A Study on Evaluating Long Term Solvency of Selected Indian FMCG Companies

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Abstract: ***The main objective of the study is to evaluate the financial health of selected FMCG companies of India. To fulfill the purpose of the study solvency ratios are calculated of selected companies. The study randomly selected three FMCG Companies and the financial data from 2013-14 to 2017-18 were collected from annual reports. Research tools used for the study: Solvency Ratios - NCL-Equity Ratio, NCL-Capital Employed Ratio, Proprietary Ratio, Capital Gearing Ratio, Total Debt to Equity Ratio, RFO to Total Assets Ratio. From the data analysis it was found that in comparison all companies the ITC company maintained the strong position. It was also found that during investigation the revenue from operation-total assets ratio is strongly maintained by the HUL and COLGATE companies.***

Keywords: Evaluation, Financial, Position, Solvency, FMCG

1. Introduction

The solvency ratio is a key metric used to measure an enterprise's ability to meet its debt obligations and is used often by prospective business lenders. The solvency ratio indicates whether a company's cash flow is sufficient to meet its short-and long-term liabilities. The lower a company's solvency ratio, the greater the probability that it will default on its debt obligations.The solvency ratio is one of many metrics used to determine whether a company can stay solvent. Other solvency ratios include debt-to-equity, total-debt-to-total-assets, and interest coverage ratios. The solvency ratio is a comprehensive measure of solvency, as it measures a firm's actual cash flow—rather than net income—by adding back depreciation and other non-cash expenses to assess the company's capacity to stay afloat. It measures this cash flow capacity in relation to all liabilities, rather than only short-term debt. This way, the solvency ratio assesses a company's long-term health by evaluating its repayment ability for its long-term debt and the interest on that debt. The composition of capital of business and the proportion of owners ' capital and capital provided by outsiders are reflected by solvency /leveraged ratios. They are,

Debt to Equity Ratio: The debt to equity ratio measures the relationship between long-term debt of a firm and its total equity.

Formula: Long term debt /Shareholders funds

Where: Long Term Debt = Debentures + Long Term Loans, Shareholder funds = Equity Share Capital + Preference Share Capital + Reserves – Fictitious Assets

Proprietary Ratio: This ratio show the proportion of proprietary' funds or owners' funds or Shareholders funds in total assets.

Formula: Shareholders funds/ Total real assets

Interest coverage ratio: Interest coverage ratio show how many times interest amount can be covered from the profit .It show company's safe position for interest payment.

Formula: Profit before interest and tax / Interest

Capital Gearing Ratio: This ratio show the proportion of fixed charges bearing securities with the flexible charges bearing securities.

Formula: Fixed interest bearing securities /Equity share capital

2. Literature Review

Paswani (2013) "Analysis of Solvency of Selected FMCG Companies in India", he found that ITC, Emami, Dabur, and Colgate has been able to repay its debt during the study period. DTR of Nestle and Colgate show the efficiency of debt management Debt to Total Asset Ratio of Emami and Dabur shows that more asset of the co. is financed through debt.

Aartigargii (2015), "Profitability Analysis of FMCG Sector", the study was based on the objective, to analyse the comparative profitability of companies selected through ratio analysis and ANOVA and also to reveal that profitability of Dabur, Colgate Palmolive, and Marico was satisfactory in some aspects and of Britannia and Godrej not satisfactory in certain aspects. Therefore the companies should put more effort to strive for improved productivity and optimal utilization of available resources. Profitability in long run contributes to sustained growth of the company.

3. Research Methodology

Objective of the study is to analyse the solvency position of selected FMCG companies.To analyse the solvency position of selected companies the study randomly three FMCG Companies are selected and the financial data from 2013-14 to 2017-18 were collected from annual reports.

Research tools used for the study: Solvency Ratios - NCL-Equity Ratio, NCL-Capital Employed Ratio, Proprietary Ratio, Capital Gearing Ratio, Total Debt to Equity Ratio, RFO to Total Assets Ratio

Significance of the study

- This study gives better understanding liquidity and solvency
- This study helpful to investors and other stakeholder's to take investment decision.

