1.68	0.63	0.44	0.96	0.47	0.30
2012	1.82	0.73	0.53	0.96	0.49	0.34
2013	1.94	0.79	0.58	0.86	0.45	0.29
2014	1.99	0.83	0.49	0.90	0.49	0.35
2015	2.47	1.31	1.05	0.99	0.56	0.40

Source: ITC ltd and Hindustan Unilever ltd

#### ITC LIMITED:

- The current ratio had a steady increase from 2010- 2015 (1.41- 2.47)
- The acid test ratio of ITC limited had increased from the year 2010 to 2015 (0.28-1.31)
- The absolute liquid ratio of ITC limited had increased (0.06- 1.05) for the period 2010- 2015.

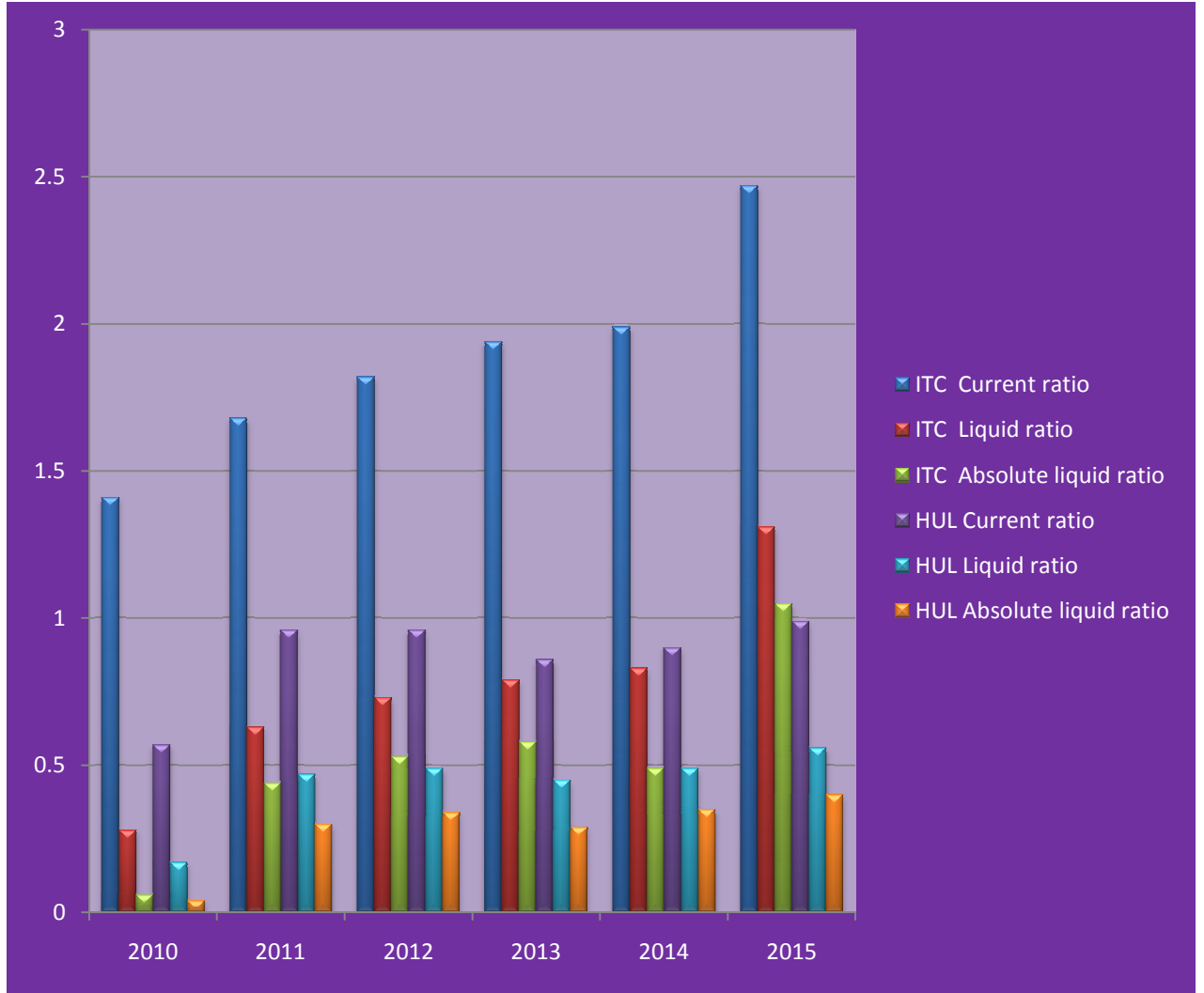
#### HINDUSTAN UNILEVER LIMITED:

