AN EMPIRICAL ANALYSIS ON THE ASSOCIATION BETWEEN SELECTED INDIAN FMCG COMPANIES' FINANCIAL RATIOS AND PROFITABILITY TRENDS

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ABSTRACT

India's fast moving consumer goods sector is expanding rapidly and contributes significantly to the nation's economy. The fourth largest sector in India is the FMCG sector and play a significant role in Country's GDP growth. One of the most important sectors in India and the world today is FMCG sector, creating millions of jobs and generating huge revenue. India's FMCG market was valued at $179.94 billion in 2022 and it is predicted to grow at a CAGR of 27.9% between 2023 and 2029. The study mainly focuses on examining the profit trends of top five Fast Moving Consumer Goods companies listed at BSE, analysing key profitability ratios and trends using historical data, company reports, and financial statements. The statistics from 2018-2019 to 2023-2024 were examined employing trend analysis and Pearson correlation coefficient. This study analysis the profitability performance of FMCG companies which is important for both investors (to make smart investment decisions considering the company's financial condition and potential for future development) and businesses (to ensure long-term sustainability and growth). The current study employed trend analysis technique which uses recently observed trend data to forecast future financial performance which helps the companies to make informed decisions to improve profitability and for the long-term planning. This study helps the companies to assess their profitability performance which is useful for making long- term strategic plans. The finding indicated that the profitability of FMCG companies fluctuated throughout the six-years from 2018-2019 to 2023- 2024, with a peak in 2020 and 2023 but decline in 2024 due to increasing operating expenses and inefficient capital utilisation. This suggests that the companies should improve cost control, optimal utilization of resources and focus on sales growth to sustain profitability in long run. The Pearson correlation coefficient Matrix shows that the strongest relationship exists between ROA and ROCE (0.860, $p<0.01$) indicates that companies with higher ROA tends to have a higher ROCE and making ROA a strong predictor of ROCE.

KEYWORDS: FMCG companies; Pearson correlation coefficient, trend analysis

INTRODUCTION

FMCG are the goods that are buy often and use quickly, such as soft drink, fast food/ processed foods, medicines, cosmetics products and many more. These products are typically low in cost. The fourth largest sector in India is the FMCG sector and play a significant role in Country's GDP growth. One of the most important sectors in India and the world today is FMCG sector, creating millions of jobs and generating huge revenue. India's FMCG market was valued at \$179.94 billion in 2022 and it is predicted to grow at a CAGR of 27.9% between 2023 and 2029 (https:\\www.maximize marketresearch.com). Profit serves as the yardstick for all stakeholder's long-term affiliation. It is an investment capacity to generate income through its utilization. Long-term profitability contributes to company's sustained growth. Therefore, productivity and optimal use of resources are the companies' top priorities. Profitability Performance refers to how well a company can earn profits relative to its income, assets, equity or other financial measures. This study analysis the profitability performance of FMCG companies which is crucial for both investors (to help investors in making smart investment choices by examining company's financial status and future opportunities) and businesses (to ensure long-term sustainability and growth). Trend analysis is a method used to study company's financial performance for making investment decisions and planning for the future. Also known as horizontal analysis, it involves reviewing financial statements over time to track changes in the data (https:\\homework.study.com). The present study uses trend analysis to examine financial data over a period to identify trends. The goal of trend analysis technique in the current study is to predict the future financial performance based on recently observed trend data which helps the companies to make informed decisions to improve profitability and ensure sustainable growth. This research paper analyse the profitability trend analysis and interplay between variables of selected top five FMCG companies listed at BSE, analysing key profitability ratios, and trend using historical data, company reports, and financial statements.

2. LITERATURE REVIEW

Desai (2018) analysed the profitability performance of selected 16 companies listed on BSE or NSE for the study time period of 10 years from 2004 to 2014. The researcher has used 4 profitability ratios and employed ratio analysis, mean, coefficient of correlation, trend analysis and Mann Kendal Test for analysing the data. This study showed that ROE ratio was remained positive throughout the study period and indicating favourable outcomes for equity shareholders. Moreover, study also revealed that the capital invested in the FMCG sector in India was used effectively and generated good profits.

