# ANALYSE THE FINANCIAL PERFORMANCE OF THE DABUR INDIA LIMITED

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## ABSTRACT

*In the current era of e-commerce, the Global FMCG sector is projected to reach near about $15000 billion by 2025. In line to this, FMCG is the fourth largest sector in Indian. The Dabur India Ltd. is one of the India's leading company. Therefore, researcher made attempted to assess the financial performance and financial trends in the last ten years. This study aims at evaluating the financial positions in terms of Liquidity, Solvency, Profitability etc. The researcher used the ratio analysis technique for the study. The overall result of the study clearly indicates that, the financial performance in all areas are in positives which are in favor of Dabur. This can help Dabur India to ensure a robust market share for the company and an unbeatable position in the FMCG sector.*

**Keywords:** Financial Performance, Financial Statement Analysis, Ratio Analysis, FMCG Industry.

## INTRODUCTION

Fast-moving consumer goods (FMCG) sector is India's fourth-largest sector. There are three main segments in the sector; food and beverages accounts for 19% of the sector; healthcare accounts for 31% of the share; and household and personal care accounts for the remaining 50% share.

The largest contributor to the entire revenue produced by the FMCG sector in India is the urban segment, which represents a revenue share of about 55%. However, compared to urban India, the FMCG market has risen more quickly in rural India during the past few years. The semi-urban and rural populations are expanding quickly, and 50% of all rural expenditure is on FMCG products.

Despite widespread lockdowns, the Indian FMCG business increased by 16% in 2020–21, a 9-year high, thanks to consumption-led growth and value expansion from higher product prices, especially for staples. Over the period 2015 to 20, final consumption expenditure grew at a compound annual growth rate (CAGR) of 5.2%.

According to Fitch Solutions, real household spending is projected to increase by 9.1% Year on Year (YoY) in 2021, after contracting more than 9.3% in 2020 due to economic impact of the pandemic. According to CRISIL Ratings, the FMCG sector's revenue growth is anticipated to treble, from 5-6% in FY21 to 10-12% in FY22. In Q3 2021, the domestic FMCG market expanded by 12.6% year over year.

In the September quarter, the number of households purchasing on modern-trade



**Citation Information:** Mahamuni, P.N., Jumle, A.G., Barge, P., & Sunder, R.G. (2022). Analyse the financial performance of the dabur india limited. *Academy of Accounting and Financial Studies Journal, 26*(6), 1-08.

channels increased by 29.15% YoY, and the volume of those purchases increased by 19.2% YoY. Rural consumption of FMCG surged 58.2% YoY in September 2021, which is twice as much as urban consumption (27.7%). From April to June 2021, the domestic FMCG market grew by 36.9% year over year.

From US$ 110 billion in 2020, the FMCG market in India is projected to grow at a CAGR of 14.9% to US$ 220 billion by 2025. The market for processed foods in India is anticipated to grow from US$ 263 billion in 2019–20 to US$ 470 billion by 2025.

By 2026, at a CAGR of 28.99%, it is predicted that the Indian online grocery market will generate more than Rs. 1,310.93 billion (US$17.12 billion) in sales. Over the next five years, the gross merchandise value (GMV) of the online grocery market in India is anticipated to rise 18 times, reaching US$ 37 billion by FY25. Out of 39 Mega Food Park projects, 22 were operating as of February 2021, 15 were being implemented, and 2 had received in-principle approval.

During the COVID-19 pandemic, many FMCG firms teamed with e-commerce sites like Dunzo, Flipkart, Grofers, and BigBasket to deliver goods right to customers' doorsteps.E-commerce sales from Marico Ltd., Hindustan Unilever Ltd., Dabur India, ITC, and Godrej Consumer Products Ltd. made up, respectively, 8%, 6%, 5%, 5%, and 4% of all FMCG sales in the fourth quarter of FY21. According to Accenture India, some of the major FMCG firms in the nation's e-commerce share reached 7-8% as of June 2021.

According to estimates, the e-commerce business would rise from $38.5 billion in 2017 to $200 billion in 2026, supported by an increase in internet users from 622 million to 900 million by 2025.

## Significance of the Study

Considering the growth of the FMCG Industry in India and their contribution of 20% of GDP in Indian economy. As it is necessary to understand the financial performance of the industry as. a whole. Dabur India Ltd. is one of the India’s leading company and having 20% market share of FMCG in India. This makes researcher attempted to measure, assess the financial performance and financial trends in the last decade.