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4. Inter Company Analysis of Solvency Position

4.1 Proprietary Ratio

Table 4: Table showing proprietary ratio

Years & Statistics	Companies		
	HUL	ITC	Colgate
2013-14	25%	67%	40%
2014-15	36%	70%	45%
2015-16	26%	66%	52%
2016-17	44%	84%	55%
2017-18	41%	82%	59%
Mean	34%	74%	50%
SD	9%	8%	8%
CV	401%	868%	659%

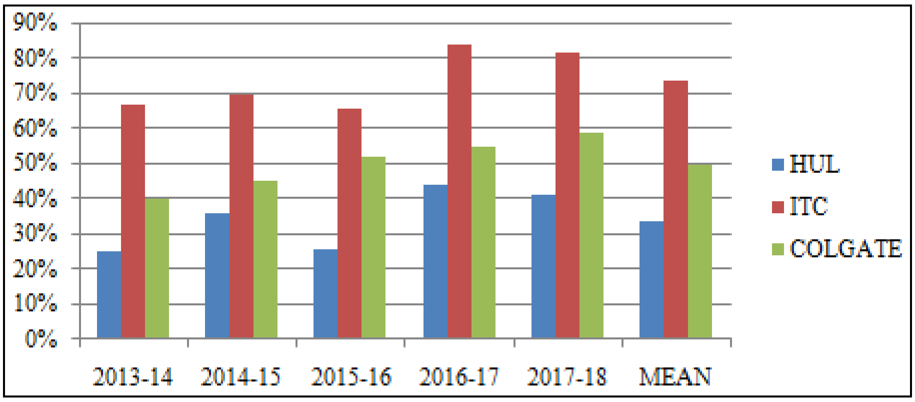

Chart 4: Chart showing comparison of proprietary ratio

Analysis & Implementation

The above table presents the comparison of Proprietary ratio between HUL, ITC and Colgate for 5 years which starting from April 2013 to March 2018. The above table also represents that Proprietary ratio of HUL is highest in the year 2016-17 and lowest in the year 2015-16. On an average for last five years the Proprietary ratio of HUL is 34% which indicates that the company is already heavily depending on debts for its operations. The above table also represents that Proprietary ratio of ITC is highest in the year 2016-17 and lowest in the year 2015-16. On an average for last five years the Proprietary ratio of ITC is 74% which indicates that the strong financial position of the company and greater security for creditors. The above table also represents that Proprietary ratio of COLGATE is highest in the year 2017-18 and lowest in the year 2013-14. On an average for last five years the Proprietary ratio of COLGATE is 50% which indicates that the strong financial position of the company and greater security for creditors.

Remarks: From the above table and charts it is observed that the ITC Company also has maintained Proprietary ratio ideally as per industry which shows the strong financial position of the company and greater security for creditors.

4.2 Capital Gearing Ratio

Table 5: Table showing capital gearing ratio

Years & Statistics	Companies		
	HUL	ITC	Colgate
2013-14	0.34	0.06	0.04
2014-15	0.30	0.06	0.08
2015-16	0.36	0.06	0.09
2016-17	0.16	0.05	0.04
2017-18	0.20	0.04	0.04
Mean	0.27	0.05	0.06
SD	0.09	0.01	0.02
CV	3.14	6.16	2.40

