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A Comparative Analysis of the Financial Ratios of FMCG Companies (Dabur India Ltd., Hindustan Unilever Ltd. and Procter & Gamble)

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ABSTRACT

The Fast-Moving Consumer Goods (FMCGs) Industry include a wide range of companies and organizations involved in the manufacturing, marketing and selling of products that are sold quickly and at a relatively low price. It is one of the world's most economic sectors by revenue. The top three FMCG companies in India are Hindustan Unilever Limited (HUL), Dabur India Limited and Procter and Gamble Company (P&G). This study has been undertaken to analyze and compare their overall financial performance based on Financial Ratio Analysis of their Financial Statements. Financial ratios are used to study the liquidity, long-term solvency, operational efficiency and profitability position of HUL, Dabur and P&G for the Accounting Year 2017-2018.The study has identified that the liquidity position can be improved by revising credit policies and proper working capital management. The study has observed that the Liquidity ratio, Activity ratio and Profitability ratio of HUL is better whereas Solvency ratio of Dabur is better. Hence, it is concluded that HUL Ltd. has secured first rank, followed by Dabur Ltd. and then P&G Company, in the overall financial performance. This study is much important to investors as well as to the management from the point of decision- making purpose, to identify the strengths and weaknesses of the company.

KEYWORDS: Financial Ratio Analysis, Liquidity, Solvency, Operational efficiency and Profitability position.

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INTRODUCTION

Every business organization's success depends on how well it funds its capital and how efficiently it operates out of the invested capital to generate profits. In other words, how well a business organization can finance its assets and make use of the assets to generate revenues. Financial Statement Analysis is the process of reviewing and analyzing a company's financial statements to make better economic decisions. Financial Statement Analysis is a process involving specific techniques for evaluating risks, performance, financial health and future prospects of an organization. Any business organization's operational efficiency, liquidity position, long-term solvency and profitability can be analyzed with the help of Financial Statement Analysis.

Financial statements when analyzed in isolation are not of much meaning and use. The financial statements , in order to arrive at reasoned conclusions, should be analyzed either with reference to the statements of earlier periods or with reference to financial statements of other enterprises of similar size and operating in similar business environment. One of the tools to carry out such analysis is Financial Ratio Analysis. It is a scientific and systematic tool of analyzing and interpreting financial statements. Financial ratio analysis is a powerful tool to evaluate how attractive a potential investment might be. The interest of the various groups related to a firm is affected by the financial performance of the firm. So it is much of significance for these groups to analyze the financial performance of the firm they are interested in. It is very useful for the management in identifying their strengths and weaknesses and finally helps in maximizing the intrinsic value of the company.

LITERATURE REVIEW

In the literature, various studies have been conducted to analyze the financial performance of companies using financial statement analysis. B Navaneetha et al.[1] conducted a study to analyze the liquidity position and overall efficiency of Maruti Suzuki India Ltd for a period of 5years from 2013 to 2017. It was found that the liquidity ratio was low, which was offset by the high profitability ratios as the company allocated more amount of funds on investments to have an edge over the competitors.

Dr. G.Bhavani[2] in his research paper concluded that the HUL Ltd had better profitability and turnover ratios whereas ITC Ltd. had better liquidity position. Dr. A. Ramya & Dr.S.Kavitha[3] in their research paper on Maruti Suzuki concluded that Maruti Suzuki have better strategic position in comparison to its competitor in all the respective ratios. It has secured top position in Liquidity analysis, in profitability analysis in relation to sales and in relation to investment, in efficiency analysis, in leverage analysis, in market valuation and has secured first rank.

ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

Ratio Analysis is a quantitative analysis of gaining insight into a company's liquidity, operational efficiency and profitability by comparing information contained in its financial statements. Ratio analysis is a cornerstone of Fundamental Analysis. The data retrieved from the financial statements is used to compare a company to one or more other companies operating in its sector to see how the company stacks up. While there are numerous financial ratios, they can be categorized into four groups based on the type of analysis they provide:

LIQUIDITY RATIOS

The Liquidity ratios are used to determine the short –term solvency position of a company. The objective is to find out the ability of the company to meet short- term liabilities with its short-term assets. Liquidity ratios include current ratio, Quick ratio and cash position ratio.

Current Ratio

Current ratio is a relationship of Current Assets and Current Liabilities. This ratio assumes that current assets can be converted into cash to meet current liabilities. It shows the number of times the current assets are in excess over current liabilities.

