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Financial Performance of Supermarkets in Karnataka

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Abstract - Global supermarket food products sales are predicted to generate revenue in excess of $1.70 trillion by 2015, according to research from Global Industry Analysts. Market growth has been driven by the rising importance of consumerism. Since supermarkets first appeared in the US, they have been rolled out all over the globe, with supermarket chains securing their place at the top of the world's retail chain. Due to the effects of the economic recession, the number of consumer visits to supermarkets has fallen over recent years. Currently the UK is undergoing a sustained period of retail growth, with the high level of consumer confidence witnessed in previous years holding up. However, this situation is fragile and could change rapidly. Slower earnings, coupled with speculation about changes in interest rates and job insecurity could affect the rate of growth. Consequently retailers will suffer from even a minor economic downturn as profit margins have already been cut to sustain levels of sales. Overall, however, it is apparent that many retailers are committed to expansion with many new sites due to open over the next few years.

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Financial Performance of Supermarkets in Karnataka

Dr. Ramappa K.B [α] & Shivaprasad G [σ]

Abstract - Global supermarket food products sales are predicted to generate revenue in excess of $1.70 trillion by 2015, according to research from Global Industry Analysts. Market growth has been driven by the rising importance of consumerism. Since supermarkets first appeared in the US, they have been rolled out all over the globe, with supermarket chains securing their place at the top of the world's retail chain. Due to the effects of the economic recession, the number of consumer visits to supermarkets has fallen over recent years. Currently the UK is undergoing a sustained period of retail growth, with the high level of consumer confidence witnessed in previous years holding up. However, this situation is fragile and could change rapidly. Slower earnings, coupled with speculation about changes in interest rates and job insecurity could affect the rate of growth. Consequently retailers will suffer from even a minor economic downturn as profit margins have already been cut to sustain levels of sales. Overall, however, it is apparent that many retailers are committed to expansion with many new sites due to open over the next few years.

India, with its large, young, and growing population, presents an attractive target for expanding supermarket chains, especially from other less-developed countries. India is attractive to foreign retailers demographically and perhaps economically. Even the local marketers in the developing countries are renovating their traditional shops into a modern supermarket. With this regards an attempt has been made to understand the financial performance of supermarkets (both traditional & organized) in different cities across Karnataka. Various financial ratios were worked out for the year and presented in this paper.

I. Introduction

Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP (Jonathan, A., et.al, 2007). The Indian retail market is estimated to be US$ 450 billion (Majumder, S., 2011)) and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people (Bharadwaj, V. T., et al, 2005).

The retail market has been the subject of some profound changes over the recent past. The mix of social and economic conditions which prevailed in the 1980s triggered the arrival of a much more discerning consumer, driven not just by value for money but also increased selectivity and a demand for higher quality shopping environments. These conditions continue to impinge on the nature of today's retail market where consumer loyalty has become a vital ingredient in the success of retailers. Increasingly, successful shopping facilities have to fulfill the role of a destination location. In large parts this means providing a wide range of shopping and leisure facilities able to attractand retain the interest of the entire family. In return such schemes benefit not only from much wider catchment areas, but also from substantially longer shopping trips.

Financial performance refers to any company's ability to generate new resources, from day to day operations, over a given period of time. The financial ratio represents the relationship between two accounting figures expressed mathematically. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial performance or status of any institution against certain standards. Ratio analysis technique is popular in the accounting system of enterprises in general and helps in spotting trends towards better or poor performance. It is helpful in finding significant deviations from an average or pre-determined standard.

II. Review of Literature

Arora and ZebulNisha (1996) in their study on rural food processing in Rampur district of UP concluded that even with a low level of operation rural food processing complexes are making profits. Their annual net returns, operating profit to revenue ratio, net profit to revenue ratio, operating ratio and operating efficiency are 23.70, 25.03, 41.81, 34.49 and 58.18, respectively. The working capital intensity, operating profit to capital employed, net profit to capital employed and interest coverage ratios of 51.16, 68.38, 57.01 and 5.90, respectively, prove their financial soundness.

Devaraja (2000) study examined the performance of the Horticultural Producers Cooperative Marketing and Processing Society Limited in Karnataka, India, during the period 1958/59-1995/96. Physical and financial indicators of performance such as membership, retail outlets, share capital, owned funds, total assets, long-term investments, fixed assets, working capital, total liabilities, and sales, were analysed. Results show that there were substantial increases both in physical and financial indicators over the period of study.

