

A Comparative Financial Study: Evidence from Selected Indian Retail Companies

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Abstract

Fast Moving Consumer Goods (FMCG) industry plays an important role in economic development of a country. The FMCG system of India is featured by a large group of FMCG companies, serving many kinds of consumer and durables goods for the people. The Hindustan Unilever Ltd. popularly known as HUL or erstwhile as HLL is one of the leading FMCG Company in India. Hindustan Unilever Limited (HUL) is India's largest fast moving consumer goods company with a heritage of over 80 years in India and touches the lives of two out of three Indians. Apart from HUL we have taken V2 Retail erstwhile known as Vishal Retail, Shoppers Stop, which is leading stores providing goods in fashion and cosmetics verticals and Pantaloons Fashion & Retail one of the biggest rival of Shoppers stop and V2 retail in the business. The objective of this research is to measure the financial and accounting performance of Indian leading IT companies for the period of 2009 to 2013. Financial statements and income statements of HUL, Vishal retail, Shoppers stop, and Pantaloons fashion & retail have been taken from database i.e. CMIE, Prowess, and Money Control and Yahoo Finance. Required information derived from these financial statements were summarized and used to compute financial ratios for the five-year period. A graphical representation is provided in order to compare financial ratios such as profitability, liquidity, solvency, assets turnover and market based ratios.

JEL Classification numbers: L81

Keywords: Financial analysis, financial ratio, FMCG, profitability, solvency and market based ratio.

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1 Introduction

Beyond crunching and depicting numbers in the financial statements, the primordial goal of financial managements creating wealth. Wealth creation is best achieved by maximizing firm's value through optimal usage of resources over a long period of time. In other words, it is the continuous and sustainable accumulation of more assets (growth) as time passes by. Putting these into perspective, wealth creation is a factor of a series of sound business decisions, made one after the other, that originate from structured or scientific basis. As risks are the ones that prevent any firm from achieving its objectives, coming up with structured and scientific bases of decisions reduces the likelihood of the former (risks). In financial management, one of these structured and scientific bases on which firm decisions are anchored is the financial statement analysis.

Financial analysis is mainly done to compare the growth, profitability and financial soundness of the industry or the firms by diagnosing the information contained in the financial statements. Financial analysis is done to identify the financial strengths and weaknesses of the industry or the firm by properly establishing relationship between the items of balance sheet and profit & loss account. It helps in better understanding of company's financial position, growth and performance by analyzing the financial statements with various tools and evaluating the relationship between various elements of financial statements.

An efficient FMCG company is recognized and becoming as basic requirement for the economic development of today economy. FMCG's provides goods both consumer and durable to community threw a very productive channels. As the competition is increasing in the sector and thus efficiency is becoming a very important part of this industry especially in field of operational optimization, presently all these companies are highly investing in activities to optimizes their operation and hence provide customer the best service and goods at lowest market price without altering their profit margin. And hence this leads to financial burden on these companies without altering their prices to make profit and in turn give a good return to the investors. In this thesis we will be comparing and evaluating four FMCG companies on several factors. Before evaluating them a brief idea about all the companies considered in this study.

Some notable studies in this area include those of Boardman and Vining (1989), Commander, Fan and Schaffer (1996) and La Porta and Lopez-de-Silanes (1997). In the historical approach, *ex ante* and *ex post* privatization performance of the same enterprise is compared. Notable studies that followed this approach include those by Megginson, Nash and Randenborgh (1994), Earle and Estrin (1997), and Dewenter and Malatesta (1998). This was not the case in countries like Mexico, Chile, and Mozambique where a few years after privatization, the institutions were experiencing financial problems which quickly spread into a systemic crisis (Dammert and Lasagabaster, 2002).

The paper proceeds as follows. In section 2, we explain the literature review detailed about the accounting and financial performance of Retail sector. Section 3 applies the research problem, objectives and detailed methodology. Section 4 concludes the insights and result for all financial ratios has been applied to measure the performance of Retail sector.

1.1 Indian Retail Sector

1.1.1 Hindustan Unilever Limited (HUL)

Hindustan Unilever Limited (HUL) is India's largest fast moving consumer goods company with a heritage of over 80 years in India and touches the lives of two out of three Indians. HUL works to create a better future every day and helps people feel good, look good and get more out of life with brands and services that are good for them and good for others. With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, the company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit. The company has over 16,000 employees and has an annual turnover of INR 27408 crores (financial year 2013-2014). HUL is a subsidiary of Unilever, one of the world's leading suppliers of fast moving consumer goods with strong local roots in more than 100 countries across the globe with annual sales of €49.8 billion in 2013. Unilever has 67.25% shareholding in HUL.

1.1.2 V2 Retail

V2 Retail Limited (Formerly known as Vishal Retail Ltd) is one of the fastest growing retail groups in India. The company offers a portfolio of products, including apparel and non-apparel. The company sells readymade, apparels, household merchandise and other consumer goods like footwear, toys, games, handbags, fragrance, cosmetics, home furnishing, décor product, sports items, crockery, novelties and gifts. The company's subsidiaries include VRL Movers Ltd, VRL Infrastructure Ltd. and VRL Retail Ventures Ltd. V2 retail ltd offer affordable family fashion at prices to suit every pocket. The outlets cater to almost all price ranges. The showrooms have over 70,000 products range which fulfills all household needs. The cost benefit that is derived from the large central purchase of goods and services is passed on to the consumer. Presently having 8 stores in various locations in India in a name of "V2 Value & Variety", with one warehouse situated at Delhi.

1.1.3 Shoppers Stop

Shoppers Stop is an Indian department store chain promoted by the K Raheja corp. group (Chandru L Raheja Group), started in the year 1991 with its first store in Andheri, Mumbai. Shoppers Stop Ltd has been awarded "the Hall of Fame" and won "the Emerging Market Retailer of the Year Award", by world retail congress at Barcelona, on April 10th, 2008. Shoppers stop is listed on the Bombay Stock Exchange (BSE). In 2013, shoppers stop has 61 stores in India. Shoppers stop retails products of domestic and international brands such as Louis Philippe, Pepe, Arrow, BIBA, Gini & Jony, Carbon, Corelle, Magpie, Nike, Reebok, LEGO, and Mattel. Shoppers Stop retails merchandise under its own labels, such as STOP, Kashish, LIFE and Vettoriotrattini, Elliza Donatelli, Acropolis etc. The company also licenses for Austin Reed (London), an international brand, whose men's and women's outerwear are retailed in India exclusively through the chain. In October 2009, Shoppers stop has bought the license for merchandising Zoo-zoo the brand mascot for Vodafone India.

1.1.4 Pantaloons Fashion & Retail:

Pantaloons, the newly acquired business by “The Aditya Birla Group”, one of India’s leading multinational conglomerates, are a powerhouse of fresh fashion and innovation. While weaving its magic across lifestyle segments, Pantaloons caters to the discerning and trendy Indian consumer. Pantaloons apparels spell comfort and elegance, combined with a 'freshness' that is unparalleled. The styles cover a gamut of ready-to-wear western and Indian apparel for men, women and kids in addition to accessories and exotic fragrances. With a strong national presence in 85 exclusive stores, pantaloons houses over a 100 prestigious brands that have something fresh for everyone.

2 Literature Review

Some notable studies in this area include those of Boardman and Vining (1989), Commander, Fan and Schaffer (1996) and La Porta and Lopez-de-Silanes (1997). In the historical approach, *ex ante* and *ex post* privatization performance of the same enterprise is compared. Notable studies that followed this approach include those by Megginson, Nash and Randenborgh (1994), Earle and Estrin (1997), and Dewenter and Malatesta (1998). Beginning with Beaver's (1966) contention that standard financial ratios can predict the financial performance of firms, many subsequent studies have attempted to demonstrate the predictive value of various techniques for estimating actual business performance.

