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# 'LIQUIDITY' AS A PARAMETER OF PERFORMANCE OF SELECTED FMCG COMPANIES IN THE PRE AND POST MERGER PERIOD

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***Abstract***
*The field of Mergers and Acquisitions (M&As) has greatly expanded over the past quarter of a century. To keep the head high in globalized economy one has to follow the path of growth, which contains various challenges and issues; one has to overpower these challenges and issues to become a success story. Therefore, the aim of this article is to study the performance of liquidity of selected FMCG companies through mergers. This article includes introduction, review of literature, analysis and interpretation, findings, suggestions and conclusion.*

***Key Words: Merger and Acquisition, FMCG, Liquidity, Ratio Analysis.***

## 1.1 Introduction
FMCG Sector in India is one of the four largest sectors in Indian economy. The FMCG (Fast Moving Consumer Goods) companies have faced tough competition among themselves over the years which is continuously increasing. This is due to the increase in per capita income among individuals and also various developments in rural economy. FMCG industry, alternatively called as CPG (Consumer packaged goods) industry primarily deals with the production, distribution and marketing of consumer packaged goods. The Fast Moving Consumer Goods (FMCG) is those consumables which are normally consumed by the consumers at a regular interval. The FMCG sector has changed its strategies and has opted for a more well-planned marketing of the products to penetrate both the rural and urban markets. To execute these tasks, the FMCG companies are hiring more and more people which have led to an increase in the job prospects in this sector. Thus, FMCG sector is creating massive employment with good career prospects. Marketing, retail, sales, services and supply are the key areas which generates maximum career scopes in FMCG Industry in India. This study is aims to find the liquidity parameter of pre and post merger of the selected FMCG companies.

## 1.2 Reviews of Literature
**SinhaPankaj & Gupta Sushant (2011)**[1] studied a pre and post analysis of firms and concluded that it had positive effect as their profitability, in most of the cases deteriorated liquidity. After the period of few years of Merger and Acquisitions (M&As) it came to the point that companies may have been able to leverage the synergies arising out of the merger and Acquisition that have not been able to manage their liquidity. Study showed the comparison of pre and post analysis of the firms. It also indicated the positive effects on the basis of some financial parameter like Earnings before Interest and Tax (EBIT), Return on share holder funds, Profit margin, Interest Coverage, Current Ratio and Cost Efficiency.

**Anshu and P.K. Jain & Sushil (2012)**[2]analyzed the impact of acquisition on acquirer firms in Indian pharmaceutical sector during the years 2002-2004 acquirer firm's perspective seems to be quite positive. In short-term, wealth accumulation is observed for few days around announcement window. Profitability, Liquidity and solvency parameters for the majority of the acquirers were already healthier. Thus, the scope of improvement was very little. In the long-run significant improvement in the net worth for the majority of acquirers is observed and it indicating the positive impact on financial performance.

**Nedunchezhian (2013)**[3] analyzed the impact of financial performance of commercial banks in the post merger period. The first test compared and analyzed the financial performance in the areas of capital adequacy ratio, management efficiency ratio, earning, profitability and leverage ratio. The second test determined the financial performance before and after the merger activity. Seven banks were merged during the period 2006-2010 were analysed, the results shows that there was better performance in the growth rate of assets & Total deposit, current ratio and quick ratio, the overall results confirms that there was better improvement in the post-merger period.

## 1.3 Statement of the Problem
It is true that dramatic events like mergers, acquisitions, takeovers, restructuring and corporate controls occupy the Indian business news papers almost daily. Further they have become central focus of public and corporate policy issues. Some assert that the activities of mergers and acquisitions represent a new force in creativity and productivity. There for an analysis has to be made to compare the liquidity performance of pre and post merger of the firms.

**1.4 Scope of the Study**
The study showed the benefits of mergers and acquisitions. It was possible to understand whether there was any significant improvement in the performance of selected companies. This study will become the basis for suggesting acquisition in the case of other companies.

