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# RESEARCH ARTICLE

# INTER-FIRM COMPARISON ON RETAIL INDUSTRY IN INDIA

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## **ABSTRACT**

This paper examines the good and poor performance of Retail Industry in India. Data used in this research paper are all secondary in nature. These Data are frequently inspected by Institute of Charted Accountants of India and Security Exchange Board of India. Six ratios are taken for comparison and ten companies are chosen using statistical techniques and comparisons are taken which are falling in the respective quartile ranges. Inter firm Comparisons is an effective tool to Compare and improve one's own working. The author strongly suggested ITC Ltd to the Investor for obtaining more profit and also for long term capital gain.

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## INTRODUCTION

Inter-firm comparisons provide the management of a firm with a few key figures showing how it operating performance and financial results compare with those of other similar firms in the same industry or trade which, like itself, have contributed their figures to a common pool. The growing Interest of British organizations and firms in inter firm comparison of British delegation to the first international conference on inter firm comparisons which took place in Vienna in September, 1956. The delegation-which included Managers accountants, economists, consultants and representatives of British Institute of Management, trade and trade research associations, and professional organization was impressed by the extent to which was practical work of this kind had been developed in European countries on its return to this country strongly recommended to the British Institute of Management that action should be taken to promote wider appreciation of interfirm comparison as an aid to Management. In this paper the authors attempt to study the Inter-firm comparison on Retail industry to identify the good and poor performance.

# **Review of literature**

Financial ratios are perhaps the most common tool in financial statement analysis. They are used for summarizing financial data, analyzing current performance and financial position and comparing performance and financial position across companies and over time. Investors, lenders, rating agencies and regulators use them to analyze company performance, strategy and risks. Financial ratio analysis is a useful measure to provide a snapshot of a firm's financial position stated that

Muresan and Wolitzer<sup>6</sup> at any particular moment of time or to provide a comprehensive idea about the financial performance of the company over a particular period of time. Use of financial ratios in finance is multi-dimensional. It is not only useful for judging the financial health or performance of a particular firm over time, it is also a useful tool for comparing a firm's financial position and performance with respect to others in the same or different industry to pinpoint problem areas or to identify areas of further improvements as argued by De,Bandyopadhyay and Chakraborty<sup>2</sup>.

Natika Jain and Sulbha Raorane<sup>7</sup> found that the acquirer companies always benefited more than the target companies in the merger event. In his research he employed Return on Net worth, Return on Capital Employed, Debt-equity Ratio, Current Ratio, and Quick Ratio. M. Rajesh and N.R.V. Ramana Reddy<sup>9</sup> found that profitability performance of the company was depend more on the components of working capital like current assets, Inventory and debtors than of creditors and total assets during the study period.

Simon – Oke, O.O<sup>10</sup> employed variables such as debt financing, equity financing, debt – equity ratio as well as Profitability index which measure firms' performance. The study suggests better use of borrowed funds and emphasizes the importance of efficient management. The use of financial ratios by financial analysts, lenders, academic researchers, and small business owners has been widely acknowledged in the literature for more than 40 years. (Horrigan<sup>5</sup>, Edmister<sup>4</sup>, Osteryoung & Constand<sup>8</sup>, Devine & Seaton<sup>3</sup> and Burson<sup>1</sup>. Financial ratios are used to determine a company's strengths and weaknesses. A fundamental definition of any profit-seeking business is an entity that acquires resources in order to

generate profits through the production and sale of goods and/or services. Ratios show important relationships between a firm's resources and its financial flows. In a way, ratio analysis provides a "report card". If the firm's managers are doing a good job, they know it. If they are not doing a good job, not only will they know it, but they will also have a clear understanding of what they can do about it.

## Objectives of the study

The main objective of the study is to analyze the good and poor performance of Retail Industry in India with selected financial ratios which are

- 1) Return on Capital Employed: Profit After Tax / Capital Employed.
- 2) Net profit Ratio: Profit After Tax / Sales.
- 3) Administrative Cost Ratio: Cost of Administrative /Sales.
- 4) Marketing & Distribution Cost Ratio: Cost of Marketing & Distribution/Sales.
- 5) Total Cost to Sales Ratio: Total Cost/Sales
- 6) Asset Ratio: Fixed Asset/ Total Asset

The scope of inter firm Comparison of Retail Companies extends to large level Retail Companies all over India. The study is based on convenient sample of 10 FMGC Companies.