Gustafson (2003) study revealed that in Fargo, USA, on an average, both food manufacturing and food retailing small businesses had positive financial

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characteristics. Although, they were only marginally profitable and liquid, they were highly solvent. Accounts receivable and inventory comprise nearly half of food manufacturers' total assets and a third of food retailers' assets. By most financial measures, food retailers were statistically smaller than food manufacturers. Both food manufacturers and food retailers utilized computers, primarily for accounting/book keeping, inventory management, and administration. Primary financial services used were for transactions and trade credit. Nearly three-fourths of food manufacturing and one-half of food retailing supply purchases involve trade credit from a large number of trade credit suppliers, on average. Both firm types have higher credit risks and were tardy with repayment of trade credit.

III. Methodology

The present study is mainly concerned with the food retailing activities of the supermarkets across selected five cities in particular and Karnataka state in general.

To fulfill the objectives related to the supermarkets operations of the study a multistage random sampling technique was used. In the initial stage, Karnataka state was selected as it is one of the leading states in organized retailing in India. At the second stage, five cities across Karnataka such as Bangalore, Hubli-Dharwad, Mangalore, Belgaum and Mysore were selected as the majority of organized retailers were existed in these areas. Recently, most of the local retailers in these areas also modernizing their stores in the form of modern formats like supermarkets. In the last stage, three supermarkets (one outlet/ branch) from each city were selected randomly, so, that the total sample size selected for the study were 15. Among the number of supermarkets existing in these areas, only three supermarketers who were agreed to provide the data are selected. However, supermarkets which were in operation for at least two successive years were selected and their performances were studied for the last financial year.

The detailed information required for the study was collected from secondary sources in order to accomplish the objective of the study.

The data on financial management aspects like different assets and liabilities, owned fund, inventory, working capital, sales and returns were collected from their records like Balance sheet, Profit and Loss account and Trade account were collected to know the financial status of these supermarkets.

a) Analytical Techniques Employed

The financial ratio analysis technique was considered in evaluating the performance of the supermarkets and they mainly point out the relative importance of the selected items. The financial statements used in this study correspond to the financial year of the supermarkets. The ratio analysis technique has been heavily relied upon, to test the solvency, liquidity, profitability, turnover and sales of the supermarkets.

IV. Results & Discussions

The financial ratios relevant to supermarkets in retailing are grouped under four different categories namely, solvency ratios, liquidity ratios, profitability ratios and turnover ratios and are presented in Table 4. 28.

a) Solvency Ratios

The solvency ratios indicate the extent of amount borrowed per rupee of owned funds in the business. Solvency refers to the ability of the supermarket to repay its outside long-term liabilities/total liabilities in turn it indicates long-term stability of a concern. The solvency ratios analyzed during the study were identified as total liabilities to owned funds ratio and fixed assets to owned funds ratio.

The ratio of total liabilities to owned funds was found to be 0.798, 0.600, 1.905, 3.535, 0.345 in Bangalore, Mysore, Mangalore, Hubli-Dharwad and Belgaum, respectively. Even the ratio of fixed assets to owned funds was found to be highest in Mangalore (1.731) followed by Hubli-Dharwad (1.367) and Bangalore (0.697). This indicated that the amount of borrowed fund per rupee was higher in Hubli-Dharwad followed by Mangalore, Bangalore, Mysore and Belgaum. This was because the amount pooled by the Hubli-Dharwad and Mangalore markets was low when compared to other cities. On the overall across cities, it was 1.400 which indicates the soundness of the supermarket business in the state. The recent conversion of traditional stores to modern type of supermarkets in these cities also made these supermarkets to be more dependency on external funds. Therefore, the supermarkets should taken care for improving the own funds and volume of business to the need of improving financial strengths of the supermarkets.

b) Liquidity Ratios

Liquidity ratio indicates the continuous operation of the supermarkets. These ratios are used to measure the ability of an institution to possess adequate cash to meet immediate obligations. The liquidity position of the supermarkets was examined using two ratios namely liquid assets to total assets ratio and current assets to current liabilities ratio.

It was noticed from the table (Table 4.28) that in all the supermarkets the liquid assets to total assets ratio was less than 0.5, which is 0.459 in Bangalore, 0.404 in Mysore, 0.399 in Mangalore, 0.157 in Belgaum and 0.268 in Hubli-Dharwad and hence the overall was 0.337. It indicated that more than 50 per cent of the assets were not in liquid assets form. Therefore, all the

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units should increase the proportion of liquid assets in the total assets so as to improve the liquidity status of all the supermarkets.