Foster, (1986) reviewed of the literature describing methods and theories for evaluating and predicting financial performance reveals that although methods have become increasingly complex, few researchers adequately address the problems associated with the sample used. For example, most ratio analysis studies use multivariate analysis that is based on the assumption of a normal distribution of the financial ratios. Without confirming the approximation of normality of ratio distribution, the researcher is at risk of drawing erroneous inferences. When considering the distribution of financial ratios in any database, the normality of the distribution can be skewed by data recording errors, negative denominators and denominators approaching zero.

Malhorta and McLeod, (1994) argued that the only way to assess future financial performance is through the inclusion of subjective measures.

Lasher, (2005) dept ratios show how effectively the organization uses other people’s money and whether it is using a lot of borrowed money. Ross *et al.*, (2007) expressed most researchers divide the financial ratios into four group’s i.e profitability, solvency, liquidity and activity ratios. Lermack, (2003) the benefits of financial ratios analysis: Financial ratios are an important and well-established technique of financial analysis. The following are the benefits of financial ratios analysis. Brigham and Ehrhardt (2010) stated the “financial ratios are designed to help evaluate financial statements”. Financial ratios are used as a planning and control tool. Financial ratios analysis is used to evaluate the performance of an organization.

3 Research Methodology

3.1 Research Problem

In the present study, an attempt has been made to measure, evaluate and compare the financial performance of four FMCG companies which are one among the leading companies in the industry. The study is based on secondary data that has been collected from annual reports of the respective companies, magazines, journals, documents, financial data websites and other published information. The study covers the period of 4 years i.e. from year 2009-10 to year 2012-13. Ratio Analysis was applied to analyze and compare the trends in banking business and financial performance. After that a graphical inference is been done to deduce the best investment fit company in FMCG industry.

3.2 Objective of Study

Financial Statement analysis is the collective name for the tools and techniques that are intended to provide relevant information to decision-makers. The purpose of such an analysis is to assess a company's financial health and performance. The primary objective of financial reporting is to provide information to present and potential investors, creditors and others in making rational investment, credit and other decisions. Other objectives of these studies are:

- a) Standardize financial information for comparisons.
- b) Evaluate current operations.
- c) Compare performance with past performance.
- d) Compare performance against other firms or industry standards.
- e) Study the efficiency of operations.
- f) Study the risk of operations.

Like objective of financial statement analysis there are certain advantages of financial analysis like:

- a) Quick and simple check on financial health.
- b) Small number of ratios gives a picture of the business.
- c) Provide a starting point for further investigation.
- d) Helps Investors for their investment. Like: FIIs or DIIs.
- e) Helps other financial institutes like: Mutual funds or Banks.

3.3 Limitation of Study

Due to constraints of time and resources, the study is likely to suffer from certain limitations. Some of these are mentioned here under so that the findings of the study may be understood in a proper perspective. The limitations of the study are:

- The study is based on the secondary data and the limitation of using secondary data may affect the results.
- The secondary data was taken from the annual reports of the companies and financial data websites. It may be possible that the data shown in the annual reports or on the websites may be window dressed which does not show the actual position of the banks.

- Formulas used here to calculate are the widely used methods to calculate ratios but they are not the universally accepted method, hence comparison of these ratios cannot be made with others.

3.4 Introduction to Financial Ratios

Before starting the analysis of any firm's financial statements, it is necessary to specify the objectives of the analysis. According to Fraser and Ormiston (2004), the objectives will vary depending on the perspective of the financial statement user and the specific questions that are addressed by the analysis of the financial statement data.

Several perspectives include the creditor, the investor, and the management. Each of these stakeholders would have to have questions that need to be answered. Creditor is usually concerned with the ability of an existing or prospective borrower to make interest and principal payments on borrowed funds. The investor usually attempts to arrive at an estimation of a company's future earnings stream in order to attach a value to the securities being considered for purchase or liquidation. Lastly, financial statement analysis from the standpoint of management relates to all of the questions raised by creditors and investors because these user groups must be satisfied in order for the firm to obtain capital as needed.

According to Brigham and Houston (2009), financial analysis involves comparing the firm's performance to that of other firms in the same industry and evaluating trends in the firm's financial position over time. One rich source of information for financial statement analysis is the audited financial statements. The financial statements are usually part of the annual report that listed companies submit to regulatory agencies such as Securities and Exchange Commission and Stock Exchange entities.

3.5 Key Financial Ratios

There are five categories of ratios used in financial statement analysis.

- a) Liquidity ratios, which measure a firm's ability to meet cash needs as they arise.
- b) Activity ratios, which measure the liquidity of specific assets and the efficiency of managing assets.
- c) Leverage ratios, which measure the extent of a firm's financing with debt relative to equity and its ability to cover interest and other fixed charges.
- d) Profitability ratios, which measure the overall performance of a firm and its efficiency in managing assets, liabilities, and equity.
- e) Market value ratios, which bring in the stock price and give an idea of what investors, think about the firm and its future prospects.

3.6 Liquidity Ratio

Current ratio

The current ratio is a commonly used measure of short-run solvency, the ability of the firm to meet its debt requirements as they come due. Current liabilities are used as the denominator of the ratio because they are considered to represent the most urgent debts, requiring retirement within one year or one operating cycle. The available cash resources

to satisfy these obligations must come primarily from cash or the conversion to cash of other current assets. The ideal ratio is 2:1. The current ratio formula is:

$$\text{Current ratio} = \text{Current assets} / \text{Current liabilities} \quad (1.1)$$

Quick ratio or acid test ratio

Quick ratio is an indicator of a company's short-term liquidity. It measures current (short term) liquidity and position of the company. The analysis is done by weighing current assets of the company against the current liabilities which result in the ratio that highlights the liquidity of the company. The ideal ratio is 1:1 and is calculated as follows:

$$\text{Quick ratio} = \frac{\text{current assets} - (\text{cash and equivalents} + \text{marketable securities} + \text{accounts receivable})}{\text{current liabilities}} \quad (1.2)$$

3.7 Profitability Ratio

Profit margin

A ratio of profitability calculated as profit after tax by net sales. Profit margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. It is calculated as:

$$\text{Profit margin} = \text{Profit after tax} / \text{Net sales} \quad (1.3)$$

Net profit margin

Net profit margin represents the firm's ability to translate sales into profits at different stages of measurement. The operating profit margin, a measure of overall operating efficiency, incorporates all of the expenses associated with ordinary business activities. The net profit margin measures profitability after consideration of all revenue and expense, including interest, taxes, and non-operating items. It is calculated as:

$$\text{Net Income or Net Profit} / \text{Net Sales} \quad (1.4)$$

Return on shareholder's equity (RONW)

An amount of net income returned as a percentage of shareholders equity. It reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet.

$$\text{RONW} = \text{Net Income} / \text{Shareholder's Equity} \quad (1.5)$$

Return on assets

An indicator used to evaluate the profitability of the assets of a firm i.e. the return on average assets indicates what a company can do with what it possesses. Generally, it is used by companies, banks and other financial institutions as an appraisal for determining their performance. The formula for return on assets is:

$$\text{Net Income} / \text{Avg. total assets} \quad (1.6)$$

3.8 Market based Ratios

Earning per share

It represents the portion of a company's earnings, net of taxes and preferred stock dividends, that is allocated to each share of common stock. It can be calculated by dividing net income earned in a given reporting period (usually quarterly or annually) by the total number of shares outstanding during the same term. Because the number of shares outstanding can fluctuate, a weighted average is typically used. It is calculated as:

$$EPS = \text{Earning available} / \text{No. of share issued to shareholders} \quad (1.7)$$

