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A Financial Ratio Analysis of Dabur India Limited.

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Abstract:

The purpose of the study is to know about the **Dabur India Limited** to study the growth of **Dabur India Limited**. The data required for the paper has been taken from “www.dabur.com” “www.moneycontrol.com” from 2009-10 to 2013-14. In the next step, ratios, Mean, Standard Deviation, correlation coefficient for the data of company has been calculated. Here I tried to find the administrative expense form gross profit and net profit and the closing stock from current assets and liquid assets. The fast moving consumer goods (FMCG) segment is the fourth largest sector in the Indian economy. The study conducted is based on the ratio analysis, t-test which helped to analyze the performance of companies in Indian FMCG Industry. **KEYWORDS:** Growth, Profitability, Ratio.

Objectives:

To know about profit, loss of Dabur India Limited
To evaluate the present and future profitability, administrative expense of Dabur India Limited
To know about liquid position of Dabur India Limited

Meaning of financial ratio analysis

Ratio analysis is an important and powerful technique or method, generally, used for analysis of Financial Statements. Ratios are used as a yardstick for evaluating the financial condition and performance of a firm. (Chavda, 2015)

A sustainable business and mission requires effective planning and financial management. Ratio analysis is a useful management tool that will improve your understanding of financial results and

trends over time, and provide key indicators of organizational performance. Managers will use ratio analysis to pinpoint strengths and weaknesses from which strategies and initiatives can be formed. Funders may use ratio analysis to measure your results against other organizations or make judgments concerning management effectiveness and mission impact. (Newsletter)

Financial ratios are mathematical comparisons of financial statement accounts or categories. These relationships between the financial statement accounts help investors, creditors, and internal company management understand how well a business is performing and areas of needing improvement. (<http://www.myaccountingcourse.com/financial-ratios/>)

PROFITABILITY RATIOS

The following two profitability ratios are calculated for this study (1) Gross profit ratio, (2) Net profit ratio.

(1) Gross Profit Ratio:

The first ratio in relation to sales is gross profit ratio or gross margin ratio. The ratio can be calculated by

$$\text{Gross Profit Ratio} = \frac{\text{Sales} - \text{Cost of Goods Sold}}{\text{Sales}} \times 100$$

$$= \frac{\text{Gross Profit}}{\text{Sales}} \times 100$$

(2) Net Profit Ratio:

Net profit is obtained, after deducting operating expenses, interest and taxes from gross profit. The net profit ratio is calculated by

$$\text{Net Profit Ratio} = \frac{\text{Profit after Tax}}{\text{Sales}} \times 100$$

Net profit includes non-operating income so the later may be deducted to arrive at profitability arising from operations.

Liquidity Ratio : The following two liquidity ratios are calculated for this study

- (1) Current ratio
- (2) Liquidity ratio.

(1) Current Ratio

Current ratio is defined as the relationship between current assets and current liabilities. It is also known as working capital ratio. This is calculated by dividing total current assets by total current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

(2) Liquid ratio.

Liquid ratio establishes the relationship between liquid assets and current liabilities. Liquid assets are those that can be converted into cash, quickly, without loss of value. Cash and balance in current account with bank are the most liquid assets.

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Liquid Liabilities}}$$

Scope of the Study

The study covers analysis of financial statements of **Dabur India Limited** for the period 2009-2010 to 2013-2014. It can be extended to future period also. With the help of statistical analysis, the forecasting of subsequent years can also be made for particular item such as sales, inventory, profit, etc. The statistical analysis can also be applied to every ratio and by their upon more comprehensive results can be obtained. The statistical analysis can also be applied to other similar companies as well as the industry as a whole in order to know the prevailing situation in the whole industry.

