An Analysis of Financial Performance of Food Retail Companies in India

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ABSTRACT

The food retail industry is represented as a sunrise industry in the world because of its large potential for growth and socio-economic impact. Because of the critical linkages and synergies, it fosters between the two pillars of our economy, industry, and agriculture, the food retail industry is extremely important to India’s development. Britannia Industries Limited, Heritage Foods Limited, Kwality Industries Limited, KRBL Industries Limited, ITC Limited, and PepsiCo India Holdings Pvt. Ltd was chosen for the study based on financial ratio analysis. From 2015 to 2019, the research was conducted across five years. Britannia Industries Limited, KRBL, and Kwality Industries’ current ratios are 1.94, 1.86, and 1.51, respectively, approaching 2:1. It shows that all three companies have sufficient current assets to cover their current liabilities. ITC’s current ratio is 3.64, indicating that the company is more liquid, which could affect profitability in the long run. The quick ratios of Kwality Industries and Britannia Industries are both good at 1.08 and 0.61, respectively. These two companies have adequate liquidity to meet their short-term obligations. ITC, Britannia, and PepsiCo have debt-to-equity ratios of 0.002, 0.07, and 0.02, correspondingly. It implies that their primary source of funding is from their own money rather than loan capital, which causes an increase in the cost of capital and, in turn, affects their profitability in the long run.

Key Words: Debt; Liquidity position; Financial Health; Profitability and Leverage

India’s retail sector is growing to become one of the largest in the country, as well as one of the top five retail marketplaces in the world in terms of economic value. India has surpassed China as one of the most advantageous markets for retail expansion. Thus, the market is bolstered in India by a booming economy, rising consumption rates, a growing urban population, and a growing middle class. With the introduction of supermarkets and the rapid expansion of the regulated retail sector in India across various sections of the country, food retailing in India is undergoing a constant transformation. India has evolved as one of the world’s most appealing retailing markets, owing to its second-largest population and the expanding makeup of the Middle-Income group. This upward tendency is anticipated to continue, with researchers projecting a population increase of 475 million by 2030. Despite the fact that the authorized retail sector has made significant progress in India’s food retailing industry over the previous few decades, traditional retailers and unorganized merchants continue to dominate the industry. Traditional retailers, which account for more than 80% of overall sales in India’s market and small grocery stores, continue to dominate the food retailing industry.

Researchers and economists have acknowledged the importance of profit analysis in the Food Retail Sector for examining and improving the sector’s financial performance. Ashok Kumar (2013) examined the liquidity condition of five large corporations over a ten-year period. His research revealed that small businesses’ liquidity levels are far stronger and more stable than larger businesses’. Finally, optimum financial ratios, such as current and liquidity ratios, should be maintained by businesses. Saravanan and Aparna did a study on the liquidity analysis of selected Indian companies and discovered that the absolute liquid ratios of the organizations studied differ significantly.

MATERIALS AND METHODS

This Journal is based on the standalone financial statements of the firms, and the data is extracted from the website prowess.com. Six Food-Retail firms i.e., Britannia Industries Limited, Heritage Foods LTD, Kwality Industries Limited, KRBL Industries Limited, ITC Limited, and PepsiCo India Holdings.
Pvt. Ltd. were listed on the national stock exchange were purposely selected. The analysis was done for a span of 5 years i.e., 2015 to 2019. For analyzing the financial scenarios of the firms, quantitative ratio analysis is employed as the yardstick. Empirical formulae were applied for calculating the financial ratios of selected food retailing firms as followed by preceding researchers.

For estimating the financial position and performance of the firm, the analysts look for reliable–Yardsticks. The standards typically used were ratio or Index. The understanding of quantitative Ratio analysis offers a superior relative financial situation and performance of the selected food retailing companies over 5 financial years i.e., (2015-2019). The financial ratios enclosed in this paper were selected based on their financial performance.