Chakraborty (2017) analysed five selected FMCG companies' financial perormance over six years span from 2011 to 2016 and employed tools like ratio analysis, average and ANOVA for data analysis. The researcher found that ITC Limited was in better financial position comparison to other selected companies and showed that ranking of ratios are different, but the difference among financial ratios is

not statistically significant.

Bagchi and Khamrui (2012) examined two FMCG companies' profitability and liquidity performance namely- Britannia and Dabur for the 10 years from 2000-01 to 2009-10. The Researchers were employed tools like ratio analysis, linear regression and multiple correlation analysis to study the data and they found that Britannia was facing difficulties to make profits, while Dabur India was showing better performance and continuous growth in the industry.

Sahni and Sharma (2017) explored how capital structure influenced the profitability of five FMCG companies between 2021 and 2017. They used rank correlation method to study the relationship and found that Colgate Palmolive had a better impact on profitability than the other companies, because it did not use debt as a long-term funding source.

Paswan (2016) examined and compared the financial health of two leading FMCG companies namely- ITC and HUL mainly focusing on their liquidity and profitability. The research used different financial ratios such as liquidity ratio, working capital turnover ratio, gross profit ratio, debtor's turnover ratio etc. along with statistical tools like average, standard deviation and correlation to analyse the data. The study covered a time span of eleven years from 2001-02 to 2011-12. This research revealed that the liquidity position of ITC is good in comparison to HUL and also showed that ITC is experiencing improved performance and consistent growth in the sector.

Joshi (2017) analysed the financial statements of Colgate Palmolive India Ltd. for the study period of five financial years from (2011-12 to 2015-16) were considered. Data were gathered from the secondary sources and employed common size analysis, time series analysis, comparative analysis and correlation for analysing the data. From the research, it was found that overall performance of the Colgate Palmolive India Limited Company was satisfactory and have a good future prospects & good investment avenues for investors.

Gnaneshwari and Gnanakumar (2021) investigated the trend of Dabur India Ltd. to predict its future plans. They used descriptive analysis and reviewed financial reports like income statement and balance sheet from 2018 to 2020. Data were collected from secondary sources such as National Stock Exchange, Money Control and company's Website. The researchers found that Dabur had a strong liquidity position with current assets exceeding current obligations over three years and gross profit margin of the company have been decreased in the consecutive years like in 2018 it had 37.17 GPM and in 2019 it had decreased to 35.41 and in 2020 there was a slight increase of 35.79 which were considered as a raised in the GPM. Moreover, the researchers concluded that these improving trends indicated positive growth and increased investor interest.

Kumar et.al (2024) analysed the effect of liquidity on profitability of selected automobile companies in India over the period from April 2010 to March 2022. For analysing the data, researchers were employed descriptive statistics, panel unit root test, correlation matrix, Hausman test, Breusch-Pagan test. The researchers found that impact of liquidity on profitability was insignificant during the study time period and all the econometric tests showed that dependent variables were not relevantly affected by explanatory variables.

Chellasamy and Ponsabariraj (2013) analysed profitability performance and trend analysis of top 10 retail companies in India were taken on basis of highest sales turnover from 2002- 03 to 2011-12, a ten-year study period. The Researchers found that profitability performance of few selected companies was not satisfactory may be due to low cost of production, increasing bad debts etc. during the study time period, but Archies India Ltd., Heritage Foods Ltd., Provogue Retail Ltd. and Shoppers Stop Retail Ltd. enhanced their profitability performance and created a good image in the retail industry.

