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Analysis of Solvency of Selected FMCG Companies in India

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Abstract:
In this paper an attempt has been made to know the solvency position of selected FMCG companies in India. The data Collected from the annual reports form 2005-06 to 2010-11 from the selected six FMCG companies in India. The study concentrates on the various accounting ratios to analyse the financial performance in terms of solvency of the selected companies. The statistical tools like Average, Standard Deviation and Co -efficient of variation have been applied.

Keywords: *Efficiency, Financial Performance, Solvency*

1. Introduction

1.1 FMCG Industry in India

The Indian FMCG industry Witnessed significant change through 1990s. By the turn of 20 century, Indian FMCG industries have changed significantly with the liberalization and growth of company. The realization of the customers growing interests and the need to meet changing lifestyle required the FMCG producing companies to formulate customer-centric strategies. These change have positive impact, leading to the rapid growth in the FMCG Industry. The FMCG industry plays a significant role in shaping a country economy and development. This sector can drive growth, enhance quality of life, create jobs and support penetration of technology. Solvency of liquidity enables the outsiders like, creditors, investors, debenture holders and other parties to know the fate of their investment in the firm. For that they try to get the loan repayment capacity of the firm. Liquidity or solvency position of a firm may be analysed on the basis of time frame i.e. short term and long term liquidity or Solvency. Short term liquidity implies the capacity of the firm to repay the debt of a short term creditor and trade payables. Long term solvency implies the capacity of the firm to pay off the claims of debenture holder’s preference shareholders and other long creditors. The paper seeks to ascertain the knowledge about the repayment capacity of the selected FMCG companies.

2. Literature Review

Sahu (2002) found that liquidity plays a significant role in the successful functioning of a firm. Illiquidity threatens the very survival of the firm and leads to business failure. On the contrary, a very high degree of liquidity hampers the profitability .he observed that the most of the paper producing companies in India has been caught in a vicious down cycle and facing a threat to viability. Bhunia, (2010), identified that the liquidity position in both the companies was strong, therefore, it reflects the ability of the companies relied more on external funds in terms of long-term borrowings thereby providing a lower degree of protection to the creditors. Marimuthu (2012) revealed that that the sample companies having good performance in the current and quick ratio except interest coverage ratio. It was concluded that the companies should concentrate on their liquidity position, receivables, and payables particularly on working capital.

3. Objective of the Study

The main objective of the study is to know the liquidity performance of selected FMCG companies in India.

4. Methodology

The study has been undertaken for the period of six years 2005-06 to 2010-11. In order to analyse the liquidity and solvency, various accounting ratios have been used. Various statistical measures have been used. i.e. Average, SD, CV and T-TEST. In this connection an attempt has been made to analyse the liquidity position of selected FMCG companies and to understand the company capacity to repay the short-term debt as well as long –term debt.

5. Analysis of Liquidity

For analysing liquidity of FMCG sector, following ratios have been computed. Current Ratio (CR), Liquid Ratio(LR), Debtors turnover Ratio (DTR), Debt Equity Ratio (DER),Propriety Ratio (PR), Debt to Total Assets Ratio(DTA).

Table 1: Current Ratio

Year	ITC	HUL	Nestle	Emami	Colgate	Dabur	CO. avg
2005-06	1.554	-0.681	0.675	3.038	0.883	1.081	1.09
2006-07	1.738	-0.688	0.696	2.789	0.846	1.418	1.13
2007-08	1.597	-0.663	0.666	2.536	0.715	1.057	0.98
2008-09	1.723	-0.983	0.674	1.354	0.855	1.177	0.8
2009-10	1.081	-0.813	0.602	2.628	1.067	1.202	0.96
2010-11	1.243	-0.841	0.626	3.633	1.095	1.271	1.17
MEAN	1.4893	-0.7782	0.6565	2.663	0.9101	1.201	1.02
SD	0.2681	0.1248	0.0352	0.7521	0.1447	0.1324	0.24
CV (%)	18.0073	-16.046	5.3636	28.2424	15.9026	11.027	10.42

The ratio of Current Assets and Current Liability shows the ability of the companies to meet shorter debt obligations. During the study period of the current is higher in Emami (2.66) Followed by ITC (1.49). There is negative average current ratio in HUL, which shows inability of the company in meeting its short-term obligations. The standard deviation of CR is very high in Emami. The coefficient of variation of CR of HUL (-16.05%) and Nestle (5.36%) is below the company average.