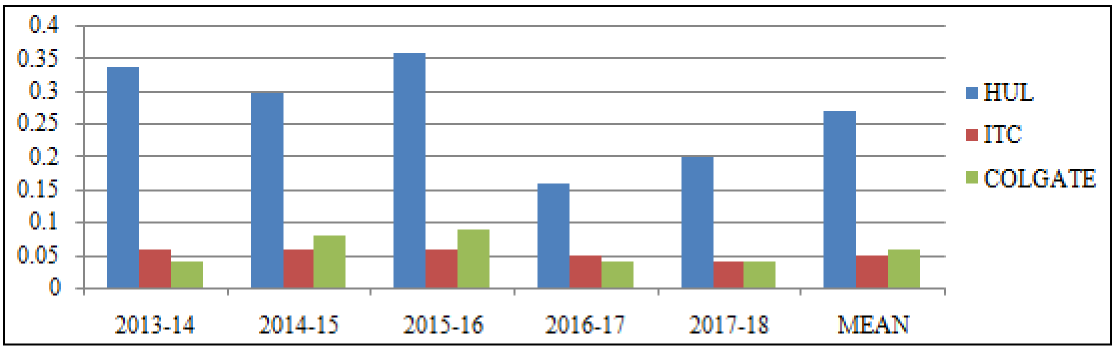

Chart 5: Chart showing comparison of capital gearing ratio

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Analysis & Implementation

The above table presents the comparison of Capital Gearing ratio between HUL, ITC and Colgate for 5 years which starting from April 2013 to March 2018. The above table also represents that Capital Gearing ratio of HUL is highest in the year 2015-16 and lowest in the year 2016-17. On an average for last five years the Capital Gearing ratio of HUL is 0.27 which indicates that the medium geared position of the company, it means the company geared ratio is good. The above table also represents that Capital Gearing ratio of ITC is highest in the year 2013-14 and lowest in the year 2017-18. On an average for last five years the Capital Gearing ratio of ITC is 0.05 which indicates that the low geared position of the company. The above table also represents that Proprietary ratio of COLGATE is highest in the year 2015-16 and lowest in the year 2016-17. On an average for last five years the Capital Gearing ratio of COLGATE is 0.06 which also indicates that the low geared position of the company.

Remarks: From the above table and charts it is observed that the HUL company has maintained Capital Gearing ratio. Highly geared means lower proportion of equity. Low geared means high proportion of equity as compare to fixed cost bearing companies.

4.3 Total Debt – Equity Ratio

Table 6: Table showing total debt to equity ratio

Years & Statistics	Companies		
	HUL	ITC	Colgate
2013-14	2.97	0.51	1.48
2014-15	2.66	0.44	1.21
2015-16	2.84	0.50	0.91
2016-17	1.27	0.20	0.82
2017-18	1.42	0.21	0.68
Mean	2.23	0.37	1.02
SD	0.82	0.16	0.32
CV	2.73	2.40	3.17

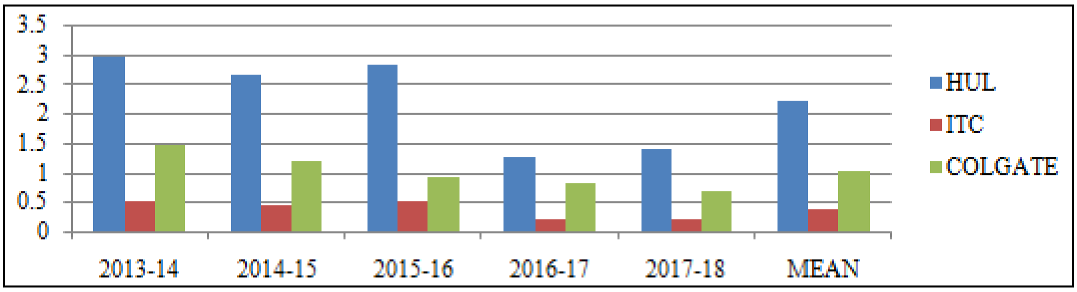

Chart 6: Chart showing comparison of total debt to equity ratio

Analysis & Implementation: The above table presents the comparison of Debt equity ratio between HUL, ITC and Colgate for 5 years which starting from April 2013 to March 2018. The above table also represents that Debt equity ratio of HUL is highest in the year 2013-14 and lowest in the year 2016-17. On an average for last five years the Capital Gearing ratio of HUL is 2.23 which indicates that the portion of assets provided by creditors is greater than the portion of assets provided by stockholders. The above table also represents that Debt equity ratio of ITC is highest in the year 2013-14 and lowest in the year 2017-18. On an average for last five years the Debt equity ratio of ITC is o.37 which indicates that the portion of assets provided by stockholders is greater than portion of assets provided by the creditors. The above table also represents that Debt equity ratio of COLGATE is highest in the year 2013-14 and lowest in the year 2017-18. On an average for last five years the Debt equity ratio of COLGATE is 1.02 which indicates that the satisfactory ratio to company.