## Objectives of the study

1. To study and analyze the financial position of Dabur India Limited.
2. To assess profitability, liquidity and solvency positionof the Dabur India Limited.
3. To depict trends in the performance of the Dabur India Limited.

## Research Methodology

Quantitative and Analytical research design has been chosen for this study. The data for this study has been collected through secondary sources i.e. Annual Reports of Dabur India Ltd. The research has been conducted on the data of last 10 years (i.e. FY 2011-12 to FY 2021-22) The Ratio Analysis and MS-excel are used for data analysis.

# RESULTS

Result are based in the calculations of Ratios from the financial data of annual reports of Dabur India and are used to analyses and assess the financial position of the Dabur India. The following inferences are drawn from the data.



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## Liquidity

The Current Ratio has deteriorated in recent years. This is primarily due to increase in Trade Payables and reduction in Trade Receivables. This could possibly be due to the pandemic that the company had to hold on the raw material stock in larger quantities. Creditors analyze liquidity ratios when deciding whether or not they should extend credit to a company. The lower the current liabilities, the better the Current ratio. Dabur must look at the possibility of paying off creditors faster or repayments of short term borrowings to improve its Current ratio. Ideally, quick ratio should be above 1. However, like Current Ratio, the quick ratio has also deteriorated in recent years. This could be due to large stock of inventories that the company has to hold due to pandemic. The inventory of Dabur has gone up in the last 2 years as is clearly visible in the Balance sheet. A quick ratio of less than 1 implies that the company may not have enough liquid assets to pay the current liabilities and should be treated with caution. If the acid-test ratio is much lower than the current ratio, it means that a company's current assets are highly dependent on inventory.

## Debt to Equity

External debts have been showing a declining trend which implies that the company is almost having negligible debts. Debt is at just 0.12 times to its equity, which is a very good sign for investors. A low debt ratio suggests greater credit worthiness. It is also an indicator of a lower dependence on external funds and more dependence on internal funds. Generally, in the FMCG sector with faster sales turnover, the debts are generally on the lower side. Even the other industry players report similar debt to equity ratio trends.

Total Assets to Debt Ratio: A Total Assets to Debt ratio of more than 1 implies that the Company has sufficient assets to take care of its debt. The company offers a very high "*safety margin*" to the lenders. The ratio was showing an improving trend until FY21 which indicates that the debts of the company were less than its assets which is also clear from the Debt to Equity Ratio. However, in FY22 the ratio has dropped suddenly due to an increase in borrowings, both short term and long term.

## Proprietary Ratio

Dabur has been showing an improving Proprietary ratio trend. On an average, almost 65% - 70% of total assets have been financed by the Proprietor's fund, which is a healthy trend. The same is also evident from the Debt to Equity ratio which indicates a very less dependence on borrowed funds and more reliance on owned funds. A high Proprietary ratio indicates that the company has a sufficient amount of equity to support the functions of the business, and probably has room in its financial structure to take on additional debt, if necessary.

## Interest Coverage

Dabur exhibits a very comfortable Interest Coverage Ratio for the investors. The debt being almost negligible, the company is having sufficient income (i.e. 51 times) to repay interest on loans and has enough profits to service its debts. A higher interest coverage ratio indicates stronger financial health i.e. the company is more capable of meeting interest obligations. It also indicates the company's low riskiness relative to its current debt or for future borrowing. A



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company's ability to meet its interest obligations is an aspect of its solvency and is thus an important factor in the return for shareholders. A high ratio helps to survive unforeseeable financialhardships that may arise in the future.

### Inventory Turnover

A high inventory turnover reduces the amount of capital tied up in inventory, thereby improving liquidity and financial strength. Higher ratios suggest that a company can move its inventory with relative ease. However, Dabur has quite a low inventory turnover even when compared with industry peers. A low turnover could mean weak sales and possibly excess inventory, also called overstocking. Issues with the goods offered for sale or too little marketing could be the factors responsible. Proper demand forecasting, effective marketing, regular price negotiation with suppliers, smart pricing strategy etc. can help improve Inventory Turnover.

### Debtors Turnover

Dabur has maintained a trend for a few years and improved on the same in the last 2 years. The company is able to convert its debtors almost 18 times to cash. On an average the debtors are held in the business for 20 days. A high debtor turnover ratio implies better credit management and quick conversion of receivables into cash. The higher the value of Debtors Turnover the more efficient is the management of debtors/sales or more liquid are the debtors. A high receivables turnover ratio is also an indicator that the company's collection of accounts receivable is efficient and that it has a high proportion of quality customers who pay their debts quickly. Most importantly a higher turnover ratio also illustrates a better cash flow and a more robust balance sheet or income statement.

