Chapter 17

Financial Performance of Selected FMCG Companies in India during Post-Reform Era: A Comprehensive Analysis

Kaushik Chakraborty  
Netaji Mahavidyalaya, India

Subhasis Sarkar  
University of Burdwan, India

ABSTRACT

The FMCG sector with a market share of $13.1 billion has presently proved itself as the fourth largest sector in the Indian economy. In fact, rural India with more than 70 percent share of the total Indian population has emerged as the most significant FMCG market. During the last two decades, deregulation, globalization, and liberalization measures adopted by the central government have made a paradigm change in the FMCG sector. Both the foreign direct and portfolio investments in Indian FMCG sector in the post-reform period have notably influenced the financial performance of the companies belonging to this sector. Moreover, increasing presence of MNCs in the Indian market has forced the existing domestic companies in the FMCG sector to reorient their financial strategies in order to survive. A large number of studies have been carried out to evaluate individually the different aspects of the financial performance of the FMCG companies in India. However, no comprehensive study for measuring the overall financial performance of the Indian FMCG sector by taking into account the financial data of the last two decades has been made. This chapter seeks to analyze the overall financial performance of 16 selected companies in the Indian FMCG sector during the period 1993-94 to 2012-13. The companies have been selected from “India’s Most Respected Companies” as published by Business World, New Delhi, February 14, 2011 (Vol. 30, Issue 39) by following purposive sampling procedure. Relevant statistical techniques and tests have been used in carrying out the analysis.

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I. INTRODUCTION

Products which have a quick turnover and relatively low cost are called Fast Moving Consumer Goods (FMCG). Examples of FMCG include large number of frequently used consumer products such as toiletries, tooth clearing products, soap, cosmetics, shaving products, detergents, as well as, other non-durables such as glass ware, bulbs, batteries, paper products and plastic goods. Besides this, FMCG also include pharmaceuticals, packaged food products, consumer electronics, soft drinks, chocolate bars and tissue paper etc.

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A large number of studies have been carried out to evaluate individually the different aspects of the financial performance of the FMCG companies in India. However, no comprehensive study for measuring the overall financial performance of the Indian FMCG sector by taking into account the financial data of the last two decades has been made. In this backdrop, the present study seeks to analyze the overall financial performance of 16 selected companies in the Indian FMCG sector during the period 1993-94 to 2012-13.

The reminder of this paper is organized as follows. Section II reviews the existing literature relating to the financial performance of Indian FMCG sector. Section III narrates the objectives of the study. In Section IV the methodology adopted in the study is explained. Section V presents the findings of the study. In Section VI concluding remarks are given.

II. REVIEW OF LITERATURE

Before stepping into the empirical study, a quick look through the existing literature on the financial performance of FMCG companies seems desirable. The following paragraphs provide very brief explanation of some significant studies so far carried out in India on the issue.

Mallik and Sur (1999) undertook a study on working capital management of Hindustan Lever Ltd – a well-known FMCG company during the period from 1987 to 1996. With the help of relevant statistical techniques and tests the study showed a very high degree of positive relationship between liquidity and profitability.

Sur, D., Chakraborty, K. and Das, S. (2007) made a case study of Colgate-Palmolive (India) Ltd. – a leading FMCG company in the Indian healthcare industry for the period from 1980 to 2003-04 to analyze the efficiency of its asset management. For analyzing the data, the technique of ratio analysis, simple statistical tools like arithmetic mean and statistical techniques like analysis of Kendall’s coefficient of concordance, multiple regression analysis and multiple correlation analysis were used. The t- test, F test and Chi-Square tests were applied at appropriate places. The study revealed that the company failed to adapt itself to the challenging and competitive environment by lowering efficiency of its asset management during the post-liberalization era.

Reddy, G.S. (2010) studied the impact of dividends announcement on stock price of the selected FMCG companies. With the use of convenience sampling, the researcher selected four companies such as ITC Ltd, Godrej Consumer Products Ltd., Procter & Gamble and HUL. The data required
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