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Financial Performance Analysis of Two Indian FMCG Companies: A Comparative Study

Dr. AnilKumar R Maisuriya[1], Dr. Ruchi H Desai[2], Mr. Mohammadali K. Momin[3]

[1]Assistant Professor & Head, Department of Statistics, Navyug Commerce College, Surat, affiliated to Veer Narmad South Gujarat University Surat.

[2]Assistant Professor, Department of Accountancy, Navyug Commerce College, Surat, affiliated to Veer Narmad South Gujarat University Surat.,

[3]Research Scholar, Department of Commerce, Dolat-Usha Institute of Applied Sciences and Dhiru-Sarla Institute of Management & Commerce Valsad affiliated to Veer Narmad South Gujarat University Surat.

ABSTRACT

This study conducts a comparative analysis of the financial performance of two leading entities in India's Fast-Moving Consumer Goods (FMCG) sector, Indian Tobacco Company Ltd. (ITC) and Hindustan Unilever Limited (HUL), over the period from 2018 to 2022. Employing a quantitative research methodology, the investigation zeroes in on critical financial performance indicators, including liquidity, profitability, efficiency, and solvency ratios, to gauge the financial health and operational effectiveness of these corporations. Through the meticulous computation of these ratios from publicly available annual reports and the application of descriptive statistics along with an Independent Samples t-Test, the study not only assesses the financial standing of ITC and HUL but also provides a side-by-side comparison to highlight significant differences and similarities in their financial strategies and outcomes. The findings offer valuable insights into the companies' financial management practices, contributing to the broader discourse on corporate financial performance in the FMCG sector. This research serves as a resource for investors, stakeholders, and academics interested in the financial dynamics of leading FMCG companies in a competitive market landscape.

Keywords: Fast Moving Consumer Goods (FMCG) sector, Comparative Financial Performance Analysis, Accounting Ratios.

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Introduction

Fast Moving Consumer Goods (FMCG) refer to products that are consumed frequently and replaced quickly, typically within a year. They are characterized by their relatively low cost, high demand, and rapid turnover in the market. FMCG products encompass a wide range of items, including toiletries, cosmetics, detergents, packaged food, beverages, and more. The FMCG sector is a significant contributor to the economy, with India being one of the largest markets for FMCG products. The FMCG industry is Fourth-largest sector contributing to the Indian economy. The total market size of the FMCG sector in India is significant, with billions of dollars in revenue. The FMCG sector in India is witnessing growth, with increasing investment from companies due to rising competition and demand. FMCG products are consumed and replaced rapidly, often within a short period, typically less than a year. They are priced relatively lower compared to other goods, making them affordable for consumers. These products enjoy consistent and high demand due to their essential nature in daily life. Consumers buy these products frequently and in small quantities based on their needs' items may have a short shelf life due to factors like perishability or high consumer demand. Examples of FMCG Products include Toiletries. Household products. Packaged food and beverages, Cosmetics, Skincare products, Hair care products, Other non-durable goods, Paper products, Plastic goods etc.

Here is an overview of ITC (Indian Tobacco Company) and HUL (Hindustan Unilever Limited), two significant FMCG companies in India. ITC Limited is a diversified conglomerate with a significant presence in the FMCG sector. It was founded in 1910 and has its headquarters in Kolkata, West Bengal, India. It is FMCG portfolio includes brands in categories such as cigarettes, packaged foods, personal care products, apparel, education, and stationery products, and more. Apart from FMCG, ITC has interests in hotels, paperboards and packaging, agri-business, and information technologist's flagship brands in the FMCG segment include Aashirvaad, Sunfeast, Bingo, Classmate, Fiama Di Wills, Savlon, and Vivel. The company has been focusing on sustainability initiatives and has made significant investments in renewable energy and water stewardship. While Hindustan Unilever Limited (HUL) is one of India's largest FMCG companies and a subsidiary of Unilever, a multinational consumer goods company. It was originated in 1933 and is headquartered in Mumbai, Maharashtra, India. HUL has a diverse product portfolio spanning categories such as home care, personal care, foods, and beverages. Some of HUL's renowned brands include Dove, Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Sunsilk, Knorr, Kissan, and Bru.It has a extensive distribution network that reaches millions of households across India, making its products easily reachable. The company has been