### Working Capital Turnover

The ratio of 10.95 times indicates the efficiency of the company in generating revenue by utilizingits working capital. A higher working capital turnover ratio is better, and indicates that a company is able to generate a larger amount of sales. A higher ratio indicates greater efficiency and can help the company's operations run more smoothly and limit the need for additional funding. A high working capital turnover ratio potentially gives a competitive edge in the industry and suggests that money is flowing in and out of the business smoothly. It gives more spending flexibility and helps avoid financial trouble.

### Operating Ratio

The operating ratio has come down from 83% to 79% resulting in increased margin. Over aperiod of time the ratio has been decreasing which is a healthy sign. An operating ratio that is decreasing is viewed as a positive sign, as it indicates that operating expenses are becoming an increasingly smaller percentage of net sales. A decreasing trend of this ratio implies that either expenses are decreasing or revenue isincreasing or there is a combination of both.

### Operating Profit

Dabur has been able to increase the operating Profit ratio over a period of time from 17% to 21%.This will give the company a cushion against competition. The higher the ratio, the better



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a company is. A higher operating profit margin means that a company has lower fixed cost and a better gross margin or increasing sales faster than costs, whichgives management more flexibility in determining prices. The positive trend over a period of 10 years shows that profitability is improving. A high operating margin is a good indicator a company is being well managed and is potentially less ofa risk than a company with a lower operating margin.

### Net Profit

Net profit has also been increasing over a period of time from 12 % to 18% till FY'21 though in FY'22 the profit has fallen to 16% in comparison to FY'21 due to increase in non-operating expenses and input cost of procuring raw materials. However, the Net profit ratio of Dabur is the best in comparison to industry peers. Generally, the Net profit margin of Dabur is showing a positive trend. A higher net profit marginmeans that a company is more efficient at converting sales into actual profit. A high net profit margin means that a company is able to effectively control its costs and/or providegoods or services at a price significantly higher than its costs. A high ratio is normally the result of efficient management, low costs (expenses) and strong pricing strategies.

### Return on Capital Employed

Return on Capital Employed is at 26 %, however over a period return on capital has reduced from30 % to 26%, which is a cause of concern for the shareholders. This is despite when the Net profit and operating margins have increased. A higher return on capital employed is favorable, as it indicates a more efficient use of capital employed. Moreover, potential investors consider ROCE as one of the parameters for investment. Options available to Dabur for improving its return on capital employed (ROCE) ratio include reducing costs, increasing sales, and paying off debt or restructuring financing.

### Leverage Ratio

As the company is having negligible debts, the leverage is very low at 0.46 times its net worth. Debt to Equity and Total Assets to Debt ratios is also indicative of this trend of Leverage ratio. The lower the leverage ratio, the easier it will be to secure a loan.

### Earnings per Share

EPS of Dabur has been on an increasing trend over a period of time i.e. from 3.70 per share in FY'12 to 9.84 per share in FY'22. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. A positive trend in EPS suggests that a company is more valuable and the company has more profits to distribute to its shareholders. A company which posts year over year continued EPS growth signals that it can sustain profits over time. Since investors keep an eye on the share price of all the listed companies increasing EPS attracts investors as they like to invest in companies whose earnings are on a constant rise (Swain, & Patnaik, 2013).

### Price to Earnings

The stock is being traded at a premium. Investors are willing to pay 54 times premium to



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hold the stock. It could be due to its superior growth potential and efficient business models with efficient utilization of assets. A high Price to Earnings ratio could mean that a stock's price is high relative to earnings and possibly overvalued. Companies with a high P/E Ratio are often considered to be growth stocks and it indicates a positive future performance. Investors have higher expectations for future earnings growth and are willing to pay more for them (Shastri, 2022).

### Return on Asset

The Company has consistently been able to generate profits between 14% and 18% from its assets. A high Return on Asset ratio implies that the company is efficiently using its assets to generate profits. A higher Return on Assets ratio means a company is more efficient and productive at managing its balance sheet to generate profits. A higher ratio indicates that the company can produce relatively higher earnings in comparison to its asset base i.e. more capital efficiency.

### Return on Equity

The ROE has been consistently declining over a period of time i.e. from 38% in FY'12 to 21% inFY'22 (For every rupee invested, the company is being able to generate only 21 paise as return). Decreasing ROE is a cause of great concern and the company needs to dwell on the reasons for the declining trend. A declining ROE can mean that management is making poor decisions on reinvesting capital in unproductive assets. The company can improve its ROE by way of debt financing and by increasing its profit margins (Skool Team, 2021).

