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A COMPARATIVE STUDY OF LIQUIDITY ANALYSIS OF BRITANNIA AND NESTLE DURING THE INDUSTRIAL POLICY 2009-14

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ABSTRACT

Working capital is highly essential for any manufacturing company for its maintenance and survival. Food Processing Industry being in the manufacturing sector is considered to be a sun rise industry in India, has to give utmost importance to working capital as it is fed by Agriculture which highly depends on monsoon. Indian Food Industry has the potential to be the world leader in food production if it is aptly supported by agriculture with sound financial aid. This paper tries to compare the working capital position of the top 2 food processing industries in India which are listed in BSE Index. Statements of Working Capital and liquidity ratios have been applied to understand the liquidity position of the 2 companies during the industrial policy period 2009-14. The data is obtained from the website and the selected companies are the 2 top most companies ranked based on profitability. The study concludes with the identification better company of the two in terms of liquidity.

KEYWORDS: *Working capital, BSE Index, Nigerian foods, food market*

REVIEW OF LITERATURE

Ogbuji and Ogunyomi Oluwatosin Olatunji, in their study 'Working Capital Management Policy and Financial Performance in the Nigerian Foods and Beverages Industry: A Study of Nestle Nigeria[1]' have tried to evaluate the relationship of working capital management policy and financial performance of Nigerian foods and beverages industry, using Nestle Nigeria Plc as case study during the period of 2008-2012. The study employed the use of descriptive analysis, accounting ratios and simple correlation analysis to test the formulated hypotheses respectively. The findings revealed that working capital management policy have relationship with the firm's financial performance. Specifically, a negative significant relationship existed between WCM and profitability performance while a negative insignificant relationship do exist between WCM and liquidity performance of Nestle Nigeria Plc within the period covered by the study.

Karnataka – Agro and Food Processing sector profile[2] brings out the advantages that India has in food processing sector such as agriculture is a key economic driver in India, second-largest producer of food in the world and spends more than a quarter of its expenditure on food and related items etc..

Bottlenecks in Indian Food Processing Industry[3] – Survey 2010, summarises that potential of Indian Food Processing Industry and the problems that it faces. India is one of the world's largest producers as well as consumer of food products, with the sector playing an important role in contributing to the development of the economy. Food and food products are the largest consumption category in India, with a market size of USD 181billion. Domestically, the spending on food and food products amounts to nearly 21% of the gross domestic product of the country and constitutes the largest portion of the Indian consumer spending more than a 31% share of wallet. Going forward, the Indian domestic food market is expected to grow by nearly 40% of the

current market size by 2015, to touch USD 258 billion by 2015.

A study by *Mel Hudson, Andi Smart, et al*[4] tries to evaluate the appropriateness of strategic performance measurement system development processes for SMEs. This evaluation resulted in the identification of a process based on its congruency to the theoretical model, which is used for an empirical investigation. The paper concludes with a number of recommendations to facilitate the development of appropriate PM processes for SMEs.

A research by *Richard G.P. McMahon*[5] has made an attempt to bring out the impact of financial reporting practices upon business growth and performance outcomes amongst small and medium-sized enterprises engaged in manufacturing in Australia. The study is able to establish some statistically significant bivariate associations between the extent and frequency of financial reporting undertaken and certain measures of SME growth and performance. The study concludes that improved financial reporting should be realistically viewed as simply part of a broader competence in financial management which, taken together with other functional capabilities, is likely to lead to more effective and efficient management of SMEs and significantly improve their prospects

A paper by *Jolanda Hessels*, *Nasser Bouman* and *Sjoerd Vijfvinkel*[6] focuses on the relationship between environmental sustainability and the financial performance of SMEs in terms of profit development and revenue development. The analysis uses a unique dataset of 337 Dutch and Chinese firms. The results suggest a significant positive association between environmental sustainability and firm performance. It appears that different indicators of environmental sustainability display a distinct relationship with the two performance measures.

Dr.P.Uma, in her research paper has tried to study the 'Role of SMEs in Economic Development of India'[7] comparing the performance of small and medium enterprises in the pre-liberalisation and post liberalisation period. The paper concludes that every industrial and business organization has to take up the responsibility to meet the challenges posed by globalization. Not only the big business, but even a small business enterprise in India has to take up the responsibility to meet the standards, qualities, technological up gradation, skills technical know-how needed in the global market.