- The current ratio had a steady increase from 2010- 2015 (1.41- 2.47)
- The acid test ratio of Hindustan Unilever limited had increased from the year 2010 to 2015 (0.28- 1.31)
- The absolute liquid ratio of Hindustan Unilever limited had increased (0.06- 1.05) for the period 2010- 2015.

#### ITC AND HINDUSTAN UNILEVER LIMITED COMPARISON

The liquidity ratios of ITC and HUL limited (current ratio, acid test ratio and absolute liquid ratio) for the periods of 2010 -2015 were compared. The results indicate that liquidity position of ITC limited is better.

**EXHIBIT 1:  
ITC LIMITED AND HINDUSTAN UNILEVER LIMITED- RATIO ANALYSIS-  
LIQUIDITY RATIO- (2010- 2015)**



S

## PROFITABILITY RATIOS

TABLE NO 2

(In Percent)

	ITC ltd					Hindustan Unilever ltd				
Year	GP*	NP*	OR*	OP*	CR*	GP*	NP*	OR*	OP*	CR*
2010	10.22	21.54	101.44	32.52	24.83	38.08	12.07	83.47	15.33	13.13
2011	35.45	22.46	64.55	33.97	25.55	50.08	11.59	49.92	13.04	12.73
2012	34.98	23.84	65.01	34.72	26.65	54.55	12.01	45.45	15.17	13.01
2013	36.38	24.33	63.61	35.33	27.04	52.82	14.28	47.17	15.18	15.21
2014	36.43	25.46	63.57	36.96	28.19	51.36	13.61	48.64	15.73	14.62
2015	38.40	25.15	61.59	36.57	27.79	51.44	13.77	48.55	16.44	14.77

Source: ITC ltd and Hindustan Unilever ltd

**GP\* - Gross Profit Ratio**

**NP\* - Net Profit Ratio**

**OP\* - Operating Profit OR\* - Operating Ratio**

**CR\* - Cash Ratio**

### ITC LIMITED:

- The gross profit ratio had increased significantly from 2010 to 2015 (10.22-38.40).
- The net profit ratio had increased from 2010- 2015 (21.54- 25.15).
- The operating ratio had been fluctuating from 2010- 2015(101.44-61.59) but in the year 2011 it declines a little. After this year, it maintained sixty one percent plus in all years.
- The operating profit ratio had increased from 2010- 2015(32.52- 36.57).

- The cash ratio had increased from 2010- 2015 (24.83- 27.79), except in the year 2015, when it slightly declined to (27.79)

