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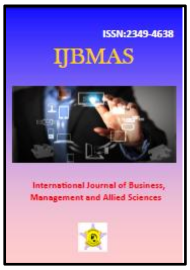
PERFORMANCE EVALUATION THROUGH RATIO ANALYSIS: THE CASE STUDY OF DABUR INDIA LIMITED

MANINDER KAUR[1], RITU PRIYA[2]

[1]Head, Business Management and Commerce Department.
Guru Nanak Khalsa College for Women, Ludhiana.
Email ID : Maninderkaurrekhi@yahoo.in
[2] Assistant Professor in Commerce, Guru Nanak Khalsa College for Women, Ludhiana.
Email ID : priyaritu78@gmail.com



ABSTRACT

Ratio analysis is one of the useful tool to interpret the financial results of the company. With the help of ratios, company can understand its strengths and weaknesses and can take decisions effectively. The present paper will focus on the study of financial performance of one of the famous pharmaceutical company (Manufacturer of herbal and ayurvedic products) in India i.e. Dabur India Limited with the help of 18 ratios of different categories. In order to study the financial performance, five ratios have been taken into consideration. Study is based on the secondary data drawn from the annual reports of Dabur India Ltd. Data of five years i.e. from 2011-12 to 2015-16 has been taken into account. The chi square test has been used for testing the hypothesis and research paper will provide some important findings and suggestions to the company for its better performance.

INTRODUCTION

Ratio analysis is one of the most powerful tools for the company for analyzing its performance. Company can judge its efficiency with its help and can find out its strengths and weaknesses in order to make its performance better. Ratios are basically quantitative in nature and can easily figure out the positive and negative trends of the company. There are various types of ratios which a company can use for making short term plans and long term plans. Ratios provide base to the various stakeholders like shareholders, creditors, banks, debenture holders, government, and investors etc. to revolutionize certain aspects of a firm's performance. So the present paper attempts to measure the performance of the Dabur India Ltd. with the help of ratio analysis.

LITERATURE REVIEW

Jagetia C, Lal (1996) given an article in the journal "Management Accountant" on the subject "Ratio Analysis in Evaluation of Financial Health of the Company". He concluded that ratio analysis is very in comparing today's performance with the past. He said that ratio analysis should not be viewed as an end but should be viewed as a starting point. Ratios by themselves do not answer the questions. One must look at other sources of data in order to make a judgment about the future of the company.

Patel, R Jayesh (2002) conducted the study on sugar factory in valsad and navsari district. The primary purpose of the study was to evaluate the performance of three sugar factories by using various ratios and fund flow statements. The period of the study was from 1989-90 to 1998-99. He focused his attention to salient features and turn a critical eye on point of weakness.

Patel, S Vijay and Mehta, B. Chandresh (2012) conducted research on Krishak Bharti Co-operative Limited. He analyzed the profit and loss account and balance sheet of the company and used different types of ratios. He concluded that income of the company is based on the subsidy provided by the government. Company should increase the production and concentrate on the quality of products. The company should try to minimize its operating expenses as to maintain profits.

Damjibhai, Sanghani Divyesh (2014) analyzed the performance of Indian Hotel Company Ltd. and evaluate the financial performance and profitability by using ten ratios with the help of chi square test. He analyzed the strengths and weaknesses of the company. He concluded his research by suggesting that company's profitability is decreasing continuously and working capital of the company is facing critical situation. As far as dividend is concerned, company is following a stable dividend policy si that it can maintain the market price of the shares. So company needs lots of improvement.

OBJECTIVES OF THE STUDY

The broad objectives of the study are to analyze the trends of performance of Dabur India Ltd. The study attempts to:

- Evaluate the financial position of the selected unit.
- Evaluate the profitability position with the help of ratios.
- Evaluate the solvency position with the help of ratios.
- Evaluate the liquidity position with the help of ratios.
- Give suggestions for the improvement in financial position of the company.

HYPOTHESIS

Based on objectives, the following hypothesis has been framed.

- **Ho (Null Hypothesis):** There is no significant difference in various ratios of Dabur India Ltd. during the study period.
- **Ha (Alternative Hypothesis):** There is significant difference in various ratios of Dabur India Ltd. during the study period.

RESEARCH METHODOLOGY

In order to conduct the research, data has been taken from the annual report of Dabur India Ltd. (from the website of AMPL). Time period of five financial years have been covered i.e. from 2011-12 to 2015-16. Eighteen ratios have been taken into consideration of different categories and these are listed below.