An article 'SMEs in India: Importance and Contribution' by *Sudha Venkatesh & Krishnaveni Muthiah*[8], makes an attempt to bring out the importance of small and medium enterprises in India in addition to the services provided by the supporting agencies promoting the SMEs.

RESEARCH GAP

The above review of literature of research articles have brought out the problems relating to Indian Food Processing industries, the potential that the country has for the growth and prosperity of the sector, the presence of insignificant relationship between the working capital policy and the financial performance of the food processing industries, etc. But the research works carried out in India pertaining to the topic in working capital management in food processing industries carried out in Nestle and Britannia have been very rare. The working capital management of the top two food processing industries was felt necessary in relation to the pre and during the Industrial policy period 2009-2014. Hence this study is undertaken by the researcher with the objective of comparing the liquidity position of the select companies.

STATEMENT OF PROBLEM

Though Food Processing is a sunrise industry in India, its contribution to India's GDP and Exports is a matter of concern. It is still in its nascent stage even with several new schemes and facilities provided by Union and State Governments to this sector. The growth rates and other performance indicators are lagging behind than on expected lines. Against the backdrop of MSMED Act 2006 provisions and the enforcement of Industrial Policy 2009-14 features, this paper makes an attempt to study the Liquidity and working capital management of the select industries during the period 2005-14.

OBJECTIVES

1. To understand the Industrial Policy Resolution of Government of Karnataka 2009-14
2. To appraise the Liquidity and working capital management of select Food Processing Industries in India pre and during the New Industrial Policy.
3. To offer suggestions based on the study.

SCOPE OF THE STUDY

The study covers top 2 food processing industries in India (based on profitability) registered under BSE Index. The study is carried out for a period of 10 years from 2005 to 2014 consisting of 5 years prior to the industrial policy period and 5 years during the policy period. The paper makes an attempt to analyse performance of the selected food processing industries by comparing the liquidity management prior to and during the industrial policy period.

RESEARCH METHODOLOGY

It is an Analytical and Descriptive type of research design. It is based on secondary data i.e financial statements of the food processing units

pertaining to the past 10 years drawn 5 years prior to and 5 years during Industrial Policy of 2009-14.

SOURCES OF DATA

The financial statements revealing the Assets and Liabilities position, liquidity and profitability of the select companies have been obtained from the respective company's website through 'moneycontrol.com for the period 2005 to 2014.

SAMPLING DESIGN

Judgemental Sampling has been used while selecting the sample units for the study. Totally 62 companies have been listed in BSE Sensex under Food Processing Sector as on December 2015. Out of these, top 2 companies viz., Britannia and Nestle have been chosen for the study ranked based on their profitability.

TOOLS AND TECHNIQUES OF DATA ANALYSIS

Financial Tools such as Ratios and Averages have been calculated for analysis of the financial data. Tables and Charts have been prepared for the ratios of the study period.

Important Provisions of the Industrial Policy 2009-14:-

- Streamlining land acquisition process through inclusive development
- Management of industrial areas / estates
- World class infrastructure to investors
- Development of Special Economic Zones
- Entrepreneurship development / promotion of self employment by local youth through proper backup support and facilitation
- Boost to manufacturing sector
- Promotion of Exports
- Conservation of scarce resources
- Establishment of food parks at potential locations as the State is an ideal location for promotion for the promotion of agro food processing industries.
- Single window clearance mechanism
- Incentives and concessions
- Exemptions from Stamp duty for MSME, Large and Mega Projects
- Concessional registration charges for MSME, Large and Mega Projects
- Waiver of conversion fine
- Exemption from entry tax
- Incentives for Export Oriented Enterprises, etc

Data Analysis:-

Liquidity of the select companies under food processing industries is analysed using Liquidity Ratios and statements of working capital.

Hypotheses:-

H_0: There is no significant difference in the Liquidity position of the two companies.

H_a: There is a significant difference in the Liquidity position of the two companies.

Limitations of the study:-

The study is confined to the select 2 food processing industries listed in the BSE index. The analysis is based on the 10 years' financial statements i.e. from 2005 to 2014. This paper considers tries to assess the liquidity position of the companies in order to study the performance keeping other factors constant.