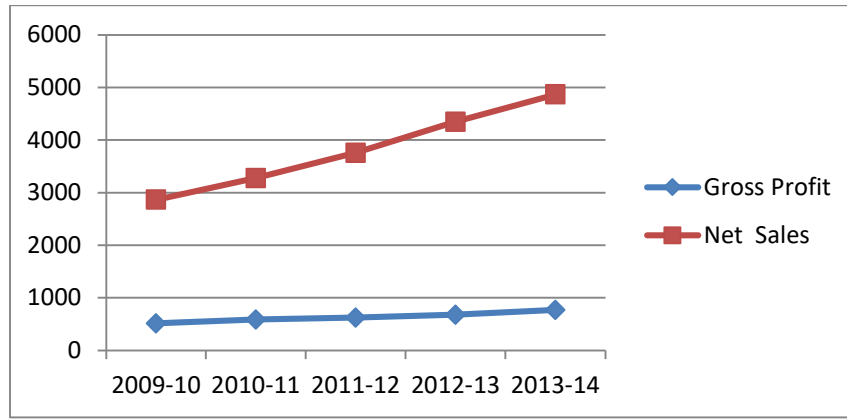
Limitations of Ratio Analysis

1. Different companies operate in different industries each having different environmental conditions such as regulation, market structure, etc. Such factors are so significant that a comparison of two companies from different industries might be misleading.
2. Financial accounting information is affected by estimates and assumptions. Accounting standards allow different accounting policies, which impairs comparability and hence ratio analysis is less useful in such situations.
3. Ratio analysis explains relationships between past information while users are more concerned about current and future information. (Jan)

Data Analysis:

Gross Profit Ratio

Year	Gross Profit (in caror)	Net Sales (in caror)	Ratio
2009-10	517.85	2867.42	18.06
2010-11	586.45	3274.43	17.91
2011-12	622.54	3759.33	16.56
2012-13	681.11	4349.39	15.66
2013-14	771.42	4870.08	15.84



Statistical Techniques :

Particulars	Mean	Standard Deviation
Gross Profit	635.88	96.13
Net Sales	3,824.13	804.92

The correlation coefficient between Gross Profit and Net Sales is 0.99

Testing of Hypothesis:

H_0 : There is no linear correlation between Gross Profit and Net sales.

H_1 : There is linear correlation between Gross Profit and Net sales.

$$t_{cal} = 12.25$$

$$t_{0.05} = 3.18$$

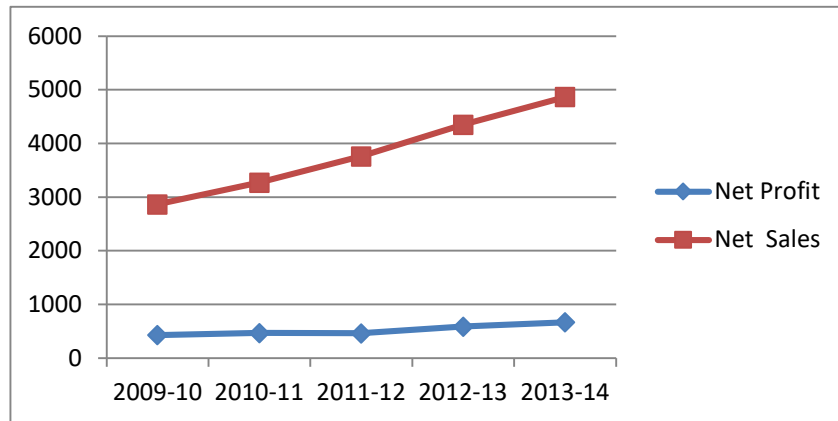
$$t_{cal} > t_{0.05}$$

The hypothesis is rejected so we can say that there is linear correlation between Gross Profit and Net sales.

Net Profit Ratio

Year	Net Profit (in caror)	Net Sales (in caror)	Ratio
2009-10	433.33	2867.42	15.11
2010-11	471.41	3274.43	14.40
2011-12	463.24	3759.33	12.32

2012-13	590.98	4349.39	13.59
2013-14	672.1	4870.08	13.80



Statistical Techniques:

Particulars	Mean	Standard Deviation
Net Profit	526.21	101.33
Net Sales	3,824.13	804.92

The correlation coefficient between Net Profit and Net Sales is 0.95

Testing of Hypothesis:

H_0 : There is no linear correlation between Net Profit and Net sales.

H_1 : There is linear correlation between Net Profit and Net sales.