Current Ratio = Current Assets / Current Liabilities

Current Assets = Short-term investments, inventories, trade receivables, cash and bank balance, short-term loan and advances.

Current Liabilities = Trade payables, short term borrowings, other current liabilities and provisions.

Table1.1: Current Ratio (Rs. in crores)

Company	Current Assets (Rs.)	Current Liabilities (Rs.)	Ratio
Dabur	3,439.75	2,434.44	1.41
HUL	11,660.00	8,887.00	1.31
P&G	15,950.88	19,314.11	0.83

Inference: The above table shows that the current ratio of Dabur is highest followed by HUL and P&G. In general, the standard value of current ratio is one. Current ratio of both HUL and Dabur is more than one indicates that both the companies have sufficient current assets to finance current liabilities. P&G's current ratio is less than one which indicates that the company may not be able to meet its current liabilities on time and it has negative working capital (current asset – current liabilities).

Quick Ratio/Acid Test Ratio

The Quick or Acid Test Ratio is the more rigorous test of liquidity position of a company than the Current Raito. As a part of the current assets are not readily convertible into cash. Therefore, the

current ratio does not indicate adequately the ability of the enterprise to discharge the current liabilities as and when they fall due, whereas quick ratio is a measure of “Instant debt paying ability of the company”. It establishes a relationship between Quick or Liquid Asset and Current Liabilities of the company. Liquid Assets are computed by deducting inventories and prepaid expenses from total current assets i.e. the numerator comprises of highly liquid assets.

Quick Ratio/Acid Test Ratio = Quick Assets / Current Liabilities

Quick Assets = Short-term investments, trade receivables, cash and bank balance, short-term loans.

Current Liabilities = Trade payables, short-term borrowings, other current liabilities and provisions.

Table1.2: Quick Ratio/Acid Test Ratio (Rs. in crores)

Company	Quick Assets (Rs.)	Current Liabilities (Rs.)	Ratio
Dabur	2,183.57	2,434.44	0.90
HUL	9,147.00	8,887.00	1.03
P&G	11,310.62	19314.12	0.59

Inference: Acid Test Ratio is used to assess short-term solvency of the enterprise. As a rule of thumb, Ideal Quick Ratio is 1:1. From the above table 1.1 and table 1.2, it can be understood that the Current ratio of Dabur is more than one whereas its Quick ratio is less than one indicates overstocking by the company. Quick ratio of P&G is less than one indicates that the company may not be able to pay its current liabilities when they fall due. In the case of HUL, the ratio is more than standard value 1 which means HUL has immediate ability to meet its short-term liabilities.

Cash Position Ratio

Cash position ratio establishes a relationship between truly liquid assets (cash in hand, cash at bank and marketable securities) and short-term liabilities.

Cash Position Ratio = Super Quick Assets / Current Liabilities

Super Quick Assets = Cash and Bank balance and marketable securities.

Current Liabilities = Trade payables, short-term borrowings, other current liabilities and provisions.

Table1.3: Cash Position Ratio (Rs. in crores)

Company	Cash, Bank balance and Marketable Securities (Rs.)	Current Liabilities (Rs.)	Ratio
Dabur	1,019.45	2,434.44	0.42
HUL	6,356.00	8,887.00	0.72
P&G	8,105.40	19,314.11	0.42

Inference: The cash position ratio of both Dabur and P&G is 0.42 which is less than the standard value of 0.75 whereas the cash position ratio of HUL is 0.72 which is closer to standard value. The liquidity position in terms of cash and cash equivalents is much better of HUL than Dabur and P&G.

In case of Dabur, the company has used more cash for long-term investments and for paying dividends. In case of P&G, the company has spent more cash on financing activities i.e. paying dividends to Shareholders and for Treasury stock purchases. To increase the Cash position ratio in the forthcoming year, both P&G and Dabur has to maintain the high level of cash and cash equivalents.

SOLVENCY RATIOS

Solvency ratios also known as financial leverage ratios show the ability of the business enterprise to survive and operate in the long run. Solvency Ratios indicate the long-term stability and fitness for future trading of a firm.

Debt-Equity Ratio

This ratio expresses the relationship between Debt (long-term borrowed funds) and the owner's fund or equity (Internal equities). It is computed to ascertain soundness of the long-term financial position of the company.