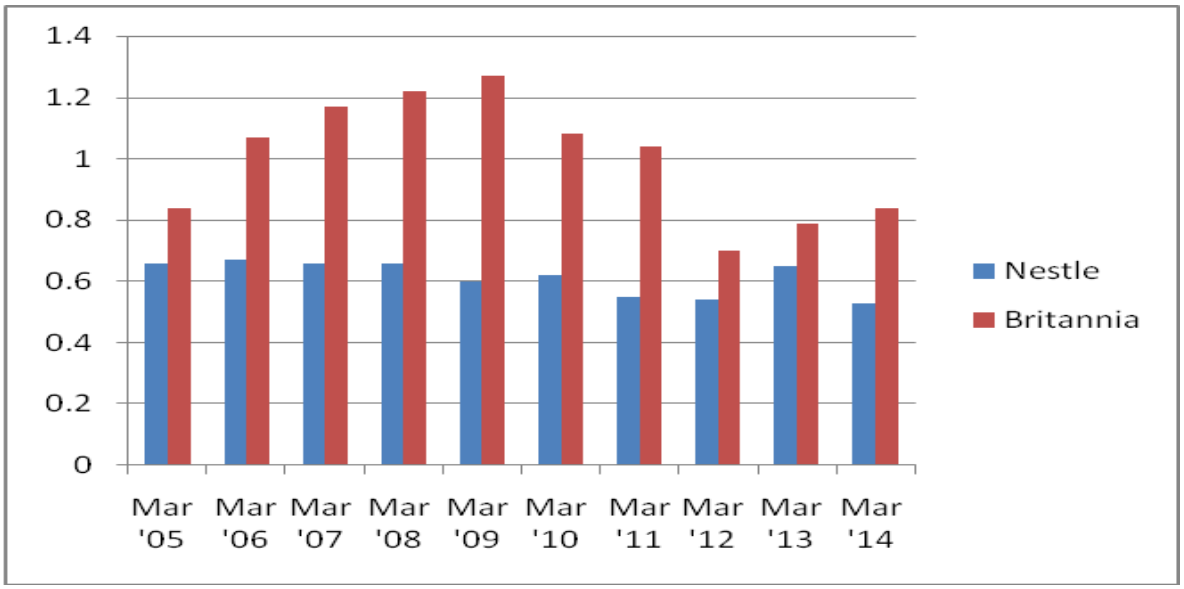
ANALYSIS OF DATA

Table1: Current Ratio of Nestle and Britannia from 2005 to 2014.

	Mar '05	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14
Nestle	0.66	0.67	0.66	0.66	0.6	0.62	0.55	0.54	0.65	0.53
Britannia	0.84	1.07	1.17	1.22	1.27	1.08	1.04	0.7	0.79	0.84

The above table shows that both the companies do not have satisfactory current ratio of 2:1. Both suffer from liquidity problem but the problem is more with Nestle when compared to Britannia in terms of liquidity. Hence steps should be taken to improve the current assets position. During the industrial policy period also there is no improvement seen in case of both the companies rather the situation has further deteriorated.

Chart 1: Current Ratio of Nestle and Britannia from 2005 to 2014.