Price earning ratio

A valuation ratio of a company's current share price compared to its per-share earnings. It is calculated as:

$$P/E \text{ Ratio} = \text{Market price per share} / EPS \quad (1.8)$$

3.9 Solvency Ratio

Inventory turnover ratio

It measures the number of times a company's investment in inventory is turned over during a given year. The higher the turnover ratio, the better, since a company with a high turnover requires a smaller investment in inventory than one producing the same level of sales with a low turnover rate. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days. It is calculated as:

$$\text{Inventory turnover ratio} = \text{Cost of goods sold} / \text{Average inventory} \quad (1.9)$$

Debtor turnover ratio

It indicates the number of times average debtors are turned over during a year. This ratio is also known as accounts receivable turnover ratio. It indicates the speed at which the sundry debtors are converted in the form of cash and the number of times the debtors are turned over a year. It is the reliable measure of receivables from credit sales. It is calculated as:

$$\text{Debtor turnover ratio} = \text{Credit sales} / \text{Average debtors} \quad (1.10)$$

Working capital turnover

A measurement comparing the depletion of working capital to the generation of sales over a given period is known as working capital turnover. This provides some useful information as to how effectively a company is using its working capital to generate sales. It is calculated as:

$$\text{Working capital turnover} = \text{Sales} / \text{Working capital} \quad (1.11)$$

Total asset turnover

The total assets turnover considers only the firm's investment in property, plant, and equipment and is extremely important for a capital-intensive firm. The total assets turnover measures the efficiency of managing all of a firm's assets. It is calculated as:

$$\text{Total asset turnover} = \text{Net sales} / \text{Total assets} \quad (1.12)$$

3.10 Leverage Ratios**Debt to equity**

A measure of a company's financial leverage is calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. It is calculated as:

$$\text{Debt to equity} = \text{Long term debt or liabilities} / \text{Total equity} \quad (1.13)$$

Interest coverage ratio

A ratio used to determine how easily a company can pay interest on outstanding debt. The interest coverage ratio is calculated by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period: It is calculated as:

$$\text{Interest coverage ratio} = \text{EBIT} / \text{Interest expenses} \quad (1.14)$$

3.11 DuPont Analysis

A method of performance measurement has started by the DuPont Corporation in the 1920s. With this method, assets are measured at their gross book value rather than at net book value in order to produce a higher return on equity (ROE). Higher is the result, higher is the return on the equity. The DuPont Analysis is important determines what is driving a company's ROE. Profit margin shows the operating efficiency, asset turnover shows the asset use efficiency, and leverage factor shows how much leverage is being used. DuPont analysis allows analysts to dissect a company, efficiently determine where the company is weak and strong and quickly know what areas of the business to look at (i.e. inventory management, debt structure, margins) for more answers.

The DuPont system helps the analyst see how the firm's decisions and activities over the course of an accounting period interact to produce an overall return to firm's shareholders, the return on equity (Fraser &Ormiston, 2004). Moreover, according to Brigham and Houston (2009), it is a formula that shows that the rate of return on equity can be found as the product of profit margin, total assets turnover, and the equity multiplier. It shows the relationships among activity, leverage, and profitability ratios. It is calculated as:

$$\text{DuPont analysis} = \text{Profit after tax} / \text{Total assets} \quad (1.15)$$

3.12 Descriptive Statistics

Table 1 explains the result of several financial ratios of HUL from 2009 to 2013. It contains liquidity ratio i.e. current ratio and acid test ratio, profitability ratio i.e. return on assets (ROA), return on net worth (RONW), return on capital employed (ROCE), earning par share (EPS), price earning ratio (P/E), net profit margin, and profit margin, activity ratio i.e. inventory turnover ratio, debtor turnover ratio, and working capital turnover assets turnover ratio i.e. fixed assets and total assets turnover. Leverage ratio i.e. debt to equity, interest coverage ratio, shareholder's equity ratio, and return on total asset and finally, DuPont analysis have been employed in this paper to measured the financial performance of the company.

Table 1: Financial ratio of Hindustan Unilever Limited (HUL)

Consolidated Key Financial Ratios of Hindustan Unilever Limited					
----- in Rs. Cr. -----					
Profitability Ratios	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
Operating Profit Margin (%)	15.18	14.4	13.04	15.33	14.41
Profit Before Interest And Tax Margin (%)	13.91	13.18	11.67	14.14	13.3
Gross Profit Margin (%)	14.25	13.4	11.89	14.26	13.45
Cash Profit Margin (%)	12.65	12.32	11.41	12.39	12.39
Adjusted Cash Margin (%)	12.6	11.91	11.74	12.39	12.39
Net Profit Margin (%)	13.9	11.83	11.32	11.92	11.93
Adjusted Net Profit Margin (%)	13.9	11.77	11.32	11.92	11.93
Return On Capital Employed (%)	155.25	95.34	100.07	101.36	117.32
Return On Net Worth (%)	133.65	75.81	83.95	80.82	117.2
Return on Assets Excluding Revaluations	13.25	17.03	12.54	12.23	9.8
Return on Assets Including Revaluations	13.25	17.03	12.55	12.23	9.81
Return on Long Term Funds (%)	156.59	92.65	101.26	101.77	141.14
Liquidity And Solvency Ratios					
Current Ratio	0.78	0.86	0.87	0.85	0.93
Quick Ratio	0.47	0.47	0.44	0.47	0.52
Debt Equity Ratio	0.01	--	--	--	0.2
Long Term Debt Equity Ratio	--	--	--	--	--
Debt Coverage Ratios					
Interest Cover	174.42	2,127.05	2,710.00	363.55	114.05
Total Debt to Owners Fund	--	--	0	0	0.2
Financial Charges Coverage Ratio	184.19	2,206.72	2,942.89	389.25	121.61
Management Efficiency Ratios					
Inventory Turnover Ratio	9.93	8.74	6.92	8.97	9.27
Debtors Turnover Ratio	29.01	25.62	24.12	28.74	40.62
Investments Turnover Ratio	9.98	10.02	7.81	8.97	9.27
Fixed Assets Turnover Ratio	6.52	6.15	5.54	5.31	7.74
Total Assets Turnover Ratio	9.35	6.35	7.34	6.94	8.42
Asset Turnover Ratio	8.21	7.35	7.41	5.31	7.74

Table 2 explains the result of several financial ratios of VISHAL RETAIL from 2009 to 2013. It contains liquidity ratio i.e. current ratio and acid test ratio, profitability ratio i.e. return on assets (ROA), return on net worth (RONW), return on capital employed (ROCE), earning per share (EPS), price earning ratio (P/E), net profit margin, and profit margin, activity ratio i.e. inventory turnover ratio, debtor turnover ratio, and working capital turnover assets turnover ratio i.e. fixed assets and total assets turnover. Leverage ratio i.e. debt to equity, interest coverage ratio, shareholder's equity ratio, and return on total asset and finally, DuPont analysis have been employed in this paper to measured the financial performance of the company.