Remarks: From the above table and charts it is observed that the Debt equity ratio has maintained by ITC company. A ratio of 1:1 is normally considered satisfactory for most of the companies.

4.4 Revenue from Operations – Total Assets Ratio

Table 7: Table showing revenue from operation – total assets ratio

Years & Statistics	Companies		
	HUL	ITC	Colgate
2013-14	2.16	0.85	2.40
2014-15	2.26	0.83	2.34
2015-16	2.26	0.74	2.14
2016-17	2.34	1.02	1.95
2017-18	2.05	0.71	1.69
Mean	2.21	0.83	2.10
SD	0.11	0.12	0.29
CV	20.10	6.83	7.16

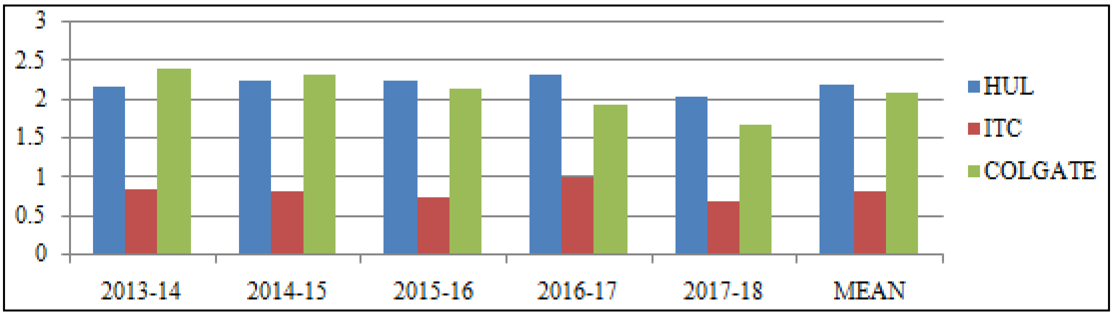

Chart 7: Chart showing comparison of revenue from operation – total assets ratio

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Analysis & Implementation: The above table presents the comparison of Revenue from operations-total assets ratio between HUL, ITC and Colgate for 5 years which starting from April 2013 to March 2018. The above table also represents that Revenue from operations –total assets ratio of HUL is highest in the year 2016-17 and lowest in the year 2017-18. On an average for last five years the Revenue from operations-total assets ratio of HUL is 2.21 which indicates that the good Revenue from operations ratio-total assets for the company. The above table also represents that Revenue from operations-total assets ratio of ITC is highest in the year 2016-17 and lowest in the year 2017-18. On an average for last five years the revenue from operations-total assets ratio of ITC is 0.83 which indicates that the low ratio portion of the company. The above table also represents that Revenue from operations-total assets ratio of COLGATE is highest in the year 2013-14 and lowest in the year 2017-18. On an average for last five years the Capital Gearing ratio of COLGATE is 2.10 which indicates that the higher ratio favourable ratio for the company.

Remarks: From the above table and charts it is observed that the HUL and COLGATE company has maintained Revenue from operations – total assets ratio because there is an implication that the company is efficient in generating sales or revenue.

5. Major Findings and Conclusion

Proprietary Ratio: ITC Company also has maintained Proprietary ratio ideally as per industry which shows the strong financial position of the company and greater security for creditors. After analyzed this ratio it was found that in comparison all companies the ITC company maintained the strong position.

Capital Gearing Ratio: HUL company has maintained Capital Gearing ratio. Highly geared means lower proportion of equity. Low geared means high proportion of equity as compare to fixed cost bearing companies.During the analysis this ratio it was found that the HUL company had the low geared portion which are good sign for the company.

Debt equity Ratio: The Debt equity ratio has maintained by ITC company. A ratio of 1:1 is normally considered satisfactory for most of the companies.From the above table and charts it is observed that the Debt equity ratio has maintained by ITC company. A ratio of 1:1 is normally considered satisfactory for most of the companies.

Revenue from operations: HUL and COLGATE company has maintained Revenue from operations – total assets ratio because there is an implication that the company is efficient in generating sales or revenue.During investigation the revenue from operation-total assets ratio is maintained by the HUL and COLGATE companies.

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