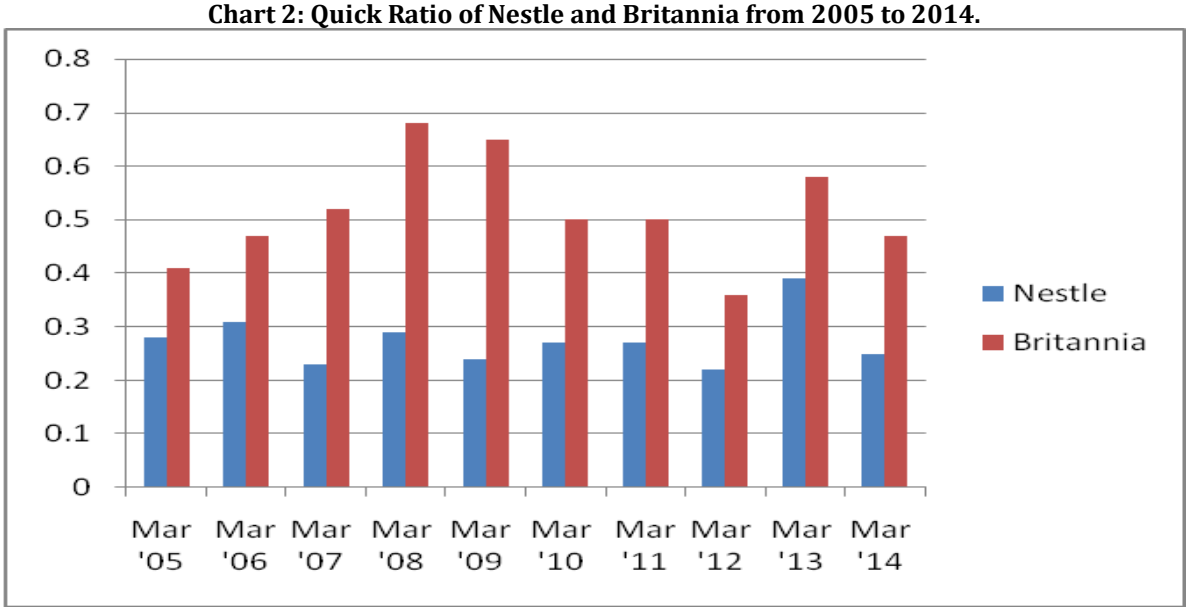
Though it is not satisfactory, Britannia has highest current ratio during the pre industrial policy period and has started declining from 2010 onwards.

Table 2: Quick Ratio of Nestle and Britannia from 2005 to 2014.

	Mar '05	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14
Nestle	0.28	0.31	0.23	0.29	0.24	0.27	0.27	0.22	0.39	0.25
Britannia	0.41	0.47	0.52	0.68	0.65	0.5	0.5	0.36	0.58	0.47

The table above reveals that both the companies do not have sufficient quick assets to pay off current liabilities when compared to the standard ratio of 1:1. Nestle suffers more from liquidity problem when compared to Britannia. Efforts should be made by the companies to improve else they may have to face serious liquidity crisis. It can also be seen that there is no much difference in the liquidity position of the companies during industrial policy period also.

Chart 2: Quick Ratio of Nestle and Britannia from 2005 to 2014.



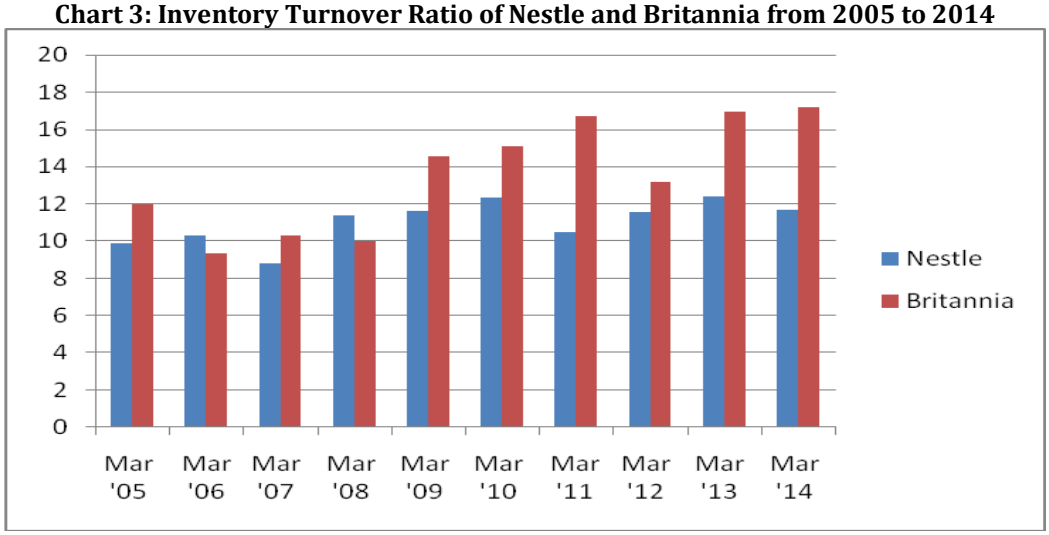
The chart reveals that both the companies' liquidity position suffers due to insufficient liquid assets over the 10 years of study period.