Table 2: Financial ratio of Vishal Retail

Consolidated Key Financial Ratios of Vishal Retail					
----- in Rs. Cr. -----					
Profitability Ratios	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
Operating Profit Margin(%)	0.7	-28.65	-4.7	-41.33	0.01
Profit Before Interest And Tax Margin(%)	-1.41	-31.96	-7.68	-45.01	-3.46
Gross Profit Margin(%)	-1.44	-34.77	-7.75	-45.54	-3.48
Cash Profit Margin(%)	-1.66	-69.6	-2.71	-28.37	-3.05
Adjusted Cash Margin(%)	-1.66	-69.6	-2.71	-28.37	-3.05
Net Profit Margin(%)	-4.89	-75.35	-5.72	-37.13	-6.73
Adjusted Net Profit Margin(%)	-4.89	-75.35	-5.72	-37.13	-6.73
Return On Capital Employed(%)	0.18	-3.77	-24.62	-91.93	-4.21
Return On Net Worth(%)	-1.95	-12.67	-21.29	177.67	-53.69
Adjusted Return on Net Worth(%)	-1.5	-12.65	-21.29	--	-52.05
Return on Assets Excluding Revaluations	120.33	122.65	136.74	-104.36	78.56
Return on Assets Including Revaluations	120.33	122.65	136.74	-104.36	78.56
Return on Long Term Funds(%)	0.18	-3.77	-24.7	-1,300.69	-8.26
Liquidity And Solvency Ratios					
Current Ratio	4.89	6	5.47	0.55	0.96
Quick Ratio	0.15	0.35	0.8	0.3	0.68
Debt Equity Ratio	0.12	0.06	0.02	--	4.24
Long Term Debt Equity Ratio	0.12	0.06	0.02	--	1.67
Debt Coverage Ratios					
Interest Cover	0.09	-1.35	-7.6	-5.48	-0.42
Total Debt to Owners Fund	0.12	0.06	0.02	--	4.24
Financial Charges Coverage Ratio	0.44	-1.03	-4.21	-4.86	0.1
Management Efficiency Ratios					
Inventory Turnover Ratio	2.36	2.65	--	5.03	2.09
Debtors Turnover Ratio	337.3	139.55	752.33	383.06	487.77
Investments Turnover Ratio	2.36	2.65	--	5.03	2.09
Fixed Assets Turnover Ratio	9.99	5.82	94.91	3.08	3.78
Total Assets Turnover Ratio	0.35	0.15	3.61	2.09	1.51
Asset Turnover Ratio	0.36	0.14	2.67	3.08	3.78

Table 3 explains the result of several financial ratios of Shoppers Stop from 2009 to 2013. It contains liquidity ratio i.e. current ratio and acid test ratio, profitability ratio i.e. return on assets (ROA), return on net worth (RONW), return on capital employed (ROCE), earning per share (EPS), price earning ratio (P/E), net profit margin, and profit margin,

activity ratio i.e. inventory turnover ratio, debtor turnover ratio, and working capital turnover assets turnover ratio i.e. fixed assets and total assets turnover. Leverage ratio i.e. debt to equity, interest coverage ratio, shareholder's equity ratio, and return on total asset and finally, DuPont analysis have been employed in this paper to measured the financial performance of the company.

Table 3: Financial ratio of Shoppers Stop

Consolidated Key Financial Ratios of Shoppers Stop					
----- in Rs. Cr. -----					
Profitability Ratios	Mar '13	Mar '12	Mar '11	Mar '10	Mar '09
Operating Profit Margin (%)	3.47	2.96	3.65	5.8	16.22
Profit Before Interest And Tax Margin(%)	0.87	0.47	1.46	3.63	13.62
Gross Profit Margin(%)	0.87	0.47	1.47	3.64	13.71
Cash Profit Margin(%)	1.28	0.8	1.3	3.01	4.86
Adjusted Cash Margin(%)	1.28	0.71	1.23	2.8	4.86
Net Profit Margin(%)	-0.21	-0.33	0.64	1.82	2.35
Adjusted Net Profit Margin(%)	-0.21	-0.35	0.68	1.98	2.35
Return On Capital Employed(%)	4.01	2.46	5.55	12.13	45.48
Return On Net Worth(%)	-1.68	-2.25	3.68	8.62	14.33
Adjusted Return on Net Worth(%)	-10.1	-11	-4.73	3.84	14.4
Return on Assets Excluding Revaluations	58.9	60.37	62.5	60.96	71.74
Return on Assets Including Revaluations	58.9	60.37	62.5	60.96	71.74
Return on Long Term Funds(%)	5.1	3.58	5.55	50.91	62.81
Liquidity And Solvency Ratios					
Current Ratio	0.75	0.68	1.31	0.7	0.81
Quick Ratio	0.58	0.7	0.65	0.64	0.78
Debt Equity Ratio	1.11	0.94	0.74	0.43	0.79
Long Term Debt Equity Ratio	0.66	0.33	0.18	0.07	0.47
Debt Coverage Ratios					
Interest Cover	0.63	0.44	1.18	2.95	10.19
Total Debt to Owners Fund	1.11	0.94	0.74	0.5	0.79
Financial Charges Coverage Ratio	2.14	1.88	2.63	1.58	1.6
Management Efficiency Ratios					
Inventory Turnover Ratio	8.39	8.59	8.41	8.67	10.11
Debtors Turnover Ratio	94	109.5	118	133.7	133.8
Investments Turnover Ratio	8.39	9.08	8.92	9.62	10.11
Fixed Assets Turnover Ratio	3.49	3.43	3.23	3.14	3.52
Total Assets Turnover Ratio	4.19	3.71	3.54	3.58	3.97
Asset Turnover Ratio	3.75	3.58	3.61	4.02	3.52

Table 4 explains the result of several financial ratios of Pantaloons Fashion & Retail from 2009 to 2013. It contains liquidity ratio i.e. current ratio and acid test ratio, profitability ratio i.e. return on assets (ROA), return on net worth (RONW), return on capital employed (ROCE), earning per share (EPS), price earning ratio (P/E), net profit margin, and profit margin, activity ratio i.e. inventory turnover ratio, debtor turnover ratio, and working capital turnover assets turnover ratio i.e. fixed assets and total assets turnover. Leverage ratio i.e. debt to equity, interest coverage ratio, shareholder's equity ratio, and return on total asset and finally, DuPont analysis have been employed in this paper to measured the financial performance of the company.

Table 4: Financial ratios of Pantaloons Fashion & Retail

Consolidated Key Financial Ratios of Pantaloons fashion & retail				
----- in Rs. Cr. -----				
Profitability Ratios	Mar '13	Mar '12	Mar '11	Mar '10
Operating Profit Margin (%)	2	5.14	2.52	--
Profit Before Interest And Tax Margin (%)	-4.53	0.86	2.33	--
Gross Profit Margin (%)	-4.55	0.9	2.52	--
Cash Profit Margin (%)	-4.72	-1.07	6.48	--
Adjusted Cash Margin (%)	-4.72	-1.07	6.48	0.07
Net Profit Margin (%)	-11.26	-5.1	6.48	0.07
Adjusted Net Profit Margin (%)	-11.26	-5.1	6.48	--
Return On Capital Employed (%)	-4.41	3.32	151.23	--
Return On Net Worth (%)	-32.42	89.12	174.28	--
Adjusted Return on Net Worth (%)	-32.42	--	174.28	--
Return on Assets Excluding Revaluations	62.39	-1,546.00	14	-7.6
Return on Assets Including Revaluations	62.39	-1,546.00	14	-7.6
Return on Long Term Funds (%)	-4.42	18.35	151.23	30.76
Liquidity And Solvency Ratios				
Current Ratio	0.88	0.26	1.34	0.89
Quick Ratio	0.23	0.17	1.27	0.77
Debt Equity Ratio	1.75	--	0.73	--
Long Term Debt Equity Ratio	1.75	--	0.73	--
Debt Coverage Ratios				
Interest Cover	-0.6	0.52	45.75	--
Total Debt to Owners Fund	1.75	--	0.73	--
Financial Charges Coverage Ratio	0.33	0.9	45.75	--
Management Efficiency Ratios				
Inventory Turnover Ratio	4.64	3.96	87.15	--
Debtors Turnover Ratio	138.55	293.08	14.41	--
Investments Turnover Ratio	4.64	3.96	87.15	63.9
Fixed Assets Turnover Ratio	3.75	1.82	--	--
Total Assets Turnover Ratio	4.1	1.18	--	--
Asset Turnover Ratio	0.86	1.14	--	--