Das (2022) examined the profitability and financial performance of selected seven FMCG companies listed on BSE and NSE for a study period of 15 years from 2004 to 2018. For analysing the data, researcher have employed these ratios (EPS, DPS, ROCE, RONW and DPR) and applied Mann-Kendall test to test the trend of selected profitability ratios. The researcher found that there was upward trend in the profitability ratios and the performance of ITC, Nestle and HUL were better as compared to other selected FMCG companies in the present study. Therefore, investors may choose to invest their funds into these companies, considering the impact of Covid-19 pandemic.

3. RESEARCH METHODOLOGY
3.1 Research Objectives: -
- To analyse changes in the profit trend of selected FMCG companies in India.
- To investigate how different profitability indicators are related to each other.

3.2 Data and Sample Size: -
Top 5 FMCG companies are taken for the present study on the bases of their market capitalisation and data availability on BSE as of 2018-2019 to 2023- 2024 from the website of www.moneycontrol.com, www.bseindia.com, journals & company annual reports. This study aims is to assess the profitability of the top five FMCG companies in India, using annual data from 2018 to 2024". In the present study four profitability ratios were used N.P, O.P, ROA and ROCE for analysing the profitability performance of selected 5 FMCG companies.

3.3 Top 5 FMCG Companies: -

1. HUL (5, 48,243.44 cr.)
2. Nestle India (2, 11,593.89 cr.)
3. Varun Beverages (1, 80,793.82 cr.)
4. Britannia (1, 18,793.82 cr.)
5. Godrej Consumer (1, 09,784.16 cr.)

3.4 Study Time Period: -

The study employed six-Year data during the period from 2018-2019 to 2023- 2024.

3.5 Statistics Tools & Techniques: -

The following statistical tools are used for the data analysis-
• Ratio Analysis
• Descriptive Statistics
• Trend Analysis
• Pearson Correlation Coefficient Analysis

## 4. DATA ANALYSIS AND INTERPRETATION
4.1 Ratio Analysis

Table 1

Particular	2019	2020	2021	2022	2023	2024
N.P ratio	0.14220	0.13046	0.13905	0.13624	0.14503	0.10929
O.P ratio	0.20617	0.21046	0.21787	0.20675	0.21122	0.22183
R.O.C.E	0.588	0.646	0.542	0.5	0.55	0.576
R.O.A	0.20146	0.18393	0.16073	0.16761	0.19129	0.13721

Table 1 represents the ratio analysis which shows that overall profitability for the six years is decreasing, as indicated by decreasing in N.P and ROA. In 2019 N.P is higher but gradually declined by 2024. ROA was 0.20146 in 2019 but fell to 0.13721 in 2024 may be due to inefficiencies in asset utilization or over investment. The decline in ROCE suggests that selected FMCG companies may need to focus on better utilisation of their capital and assets to maintain strong financial health in the coming years.