Table 3: Inventory Turnover Ratio of Nestle and Britannia from 2005 to 2014

	Mar '05	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14
Nestle	9.87	10.28	8.79	11.39	11.61	12.33	10.49	11.55	12.37	11.67
Britannia	11.97	9.34	10.31	9.98	14.54	15.08	16.68	13.17	16.94	17.19

The above table shows the number of times inventory is converted into sales. Higher the ratio, the liquidity position of the company is assumed to be good. Inventory Turnover Ratio of Britannia is comparatively better than Nestle with the ratio of 17.19. Britannia has successively increased its sales during the industrial policy period. This could be attributed to the impetus given by the state governments to improve the food processing industries.

Chart 3: Inventory Turnover Ratio of Nestle and Britannia from 2005 to 2014



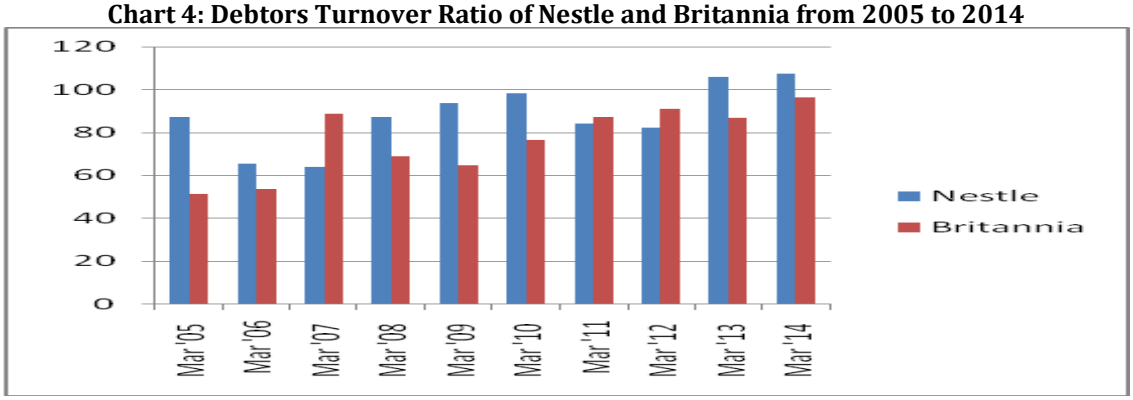
The above chart reveals that Inventory Turnover Ratio of Britannia is better compared to Nestle over the 10 years from 2005 to 2014. The increase in the ratio is due increased sales of Britannia over the years.

Table 4: Debtors Turnover Ratio of Nestle and Britannia from 2005 to 2014

	Mar '05	Mar '06	Mar '07	Mar '08	Mar '09	Mar '10	Mar '11	Mar '12	Mar '13	Mar '14
Nestle	87.32	65.35	64.09	87.37	93.68	98.22	84.1	82.12	105.92	107.49
Britannia	51.3	53.85	88.94	69.07	64.88	76.42	87.18	90.94	86.89	96.44

The above table shows the Debtors Turnover Ratio of the companies from 2005 to 2014. The ratio represents the number of times the companies have had credit sales. It shows that the ratio is higher in case of Nestle when compared to Britannia. Though higher ratio implies good liquidity position, the money is locked up with the debtors thereby affecting the liquidity position of the company.

Chart 4: Debtors Turnover Ratio of Nestle and Britannia from 2005 to 2014



The chart reveals that Nestle's funds are locked up in the form of Debtors. Though the growing ratio indicates better liquidity position for the company, the efforts should be made to convert the debtors into cash else the firms suffer.

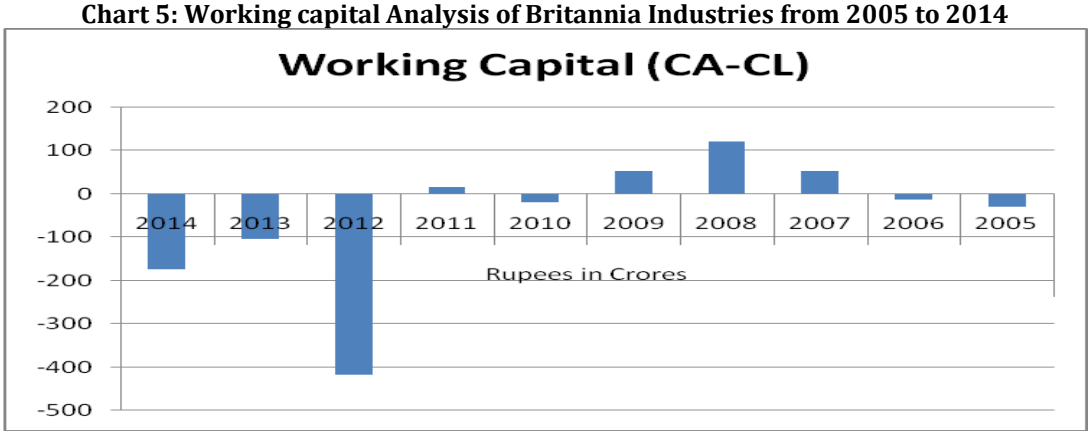
Table 5: Working capital Analysis of Britannia Industries from 2005 to 2014