**1.5 Objective of the Study**

- To analyse the difference in post-merger performance compared with pre-merger in terms of liquidity and activity ratios.

**1.6 Research Methodology**
**1.6.1 Data Collection**
The study is based on the secondary data taken from the annual reports of selected units and CMIE Prowess Data base.

**1.6.2 Selection of the Sample**
Data on operating performance ratios for upto three years prior and three years after the acquisition for each acquiring company in the sample was extracted from Prowess database of CMIE. The final sample included 3 cases of mergers, in the defined period of study. The selected companies are

1. Colgate Palmolive Private Ltd.(Pre merger-2006-07,2007-08,2008-09: Post merger-2010-11,2011-12,2012-13)
2. Hindustan Unilever Ltd. (Pre merger-2006-07,2007-08,2008-09: Post merger-2010-11,2011-12,2012-13)
3. Dabur India Ltd.(Pre merger-2006-07,2007-08,2008-09: Post merger-2010-11,2011-12,2012-13)

**1.6.3 Period of Study**
The pre-merger and post-merger averages for a set of key financial ratios were computed for 3 years prior to, and 3 years after, the year of merger completion (or the year of approval when the time of merger completion is not available). The merger completion year was denoted as year 0.

**1.6.4 Tools for Analysis**
The financial performance of selected companies were analysed with the help of ratios. Paired Sample‘t’ test was applied to test the difference in the average of selected variables before and after merger and acquisitions. Mean and Correlation were used for descriptive statistics and the data have been analyzed with the help of SPSS and MS-Excel.

**1.7 Analysis and Interpretations**

**Table 1.7.1: Analysis of Liquidity Ratios**

| Ratio / Year | Current Ratio | | | Liquidity Ratio | | |
|---|---|---|---|---|---|---|
| | Pre Merger | Post Merger | Correlation | Pre Merger | Post Merger | Correlation |
| Colgate Palmolive Ltd. | 0.74 | 1.03 | -1.00 | 1.53 | 2.11 | 0.35 |
| Hindustan Unilever Ltd. | 4.83 | 1.39 | -0.96 | 2.20 | 1.15 | 0.26 |
| Dabur India Ltd. | 1.25 | 1.61 | -0.88 | 0.59 | 0.81 | -0.48 |

Source: Annual Reports published by CMIE Prowess database

The table 1 shows the data regarding liquidity Ratios of selected companies during pre and post merger period.

**Colgate Palmolive Ltd**
**Current Ratio:** The mean value (1.03) of post merger is better than the pre merger period. There is a negative correlation between pre and post merger period. Therefore steps to be taken to improve the current ratio to the level of ideal ratio. It concluded that the working capital management is poor and the current liabilities are more than the stipulated level i.e., more than half of the current assets.

**Liquid Ratio:** The mean value (2.11) of post merger is better than the pre merger period. There is a positive correlation between pre and post merger period. The liquid ratio of the pre and post merger period is not satisfactory but there is an improvement in the post merger period. Therefore steps are to be taken to improve the liquid ratio to the level of ideal ratio.

**Hindustan Unilever Ltd**
**Current Ratio:** The mean value (1.39) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. It is known that the current ratio showing decreasing trend in the post merger period. Hence, the company should concentrate the level of current liabilities.

**Liquid Ratio:** The mean value (1.15) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. The liquid ratio of pre and post merger period is not satisfactory but it has an increasing trend in the post merger period. The company should take necessary steps to control the current liabilities.

**Dabur India Ltd**
**Current Ratio:** The mean value (1.61) of post merger is better than the pre merger period. There is a negative correlation between pre and post merger period. It is an indication that the firm is liquid and has the ability to pay its current obligations in time as and when they become due.

**Liquid Ratio:** The mean value (0.81) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. It is quite clear that the company maintained good liquid position to meet it is current or liquid liabilities in time.