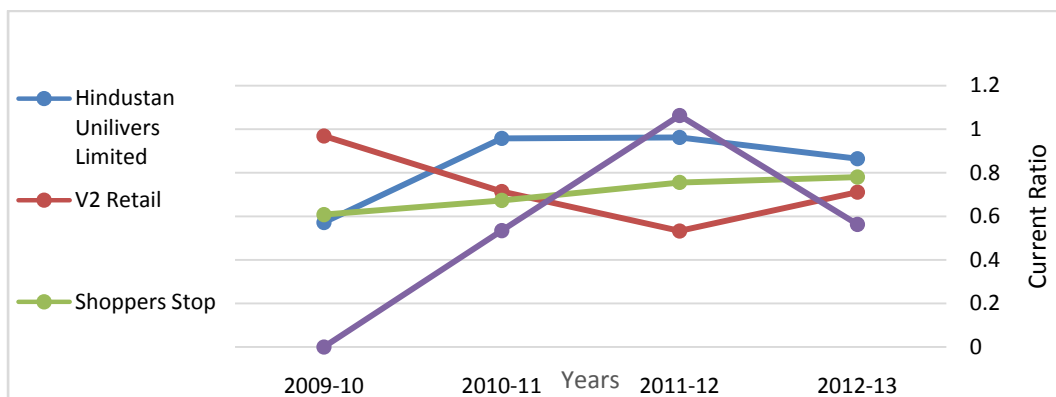
4 Results and Learning Insights

This part of the research paper is organized using the five categories of financial ratios. Specific ratios for each category are also presented and discussed. At the end of this part, the DuPont equation derived was also presented and discussed.

4.1 Liquidity Ratios

4.1.1 Current ratio: analysis and insights

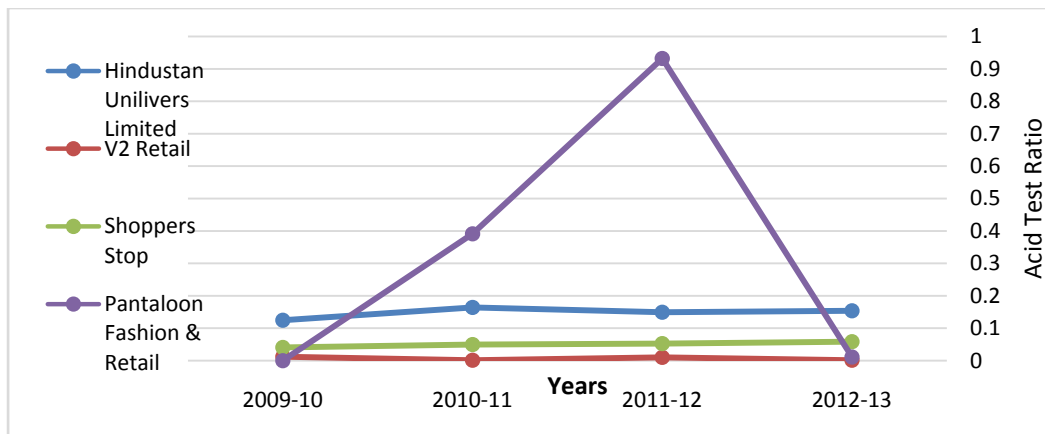
This ratio shows the current assets available to cover current liabilities at the balance sheet date. There should be a reasonable buffer of current assets over current liabilities as an indication of the ability of the firm to pay its debts as and when they fall due. Graph 3 shows the distribution of Current ratio over the period of four years interval. As none of the companies have an ideal current ratio of 2:1 but HUL shows the maximum current ratio over the period. But a clear comparison cannot be made among these four companies. From the shareholders' view point one can go for any company except pantaloons fashion & retail that had shown an unpredictable behavior over the period.



Graph 1 Comparative analysis of Current ratio of selected companies

4.1.2 Quick ratio: analysis and insights

As a supplement to current ratio, quick or acid-test ratio aims to show the more liquid current assets available to pay the more immediately payable liabilities. With reference to current assets, the results are not significantly affected since only inventories are not considered here. Graph 2 shows the distribution of Quick ratio over the period of four years interval. While HUL, V2 retail and shoppers stop have shown a constant return on shareholders' equity but on the other hand pantaloon fashion and retail was not able to maintain the growth and has shown a decline in the fiscal year 2012-13 hence cannot be recommended to shareholders' in comparison to others.

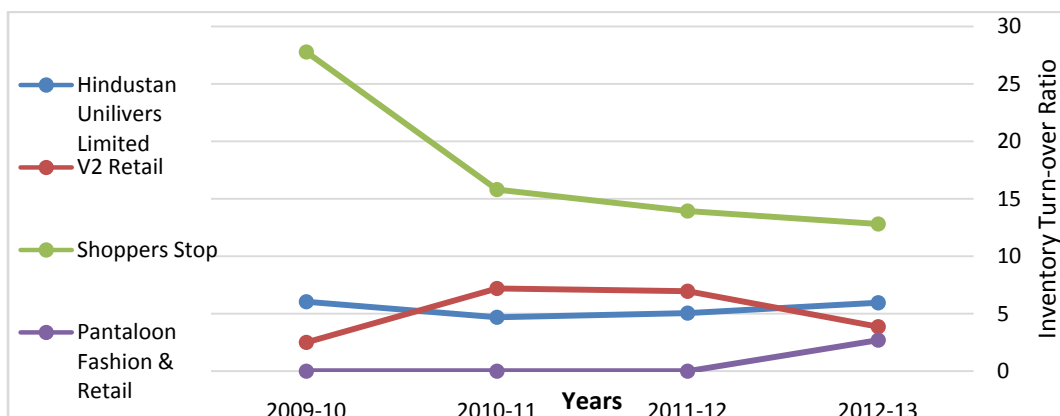


Graph 2: Comparative analysis of Acid test ratio of selected companies

4.2 Activity Ratio

4.2.1 Inventory turnover ratio

Ratio showing how many times a company's inventory is sold and replaced over a period. The days in the period can then be divided by the inventory turnover formula to calculate the days it takes to sell the inventory on hand or "inventory turnover days." Graph 3 shows the distribution of Inventory turnover ratio over the period of four years interval. Shoppers stop has the best inventory turnover ratio but it has shown decline with the period on other hand all the three companies had more or less same and constant inventory turnover ratio. This graph also shows the increasing competition in the FMCG sector as sales are highly distributed.