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actively involved in social initiatives related to health, hygiene, and sustainability, contributing to various community development programs. Both ITC and HUL are key players in the FMCG sector in India, each with its unique strengths and market presence. They compete in various product categories and strive to innovate and meet the evolving needs of Indian consumers.

Fundamental analysis focuses on using financial ratios and statement data to evaluate the financial health and performance of companies. The research focuses on the financial analysis of ITC and HUL Ltd., two prominent FMCG companies in India. Emphasis is placed on fundamental financial analysis using ratios. Financial analysis allows for comparing the financial positions of different FMCG companies, such as ITC and Hindustan Unilever Ltd (HUL), to assess their relative strengths and weaknesses. Key ratios used in the study are Return on Asset (ROA), Debtor Turnover, Debt Ratio, Debt to Equity Ratio, Dividend per Share, Earnings per Share (EPS), Book Value per share, Yield.

In nutshell, the FMCG sector plays a crucial role in the economy, offering essential products with high demand and rapid turnover. Financial analysis helps investors and stakeholders evaluate the performance and financial standing of FMCG companies, facilitating informed decision-making and investment strategies.

Literature Review

Analysing the varied avenues of the Fast-Moving Consumer Goods (FMCG) industry in India is a popular topic among researchers and scholars. Conducting a literature review on this subject would involve identifying relevant research papers, articles, and studies that provide insights into various aspects of the FMCG sector in India. Here are some studies from India that could contribute to such literature review. Studies by Singh, S., & Jain, D. (2016), Dr. Rajesh Gupta (2017), Dr. Ravi Kumar (2018), Dr. Neha Sharma (2019), Dr. Priya Singh (2020) discusses about the remarkable growth trajectory of India's FMCG sector over the years. They investigated the factors contributing to the sector's growth, including changing consumer preferences, urbanization, rising disposable incomes, and technological advancements. It highlighted the rapid evolution of consumer behavior, digitalization, supply chain innovations, and competitive dynamics shaping the FMCG landscape They discuss challenges faced by the FMCG industry and provides insights into future trends and opportunities for sustainable growth. Subramanian, H. (2015) Dr Mohan Kumar, et.al (2017), R Hiremani Naik et.al (December 2017), Kumar et al. (2018), Mishra and Patel (2019) Gupta and Kumar (2020), Sharma and Chauhan (2020) Choudhary& Jain (2021), Jain and Agarwal (2021) reviewed that the implementation of GST has brought about significant

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changes in the FMCG sector in India, ranging from supply chain efficiencies and pricing dynamics to market competition and consumer behaviour. While GST has presented opportunities for streamlining operations and increasing competitiveness, challenges such as compliance difficulties, market uncertainties, and regulatory ambiguities persist. Sharma, R., & Kumar, A (2017), S., & Agarwal, R. (2018), Gupta, S., & Singh, S. (2019) Jain, Verma, P., & Tiwari, A (2020), Patel, D., & Shah, K (2021) investigated the digital transformation of the FMCG industry in India, focusing on the trends in e-commerce and m-commerce. They studied consumer behaviour shifts, technological advancements, and the impact of online platforms on FMCG sales and distribution networks. A. Das (2013), S. Mehta and R. Nangalia (2013), S. Kumar and A. Kumar (2015), A. Sahoo and S. Nayak (2016), S. S. Parveen and M. Shanmugan (2017), S. Chakraborty and P. Halder (2018) R. Sudha, S. Uma, and S. Lavanya (2018) they compared the financial performance of selected FMCG companies in India and assesses their strengths and weaknesses based on financial indicators, factors influencing their profit margins. Review of Comparison Analysis of financial performance of leading FMCG companies in India helps in identifying factors contributing to the success or failure of FMCG Industry.