**Table 1.7.2: Analysis of Activity Ratios**

| Ratio / Year | Colgate Palmolive Ltd. | | | Hindustan Unilever Ltd. | | | Dabur India Ltd. | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pre Merger | Post Merger | Correlation | Pre Merger | Post Merger | Correlation | Pre Merger | Post Merger | Correlation |
| **Inventory Turnover Ratio** | 60.78 | 46.33 | 0.17 | 8.28 | 9.11 | 0.09 | 4.14 | 7.72 | -0.64 |
| **Debtors Turnover Ratio** | 59.61 | 49.44 | -0.18 | 17.18 | 14.00 | 0.52 | 12.59 | 8.47 | 0.27 |
| **Working Capital Turnover Ratio** | -12.14 | -8.22 | 1.00 | 1.11 | -22.53 | 1.00 | -29.99 | 6.34 | 0.64 |
| **Total Assets Turnover Ratio** | 3.41 | 2.47 | 0.32 | 1.24 | 1.25 | 1.00 | 1.04 | 0.81 | 0.80 |
| **Fixed Assets Turnover Ratio** | 14.33 | 16.27 | 0.53 | 6.28 | 6.32 | 0.79 | 4.33 | 4.08 | -0.02 |

Source: Annual Reports published by CMIE Prowess database

The table 2 shows the data regarding Activity Ratios of selected FMCG companies during pre and post merger period.

**Colgate Palmolive Ltd**
**Inventory Turnover Ratio:** The mean value (46.33) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. It is noted that the ITR in the pre merger period bond satisfactory whereas in the post merger period it is far from satisfactory.

**Debtors Turnover Ratio:** The mean value (49.44) of post merger is not better than the pre merger period. There is a negative correlation between pre and post merger period. The collection policy of selected company is poor in the pre merger period and it is satisfactory in the post merger period.

**Working Capital Turnover Ratio:** The mean value (-8.22) of post merger is better than the pre merger period. There is a positive correlation between pre and post merger period. Therefore immediate steps to be taken to improve the current assets position.

**Total Assets Turnover Ratio:** The mean value (2.47) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. The overall performance of the TATR not satisfied and measures to be taken to improve this ratio.

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**Fixed Assets Turnover Ratio:** The mean value (16.27) of post merger is better than the pre merger period. There is a positive correlation between pre and post merger period. The FATR is slowly increasing both pre and post merger periods. But it is not upto the satisfactory level. Therefore the management should pay more attention to improve the FATR.

**Hindustan Unilever Ltd**

**Inventory Turnover Ratio:** The mean value (9.11) of post merger is better than the pre merger period. There is a positive correlation between pre and post merger period. It is noted that the ITR in the pre merger period is satisfactory whereas in the post merger period it is for from satisfactory.

**Debtors Turnover Ratio:** The mean value (14.00) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. It concluded that the collection policy of selected company is poor in the post merger period. Therefore steps to be taken to monitor the collection policies of the firm.

**Working Capital Turnover Ratio:** The mean value (-122.53) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. It is mainly due to lack of current assets to meet the current obligations. Therefore immediate actions to be taken to improve the current assets position.

**Total Assets Turnover Ratio:** The mean value (1.25) of post merger is better than the pre merger period. There is a positive correlation between pre and post merger period. In the post merger period the TATR showing a decreasing trend during the study period. The overall performance of the TATR was satisfactory.

**Fixed Assets Turnover Ratio:** The mean value (6.32) of post merger is better than the pre merger period. There is a positive correlation between pre and post merger period. The FATR is slowly increasing in the both pre and post merger and up to the satisfactory level.

**Dabur India Ltd**

**Inventory Turnover Ratio:** The mean value (7.72) of post merger is better than the pre merger period. There is a negative correlation between pre and post merger period. It is noted that the ITR in the pre merger period found satisfactory.

**Debtors Turnover Ratio:** The mean value (8.47) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. The collection policy of selected company is poor in the pre merger period and it is satisfactory in the post merger period.

**Working Capital Turnover Ratio:** The mean value (6.34) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. During the study period the WTR revealed that the working capital was adequate over the post merger period.