The quantitative ratios represented here are the liquidity ratio and leverage ratios. i.e., current ratio, quick ratio, and debt to equity, respectively, for the financial analysis of the above-mentioned companies.

Liquidity ratio: It calculates the firm’s capacity as well as its ability to meet short-term obligations. i.e., the company is able to pay its current liabilities when they become due. As a result, these ratios show a company’s short-term financial stability.

Current Ratio: The current ratio assesses a company’s short-term financial health. It establishes the relationship between current assets and liabilities. The current ratio can be determined using the formulae below.

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\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}
\]

Quick ratio /Acid test ratio: It’s a useful tool for measuring a company’s liquidity condition, and it’s also employed as a complement to the current ratio. It establishes the relationship between current liabilities and liquid assets. By dividing current assets by current liabilities, a current ratio can be calculated.

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\text{Acid test ratio} = \frac{\text{Current assets-inventory}}{\text{Current liabilities}}
\]

Leverage ratio: The financial leverage or capital provided by owners and lenders is used to assess the company’s current debt-paying abilities as well as its long-term financial strength. As a general rule, the obligations and owner’s equity must be precisely balanced. Profit and loss items are used to compute leverage ratios by calculating the extent to which operating profits are sufficient to cover fixed charges.

Debt equity ratio: The debt equity ratio considers the proportional claims of outside lenders (lenders) and purchasers (interest) on a company’s assets. As a result, this ratio depicts the proportional shares of debt and equity in the firm’s asset financing. Outsider funds (debt) are divided by shareholder funds to calculate it (equity).

RESULTS AND DISCUSSIONS

A good current ratio of 1 to 2 means the company has two times more current assets than liabilities to pay its debt obligations. A current ratio of less than one indicates that the company does not have enough liquid assets to cover its short-term obligations.

The quick ratio is a more conservative measurement than the current ratio, which uses all current assets to cover current liabilities. The higher a company’s current ratio, the better its liquidity and financial health. The lower the debt-to-equity ratio, the more probable the company may have difficulty repaying its loans.

The debt-to-equity ratio reveals a nonlinear relationship. The debt-to-equity ratio should be between 1 and 1.5. However, because some companies rely more on debt financing than others, the normal debt to equity ratio will vary based on the firm’s production.

The debt-to-equity ratio of an enduring-perpetual corporation is usually lower. In this paper, we’ve taken into account the current ratio, quick ratio, and debt to equity for a select organisation, which are given below, for the fiscal years 2015 to 2019. These ratios can be used to assess a company’s financial stability and growth. The following is a list of firms for which the above ratios are detailed from 2015 to 2019.

Financial Performance of Britannia

The financial particulars from 2015 to 2019 were obtained from the balance sheet and profit loss account of Britannia Industries Limited. From the information, the current ratio, quick ratio, and debt-equity ratio were calculated and the results are presented in Fig 1.
It is inferred from the above figure that the average current ratio is 0.90 and the quick ratio obtained was 0.30. A current ratio equal to or near the rule of 2:1, i.e. current assets double the current liabilities considered satisfactory. The thumb rule for the quick ratio is 1:1.

It shows that Heritage has a very low current ratio and a quick ratio. It results that there is not enough liquidity to pay for its short-term obligations in the short run. The company may reduce its current liabilities or can increase its current assets to bring its current ratio equal to or near to 2:1 and also should bring up its quick ratio near to 1:1.

The overall debt-equity ratio was found to be 0.52, indicating that the company depends more on its shareholder’s fund than the outsider’s fund. To reduce the company’s cost of capital, it has to depend more on debt capital than equity capital, to leverage the company in the long run.

Financial Performance of Heritage Foods

The given financial particulars from 2015 to 2019 were obtained from the balance sheet and profit loss account of Heritage Foods Ltd. From the information the current ratio, quick ratio, and debt-equity ratio was calculated and results are presented in Fig 2.