## RESEARCH METHODOLOGY

The study has been conducted for a period of five years from 2005 -2006 to 2009-2010. The research design is based on the descriptive design technique. Since it is Comparative Study, financial Statements are collected. The data collected are all secondary in nature. The Companies chosen as sample which are

- 1. Hindustan Unilever Limited,
- 2. ITC Ltd,
- 3. Dabur India Ltd.
- 4. Asian Paints Ltd.
- 5. Britannia Industries Ltd,
- 6. Procter and Gamble Hygiene and Health Care Ltd,
- 7. Marico Ltd,
- 8. Colgate Palmolive (India) Ltd,
- 9. Godrej Industries Ltd, and
- 10. Gillette India Ltd.

For the purpose of inter-firm Comparison the authors have considered Six Ratios. Using the financial ratios, the study incorporated Quartile Range as a yard stick to divide the companies according to its performance. Quartile Range is a measure of dispersion based on the upper Quartile and the lower Quartile. Let the upper Quartile and lower Quartile be 'H' and 'L' respectively. The difference between the upper and lower Quartile can be divided by 4 to obtain 'D'. Finally using D we get measures such as L, (L+D), (L+2D), (L+3D) and H. The study call (L+D), (L+2D), (L+3D) as Q1, Q2, Q3, respectively.

# (i) Quartile Range of Return on Capital Employed.

Godrej Industries Ltd holds the lowest Ratio. Godrej Industries Ltd, Britannia Industries Ltd, ITC Ltd, Marico Ltd, Gillette India Ltd and Asian paints Ltd are in between the lowest and the first Quartile. Dabur India Ltd is in between the

Table .1. Quartile Range of Return on Capital Employed



Table. 2. Quartile Range of Net Profit Ratio



Source: Annual Report from 2005-2006 to 2009-2010

Table .3. Quartile Range of Administrative Cost Ratio

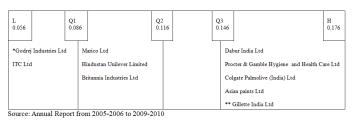
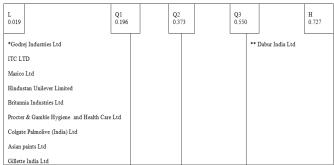
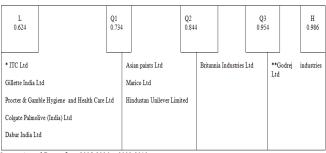


Table. 4. Quartile Range of Marketing and Distribution Cost Ratio



ource: Annual Report from 2005-2006 to 2009-2010

Table No 5: Quartile Range of Total Cost to Sales ratio



Source: Annual Report from 2005-2006 to 2009-2010

first and second quartile. Hindustan Unilever Limited is in between second and third quartile. Procter & Gamble Hygiene and Health Care Ltd and Colgate Palmolive (India) Ltd lies in between the third Quartile and highest Ratio. Colgate Palmolive (India) Ltd holds the highest Ratio. The below table (1) clearly states the Quartile Range of Return on Capital Employed.

## (ii) Quartile Range of Net Profit Ratio.

Britannia Industries Ltd holds the lowest ratio and also in between the lowest and first Quartile. Hindustan Unilever Limited, Asian paints Ltd, Marico Ltd, and Godrej industries Ltd lies between the first and second quartile. Dabur India Ltd, Colgate Palmolive (India) Ltd, Gillette India Ltd lies between the Second quartile and third quartile. ITC Ltd, Procter and gamble Hygiene and Health Care Ltd lies between the third quartile and the highest ratio. ITC Ltd holds the highest Ratio. The below table (2) indicates the Quartile Range of Net Profit Ratio

## (iii) Quartile Range of Administrative Cost Ratio

Godrej industries Ltd holds the lowest ratio. Godrej industries Ltd, ITC Ltd lies in between lowest and first quartile. Marico Ltd, Hindustan Unilever Limited and Britannia Industries Ltd are in between first and second quartile. There are no companies in between second and third quartile. Dabur India Ltd, Procter & Gamble Hygiene and Health Care Ltd, Colgate Palmolive (India) Ltd, Asian paints Ltd and Gillette India Ltd lies in between the third quartile and the highest ratio. Gillette India Ltd holds the highest ratio. The below table (3) indicates the Quartile Range of Administrative Cost Ratio.