4.2 Trend Line of Net Profit Ratio

Chart No.1
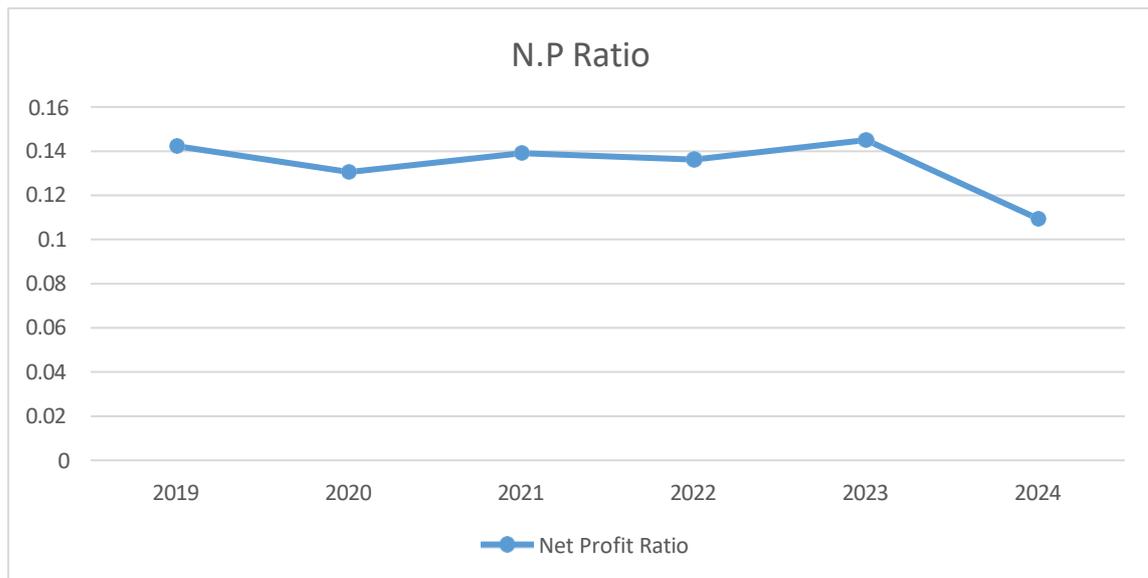
N.P Ratio

The above chart no.1 represents the trend line for the N.P ratio indicates that companies experienced fluctuating profitability over the last 6 years. The highest N.P ratio in 2023 (0.14503) may be a good indicator of the company's best performance in this year, could be due to improved operations or favourable market conditions. The decrease in N.P ratio in 2024 (0.109291) should be a red flag this may be due to rising costs, decreasing revenue or new competitive pressure.

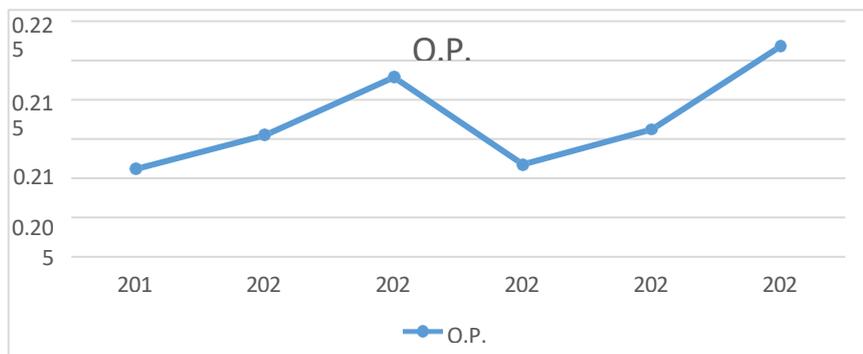## 4.3 Trend Line of Operating Ratio

Chart No.2

O.P.