Table 2: Liquid Ratio

Year	ITC	HUL	Nestle	Emami	Colgate	Dabur	Co. avg
2005-06	0.698	-0.355	0.306	2.103	0.669	0.593	0.67
2006-07	0.752	-0.342	0.337	2.109	0.656	0.849	0.73
2007-08	0.688	-0.274	0.247	1.802	0.559	0.644	0.61
2008-09	0.753	-0.545	0.307	0.942	0.699	0.712	0.49
2009-10	0.47	-0.486	0.252	2.118	0.865	0.739	0.66
2010-11	0.593	-0.459	0.282	2.886	0.856	0.785	0.82
MEAN	0.656	-0.4102	0.2885	1.9933	0.7173	0.7203	0.66
SD	0.109	0.1025	0.03492	0.6292	0.1204	0.0929	0.18
CV (%)	16.58	-24.994	12.1044	31.5672	16.7909	12.9033	10.83

Table: 2 shows that liquid ratio is more satisfactory in Emami (1.99), Colgate (0.72), and Dabur (0.72) as the ratio is more than the company as a whole. These companies have been able to meet their current obligation under the study period. C.V. of LR of all the selected companies show less consistency except HUL is more than the company as a whole. It shows the improper and inefficient management of funds.

Table 3: Debtors Turnover Ratio

Year	ITC	HUL	Nestle	Emami	Colgate	Dabur	CO. avg
2005-06	16.427	20.131	87.384	8.276	89.183	25.287	41.12
2006-07	18.818	23.416	65.227	12.541	153.147	20.652	48.98
2007-08	18.182	29.346	64.153	13.753	156.793	15.025	49.54
2008-09	19.409	39.983	87.288	13.639	165.225	16.022	56.93
2009-10	21.103	28.529	93.448	14.17	187.795	22.776	61.3
2010-11	21.095	24.018	98.129	13.861	84.224	17.157	43.1
MEAN	19.1723	27.5705	82.6132	12.7067	139.395	19.487	50.16
SD	1.7957	6.9766	14.4504	2.2403	42.5832	4.0782	12.02
CV (%)	9.3662	25.3047	17.4916	17.6314	30.5487	20.928	20.21

The ratio indicates the efficiency of the credit and collection policies of the firm. A high Debtors Turnover Ration indicates effective debt management. A low DTR indicates inefficiency in receivables management. Table 3 shows that DTR of Nestle (82.61 times) and Colgate (139.39times) is higher than the company as a whole (50.16 times). It implies the efficient management of Debtor C.V. of DTR of HUL and Colgate is 25.31% and 30.55% respectively, which shows less consistency during the study period as the C.V. company as a whole is 20.21%.

Table 4: Debt Equity Ratio (DER)

Year	ITC	HUL	Nestle	Emami	Colgate	Dabur	Co. Avg
2005-06	0.016	0.055	0.046	0.096	0.016	0.21	0.07
2006-07	0.019	0.035	0.007	0.167	0.015	0.333	0.1
2007-08	0.018	0.068	0.002	0.439	0.028	0.161	0.12
2008-09	0.013	0.203	0	1.488	0.022	0.278	0.33
2009-10	0.008	0.004	0	0.414	0.014	0.192	0.11
2010-11	0.008	0.001	0.114	0.333	0.0001	0.076	0.09
MEAN	0.014	0.061	0.02816	0.4895	0.01586	0.2083	0.14
SD	0.005	0.0745	0.04561	0.5076	0.00935	0.08991	0.12
CV (%)	35.45	122.18	161.956	103.7099	58.9462	43.1559	87.57