Ratios Used

- **Per Share Ratios:** 1. Earning per share, 2. Dividend per share, 3. Book value per share
- **Profitability Ratios:** 1. Operating margin, 2. Return on net worth, 3. Return on long term funds.
- **Leverage Ratios:** 1. Owner's fund as percentage of total source, 2. Fixed assets turnover ratio, 3. Total debt / Equity
- **Liquidity Ratios:** 1. Current ratio, 2. Quick ratio, 3. Inventory turnover ratio
- **Payout Ratios:** 1. Dividend payout ratio, 2. Earning retention ratio
- **Coverage Ratio:** 1. Financial charge coverage ratio
- **Component Ratios:** 1. Exports as percentage o total sales, 2. Import component in raw material consumed, 3. Long term assets / Total assets

Statistical tool Chi-Square test (with α 0.05) has been used, in order to evaluate the results. Data is analyzed manually without using any software.

$$\chi^2 = \sum \frac{(O - E)^2}{E}$$

RESULTS AND DISCUSSIONE

The data analysis has been done in two parts (1). Analysis of ratios, and (2). Testing of hypothesis.

Analysis of Ratios

The ratio analysis of financial statement comprises the process of arrangement of data, computation of ratio, interpretation of the ratio so computed and projection through ratio. Table 1depict the selected ratios of Dabur India Ltd during the study period.

Table shows that **per share ratios** are continuously increasing in every year which is a good sign for the company. As far as **profitability ratios** are considered, operating margin is decreasing in the year 2012-13 and 2013-14, return on net worth is decreasing in the year 2013-14 and 2014-15 and return on long term funds is continuously decreasing in all the years which are not a good sign. This shows downward trend in profitability of the company as compared to past years. Now we come to the point of **leverage ratios**. Rule of thumb for debt equity ratio is 2:1 but company is not satisfying this rule in any year. Ratio of owner's fund as a percentage of total source is good but fixed assets turnover ratio is declining with very less percentage which is within tolerable limits. As far as **liquidity ratios** are concerned, current ratio and quick ratio are continuously decreasing which shows bad liquidity position of the company. Inventory turnover ratio is decreasing in the year 2015-16. **Payout ratios** are also facing mix trends. Dividend payout ratio is decreasing in 2012-13 and 2015-16. Earning retention ratio is decreasing in the year 2013-14 but these ratios are in tolerable limits. **Financial charge coverage ratio** provides protection against fixed interest charges. It emphasize on the volume of the profit available to meet out the fixed interest charges means how many times we can make payment of fixed interest charges out of available profits. Higher the ratio, better it is. This ratio is showing changes with great difference. It shows decreasing trend in the years 2012-13 and 2013-14 but shows increasing trend in next two years.

Table 1 Showing Selected ratios of Dabur India Limited.

Year Ratio	2011-12	2012-13	2013-14	2014-15	2015-16
Earning Per Share	2.66	3.39	3.85	4.34	5.34
Dividend Per Share	1.30	1.50	1.75	2	2.25
Book Value Per Share	7.48	9.15	10.91	13.30	16.32
Operating Margin	17.47	17.34	16.95	17.27	19.10
Return on Net Worth	35.56	37.16	35.33	32.64	32.71
Return on Long Term Funds	49.55	48.27	46.33	43.24	42.57
Total debt / Equity	0.20	0.15	0.02	0.05	0.03
Owner's Fund as Percent of Total Source	82.65	86.81	97.72	94.76	97.07
Fixed Assets Turnover Ratio	2.57	2.55	2.57	2.46	2.12
Current Ratio	1.49	1.48	1.13	0.99	0.87
Quick Ratio	0.88	0.97	0.65	0.54	0.46
Inventory Turnover Ratio	7.18	8.80	8.83	10	9.48
Dividend Payout Ratio	48.88	44.23	45.40	46.06	42.12
Earning Retention Ratio	55.44	55.77	54.65	55.34	57.88
Financial Charges Cover Ratio	50.49	45.72	48.34	108.83	131.78
Exports as Percent of Total Sales	4.44	5.47	4.51	3.68	3.27
Import Component in Raw Material Consumed	0.91	1.47	0.86	1.95	3.34
Long Term Assets / Total Assets	0.46	0.47	0.57	0.66	0.70

Source: Annual Reports of Dabur India Limited of Respective Years.

At last **component ratios** are also showing mixed trends. Exports are decreasing except in the year 2012-13 which is bad sign. Import component is increasing every year except in the year 2013-14. This shows that company is focusing more on import than export. And as a general rule, exports should be more than import. Companies long term assets are continuously increasing that's why its current ratio is decreasing every year.

Hypothesis Testing

Table 2 indicates the calculated and critical value of chi square statistic of selected ratios of Dabur India ltd. in case of Earning per share, Dividend per share, Book value per share, Operating margin, Return on net worth, Return on long term funds, Owner's fund as percentage of total source, Fixed assets turnover ratio, Total debt / Equity**,** Current ratio, Quick ratio, Inventory turnover ratio, Dividend payout ratio, Earning retention ratio**,** Exports as percentage of total sales, Import component in raw material consumed and Long term assets / Total assets, the calculated value of χ^2 -test is less than the critical value and P-value is higher than alpha 0.05 value. It means that there is no significant difference between these ratios over the years during study period.