Financial Performance of Kwality Industries

The given financial particulars from 2015 to 2019 were obtained from the balance sheet and profit loss account of Kwality Industries Limited. From the information, the current ratio, quick ratio, and debt-equity ratio were calculated and the results are presented in Fig. 3.

Fig 3. Financial performance of Kwality Industries Limited from 2015 to 2019
It is inferred from the above fig. that the current ratio is 1.51 and the quick ratio obtained was 1.08 respectively. For Kwality the current ratio which is almost nearing to 2:1. It indicates that the company is having enough current assets to pay for its current liabilities. Kwality industries are maintaining a good quick ratio of 1.08. This shows that the company has good liquidity to pay for its short-term obligations.

The overall debt-equity ratio was found to be 1.61 concluding that Kwality industries depend more on debt capital rather than the owner’s fund. Though debt capital leverages the firm, the dependence of more on debt capital may affect the investment in fixed assets.

Financial Performance of KRBL

The given information of financial particulars from 2015 to 2019 were obtained from the balance sheet and profit loss account of KRBL Industries Limited. From the information, the current ratio, quick ratio, and debt-equity ratio were calculated and the results are presented in fig. 4.

It could be inferred from the figure that the current ratio is 1.86 and the quick ratio obtained was 0.24 respectively. For KRBL the current ratio is nearer to 2:1. It indicates that the company has satisfactory current assets to pay for its current liabilities.

KRBL industry is having a satisfactory current ratio but the quick ratio is very poor. It shows that KRBL maintains more inventory which is reflected in the current ratio and quick ratio. The overall debt-equity ratio was found to be 0.69 which indicates that the company depends more on its shareholder’s fund rather than the outsider’s fund. To reduce the cost of capital of the company, it has to depend more on debt capital rather than equity capital, so that it will leverage the company in the long-run.

Financial Performance of ITC

The given information of financial particulars from 2015 to 2019 was obtained from the balance sheet and profit loss account of ITC LTD Industries Limited. From the information the current ratio, quick ratio, and debt-equity ratio were calculated and the results are presented in fig. 5.
It is inferred from the above chart that the current ratio is 3.64 and the quick ratio obtained was 2.04 respectively. The Current ratio of ITC 3.64 shows that the company is more liquid and may affect its profitability in the long run. ITC can invest a portion of current assets in long-term investments. The quick ratio 2.04 shows that the company is strong enough to pay its short-term obligations. ITC is maintaining a high current ratio as well as a quick ratio.

ITC is having a very low debt-equity ratio of 0.002. It indicates that their major source of funds is from owners' funds rather than debt capital, which leads to an increase in the cost of capital, affecting their profitability in the long run.

**Financial Performance of PEPSICO INDIA**

The given information of financial particulars from 2015 to 2019 were obtained from the balance sheet and profit loss account of PepsiCo India Holdings Pvt. Limited. The current, quick, and debt-equity ratios were calculated from the information, and the results are presented in Fig 6.

It is inferred from the above figure that the average current ratio is 0.88 and the quick ratio obtained was 0.31. A current ratio equal to or near to the rule of thumb of 2:1, i.e. current assets double the current liabilities considered to be satisfactory. The thumb rule for the quick ratio is 1:1. It shows that PepsiCo India Holdings Pvt. Ltd. has a very low current ratio and a quick ratio.

The results indicated that PepsiCo is not having enough liquidity to pay for its short-term obligations in the short run. Hence it is suggested that the company may reduce its current liabilities or can increase its current assets to bring its current ratio equal to or near to 2:1 and also should bring up its quick ratio near to 1:1.

The overall debt-equity ratio was found to be 0.20 which indicates that the company depends more on its shareholder's fund rather than the outsider's fund. To reduce the cost of capital of the company, it has to depend more on debt capital rather than equity capital, so that it will leverage the company in the long-run.