A high DER reveals more investment of loan capital than equity capital. The high the DER, the more is the risk and so also the profitability .A low DER indicates more use of equity capital than debt capital. Table 4 shows, a high DER is observed in Emami (0.49) which means, financing more with debt. c.v. of DER of ITC, Colgate and Dabur is 35.45% and 58.95%,respectively ,which shows more consistency during the study period because coefficient of variation of company as a whole is 87.57%.the other companies are more efficient in management of debt-equity.

Table 5: Proprietary Ratio (PR)

Year	ITC	HUL	Nestle	Emami	Colgate	Dabur	Co.Avg
2005-06	0.984	0.948	0.956	0.912	0.985	0.827	0.94
2006-07	0.982	0.966	0.993	0.857	0.985	0.75	0.92
2007-08	0.982	0.937	0.998	0.695	0.973	0.862	0.91
2008-09	0.987	0.831	1	0.402	0.979	0.783	0.83
2009-10	0.992	0.996	1	0.707	0.986	0.839	0.92
2010-11	0.993	0.999	0.898	0.751	1	0.93	0.93
MEAN	0.9867	0.9462	0.9742	0.7207	0.9847	0.832	0.91
SD	0.0049	0.0617	0.041	0.1781	0.009	0.063	0.06
CV (%)	0.4951	6.5184	4.2047	24.706	0.9144	7.546	7.4

A high proprietary ratio indicates more use of proprietary funds in acquiring total assets of the company. Table 5 shows that the average of proprietary ratio is more than the industry average (0.91) except Emami (0.72) and Dabur (0.83), which shows a favourable long-term solvency and a satisfactory financial stability of the firm.

Table 6: Debt to Total Assets Ratio (DTAR)

Year	ITC	HUL	Nestle	Emami	Colgate	Dabur	Co. Avg
2005-06	0.016	0.052	0.044	0.088	0.015	0.174	0.07
2006-07	0.019	0.034	0.007	0.143	0.015	0.25	0.08
2006-07	0.018	0.063	0.002	0.305	0.027	0.138	0.09
2007-08	0.013	0.169	0	0.598	0.021	0.218	0.17
2008-09	0.008	0.004	0	0.293	0.014	0.161	0.08
2009-10	0.008	0.001	0.102	0.25	0.0001	0.07	0.07
MEAN	0.014	0.054	0.0258	0.2795	0.0154	0.1685	0.09
SD	0.005	0.062	0.041	0.1780	0.009	0.0629	0.06
CV (%)	35.45	114.6	158.56	63.6911	58.434	37.357	78.01

Debt to TA is the proportion of total liabilities to total assets .it shows the utilization of debt for obtaining the company assets. A higher ratio means that more assets are financial through debt and low ratio means. They are financial through equity. Table 6 shows that debt to TA ratio of ITC, HUL, Nestle and Colgate is 0.01, 0.05, 0.02 and 0.02. Respectively. It indicates that majority of the assets are financial through equity C.V. of debt to TA ratio of HUL (114.57%) and Nestle (158.56%) shows less consistency during the study period because coefficient of variation of industry as a whole is 78.01%. Greater variability in DTAR indicates efficient management of financial risk.

6. Conclusion

ITC, Emami, Dabur and Colgate have been able to repay its debt during the study period. The result of Emami and Dabur shows a high ratio, it indicates that there is more investment of loan than equity .Debtors Turnover Ratio of Nestle and Colgate show the efficiency of debt management. But DTR of rest of the companies are unsatisfactory .All the companies under study except Emami and Dabur shows more use of proprietary fund in acquiring total asset .Debt to total assets ratio of Emami and Dabur shows that more assets of the company are financed through debt.

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