$$t_{cal} = 5.22$$

$$t_{0.05} = 3.18$$

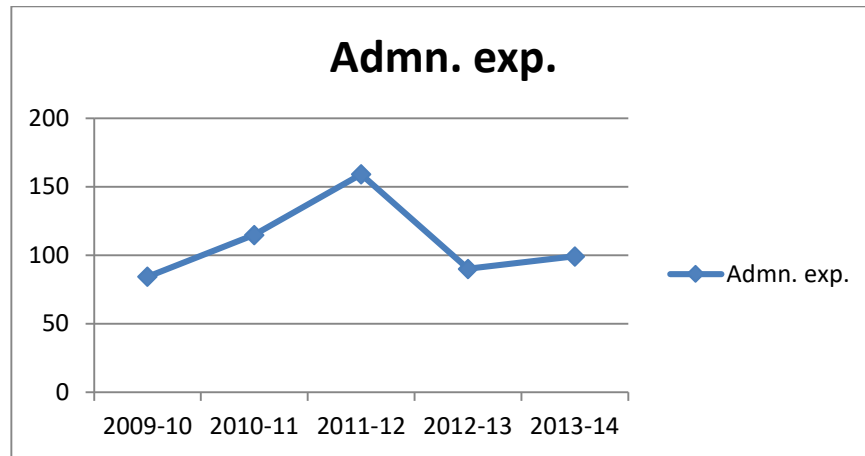
$$t_{cal} > t_{0.05}$$

The hypothesis is rejected so we can say that there is linear correlation between Net Profit and Net sales.

Administrative (managerial) expense

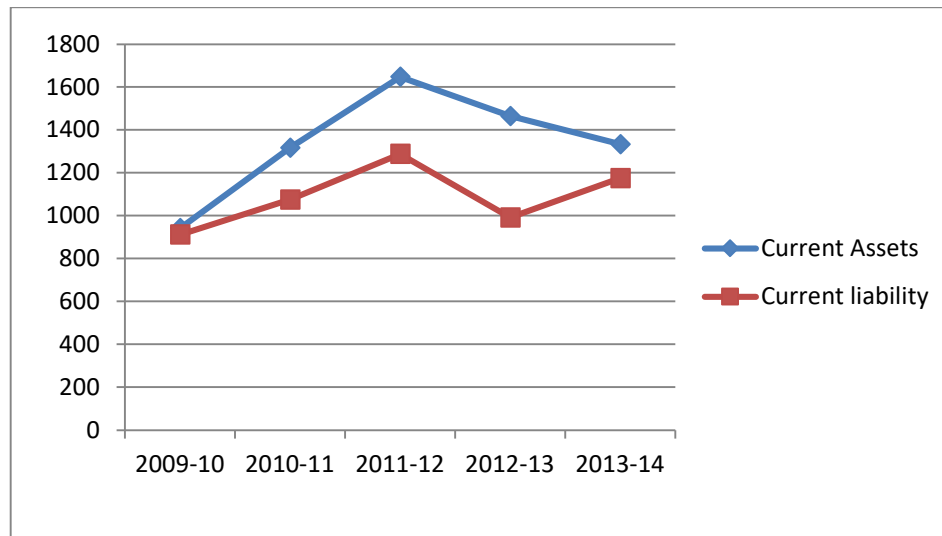
Gross profit- Net profit

Year	Gross Profit (in caror)	Net Profit (in caror)	Admn. exp. (in caror)
2009-10	517.85	433.33	84.52
2010-11	586.45	471.41	115.04
2011-12	622.54	463.24	159.3
2012-13	681.11	590.98	90.13
2013-14	771.42	672.1	99.32



Current ratio

Year	Current Assets (in caror)	Current liability (in caror)	Ratio
2009-10	941.77	911.83	1.03
2010-11	1317.26	1074.41	1.23
2011-12	1647.64	1288.1	1.28
2012-13	1464.83	991.53	1.48
2013-14	1333	1175.17	1.13



Statistical Techniques:

Particulars	Mean	Standard Deviation
Current Assets	1,340.90	259.51
Current Liabilities	1,088.21	148.46

The correlation coefficient between current assets and current liability is 0.77

Testing of Hypothesis:

H_0 : There is no linear correlation between Current Assets and Current liability.