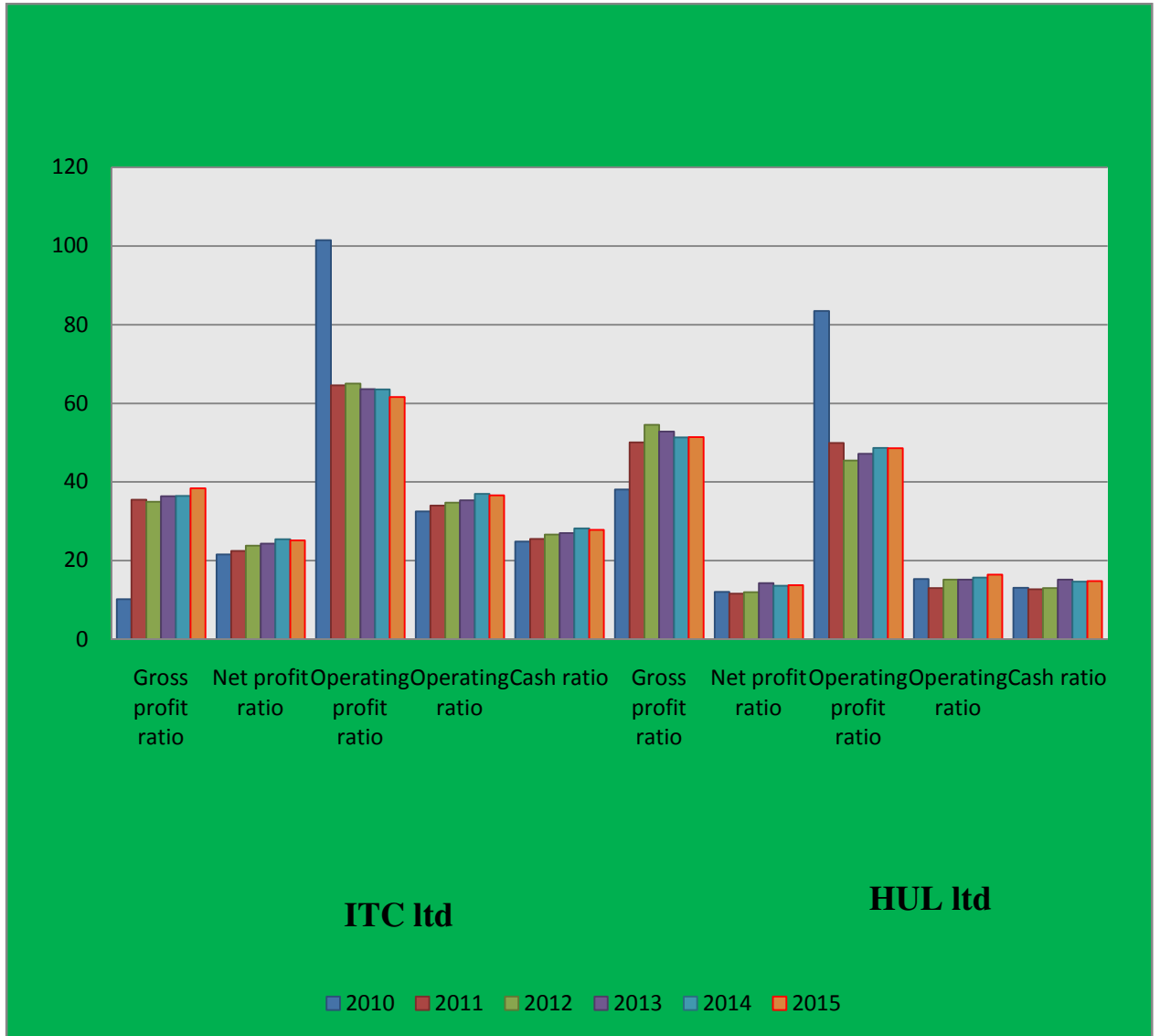
**HINDUSTAN UNILEVER LIMITED:**

- The gross profit ratio had increased significantly from 2010 to 2015 (10.22- 38.40).
- The net profit ratio had increased from 2010- 2015 (21.54- 25.15).
- The operating ratio had been fluctuating from 2010- 2015(101.44- 61.59).but in the year 2011 it declines a little. After this year, it maintained sixty one percent plus in all years.
- The operating profit ratio had increased from 2010- 2015(32.52- 36.57).
- The cash ratio had increased from 2010- 2015 (24.83- 27.79), except in the year 2015, when it slightly declined to (27.79).

**ITC AND HINDUSTAN UNILEVER LIMITED COMPARISON:**

The profitability position of ITC and HUL limited, when compared ( Gross profit ratio, net profit ratio, operating profit ratio, operating ratio, cash ratio) for the period of 2010- 2015, indicates that the profitability position of ITC limited is better.

**EXHIBIT 2:  
ITC LIMITED AND HINDUSTAN UNILEVER LIMITED PROFITABILITY  
RATIO- (2010- 2015)**



## SOLVENCY RATIOS

TABLE NO 3

(In Percent)

Year	ITC ltd			Hindustan Unilever ltd		
	Debt equity ratio	proprietary ratio	proprietary fund ratio	Debt equity ratio	proprietary ratio	proprietary fund ratio
2010	0.02	0.98	0.44	1.02	0.97	1.18
2011	0.01	0.99	0.56	1.00	0.99	2.05
2012	0.01	0.99	0.55	1.00	0.99	1.49
2013	0.01	0.99	0.55	1.01	0.98	1.95
2014	0.02	0.98	0.52	1.01	0.98	1.83
2015	0.02	0.99	0.58	1.01	0.98	1.62

**Source: ITC ltd and Hindustan Unilever ltd**

### **ITC LIMITED:**

The debt equity ratio had fluctuated from 2010 to 2015 (0.02- 0.02). The highest in the entire study period. The proprietary ratio had increased steadily from the period 2010 to 2015 (0.98- 0.99), except a very slight decline in the year (2014) (0.98- 0.99). The proprietary fund ratio had increased from 2010 to 2015 (0.44- 0.58). But in the year 2012 and 2014 it declined to (0.55- 0.52).