**DATA ANALYSIS AND INTERPRETATION**

The financial information regarding current assets, current liabilities, quick assets, outsiders fund, and owner’s funds were collected from the financial statements and a ratio analysis was performed to analyze the financial performance. The results are presented in the bar chart below.
It is inferred from the above figure that the current ratio of Britannia Industries Limited, KRBL, and Kwality industries are 1.94, 1.86, and 1.51, respectively, which is almost nearing 2:1. It indicates that all three companies are having enough current assets to pay for their current liabilities. The Current ratio of ITC is 3.64 which shows that the company is more liquid and may affect its profitability in the long run. Hence it is suggested to invest a portion of current in long-term investments. The current ratio of Pepsi Co and Heritage foods is less than one, hence it needs to reduce its current liabilities or have to increase its current assets.

Kwality industries and Britannia industries are maintaining a good quick ratio of 1.08 and 0.61 respectively. It indicates that these two companies are having enough liquidity to pay for their short-term obligations. Though the KRBL industry is having a satisfactory current ratio, they don’t fulfill the requirement of a quick ratio. It shows that KRBL maintains more inventory in current assets rather than in other current assets. Hence, it is suggested to reduce its inventory and also increase other current assets in such a way that it should not affects its current ratio but it will increase its quick ratio. ITC is maintaining a high current ratio and also a quick ratio too. In long run it may end up with bad debts and affecting its profitability.

The current ratio of Britannia Industries Limited, KRBL, and Kwality industries are 1.94, 1.86, and 1.51 respectively, which is almost nearing 2:1. It indicates that all three companies are having enough current assets to pay for their current liabilities. The current ratio of ITC is 3.64 which shows that the company is more liquid and may affect their profitability in the long run. Kwality industries and Britannia industries are maintaining a good quick ratio of 1.08 and 0.61, respectively.

CONCLUSION
The food Retail sector is the most emerging sector in India and has a positive growth in the coming few years because regulation and guidelines of the FSSAI have given the sector boost to trade more effectively. Ratio Analysis is one of the techniques of financial analysis where ratios are used as a yardstick for evaluating financial condition and a firm’s performance. It also measures and indicates the efficiency of an enterprise in all aspects. The study of Ratio analysis found that maintaining ideal ratios in a big organization is a very big task. Specific challenging things in maintaining Ratio analysis are maintaining the credit plan, and inventory supervision system. It recommended that the importance of ratio analysis depends on the stakeholder’s specific needs and situational requirements.

The financial performance of the Britannia and Kwality industry’s current ratio is nearing 2:1 and also maintaining a good quick ratio. It indicates that they are having enough pay for their current liabilities and enough liquidity to pay for their short-term obligations. KRBL industry has a satisfactory current ratio but is unable to maintain the quick ratio. It is suggested to reduce its inventory so that no effect on the current ratio but an increase in the quick ratio. ITC maintains a high current ratio and also a quick ratio too. In long run it may end up with poor debts and affecting its profitability. Pepsi Co and Heritage foods’ current ratio is <1. They need to reduce its current liabilities or have to increase their current assets. Kwality industries are more dependent on debt capital which affects on the investment on fixed assets. ITC, Britannia, and PepsiCo have very low debt-equity ratios, which affects profitability in the long run.

Funding and Acknowledgment
The authors acknowledge facilities provided by the Department of Agricultural and Rural Management and School of Post Graduate Studies to carry out the research.
Ethics statement

No specific permits were required for the described field studies because no animal subjects were involved in this research.

Originality and plagiarism

This is original research work and/or words for others, has been appropriately cited.

Consent for publication

All the authors agreed to publish the content.

Competing interests

There were no conflict of interest in the publication of this content.

Data availability

All the data of this manuscript are included in the MS. No separate external data source is required. If anything is required from the MS, certainly, this will be extended by communicating with the corresponding author through corresponding official mail; pbalaji@tnau.ac.in.

REFERENCES