H_1 : There is linear correlation between Current Assets and Current liability

$$t_{cal} = 2.12$$

$$t_{0.05} = 3.18$$

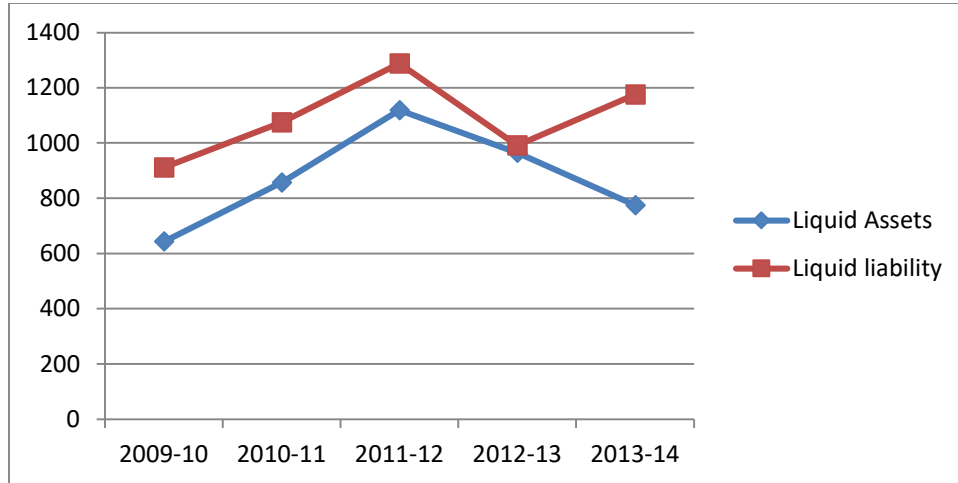
$$t_{cal} < t_{0.05}$$

Thus we fail to reject null hypothesis, so we can say that there is no linear correlation between Current assets and Current liability.

Liquid Ratio

Year	Liquid Assets (in caror)	Liquid liability (in caror)	Ratio

2009-10	643.33	911.83	0.71
2010-11	856.68	1074.41	0.80
2011-12	1119.07	1288.1	0.87
2012-13	965.09	991.53	0.97
2013-14	774.8	1175.17	0.66



Statistical Techniques:

Particulars	Mean	Standard Deviation
Liquid Assets	871.79	181.44
Liquid Liabilities	1,088.21	148.46

The correlation coefficient between liquid assets and liquid liability is 0.67

Testing of Hypothesis:

H_0 : There is no linear correlation between Liquid Assets and Liquid liability.

H_1 : There is linear correlation between Liquid Assets and Liquid liability.

$$t_{cal} = 1.57$$

$$t_{0.05} = 3.18$$

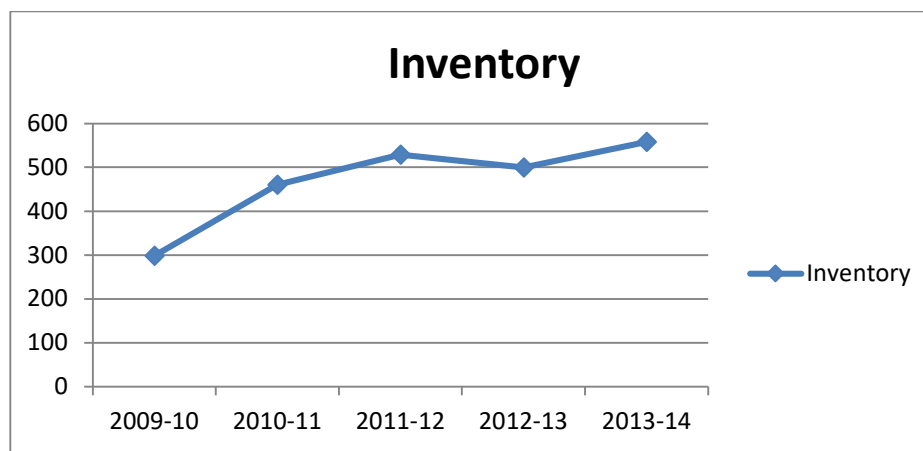
$$t_{cal} < t_{0.05}$$

Thus we fail to reject null hypothesis, so we can say that there is no linear correlation between Liquid assets and Liquid liability.

Inventory (Stock)

Current assets – Liquid assets.

Year	Current Assets (in caror)	Liquid Assets (in caror)	Inventory (in caror)
2009-10	941.77	643.33	298.44
2010-11	1317.26	856.68	460.58
2011-12	1647.64	1119.07	528.57
2012-13	1464.83	965.09	499.74
2013-14	1333	774.8	558.2



Conclusion:

The sales of company was increasing continuously in last five years, but we can see the gross profit ratio was decreasing continuously which was threat for the company. The average Net profit ratio of last five years was 13.84%. In 2011-12 the administrative expense was at pick level. The average current ratio of last five year was 1.23:1 which is lower than standard ratio (2:1) and in all five year current ratio was lower than standard ratio. The average liquid ratio of last five year was



0.80:1 which was near to standard liquid ratio (1:1). The stock of the company was increasing continuously which was also threat for the company. The company needs to make more sales efforts.

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