### **HINDUSTAN UNILEVER LIMITED:**

- There was a continuous fluctuation in the debt equity ratio for the period 2010-2015 (1.02- 1.01).
- The proprietary ratio had fluctuated from 2010- 2015 (0.97- 0.98). But it does decline to below 0.97. It had increased to (0.97- 0.99) in the period of (2010-2011).

### **ITC AND HINDUSTAN UNILEVER LIMITED COMPARISON:**

The solvency position of ITC and HUL limited (debt equity ratio, proprietary ratio, proprietary fund ratio) when compared for the period of 2010- 2015, indicates that the solvency position of ITC is better than the Hindustan Unilever ltd.

**EXHIBIT 3:  
ITC LIMITED AND HINDUSTAN UNILEVER LIMITED  
SOLVENCY RATIO- (2010- 2015)**



## EFFICIENCY RATIOS

TABLE NO 4

(In Times)

	ITC ltd			Hindustan Unilever ltd		
Year	Inventory turnover ratio	Debtors turnover ratio	Working capital turnover ratio	Inventory turnover ratio	Debtors turnover ratio	Working capital turnover ratio
2010	7.69	19.40	10.59	16.23	26.07	-7.58
2011	4.17	20.77	6.01	7.83	20.66	-79.58
2012	4.36	22.10	5.46	8.41	27.20	-106.26
2013	4.53	22.66	5.13	10.00	26.97	-30.55
2014	4.47	14.47	5.00	10.29	28.18	-41.24
2015	4.61	19.59	3.53	10.98	31.43	-356.22

Source: ITC ltd and Hindustan Unilever ltd

### ITC LIMITED:

- The Inventory turnover ratio had declined from the year 2010 to 2015 (7.69-4.61). But it is not less than 4 times.
- There was fluctuation in debtors turnover ratio for the period 2010- 2015. In the year 2011 it had increased (20.77). It indicates that the debtors turnover ratio show the better collection of debts and effective debt management.
- The working capital turnover ratio had fluctuated from the year (2010- 2015) (10.59- 3.53).but it does not to below 3.53.