Debt-Equity Ratio = Debt / Equity

Debt = long-term liabilities

Equity = Equity share capital + reserves+ surplus+ preference share capital – Fictitious assets

Table2.1: Debt-Equity Ratio (Rs. in crores)

Company	Debt (Rs.)	Equity (Rs.)	Ratio
Dabur	534.14	5,733.05	0.09
HUL	1674.00	7,301.00	0.23
P&G	25437.96	36,171.97	0.70

Inference: This ratio shows the dependence on debt finance compared with equity funding. The standard value of Debt to Equity ratio is one. The table 2.1 shows that the debt-equity ratio of P&G is closer to the standard value. It shows that the contribution of more funds by the outsiders than the owners and hence a large claim on the assets of the company. In case of Dabur, the debt-equity ratio is very less than the standard value which means that the portion of the assets contributed by shareholders is greater than the portion of assets contributed by long-term creditors which means a large safety margin for creditors. However, low Debt-equity ratio implies that the shareholders of Dabur are not entitled to the benefits of Trading on equity.

Total Assets to Debt Ratio

This ratio establishes a relationship between total assets and total long-term debts. It measures the safety margin available to the providers of long-term debts. It measures the extent to which debt is covered by the assets.

Total Asset to Debt Ratio = Total Assets / Long-term Debt

Table2.2: Total Assets to Debt Ratio (Rs. in crores)

Company	Total Assets (Rs.)	Long-term Debt (Rs.)	Ratio
Dabur	8,701.63	534.14	16.29
HUL	17,862.00	1,674.00	10.67
P&G	80,924.04	25,437.96	3.18

Inference: The table shows that the Total Assets to Debt Ratio of Dabur is higher than HUL and P&G. In general the Ideal ratio is 2:1. All the three company have ratio more than the standard. A high ratio in case of Dabur and HUL represents higher security to lenders for extending long-term loans. It also implies that in both Dabur and HUL, investment by shareholders is more than the funds provided by outsiders. On the other hand, a low ratio in case of P&G represents more use of long term borrowings, to purchase assets of the company, as compared to Dabur and HUL.

Proprietary Ratio

Proprietary ratio shows the extent to which the shareholders own the business. This ratio is also called the Equity Ratio. It highlights the general financial position of the firm. This ratio is of particular importance to the creditors as it provides a rough estimate of the amount of capitalization currently used to support a business. If the ratio is high, this indicates that a company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary. Conversely, a low ratio indicates that a business may be making use of too much debt or trade payables, rather than equity, to support operations (which may place the company at risk of bankruptcy).

Proprietary Ratio = Shareholder's Fund / Total Assets

Table2.3: Proprietary Ratio (Rs. In crores)

Company	Shareholders ' Fund (Rs.)	Total Assets (Rs.)	Ratio
Dabur	5,733.05	8,701.63	0.66
HUL	7,301.00	17,862.00	0.41
P&G	36,171.97	80,924.04	0.45

Inference: Proprietary Ratio highlights the general financial position of the company. From the above table, it is observed that the proprietary ratio of Dabur is highest, followed by P&G, and lastly HUL. In case of Dabur proprietary ratio of 66% demonstrate the high percentage of shareholders' funds used for financing assets. Theoretically, the higher the proprietary ratio the greater the long-run stability of the firm and consequently greater protection to creditors. However greater long-run stability does not always result in maximum profits for shareholders over a period of time.

ACTIVITY RATIOS / EFFICIENCY RATIOS

Profit depends on the rate of turnover and the net margin. Activity Ratios or Asset Turnover Ratios can often be used as an indicator of the efficiency with which a company is deploying its assets in generating revenue.

Fixed Asset Turnover Ratio

Fixed asset turnover ratio indicates how efficiently the fixed assets have been used in achieving the sales. The objective is to establish whether the investment in fixed assets is justified in relation to the sales achieved.

Fixed Asset Turnover Ratio = Net Sales / Fixed Assets

Table3.1 Fixed Asset Turnover Ratio (Rs. in crores)

Company	Net Sales (Rs.)	Fixed Assets (Rs.)	Ratio (in times)
Dabur	7,680.30	5,261.88	1.46
HUL	34,619.00	6,202.00	5.58
P&G	45,713.09	64,973.16	0.70

Inference: This ratio establishes a relationship between fixed assets and net sales. A high ratio indicates efficient utilization of fixed assets, which in turn, means better profitability ratio. From the table3.1, it is understood that the HUL is efficient in utilizing its fixed assets, followed by Dabur, whereas P&G is not efficient in utilizing its fixed assets.

Current Asset Turnover Ratio

Current asset turnover ratio indicates how efficiently the Current Assets have been used in achieving the sales. The objective is to establish whether the investment in Current assets is justified in relation to the sales achieved.