Rupees in Crores

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Current Assets	486.33	473.09	465.36	397.21	325.94	343.8	391.4	292.08	226.88	194.84
Current Liabilities	660.98	576.9	882.53	381.29	345.08	290.06	269.66	238.12	239.89	223.03
Working Capital (CA-CL)	-174.65	-103.81	-417.17	15.92	-19.14	53.74	121.74	53.96	-13.01	-28.19

The table shows that the company's working capital is not satisfactory as there is a negative value for the years 2014, 2013, 2012, 2006 and 2005. This negative working is attributable to reduced current assets over the years. There is an increase in the current liabilities with an increase in the current assets during the industrial policy period but the company's working capital position has remained pathetic with negative values.

Chart 5: Working capital Analysis of Britannia Industries from 2005 to 2014



The above chart reveals that out of the 10 years, the company faces negative working capital for 6 years. Even during the industrial policy of 2009-2014, with sufficient support from the government, the working capital position of the company has remained negative.

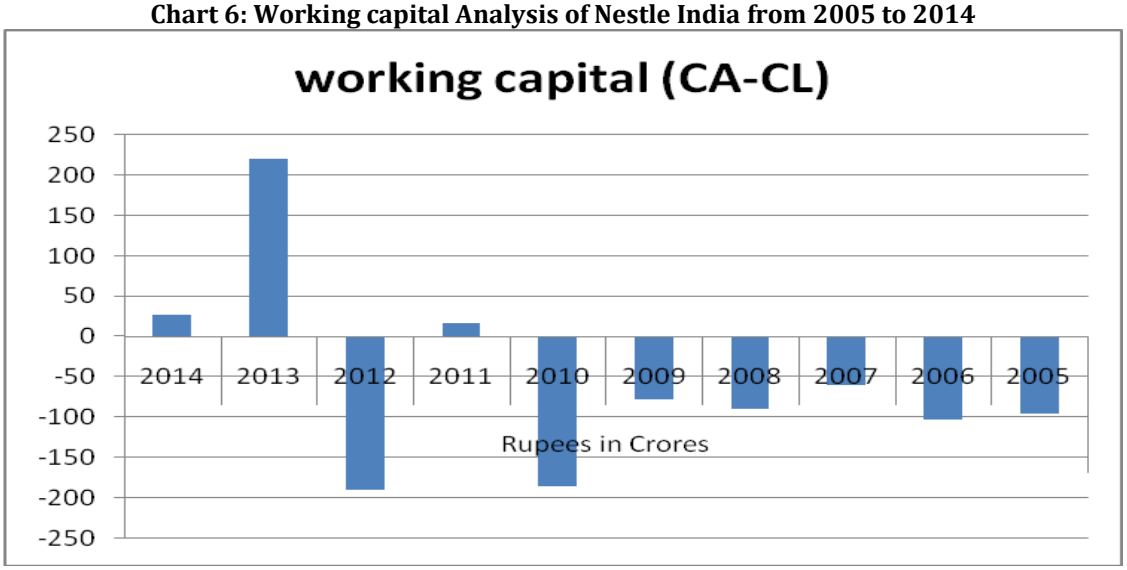
Table 6: Working capital Analysis of Nestle India from 2005 to 2014

Rupees in Crores

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Current Assets	1,389.02	1,569.56	1,070.11	1,076.67	658.69	589.66	493.16	470.46	338.51	287.26
Current Liabilities	1,361.00	1,348.76	1,259.51	1,059.75	843.68	666.39	582.44	529.51	440.82	381.68
working capital (CA-CL)	28.02	220.80	-189.40	16.92	-184.99	-76.73	-89.28	-59.05	-102.31	-94.42

The table shows that the working capital position of Nestle India has slightly improved over the years. The company had negative working capital due to increased current liabilities for the years 2005 to 2010 and there is an improvement during the year 2011, but the company picks up from 2013 due to increased current assets.