### HINDUSTAN UNILEVER LIMITED:

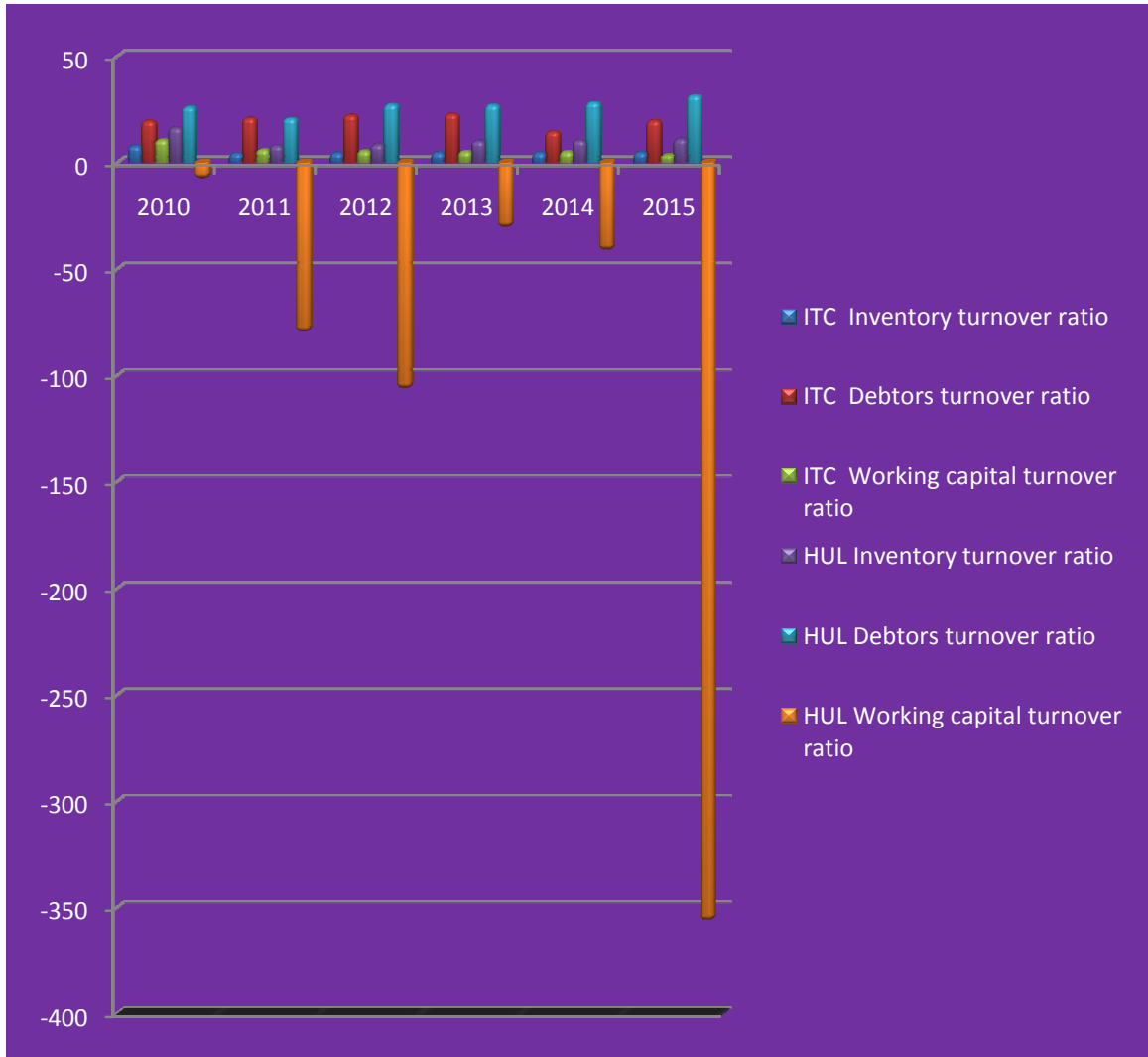
- There was a continuous fluctuation in inventory turnover ratio for the period 2010- 2014 (16.23- 10.98), but in the year 2012 it had increased to (8.41).
- There is a continuous fluctuation in the debtors turnover ratio for the period 2010- 2015(26.07- 31.43).but it does not decline below (20.66). The debtors turnover ratio declined from the year 2011 and 2013. When it had increased to (28.18 and 31.43).

- The working capital turnover ratio had fluctuated from the year (2010 to 2015) (-7.58 to- 356.22) and it was negative. In these years working capital was as not sufficient. The business struggled with stringent working capital and it indicates inefficient management of working capital in six years.

**ITC AND HINDUSTAN UNILEVER LIMITED COMPARISON:**

The efficiency ratio analysis of ITC limited and HUL limited (inventory turnover ratio, debtors' turnover ratio, working capital turnover ratio) for the period of 2010- 2015, was carried out. It indicates that ITC limited is effectively managing all current assets, stock, debtors and working capital.

**EXHIBIT 4:  
ITC LIMITED AND HINDUSTAN UNILEVER LIMITED  
EFFICIENCY RATIO- (2010- 2015)**



## II. Analysis of the financial health of the selected companies Z – score analysis

TABLE NO 5

Year	ITC ltd Z SCORE	Hindustan Unilever ltd Z SCORE	BETTER POSITION
2010	4.39	10.39	HUL LTD
2011	4.59	12.28	HUL LTD
2012	4.67	11.01	HUL LTD
2013	4.73	16.25	HUL LTD
2014	3.96	14.23	HUL LTD
2015	4.56	14.45	HUL LTD

Source: ITC ltd and Hindustan Unilever ltd

### ITC LIMITED:

In this analysis, the ITC ltd score is above 3.0. In 2013 it had reached the highest score 4.73. So, the ITC ltd is highly safe on basis of financial health. In 2014 the score declined to 3.96 from 4.39. But it is higher than the standard rate 3.0.