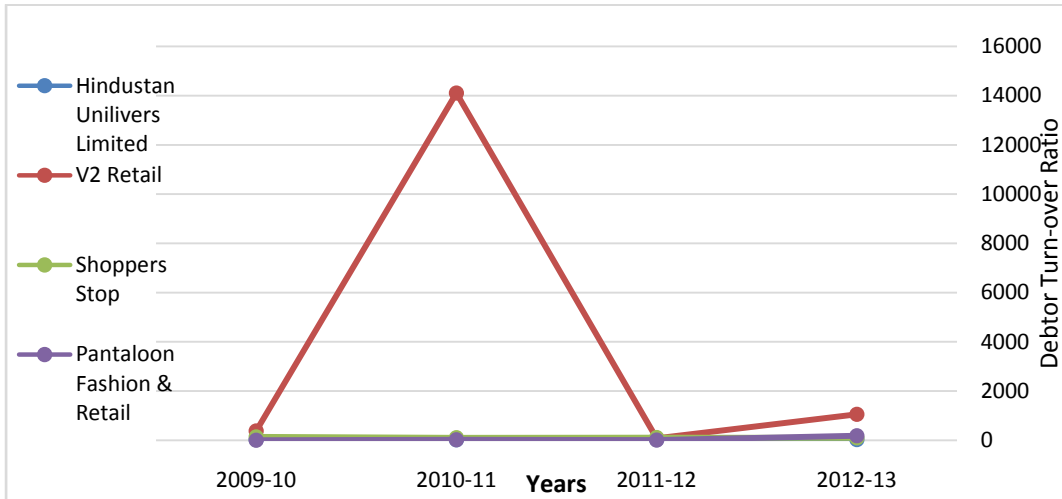


Graph 3: Comparative analysis of Inventory turn-over ratio of selected companies

4.2.2 Debtor turnover ratio: analysis and insights

The debtor turnover ratio helps gauge the liquidity of accounts receivable, the ability of the firm to collect from customers. It is advisable to have a lower debtor turnover ratio and therefore as observed from the graph. Graph 4 shows the distribution of debtor

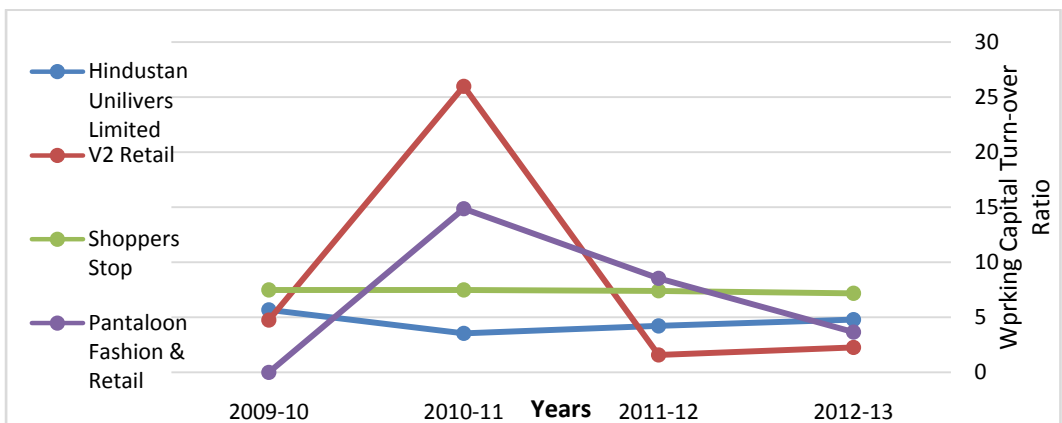
turnover ratio over the period of four years interval. From the above graph we can see except V2 retail all the other company's has almost same capacity of recovering debt and credit sales. Instability in V2 retail can be because it is a new company and hence in initial growth stage it has shown some instability in its performance.



Graph 4: Comparative analysis of debtor turn-over ratio of selected companies

4.2.3 Working capital ratio: analysis and insights

Working capital ratio has been used to find out the running or day to day financial activities. By used this ratio, one can easily find the required amount and monetary fund to meet the funds. Graph 5 shows the distribution of Working capital turnover ratio over the period of four years interval. Above graph shows that V2 retail has good financial health initially but later they were not able to maintain it, that can be justified as V2 is a new and growing company and hence maintaining a good financial health all the time is not possible. And other companies have almost stable value.

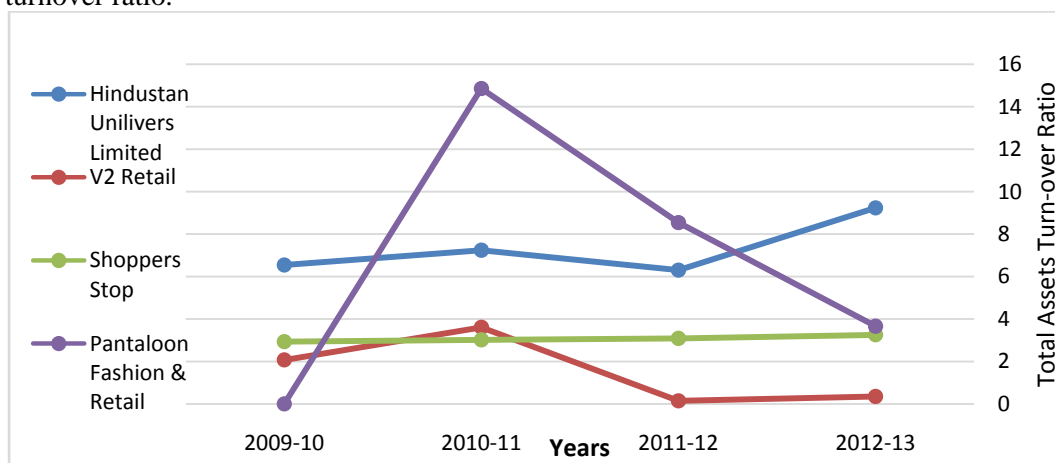


Graph 5: Comparative analysis of working capital-turn-over ratio of selected companies

4.3 Assets Turnover Ratio

4.3.1 Total assets turnover: analysis and insights

Generally, the higher this ratio is the more effective. In other words, this ratio indicates the effectiveness of using total assets to generate revenues. Similar to the previous financial ratio, as a rule of thumb, to be considered effective, it should be at least 0.30 times. Graph 6 shows the distribution of Total assets turnover ratio over the period of four years interval. Graph shows that HUL has a good efficiency of converting assets into sales while all the other companies has shown a decline in their capacity to convert assets into sales, hence HUL can be labeled as better company than other on the basis of total assets turnover ratio.

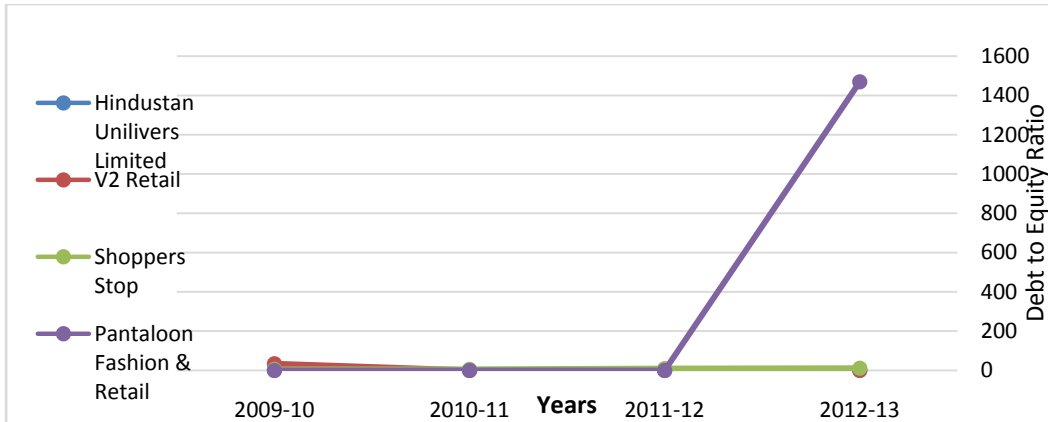


Graph 6: Comparative analysis of total assets turn-over ratio of selected companies