Current Asset Turnover Ratio = Net Sales / Current Assets

Table3.2: Current Asset Turnover Ratio (Rs. in crores)

Company	Net Sales (Rs.)	Current Assets (Rs.)	Ratio (in times)
Dabur	7,680.30	3,439.75	2.23
HUL	34,619.00	11,660.00	2.97
P&G	45,713.09	15,950.88	2.87

Inference: The table 3.2 shows that the current asset turnover ratio of HUL is highest which is followed by P&G and Dabur. Current asset turnover ratio of all the three firms is more than standard value one which demonstrate that all the three firms keep an effective mechanism on utilizing their total current assets. From table 3.1, it is observed that the fixed asset turnover ratio of P&G is less

than one whereas its current asset turnover ratio is more than one indicates that the company is more efficient in utilizing its current assets than its fixed assets.

PROFITABILITY RATIOS

The main purpose of business unit is to make profit. Thus, profitability is of utmost importance for a concern. The profitability ratios are computed to throw light on the current operating performance and efficiency of the business firm. They are used to assess the ability of the business to generate earnings during the specific period of time.

Operating Profit Ratio

Operating profit ratio establishes the relationship between Operating profit and Net Sales. Operating profit means excess of Gross profit over Operating expenses. This ratio helps in knowing the amount of profit earned from regular business transactions on a sale of Rs.100. And then what amount of sales is left to cover non-operating expenses, to pay dividends and to create general reserves.

Operating Profit Ratio = (Operating profit / Net sales)*100

Table4.1: Operating Profit Ratio (Rs. in crores)

Company	Operating Profit (Rs.)	Net Sales (Rs.)	Ratio (in %)
Dabur	1,617.40	7,680.30	21.06
HUL	6,979.00	34,619.00	20.16
P&G	9,378.32	45,713.09	20.52

Inference: The table 4.1 shows that the operating profit ratio of Dabur (21.06%) is higher than P&G (20.52%) and HUL (20.16%). Higher operating ratio is an indicator of more efficiency of the operating management. Operating profit ratio of HUL is lowest whereas Asset turnover ratio of HUL is highest, shows that, the companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

Net Profit Ratio

The net profit ratio is calculated to measure the overall profitability position of the business firm due to operational efficiency and non- operating profits and losses.

Net profit ratio = (Net profit after taxes / Net sales)*100

Table4.2: Net Profit Ratio (Rs. in crores)

Company	Net Profit After Tax (Rs.)	Net Sales (Rs.)	Ratio (in %)
Dabur	1,354.40	7,680.30	17.63
HUL	5216.00	34,619.00	15.07
P&G	6487.74	45,713.09	14.19

Inference: Net profit ratio is a measure of the overall profitability. Net profit is arrived at after taking into account both the operating and non-operating items of income and expenses. The ratio indicates what portion of the net sales is left for the owners after all expenses have been met. The above table shows that the net profit ratio of Dabur is highest, followed by HUL and lastly P&G. Low profit margin of P&G means higher interest charges because of higher debt used by the company in the capital structure.

Return on Investment

Return on Investment or Return on Capital Employed (ROCE) judges the overall performance of the enterprise. It measures how efficiently the resources entrusted to the business are used. ROCE reflects a company's ability to earn a return on all of the capital it employs.

Return on Investment = (Profit before interest, tax and Dividend / Capital employed)*100

Table4.3: Return on Investment (Rs. in crores)

Company	EBIT (Rs.)	Capital Employed (Rs.)	Ratio (in %)
Dabur	1,922.60	6,267.19	30.68
HUL	7,276.00	8,975.00	81.07
P&G	9,114.98	61,609.93	14.79

Inference: ROCE is a useful measurement for comparing the relative profitability of companies. But ROCE is also an efficiency measure of sorts — it doesn't just gauge profitability as profit margin ratios do. ROCE measures profitability after factoring in the amount of capital used. This ratio measures the rate of return on the total capital employed in the firm. This table shows that, the ROCE of HUL is highest, followed by Dabur and lastly P&G. It means HUL is able to squeeze more earnings out of every Rupee of Capital it employs.

Earnings Per Share Ratio

This ratio measures the profit available to the equity shareholders on a per share basis, that is, the amount of profit they can get on every share held. The purpose of calculating this ratio is to measure the profitability of the firm from the point of view of the owners of the enterprise.