# (iv) Quartile Range of Marketing and Distribution Cost Ratio

Godrej industries Ltd holds the lowest Ratio. Godrej industries Ltd, ITC Ltd, Marico Ltd, Hindustan Unilever Limited, Britannia Industries Ltd, Procter & Gamble Hygiene and Health Care Ltd, Colgate Palmolive (India) Ltd, Asian paints Ltd paints and Gillette India Ltd are in between the lowest and first quartile. There are no companies in between the first and Second quartile. There are no companies in between second and third quartile. Dabur India Ltd lies in between the third quartile and the highest ratio and also holds the highest Ratio. The below table (4) clearly states the Quartile Range Marketing & Distribution Cost Ratio.

# (v) Quartile Range of Total Cost to Sales Ratio

ITC Ltd holds the lowest Ratio. ITC Ltd, Gillette India Ltd, Procter & Gamble Hygiene and Health Care Ltd, Colgate Palmolive (India) Ltd, and Dabur India Ltd are in between the lowest and First-quartile. Asian paints Ltd paints, Marico Ltd and Hindustan Unilever Limited are in between second and third quartile. Britannia Industries Ltd is in between second and third quartile. Godrej industries Ltd lies between the third quartile and the highest ratio and also holds the highest Ratio. The below table (5) clearly states the Quartile Range Total Cost Ratio to Sales Ratio.

# (vi) Quartile Range of Fixed Asset to Total Asset

Marico Ltd holds the lowest Ratio. Marico Ltd, Godrej Industries Ltd and Procter & Gamble Hygiene and Health Care Ltd are in between the lowest ratio and first quartile. Hindustan Unilever Limited, Britannia Industries Ltd, Gillette India Ltd, Dabur India Ltd and Asian paints Ltd are in between the first and second quartile. There are no companies in between Second and third quartile. Colgate Palmolive

(India) Ltd and ITC Ltd are in between the third quartile and the highest ratio. ITC Ltd holds the highest Ratio. The below table (6) clearly states The Quartile Range Fixed Asset to Total Asset.

# 6. Quartile range of Fixed Asset to Total Asset



Conclusion

Inter-firm Comparison is one of the effective tools of management. It can be applied in any industry whether manufacturing or service. Inter-firm Comparison is used for analyzing good and poor performance of companies in an industry. Six ratios are taken for comparison and Ten companies chosen using a statistical techniques and comparison of taken which are falling in the respective quartile range. Net Profit Ratio helps in determining the efficiency with which affairs of the business are being managed highest ratio in the case a better position of the companies. In this research ITC Ltd holds 22.4% which indicates ITC Ltd performing better than that of other companies and Procter & Gamble Hygiene and Health Care Ltd holds 21% which is next to ITC. Return on Capital Employed indicates percentage of return on the total capital employed in the business. Colgate holds the highest ROCE among the selected companies. Procter & Gamble Hygiene and Health Care Ltd are also in between third quartile and the highest ratio. Marketing & Distribution expenses ratio and Administrative expenses ratio indicate the cost efficiency. ITC, Procter & Gamble Hygiene and Health Care Ltd and Godrej Industries Ltd are making use of their marketing and distribution expenses efficiently among the selected companies. Godrej Industries Ltd and ITC Ltd effectively managed their administrative cost. ITC Ltd and Procter & Gamble Hygiene and Health Care Ltd are efficiently managing their total cost among the selected companies in this study. ITC Ltd and Colgate Palmolive (India) Ltd are holding more fixed asset in Total asset which indicates the wealth of these companies. The authors strongly suggested ITC Ltd to Investor for obtaining more profit and also for long term Capital gain.

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