Methodology

In the research paper aiming to perform a comparative analysis of the financial performance of ITC and Hindustan Unilever Limited (HUL) over the five-year period from 2018 to 2022, a quantitative research methodology was employed, leveraging financial ratios calculated from data extracted from the companies' annual reports. This study meticulously gathered financial data, focusing on key financial ratios such as liquidity, profitability, efficiency, and solvency ratios, which serve as indicators of the companies' financial health and operational efficiency. The research design is rooted in the collection of secondary data, with financial statements from the publicly available annual reports of ITC and HUL providing the necessary inputs for ratio calculation. The study's timeframe was deliberately chosen to encompass a five-year span to capture any significant trends or changes in financial performance, offering a comprehensive view of each company's financial trajectory. By employing this longitudinal approach, the research aims to mitigate the impacts of temporal fluctuations and provide a more robust analysis.

Data analysis was conducted in two primary stages. Initially, descriptive statistics were applied to the financial ratios to summarize and describe the features of the data collected. This phase facilitated an initial understanding of the financial health and trends within each company, providing insights into their performance over the specified period. Subsequently, to compare the

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financial performance of ITC and HUL directly, an Independent Samples t-Test was conducted. This statistical test was chosen for its effectiveness in comparing the means of two independent groups, thereby determining whether there were statistically significant differences between the financial performances of the two companies. The significance level was set at $p<0.05$, adhering to conventional standards for statistical testing. This methodology acknowledges the importance of ethical considerations by relying exclusively on publicly available data, thereby negating any concerns related to confidentiality or the use of proprietary information. However, the study also recognizes its limitations, chiefly its reliance on historical data, which, while informative, may not fully encapsulate future financial performances or account for qualitative factors affecting company performance. By employing this structured and rigorous quantitative approach, the research aims not only to compare the financial performance of ITC and HUL but also to contribute to the broader understanding of financial health within the corporate sector. This methodology ensures that the findings are grounded in statistical analysis, providing a reliable basis for conclusions drawn regarding the comparative financial performances of the two companies.

Result

Table 1.1: Descriptive Statistics

Company	Ratio	N	Minimum	Maximum	Mean	Std. Deviation
HUL	Return on Asset	5	18.06	35.15	29.47	6.88
	Debtor Turnover	5	26.53	33.71	30.70	3.25
	Debt Ratio	5	0.42	0.65	0.58	0.09
	Debt to Equity Ratio	5	40.44	91.32	57.04	19.87
	Dividend per Share	5	14.00	37.50	22.90	8.96
	Earnings per Share	5	19.37	34.14	26.97	6.03
	Book Value per share	5	29.99	201.88	68.27	74.79
	Yield	5	1.04	1.81	1.39	0.30
ITC	Return on Asset	5	17.75	21.02	19.03	1.24
	Debtor Turnover	5	14.65	27.29	19.55	5.12
	Debt Ratio	5	0.18	0.22	0.21	0.02
	Debt to Equity Ratio	5	7.84	10.58	9.48	1.04
	Dividend per Share	5	4.75	10.15	6.16	2.26
	Earnings per Share	5	8.04	12.38	9.87	1.79
	Book Value per share	5	37.33	52.09	45.09	5.47
	Yield	5	1.74	6.93	3.18	2.19

- Return on Asset of HUL company ranges from 18.06% to 35.15% with an average Return on Asset is 35.15, while it is of ITC company ranges from 17.75% to 21.02% with an average Return on Asset is 19.03 which indicates HUL company exhibits higher Returns

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on Asset compared to ITC. So, this indicates better efficiency of HUL in utilizing assets to earn more profits.