Earnings per Share = Net profit available to Equity Shareholders / No. of Equity shares outstanding

Table4.4: Earning Per Share (Rs. in crores)

Company	Net Profit (Rs.)	No. of Equity shares outstanding (in crores)	Ratio
Dabur	1,354.40	176.15	7.69
HUL	5,216.00	216.00	24.15
P&G	6,487.74	252.90	25.65

Inference: From the above table it is understood that the EPS of P&G is slightly higher than HUL whereas EPS of Dabur is least despite a high return on investment, it is due to more use of equity in

the capital structure, the company is not using enough debt to increase shareholders' wealth. In case of HUL, capital structure consists of more equity than borrowed funds and as a result its EPS is lower than P&G despite having a very high return on capital employed whereas in case of P&G EPS is high because it is using more debt in its capital structure.

Return on Equity

Return on Equity ratio measures the relationship between net profit and equity shareholders' funds. In fact equity shareholders are the real owners who bear all risk, control the management and entitled to all profits remaining after appropriation for preference shareholders. Thus, this ratio provides a real test for the utilization of equity shareholders' money.

Return on Equity (ROE) = Net Profit After Tax And Preference Dividend / Equity Shareholders' Funds.

Table4.5: Return on Equity (Rs. in crores)

Company	**Net Profit (Rs.)**	**Equity Shareholders' Funds (Rs.)**	**Ratio (in %)**
Dabur	1,354.40	5,733.05	23.62
HUL	5,216.00	7,301.00	71.44
P&G	6,487.74	36,171.97	17.94

Inference: The above table shows that the ROE of HUL is highest at 71.44% whereas ROE of P&G is least at 17.94%. The highest ratio of HUL Ltd. is a tangible proof of the efficiency of the management. In case of HUL the highest ROE ratio implies that the company is deploying its retained earnings efficiently for earning profits. Second best efficient management is of Dabur India Ltd as its ROE ratio is higher than P&G. The least ROE ratio (17.94%) of P&G implies that the company is not efficiently deploying its retained earnings.

FINDINGS & SUGGESTIONS

- All Liquidity ratios i.e. Current ratio, Quick ratio and Cash position ratio of P&G are less than the standard value. So the management of P&G has to concentrate on improving its liquidity ratios by investing more on liquid assets and by proper working capital management.
- Debt to Equity ratio of both HUL and Dabur is less than standard so they should concentrate on employing more borrowed funds in their capital structure to improve their EPS.
- Fixed asset turnover ratio of P&G is less than standard whereas its current asset turnover ratio is more than the standard so it has to concentrate on its composition of assets and should maximize utilization of fixed assets for revenue generation in order to improve Turnover ratios.

- EPS of Dabur is least despite having highest operating profit ratio and net profit ratio so it has to concentrate on its capital structure and employ more borrowed funds.
- Return on Equity and Return on Investment of P&G is least and its EPS is highest, this shows that the company is not using its retained earnings and capital efficiently. P&G should focus more on efficient utilization of its shareholders' funds and capital employed in it.

CONCLUSION

The study explored the truth that single figures in terms of absolute amounts, reported in the financial statements of companies, are not of much use. But they become important when relationships are established among various financial factors in a business with the help of Financial Ratios. Thus, a ratio analysis of Hindustan Unilever Limited, Dabur India Limited and Procter & Gamble Limited has done to analyze and compare the overall financial performance. After conducting a comprehensive financial ratio analysis, HUL limited ranked first as most financially healthy, followed by Dabur, then P&G. Though the EPS of P&G is higher than HUL and of Dabur is least but in the study it is found that the liquidity ratios of P&G limited are not satisfactory, as it maintains minimum level of liquidity and a company with low liquidity ratios has a higher risk of meeting its current obligations on time. Fixed asset turnover ratio of P&G limited is not satisfactory which implies that the company is not efficiently utilizing its fixed assets to generate revenue. Return on Equity (ROE) and Return on Capital employed (ROCE) of P&G is least which implies that the company is not able to utilize its resources efficiently for generating revenue. Hence, ROE is a better indicator of overall financial position of the company than the EPS. The ROE ratio of HUL is higher followed by Dabur which implies efficient utilization of shareholder's funds by the company for generation of revenue. In the study financial performance of HUL limited and Dabur India limited is found satisfactory in case of all accounting ratios. In the shadow of above revelation and facts the study conclude that HUL limited has better strategic position in comparison to its competitors, Dabur and P&G, in all the respective ratios. HUL limited has secured top position in Liquidity analysis, in profitability analysis in relation to sales and in relation to investment, in efficiency analysis and has secured first rank.

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