**Total Assets Turnover Ratio:** The mean value (0.81) of post merger is not better than the pre merger period. There is a positive correlation between pre and post merger period. The overall performance of the TATR satisfied and measures to be taken to maintain this ratio.

**Fixed Assets Turnover Ratio:** The mean value (4.08) of post merger is not better than the pre merger period. There is a negative correlation between pre and post merger period. The FATR in slowly increasing both pre merger periods.

**Table 1.7.3: Paired Sample 't' test**

| Ratio / Year | Colgate Palmolive Ltd. | Hindustan Unilever Ltd. | Dabur India Ltd. |
|---|---|---|---|
| **Current Ratio** | 0.10 | 0.76 | 0.29 |
| **Liquid Ratio** | 0.14 | 0.34 | 0.26 |
| **Inventory Turnover Ratio** | 0.12 | 0.50 | 0.41 |
| **Debtors Turnover Ratio** | 0.19 | 0.19 | 0.06 |
| **Working Capital Turnover Ratio** | 0.93 | 0.01 | 0.50 |
| **Total Assets Turnover Ratio** | 0.01 | 0.91 | 0.12 |
| **Fixed Assets Turnover Ratio** | 0.22 | 0.95 | 0.13 |

Source: Annual Reports published by CMIE Prowess database

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The table 3 shows the performance of selected companies by using Paired Sample 't' test during pre and post merger period.
H0: There is no significant relationship between pre and post merger period.
H1: There is a significant relationship between pre and post merger period.

The calculated t values (all the three companies) are lower than the critical value at 0.05 per cent significance level. Hence, the Null hypothesis is rejected for all the three companies. Thus, there is a significant relationship between pre and post merger period.

**1.8 Findings**

The key findings of the study relating to analysis of liquidity performance of FMCG industries in keeping in view the findings of this study were summarised below:

**1.8.1 Liquidity Ratios**

- The current ratio of Colgate Palmolive and Dabur India Ltd. were better than Hindustan Unilever Ltd. during the period of the study. This was because of the fact that the companies have followed their current assets management effectively.
- The post merger liquid ratio of Colgate Palmolive Ltd. and Dabur India Ltd. were higher than the other company. This indicates that the company has been very efficient in managing the quick assets.

**1.8.2 Activity Ratios**

- The Hindustan and Dabur India Ltd. had positive impact in inventory turnover ratio as compared to other company. This was due to the fact that the company has adopted efficient strategies in converting the frequency of finished goods into sales during the period of the study.
- The debtors turnover ratios were better in all the three companies during the period of the study. This showed that the credit collection policy of all the three companies were highly efficient.
- Dabur India Ltd. performed better in working capital turnover ratio as the company has efficiently managed its working capital so as to convert production into sales.
- The total assets of selected companies were fluctuating, whereas the turnover has considerably reduced during the period of the study, resulting in inverse relationship between total assets and turnover. This indicated that the selected companies have utilized their total assets very poorly during the period of the study.
- The selected companies were better in utilising its fixed assets optimally due to the fact that contribution of fixed assets to the turnover of the companies were comparatively more. This indicated that fixed assets management of the company was sound during the period of the study.

**1.8.3 Paired Sample 't' test**

The current ratio, liquid ratio, inventory turnover ratio, debtors turnover ratio, working capital turnover ratio, total assets turnover ratio and fixed assets turnover ratio have significantly varied among the selected FMCG companies under study.

**1.9 Suggestions**

- It has been observed during the period of the study that current ratio and liquid ratio of Colgate Palmolive ltd. and Dabur India Ltd. were found to be less than the standard norms prescribed for these ratios. Hence, it is suggested that strengthen it to have the better liquidity position in the years in the years to come.
- Credit policy of the selected companies should be reoriented, in order to have a better receivables management.

**Conclusion**

Analysis of liquidity performance and its interpretation is the need of the hour in all industries across the world. True is the case in FMCG industry also. The FMCG industry requires a sound appraisal of financial management with critical evaluation of financial policies and programmes. The FMCG companies should resort to tapping of bond market to get the required financial assistance to improve their 'liquidity' portion.

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