In the case of financial charge coverage ratio, the calculated value of χ^2-test is higher than the critical value and P-value is lower than alpha 0.05 value. So, it implies that there is significant difference in this ratio over the years under the study period.

Table 2 showing χ^2 value of selected ratios of Dabur India Ltd.

2015-16	Chi Square Value		P -- Value		Hypothesis		Results
	Calculated	Critical	Calculated	α-Value	Ho	Ha	
5.34	1.038	9.49	0.9039	0.05	✓		No Significant Difference
2.25	0.328	9.49	0.9879	0.05	✓		No Significant Difference
16.32	4.24	9.49	0.3744	0.05	✓		No Significant Difference
19.10	0.162	9.49	0.9969	0.05	✓		No Significant Difference
32.71	0.444	9.49	0.9787	0.05	✓		No Significant Difference
42.57	0.81	9.49	0.9371	0.05	✓		No Significant Difference
0.03	0.287	9.49	0.9907	0.05	✓		No Significant Difference
97.07	1.963	9.49	0.7425	0.05	✓		No Significant Difference
2.12	0.06	9.49	0.9996	0.05	✓		No Significant Difference
0.87	0.269	9.49	0.9917	0.05	✓		No Significant Difference
0.46	0.273	9.49	0.9915	0.05	✓		No Significant Difference
9.48	0.509	9.49	0.9726	0.05	✓		No Significant Difference
42.12	0.544	9.49	0.9691	0.05	✓		No Significant Difference
57.88	0.107	9.49	0.9986	0.05	✓		No Significant Difference
131.78	84.596	9.49	0.0000	0.05		✓	Significant Difference
3.27	0.673	9.49	0.9547	0.05	✓		No Significant Difference
3.34	2.424	9.49	0.6584	0.05	✓		No Significant Difference
0.70	0.082	9.49	0.9992	0.05	✓		No Significant Difference

Ratios / Year	2011-12	2012-13	2013-14	2014-15
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Long Term Assets / Total Assets	0.46	0.47	0.57	0.66

Source: Annual Reports of Dabur India Limited of Respective Years.

FINDINGS OF THE STUDY

Following are the major findings of the study.

1. Profitability is an important aspect of performance appraisal which indicates the ability of the company to perform various tasks in a most effective way. Operating margin of the company is showing almost increasing trend which is a good sign.
2. The distribution of the dividend is the main key factor in maintaining the market price of the share in open market. Dividend per share is continuously increasing and dividend payout ratio is showing the mix trend which is helpful in maintain the market price of the share.
3. Working capital plays a vital role in effective utilization of resources. Rule of thumb for current ratio is 2:1 and for quick ratio is 1:1. And company is not satisfying these rules in any of the years. And both these ratios are showing decreasing trend. Company should try to maintain its working capital position.
4. Company's debt equity ratio is also not satisfactory. Rule of thumb is 2:1. Company is far behind from this rule and again this ratio is decreasing.
5. The effective utilization of fixed assets ultimately leads to up gradation of profitability. Fixed assets turnover ratio is almost stable in first four years and in fifth year, ratio is declined. So profitability also follows the same direction.

SUGGESTIONS

1. As findings of the study are showing that company needs overall improvement in ratios. Per share ratios and profitability ratios of the company is satisfactory. Company needs lot of improvement in debt equity ratio and liquidity ratios.
2. Coverage ratio of the company is showing increasing trend which is good sign.
3. Payout ratios of the company shows that company is in the favor of strict dividend policy because it is paying less dividend and has a tendency to retain more so that at the time of expansion and diversification, it will plough back its profits and can itself from dilution in control.
4. Company's export component is decreasing and import component is increasing. Reverse situation will be favorable for our economy.

5. Long term assets to total assets are showing increasing trend that's why working capital of the company is decreasing. Company should try to concentrate on this matter.

CONCLUDING REMARKS

In the end we can say that, Dabur India Ltd. is the most famous ayurvedic pharmaceutical company in India. It is preserving a rich heritage and culture of India. As far as its financial performance is concerned, it is showing good and satisfactory results. Its main focused area is herbal and ayurvedic products and it has fewer competitors because very few companies are operating in this sector. Its main aim is to provide greener products to the society and it is discharging its functions in socially desirable manner. It believes that CSR is not just mandatory by law, but it is also a way of improving the company by being more sensitive towards the society and also in putting forward the image of conducting "Greener" business operations.

LIMITATION TO THE STUDY

The study is based on secondary data collected from the secondary data source viz. internet and website of company concerned. Therefore, the quality of the study depends upon the accuracy, reliability, and quality of secondary data source.

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