4.4 Leverage Ratio

4.4.1 Debt to equity ratio: analysis and insights

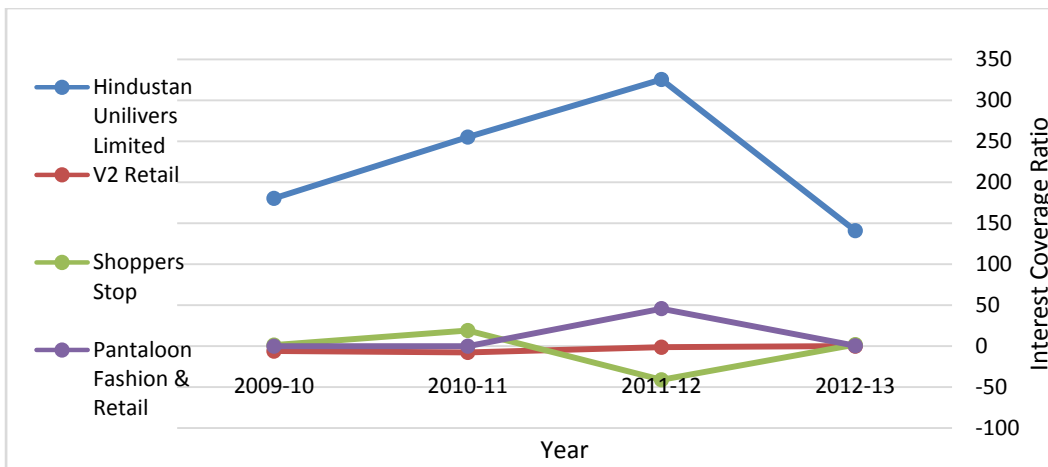
This ratio shows the dependence on debt (borrowing) finance compared with equity funding. The greater is the reliance on debt financing, the greater is the level of interest and the greater the risk from exposure to rising interest rates. Firms listed on stock exchange tend to follow a pattern of raising additional finance through borrowing for a number of years and then raise equity through issuing new shares. Graph 7 shows the distribution of debt to equity ratio over the period of four years interval. It is basically labeled as a risk factor in investments and hence a high debt to equity ratio is not healthy for a company, hence Pantaloon is not the target company for investments while all the other three have an expectable debt to equity ratio.



Graph 7: Comparative analysis of debt to equity ratio of selected companies

4.4.2 Interest coverage ratio: analysis and insights

The higher the times interest earned ratio the better; however, if a firm is generating high profits, but no cash flow from operations, this ratio is misleading. Graph 8 shows the distribution of Interest coverage ratio over the period of four years interval. From above graph we can see that HUL has the best capacity to pay interest on its debts in comparisons to other three companies which has more or less same capacity. We can also see that V2 retail has almost zero value of interest coverage ratio that is again because of its initial growing stage.



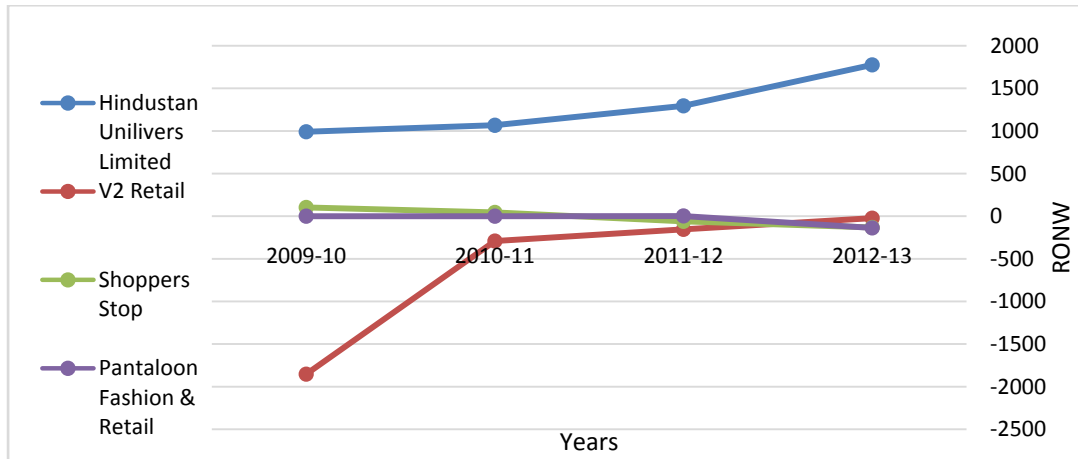
Graph 8: Comparative analysis of interest coverage ratio of selected companies

4.5 Profitability Ratio

4.5.1 Return on shareholder equity: analysis and insights

This ratio measures the rate of return on net worth’s investment. This is considered as the most important financial ratio as this has something to do with the return on shareholder’s equity. Graph 9 shows the distribution of RONW over the period of four years interval. HUL shows the constant growth in comparison to the other three companies. V2 retail had

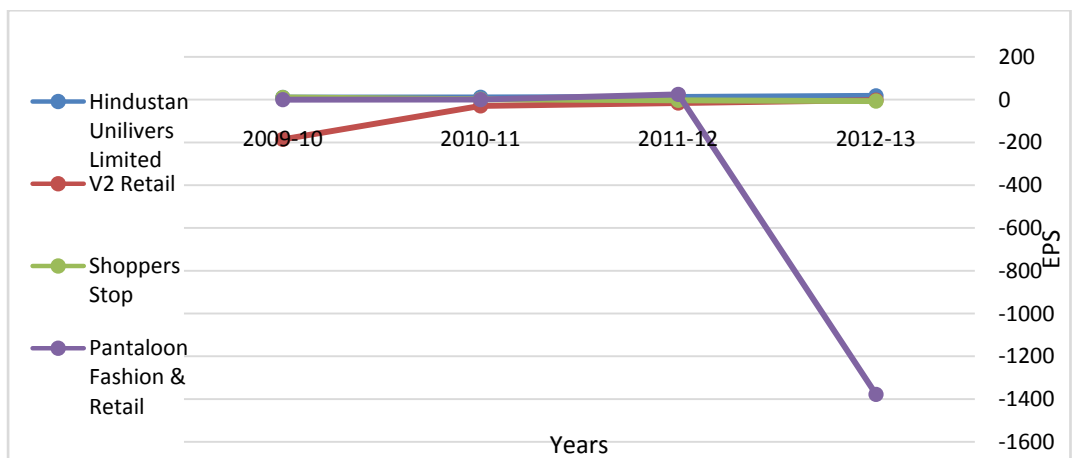
also shown a growth in their business over the period while other two companies have been able to provide and employ the investments made by the company shareholders’.



Graph 9: Comparative analysis of return on share-holders equity of selected companies

4.5.2 Earning per share: analysis and insights

This ratio indicates the ability of the firm’s assets to generate operating income. As a rule of thumb, the higher this ratio is the better. It is important to realize that this ratio shows the return shareholders are actually achieving on their investment, using current market value for listed shares. Graph 10 shows the distribution of EPS over the period of four years interval. While HUL, Shoppers stop and V2 retail has shown a steady and stable character over the period of four year on other hand pantaloons India had shown a decline in EPS.