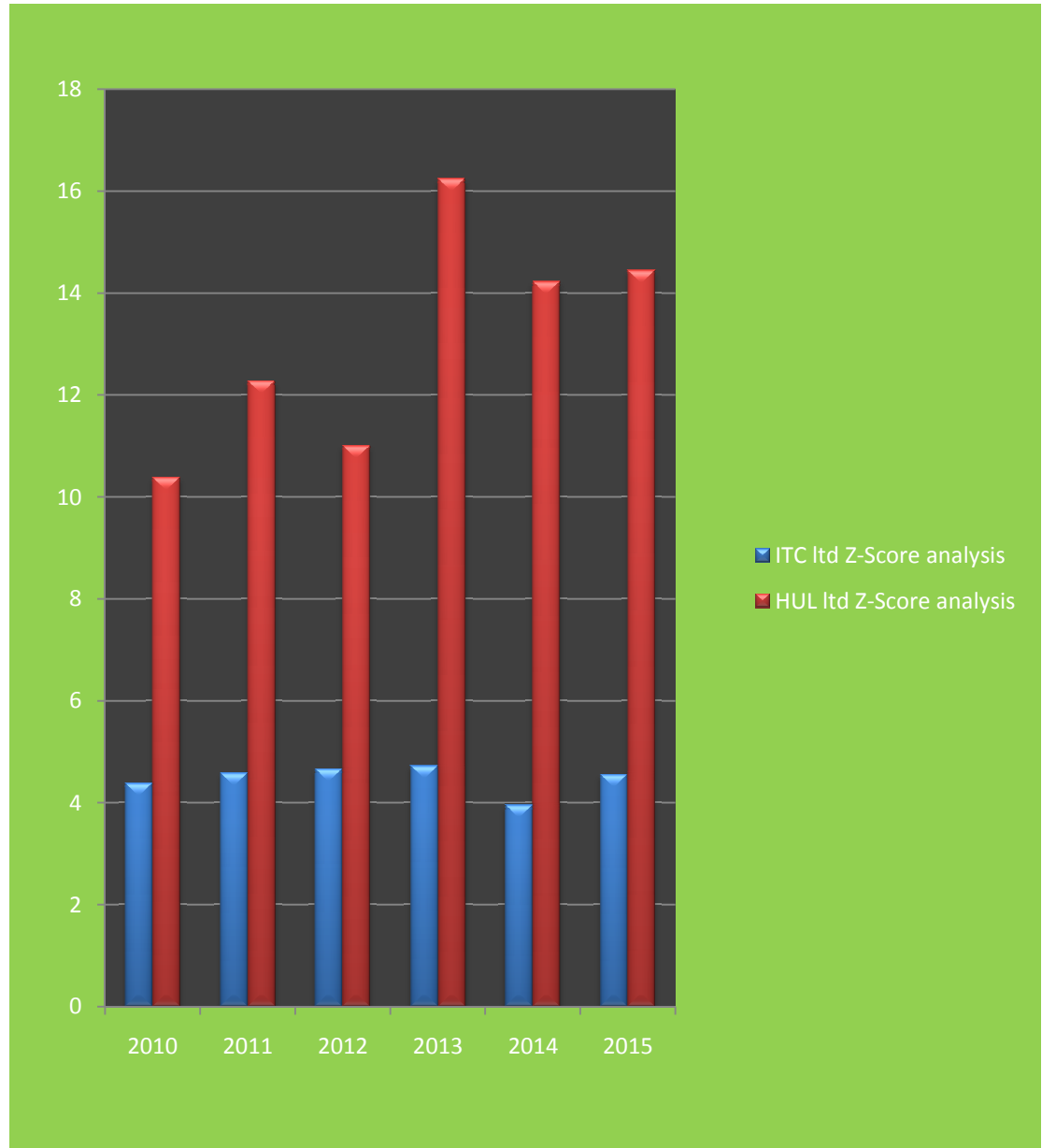
### HINDUSTAN UNILEVER LIMITED:

In this analysis, the HUL ltd score is above 10.0. In 2013 it had reached the highest score 16.25. So, the HUL ltd is highly safe on basis of financial health. Hence it is pretty sure that HUL enjoys good financial health.