Chart No.2 represents the trend Analysis of operating ratio for the 5 FMCG Companies over 6 years shows that O.P ratio rises from 2019 (0.206177) to 2024 (0.221834) shows an increasing trend over the 6 years which indicates that companies operating expenses are increasing in proportion to their sales and to increase profitability companies need to investigate cost reduction strategies or focus on rising sales more quickly than their operating costs.
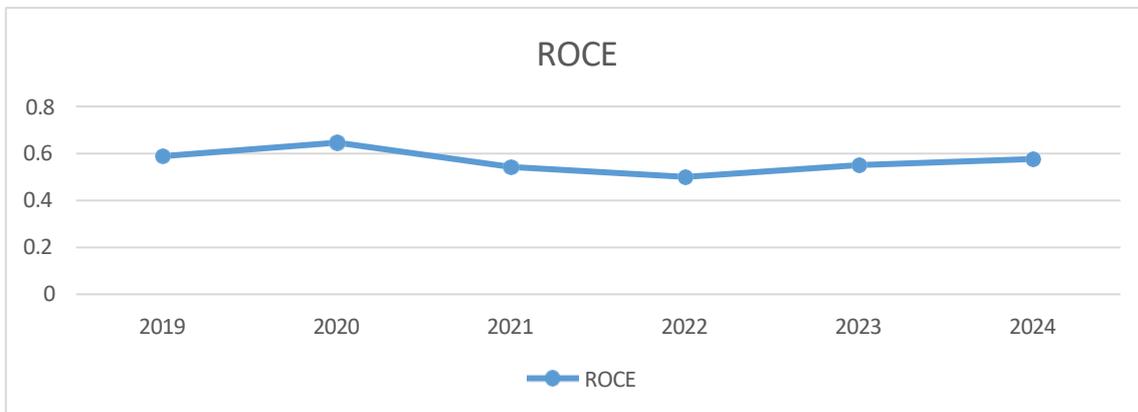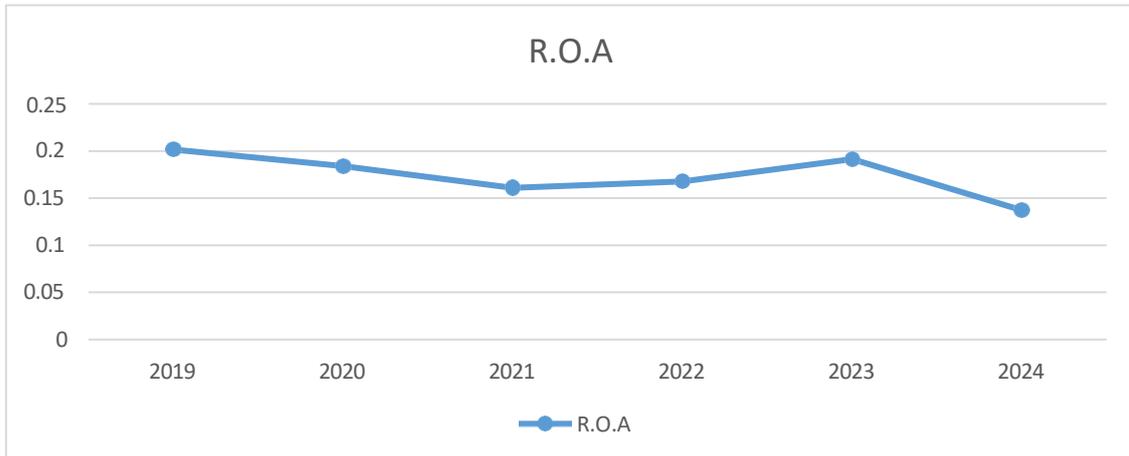
4.4 Trend Line of ROCE

Chart No.3

Chart No.3 represents the trend analysis of ROCE ratio for 5 FMCG companies over the 6 years shows fluctuations in their financial performance. The ROCE ratio was 0.588 in 2019 and 0.5 in 2022 shows downward trend. In 2024 ROCE improved to 0.576. The highest ROCE was 0.646 in 2020 indicates a strong financial performance in this year shows that companies were effectively using their capital to generate profit. There is a decline in ROCE in 2022 (0.5) which shows inefficiency in capital usage during this period.

4.5 Trend Line of R.O.A

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Chart No.4

From the above chart no.4, we can conclude that ROA ratio has declined from 0.201468 in 2019 to 0.160734 in 2021 which indicates a decreased in the efficiency of companies in using their assets to generate profits over first 3 years because of higher operating costs or changes in market conditions affecting profitability. The small improvement in 2022 and 2023 suggests better assets efficiency or improved profitability. The ROA steep dropped in 2024, lowest in 6 years period due to decline in consumer demand that affected revenue, increased competition or heavy capital investments. Overall ROA ratio shows a downward trend over the 6 years from 2019 to 2024 which indicates that companies are using their resources less efficiently overtime in order to generate profits.