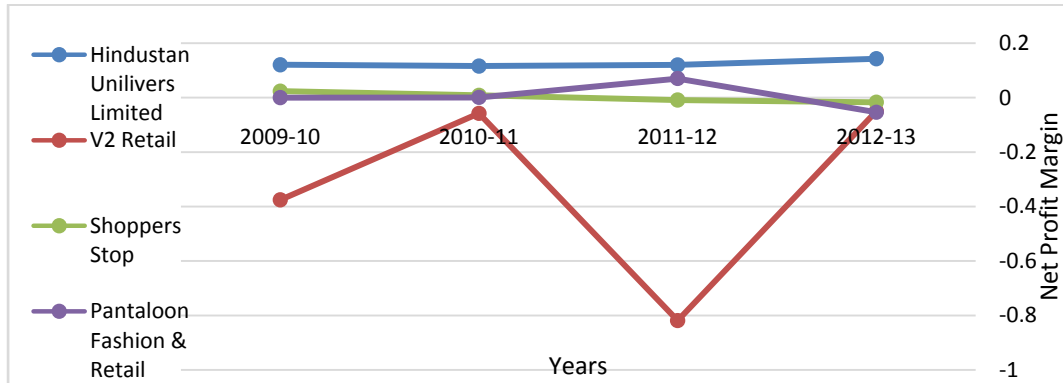


Graph 10: Comparative analysis of earning per share of selected companies

4.5.3 Net profit margin: analysis and insights

This ratio measures operating income relative to peso revenue. As a rule of thumb, a higher operating margin is preferred since lower profit margin, as compared with similar

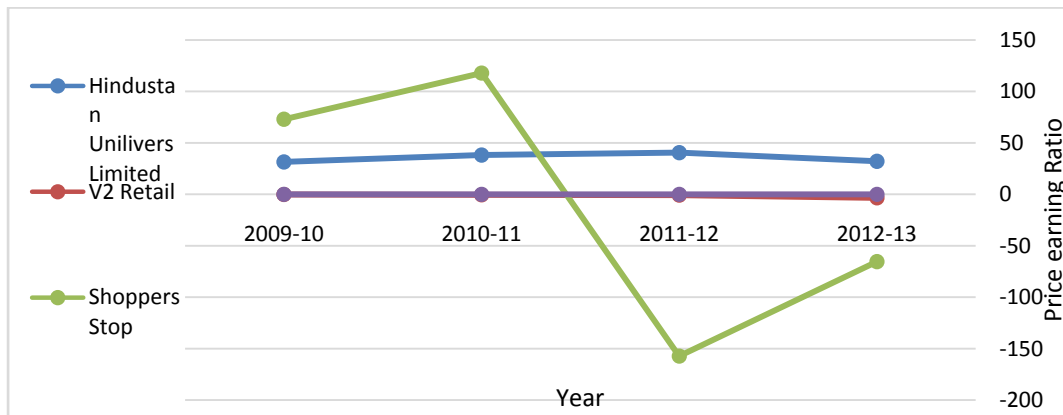
firm may mean higher accounting costs. Graph 11 shows the distribution of net profit margin over the period of four years interval. HUL has the highest and stable profit margin throughout the period. Graph shows the maximum instability shown by V2 retail while other two remains more or less constant.



Graph 11: Comparative analysis of net profit margin of selected companies

4.5.4 Price earning ratio

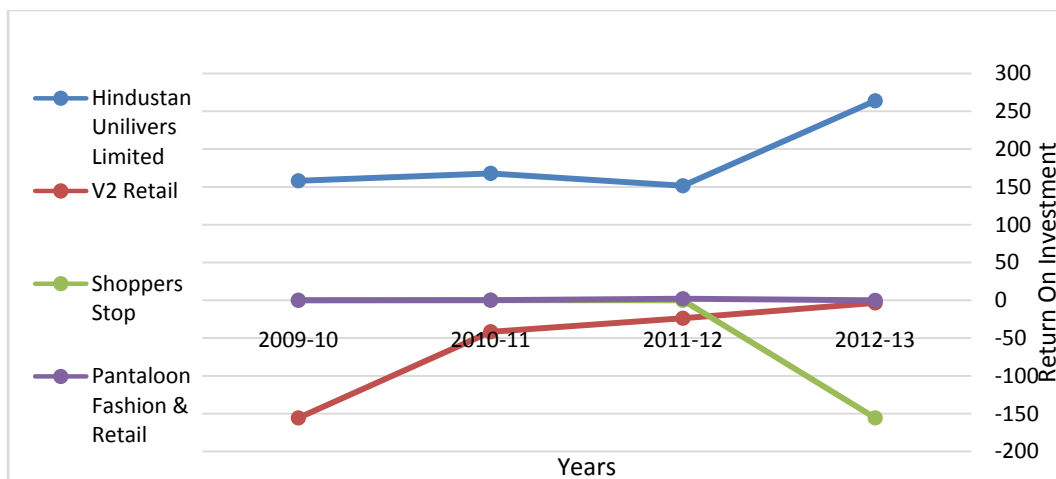
Graph 12 shows the distribution of Price earnings ratio over the period of four years interval. It helps to analyze the strength of company in capital market. HUL shows the stability with V2 retail and pantaloons. On the other hand shoppers stop had shown instability over the period.



Graph 12: Comparative analysis of price earning ratio of selected companies

4.5.5 Return on investment (ROI)

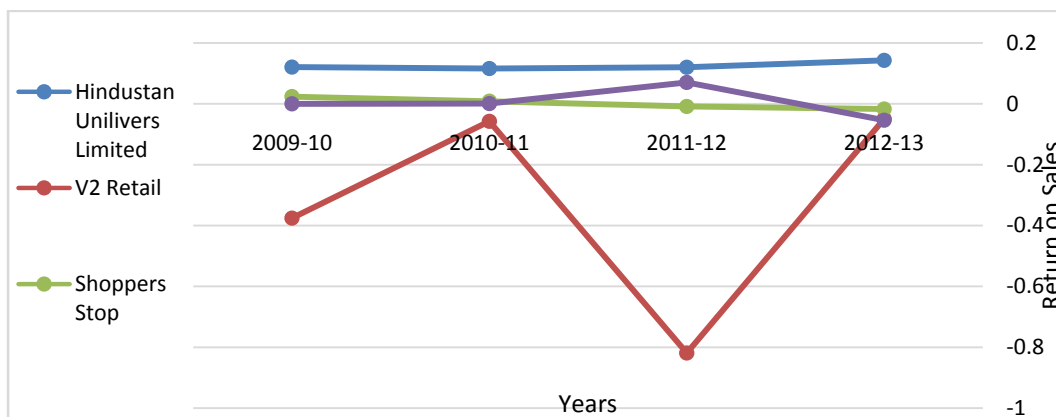
Graph 13 shows the distribution of ROI over the period of four years interval. HUL shows the constant growth in comparison to the other three companies. V2 retail had also shown a growth in their business over the period while other two companies have not been able to remain in the sync with market.



Graph 13: Comparative analysis of return on investment of selected companies

4.6 DuPont Analysis: Analysis and Insights

Having considered individual financial ratios as well as groups of financial ratios measuring short-term liquidity, operating efficiency, capital structure and long-term solvency, and profitability, it is helpful to complete the evaluation of a firm by considering the interrelationship among the individual ratios. Graph 14 shows the distribution of Return on sales over the period of four years interval. This ratio gives a relation between sales and net profit and HUL has a very good value as it indicates its higher efficiency while shoppers stop and pantaloon has very low return on sales on other hand V2 retail has shown a growth.



Graph 14: Comparative analysis of return on sales of selected companies

5 Conclusion

After analyzing the financial data of all the four companies under the fifteen financial ratios we can conclude this project under two folds:-For long term and secure investment one can go for “Hindustan Unilever Limited” as it has shown a stable and steady growth over the period. While for those who look for short and high returns with a greater risk factor can go for V2 Retails as it’s a new company and it’s in a growing stage.

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