### Dividend Payout

The Company has been consistently balancing its growth and dividend payout by paying on an average 35% of net profits as dividend and remaining 65% of net profits for ploughing back to the business for company's growth. However, for the last 2 years there has been considerable increase in dividend payout at 50% in FY'21 & FY'22. This leaves less funds for expansion of business. More mature, established companies, with a steadier but probably slower growth rate, are morelikely to have a relatively high DPR as they do not feel the need to commit a high percentage oftheir earnings to business expansion.

### Quality of Earnings

A ratio that is greater than 1 means net income is less than the operating cash flows, suggesting abetter Quality of Earnings. The company has effectively and consistently been able to convert its accrual earnings into cash which is a good sign indicating that the funds are not stuck in business. A company is said to have high-quality earnings if it reports an increase in profit because of improved sales or cost reductions. An increase in sales due to a marketing campaign is also asign of the high quality of earnings (Dabur India Ltd, 2022).

### Book value per share

Book Value per share has been increasing consistently over a period of time ie. From 9.86 in FY'12 to 47.41 in FY'22. Book value is based on a company's balance sheet whereas market



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value is based on its share price. When the book value per share of Dabur is compared with the market value per share which is at Rs.536, the stock seems to be overvalued. The stock market often assigns a higher value to many companies because they have more earnings power than their assets. It indicates that investors believe the company has excellent future prospects for growth, expansion, and increased profits.

### Earnings Yield

The Earnings Yield Ratio has fallen over a period of time from 3% to 2% which is not a positive indicator for the investor. Earnings yield is an indicator of value; a low ratio may indicate an overvalued stock and a high value may indicate an undervalued stock. The falling ratio shows undervalued stocks which is alsoquite evident from Book Value per Share.
It needs to be noted that stocks with high growth potential are typically valued higher and may have low earnings yield even as their stock price rises (Indian, 2015).

### Compounded Annual Growth Rate (CAGR)

Company is growing at a CAGR of 7.48 % over a period of 10 years and at 14.06% for the last 1year. Even in comparison with industry peers, Dabur has a considerable Compounded Annual Growthrate.

### Findings

1. The liquidity position of the company is declined year by year due to result of increase in Trade Payables and fall in Trade Receivables. Moreover, the company is also holding a high amount of inventory which could adverselyaffect its short-term obligations in future.
2. The solvency position of the Dabur is good. The ratio reveals a higher dependence of Dabur on owned funds rather than on borrowed funds for financing its business activities. This is an indicator of a good credit standing of the company which means that the companyis financially sound and can easily take care of its business functions and debt obligations.
3. Dabur has a low inventory turnover which implies that substantial capital is locked up in inventory. However, the company is managing its debtors very well and is able to convert them into cash quite effortlessly. The company is also able to profitably apply the working capital to generate revenue.
4. Dabur seems to have controlled its costs and increase revenue from operations as the profit margins are showing an increasing trend. The company is efficient in converting its sales into cash. At the same time, it is also offering a good return to investors as indicated by positive trendin EPS.

## CONCLUSION

Dabur has made its presence felt for almost 137 years now and the brand undoubtedly holds a prominent position in the FMCG sector. India’s most trusted name and the world’s largest Ayurvedic and Natural Health Care Company, Dabur holds great potential to become the most preferred Company to meet health and personal grooming needs of their target consumers with safe, efficient and natural solutions.

After analyzing the financial performance for the last 10 years, it indicates positive trends in Dabur’s Profitability and Solvency ratios which are an indicator of the company’s strong long-term financial position. The company needs to work on its short-term Liquidity and turnover ratios more efficiently and improve the Current ratio, Quick ratio and Inventory turnover ratios to gain an edge over industrypeers. Debts of Dabur are almost negligible and the



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company finances its business with owned funds. The cash flows from operations are well managed and investors get good returns on their investments. All these positives in favor of Dabur can help to ensure a robust market share for the company andan unbeatable position in the FMCG sector.

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**Received:** 30-Sep-2022, Manuscript No. AAFSJ-22-12634; **Editor assigned:** 01-Oct -2022, PreQC No. AAFSJ-22-12634(PQ); **Reviewed:** 14-Oct-2022, QC No. AAFSJ-22-12634; **Revised:** 19-Oct-2022, Manuscript No. AAFSJ-22-12634(R); **Published:** 26-Oct-2022