- Debtor Turnover of HUL company ranges from 26.53 to 33.71with an average Debtor Turnover is 30.70, while it is of ITC company ranges from 14.65 to 217.29 with an average Return on Debtor Turnover t is 19.55 which indicates HUL company exhibits higher Debtor Turnover compared to ITC. So, this indicates better efficiency of HUL in collecting receivables compared to ITC.
- Debt Ratio of HUL company ranges from 0.42 to 0.65 with an average Debt Ratio is 0.58, while it is of ITC company ranges from 0.18 to 0.22 with an average Return on Debt Ratio is 0.21 which indicates both companies maintain low debt ratio, but average Debt Ratio of HUL is higher than ITC which indicates a comparatively higher reliance on debt financing.
- Debt to Equity Ratio of HUL company ranges from 40.44 to 91.32 with an average Debt to Equity Ratio is 57.04, while it is of ITC company ranges from 7.84 to 10.58 with an average Return on Debt-to-Equity Ratio is 9.48 which indicates ITC maintains a lower Debt Ratio compared to HUL which shows better efficiency of ITC compared to HUL because it indicates lower level of financial leverage.
- Dividend per Share of HUL company ranges from 14.00 to 37.50 with an average Dividend per Share is 22.90, while it is of ITC company ranges from 7.84 to 10.58 with an average Return on Dividend per Share is 6.16 which indicates HUL offers higher dividend per share compared to ITC.
- Earnings per Share of HUL company ranges from 19.37 to 34.14 with an average Earnings per Share is 26.97, while it is of ITC company ranges from 8.04 to 12.38 with an average Return on Earnings per Share is 9.87 which reports Earnings per share of HUL compared to ITC.
- Book Value per Share of HUL company ranges from 22.99 to 201.88 with an average Book Value per Share is 68.27, while it is of ITC company ranges from 37.33 to 52.09 with an average Return on Book Value per Share is 45.09 which reports higher Book Value per share of HUL compared to ITC.
- Yield of HUL company ranges from 1.04% to 1.81% with an average Yield is 1.39%, while it is of ITC company ranges from 1.74 to 6.93% with an average Yield is 3.18% which indicates ITC offers higher yield compared to ITC.

Overall HUL Company's financial condition is better than ITC as its financial condition in the ratios like Return on Asset, Debtor Turnover, Debt Ratio, Debt to Equity Ratio, Dividend per share,

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earning per Share and Book Value per Share is better than ITC. It should be noticed that with respect to the parameter Yield, ITC is better as it offers higher yield compared to ITC.

Table 1.2: Independent Samples t – Test to compare the performance of HUL and ITC company

Ratio	Assumption about Equality of Variance	Levene's Test for Equality of Variances		t-test for Equality of Means			Significant / Insignificant
		F	P-Value	t	df	P-value	
Return on Asset	Equal variances assumed	4.923	0.057	3.328	8	**0.010**	**Significant**
Debtor Turnover	Equal variances assumed	0.859	0.381	4.107	8	0.003	**Significant**
	Equal variances not assumed			4.107	6.772	**0.005**	
Debt Ratio	Equal variances assumed	4.169	0.075	8.959	8	**0.000**	**Significant**
Debt to Equity Ratio	Equal variances assumed	5.301	0.051	5.345	8	**0.001**	**Significant**
Dividend per Share	Equal variances assumed	3.331	0.105	4.050	8	**0.004**	**Significant**
Earnings per Share	Equal variances assumed	6.678	0.032	6.077	8	0.000	**Significant**
	Equal variances not assumed			6.077	4.703	**0.002**	**Significant**
Book Value per Share	Equal variances assumed	6.024	0.040	0.691	8	0.509	**Significant**
	Equal variances not assumed			0.691	4.043	**0.527**	
Yield	Equal variances assumed	5.071	0.054	-1.802	8	**0.109**	**Significant**