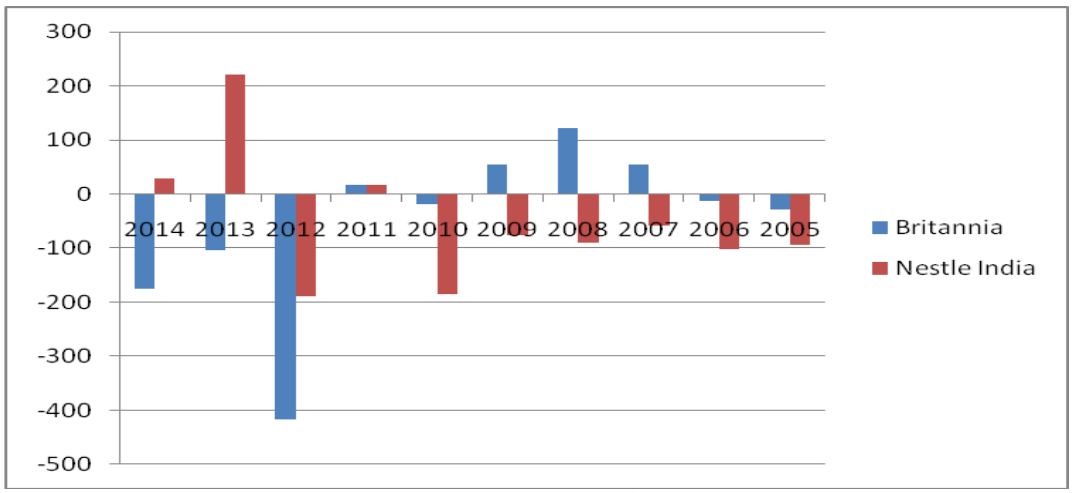
Chart 6: Working capital Analysis of Nestle India from 2005 to 2014



Except for the years 2013, 2014, 2011, the company has negative working capital due to higher current liabilities in the rest of the years.

Comparison of Working Capital (CA-CL) Rs. In crores

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Britannia	-174.65	-103.81	-417.17	15.92	-19.14	53.74	121.74	53.96	-13.01	-28.19
Nestle India	28.02	220.8	-189.4	16.92	-184.99	-76.73	-89.28	-59.05	-102.31	-94.42



From the above Table and Chart, it may be inferred that both the companies suffer from working capital problems. Britannia is slightly better when compared to Nestle India as its working capital position is improved from the year2013 whereas Nestle India still has negative working capital.

MAJOR FINDINGS

- India has huge potential for the growth and development of food processing industries
- The industry attracts incentives from both central as well as state government
- The Central government introduced several schemes through industry policy 2009-14 for MSME, Large and Mega projects.
- The current ratio of both the companies is not satisfactory compared to the standard ratio of 2:1.
- The Quick Ratio of both the companies is also not satisfactory when compared to the standard ratio of 1:1.
- Inventory Turnover Ratio of Britannia is good when compared to Nestle implying

that the company sells more number of times.

- Debtors Turnover Ratio of Nestle is greater compared to Britannia and reveals that the company's funds are tied up in the form of debtors hence affecting its liquidity position.
- The working capital position of Britannia reveals that it is negative for the years 2014, 2013, 2012, 2006 and 2005 and no much improvement during the industrial policy period also.
- Except for the years 2013, 2014, 2011, Nestle has negative working capital due to higher current liabilities in the remaining years.

SUGGESTIONS

1. There is no much impact of Industrial Policy on the liquidity position of the select companies under Food Processing sector.
2. The companies under study should make efforts to improve their liquidity position.
3. Governments should introduce new schemes to facilitate the companies to avail working capital loans.

CONCLUSION

The above comparative study on working capital management of Britannia and Nestle through Ratios reveal that both the companies suffer from liquidity problems. Efforts should be taken by both the companies to improve their liquidity position.

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