4.6 Pearson Correlation Coefficient Matrix Analysis:

Table 2

Particulars	O.P	N.P	ROA	ROCE
O.P	1	-	-	-
N.P	.393	1	-	-
ROA	.225	.550	1	-
ROCE	.420	.299	.860	1

Table 2 can be interpreted as a correlation matrix that shows how different variables are related to each other using Pearson correlation. Each cell in the correlation matrix represents the relationship strength between two variables with a values ranging from -1 to +1. The Pearson correlation

coefficient of 0.225 indicates a weak positive relationship between O.P and ROA ratio and according to p-value of 0.232 there is no statistically significant correlation. The strongest relationship exists between ROA and ROCE (0.860, p<0.01), indicates that companies with higher ROA ratio tends to have higher ROCE ratio. N.P and ROA (0.550) are positively correlated and statistically significantly at 0.01 level, suggesting that it may be useful in financial performance analysis. Meanwhile, O.P ratio and ROCE (0.420) have a moderate positive relationship which is statistically significant at 0.05 level. The correlation between N.P and ROCE is 0.299 which indicates a weak positive correlation and the p-value is 0.108 which shows that this relationship is not considered statistically significant.

5. RESEARCH LIMITATIONS

i. The study only relies on the financial data from 2018 to 2024, which may not fully capture long term market dynamics and unforeseen future developments.

ii. The analysis is restricted to five selected Fast Moving Consumer Goods companies listed on BSE, so results might not apply to all FMCG companies in India or globally.

iii. This research mainly uses historical data and trend analysis, which may not predict future events accurately, especially in a fast-changing market.

iv. External Factors like economic downturns (recession), new government policies or unexpected global events (like pandemics) are not addressed, which may influence the accuracy of profitability predictions.

v. The use of Pearson Correlation Matrix Analysis only shows the relationships between variables but not the cause-and-effect, so other important factors affecting profitability, might be hidden.

6. POLICY IMPLICATIONS

• Strengthen the FMCG sector growth- FMCG sector is growing quickly and plays an important role in boosting India's economy, government policies should continue supporting this industry with favourable regulations, tax incentives and a business friendly environment.

• Promote Financial Transparency- As the study relies only on company financial data, there should be strict rules ensuring that FMCG companies regularly provide accurate and clear financial data. This would help investors and businesses make better or more informed decisions.

• Encourage Long-Term Profitability- The findings show that FMCG companies need to control costs and grow their sales to stay profitable in long-run. Policies can encourage companies to adopt better resource management, invest in innovations and prioritize long-term financial health rather than just short-term profits.

• Promote Better use of Financial Indicators- ROA and ROCE are strong indicators of profitability, policies could suggest that businesses and investors rely more on these indicators

for evaluating performance.
- Training and Awareness Programs- The government or industry bodies could organise workshops and training programs to help managers and investors about better understand how to use profitability trends and financial metrics properly, helping them make informed and strategic choices.
- Boost Investor Confidence- By improving financial transparency and helping companies build sustainable profits, policies can make the FMCG sector more attractive for both local and foreign investors.

7. CONCLUSION

The present study examines the relationship between associated variables and examines the profitability trend of FMCG companies in India over the study period. This research helps companies to assess their profitability performance which is useful for making long- term strategic plans. It was concluded that the profitability of FMCG companies fluctuated throughout the six-years from 2018-19 to 2023-24, with a peak in 2020 and 2023 but decline in 2024 may be due to high raw material price, increasing operating expenses and inefficient capital utilisation. This suggests that the companies should improve cost control, optimal utilization of resources and focus on sales growth to sustain profitability in long run. The Pearson correlation coefficient Matrix shows that the strongest relationship exists between ROA and ROCE (0.860, p<0.01) indicates that companies with higher ROA tends to have a higher ROCE and making ROA a strong predictor of ROCE. Meanwhile, N.P and ROA (0.550) are positively correlated and statistically significantly at 0.01 level, suggesting that it may be useful in financial performance analysis. The N.P and ROCE (0.299) shows a weak positive correlation between these two variables and a p-value of 0.108 means the correlation is not strong enough to be considered statistically significant.

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