### ITC AND HINDUSTAN UNILEVER LIMITED COMPARISON:

In this analysis the ITC and Hindustan Unilever ltd score is above 3.0. So, the both companies are highly safe based on the financial health. While, comparing to ITC ltd, Hindustan Unilever ltd financial health is better. Z score indicates that ITC ltd and Hindustan Unilever ltd financial health never declined. Hindustan Unilever ltd Z score of financial health is always maintained above 10 indicating good financial health. But Z score of ITC ltd shows declining trend. But it is above the standard of 3.0.

**EXHIBIT 5:**  
**ITC LIMITED AND HINDUSTAN UNILEVER LIMITED**  
**Z- SCORE ANALYSIS (2010- 2015)**



# SUMMARY OF FINDINGS AND CONCLUSION

## **CHAPTER –V**

### **SUMMARY OF FINDINGS**

Findings mean principal outcomes of a research project. This usually refers to the totality of outcomes rather than the conclusions or recommendations drawn from them. This chapter provides the summary of findings based on the analysis of the data. **Financial Performance of select FMCG industries in India** research study was carried out using the secondary data collected.

**The findings of the analyzed data were presented in the following headings:**

- A. The financial performance of ITC Ltd and Hindustan Unilever Ltd Liquidity, Profitability, Solvency and Efficiency position of the Companies.
- B. Assessment of financial health of the companies by applying Z-score Analysis

#### **A. The financial performance of ITC Ltd and Hindustan Unilever Ltd Liquidity, Profitability, Solvency and Efficiency position of the Companies:**

The ratio analysis for the Liquidity, Profitability, Solvency and Efficiency position of ITC Ltd and Hindustan Unilever Ltd from 2010-2015, indicates the following:

The liquidity ratios of ITC Ltd are better when compared to the Hindustan Unilever Ltd.

- The current ratio of ITC Ltd increased from 2010- 2015 (1.41- 2.47) and the current ratio of Hindustan Unilever Ltd increased from 2010- 2015 (0.57- 0.99).
- Liquid ratio of ITC Ltd had increased from the year (0.28- 1.31) and Hindustan Unilever Ltd increased from the year (0.17- 0.56)
- Absolute liquid ratio of ITC Ltd for the year 2010- 2015 (0.06- 1.05) and Hindustan Unilever Ltd increased from the year (0.04-0.40).

Profitability ratios indicate that the ITC ltd had grown up were while comparing the Hindustan Unilever ltd.

- The gross profit ratio of ITC ltd increased from the year 2010-2015 (10.22- 38.40). and the gross profit ratio of Hindustan Unilever ltd from the year 2010-2015 (38.08- 51.44).
- Net profit of ITC ltd from the year 2010- 2015 was (21.54- 25.15) when compared to Hindustan Unilever ltd from the year (12.07- 13.77).
- Operating ratio of ITC ltd from the year 2010- 2015 was (101.44 -61.59) when compared to Hindustan Unilever ltd (83.47- 48.55).
- Operating profit ratio of ITC ltd from the year 2010- 2015 was (32.52- 36.57) when compared to Hindustan Unilever ltd (15.33- 16.44).
- Cash ratio of ITC ltd from the year 2010- 2015 (24.83- 27.79) and Hindustan Unilever ltd (13.13- 14.77).

When comparing ITC ltd and Hindustan Unilever ltd Solvency ratios, the ITC ltd is in a better position.

- The debt equity ratio of ITC ltd from the year 2010- 2015 (0.02- 0.02) and Hindustan Unilever ltd from the year 2010- 2015 (1.02- 1.01).
- The proprietary ratio of ITC ltd from the year 2010- 2015 (0.98- 0.99) and Hindustan Unilever ltd from the year 2010- 2015 (0.97-0.98)
- .The proprietary fund ratio of ITC ltd from the year 2010- 2015 (0.44- 0.58) and Hindustan Unilever ltd from the year 2010- 2015 (1.18- 1.62).

The ITC ltd was effectively managing Current assets;

- It effectively utilizes the current assets. Inventory is managed effectively and it collects the debts from debtors smartly and working capital is also efficiently managed.
- Inventory turnover ratio of ITC ltd for the period 2010- 2015 was (7.69- 4.61) when compared to Hindustan Unilever ltd from the year 2010- 2015 (16.23- 10.98).