The Independent Samples t-Test conducted to compare the financial performance of Hindustan Unilever Limited (HUL) and ITC across various financial ratios reveals insightful disparities and similarities between the two conglomerates, as detailed in Table 1.2. The assumption about the equality of variances, scrutinized through Levene's Test, varied across the financial ratios, setting the stage for the application of t-tests under assumptions of both equal and unequal variances where applicable. Significantly, the Return on Asset (ROA) demonstrated a marked difference between HUL and ITC with a p-value of 0.010, underlining a substantial disparity in asset profitability. Similarly, the Debtor Turnover ratio, with a p-value of 0.003 (and 0.005 under the assumption of unequal variances), indicated a notable difference in the companies' efficiency in managing receivables. The Debt Ratio and Debt to Equity Ratio, with p-values of less than 0.001 and 0.001 respectively, highlighted significant variations in the companies' leverage and financial structure, pointing towards differing strategies in debt management and equity financing.

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The Dividend per Share and Earnings per Share ratios, with p-values of 0.004 and less than 0.001 respectively, signified considerable differences in the companies' approaches to shareholder returns and profitability. These findings suggest a divergence in financial health and policy that could influence investor perceptions and decisions. Notably, the analysis on Earnings per Share remained significant even under the assumption of unequal variances, with a p-value of 0.002, reinforcing the robustness of the observed disparity. However, the analysis also uncovered areas of similarity. The Book Value per Share ratio, despite an initial assumption of significant variance (Levene's p-value of 0.040), yielded a t-test p-value of 0.509 (and 0.527 under unequal variances assumption), suggesting no significant difference in this metric between HUL and ITC. This implies a relative parity in the equity value per share held by the companies. Furthermore, an apparent misinterpretation was noted in the analysis of the Yield ratio. Despite being labeled significant, the p-value of 0.109 from the t-test suggests that the difference in Yield between HUL and ITC is not statistically significant, indicating a comparable return on the price paid per share by investors in both companies.

The comparative analysis through the Independent Samples t-Test elucidates significant differences in the financial performances of HUL and ITC across several key financial ratios, revealing divergent strategies and outcomes in asset management, debt handling, and profitability. However, the findings also highlight areas of financial similarity, offering a nuanced understanding of the companies' financial positioning. These insights contribute valuable perspectives to stakeholders and underscore the complexities of financial performance evaluation in the competitive corporate landscape.

Conclusion

The research paper embarked on a comprehensive comparative analysis of the financial performance of two leading conglomerates in the consumer goods industry, Hindustan Unilever Limited (HUL) and ITC, over a span of five years from 2018 to 2022. The findings from the statistical analysis revealed significant disparities in several key financial ratios, including Return on Assets, Debtor Turnover, Debt Ratio, Debt to Equity Ratio, Dividend per Share, and Earnings per Share. These differences underscore the divergent approaches adopted by HUL and ITC in managing their assets, liabilities, and equity, as well as their distinct policies towards shareholders' returns. Particularly, the significant differences in profitability and efficiency ratios suggest that HUL and ITC have crafted unique strategies to navigate their financial landscapes, impacting their overall financial performance.

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The implications of this study are manifold. For investors and stakeholders, the insights offer a deeper understanding of the financial health and strategies of HUL and ITC, aiding in informed decision-making. For the companies themselves, this analysis provides a mirror to their financial performance relative to a close competitor, potentially guiding strategic adjustments and policy reevaluations. Moreover, for scholars and practitioners in the field of finance and business management, the findings contribute to the growing body of knowledge on financial performance analysis, offering a comparative perspective that enriches understanding of corporate financial behavior in the consumer goods sector.

The research paper underscores the complexity of financial performance in the competitive landscape of the consumer goods industry. The significant differences and similarities between HUL and ITC revealed through this study highlight the nuanced strategies companies adopt to achieve financial robustness. As businesses continue to navigate changing economic landscapes, such comparative analyses will remain crucial in understanding and enhancing corporate financial performance, ultimately contributing to the broader discourse on financial management and corporate strategy.

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