- Debtors turnover ratio of ITC ltd was from the year 2010- 2015 (19.40- 19.59) and Hindustan Unilever ltd (26.07- 31.43).
- Working capital turnover ratio of ITC ltd for the period 2010- 2015 was (10.59- 3.53) when compared to Hindustan Unilever ltd from the year 2010- 2015 (from -7.58 to -356.22).

The activity/efficiency ratios of both ITC ltd and Hindustan Unilever ltd were proved good. The ITC is efficiently managing all its current assets and liabilities steadily in all the years. But in comparison to Hindustan Unilever ltd, ITC is more efficient and it is in a better financial position.

### **B. Assessment of Financial Health of the ITC ltd and Hindustan Unilever ltd Companies by applying Z-score Analysis.**

The Assessment of Financial Health of ITC ltd and Hindustan Unilever ltd was done by applying Z-score Analysis from 2010-2015. It indicates the following:

#### **ITC LIMITED:**

In this analysis, 'Z' score of ITC is above 3.0. In 2013, it had reached the highest score 4.73. So, the ITC ltd is highly safe with regard to financial health. In 2014 the score declined to 3.96 from 4.39. But it is higher than the standard rate 3.0. In all the years of research study its financial health was good.

#### **HINDUSTAN UNILEVER LIMITED:**

In this analysis, the 'Z' score of HUL ltd is above 10.0. In 2013, it had reached the highest score 16.25. So, the HUL ltd is highly safe with regard to financial health. Hence it is pretty sure that HUL enjoys good financial health. Throughout the study period, financial health was good.

#### **ITC AND HINDUSTAN UNILEVER LIMITED:**

In this analysis the Z score of ITC and Hindustan Unilever ltd were above 3.0. So, both the companies are highly safe with regard to financial health. While, comparing to

ITC Ltd, Hindustan Unilever Ltd's financial health is better. Z score indicates that the financial health of ITC Ltd and Hindustan Unilever Ltd never declined below standard score. The Hindustan Unilever Ltd, always maintained Z score of financial health above 10 indicating very good financial health. Even though Z score of ITC Ltd shows a declining trend, it is certainly above the standard of 3.0. As it is above the standard score, ITC also enjoys sound financial health. In this analysis, the Z-Scores of ITC and Hindustan Unilever Ltd were above 3.0

## **CONCLUSION:**

Financial performance is an important yardstick to measure a company's operational and financial efficiency. Efforts should constantly be made to improve the financial position. This will lead to greater efficiencies and improve investor's satisfaction. Efficient management of finance is very important for the success of an enterprise. In present days, greater importance is given to financial performance. This aspect must form part of the company's strategies and operational thinking. ITC LIMITED and HINDUSTAN UNILEVER LIMITED are major players in Indian FMCG industries and contribute more to the development of our economy. Hence, the research study was made on the financial performance of ITC ltd and Hindustan Unilever ltd.

While, analyzing the financial performance of the two FMCG companies, the various analytical tools were used. They are financial ratio analysis (liquidity, profitability, solvency and efficiency ratios) and Z-Score analysis. From that analysis of ITC LIMITED and HINDUSTAN UNILEVER LIMITED, it is found that the financial performances of the two companies are good. When, compare to Hindustan Unilever ltd, the financial performance of ITC ltd is better.

From Z-Score analysis, it is stated that, these giant FMCG Companies enjoy sound financial health.

This research study is helpful to increase efficiency of financial performance of ITC ltd and Hindustan Unilever ltd. The giant FMCG industries, ITC ltd and Hindustan Unilever ltd contributes significantly to economic development of our country

## **SUGGESTIONS:**

- The companies (ITC ltd and Hindustan Unilever ltd) should concentrate more on the working capital management.

HUL ltd is suffering due to negative balance of working capital. It is required to improve its working capital position. Though not negative, ITC ltd must also improve its working capital position.

- Current asset management is important to both the companies. These companies should efficiently manage its current assets.
- Both the companies (ITC ltd and Hindustan Unilever ltd) are required to improve cash balance position, in order to have good liquidity.

But at the same time, precaution should be taken to see that too much of capital is not locked up in cash balance. it may ultimately lead to improper utilization of funds.

- Both the companies should maintain its debt in order to have profit maximations.

The management of the companies should take effective measures to recover the outstanding of the company. It will help in their business expansion.

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