The current ratio (ratio of current assets to current liabilities) presented in the table indicates that the ratio was more than one in all the cities supermarkets except Mysore, wherein the ratio was 0.994. It means to say the supermarkets had more than one rupee of current assets per rupee of current liabilities. The minimal acceptable level for value of this ratio is two. Hence, there existed a need for improving the liquidity position of the supermarkets by reducing its dependency on the short-term borrowings.

c) Profitability Ratios

In the present study, the profitability ratios were analysed for measuring the efficiency of the firms in utilizing their resources for generating profits. The profitability of the study supermarkets in this case was analysed through net profits to fixed assets ratio, net profits to total assets ratio, net profits to owned funds ratio and net profits to total sales ratio were calculated and presented in Table 4.28.

Net profits to fixed assets ratio were found to be high in Mysore wherein the ratio was 1.297 and least in Bangalore (0.572) and in other cities also the ratio was more than 0.677. This indicated that the profit generated per rupee of fixed assets was quite good in all the cities in turn it indicates the efficient use of fixed assets by the supermarkets. Similarly, the overall net profit to total assets was 2.499 which indicate that the profit generated per rupee of total assets was nearly 2.50 rupees which indicated the improved efficiency of supermarkets in utilizing the total assets. The ratio of net profits to owned funds ratio point outs the net profits for each rupee of own funds used in the business, which were 4.621 incase of Mangalore, while 1.773 in case of Hubli-Dharwad and the least was observed in Belgaum (0.537). This ratio shows that the supermarkets were quite able to protects its equity and hence generate profits on the equity. Net profits to total sales were also found to be very significant in all the cities across the state indicating more than a 0.170 rupee contribution to per rupee total sales and still there is a need for improving capacity utilization and sales performances.

d) Turnover Ratio

The turnover ratio indicates the operational efficiency of the supermarkets in the study area. The efficiency of supermarkets in the selected cities was compared using the indicators such as working capital turnover ratio and fixed assets turnover ratios.

The working capital turnover ratio indicated the efficiency of a supermarket in utilizing its working capital for generating sales revenues. The ratio was highest of 5.156 in Belgaum followed by 1.890 in Bangalore, 1.576 in Mangalore, 1.539 in Hubli-Dharwad and 1.331 in Mysore supermarkets. This indicated the turnover per unit of working capital was higher in Belgaum over all other supermarkets and good in all other cities. This shows the lack of efficiency in sales even with higher working capital. In contrast, the fixed assets to turnover ratios were higher in the order of Mysore, Hubli-Dharwad, Mangalore, Belgaum and in Bangalore (6.784, 4.319, 3.971, 3.931 and 3.581, respectively). This was because these supermarkets were able to achieve higher sales targets with less investment in fixed assets accordingly.

The above all financial statuses of the retailers/supermarketers were similar to the study conducted by Gustafson (2003). The study revealed that in Fargo, USA, on an average, both food manufacturing and food retailing small businesses had positive financial characteristics. Although, they were only marginally profitable and liquid, they were highly solvent. Accounts receivable and inventory comprise nearly half of food manufacturers' total assets and a third of food retailers' assets.

V. Summary & Conclusions

The ratio of total liabilities to owned funds was found to be 0.798, 0.600, 1.905, 3.535, 0.345 in Bangalore, Mysore, Mangalore, Hubli-Dharwad and Belgaum, respectively. The ratio of fixed assets to owned funds was found to be the highest in Mangalore (1.731) followed by Hubli-Dharwad (1.367) and Bangalore (0.697).

It was noticed that in all the supermarkets, the liquid assets to total assets ratio was less than 0.5, which is 0.459 in Bangalore, 0.404 in Mysore, 0.399 in Mangalore, 0.157 in Belgaum and 0.268 in Hubli-Dharwad and hence the overall was 0.337. It indicated that more than 50 per cent of the assets were not in liquid assets form.

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The working capital turnover ratio was highest of 5.156 in Belgaum followed by 1.890 in Bangalore, 1.576 in Mangalore, 1.539 in Hubli-Dharwad and 1.331 in Mysore supermarkets. This indicated the turnover per unit of working capital was higher in Belgaum over all other supermarkets and good in all other cities. In contrast, the fixed assets to turnover ratios were higher in the order of Mysore, Hubli-Dharwad, Mangalore, Belgaum and in Bangalore (6.784, 4.319, 3.971, 3.931 and 3.581, respectively). This was because these supermarkets were able to achieve higher sales targets with less investment in fixed assets accordingly.

The solvency and liquidity ratios of the supermarkets were found to be very negligible and hence they should be taken care for improving the own funds, volume of business and liquidity position to the need of improving financial strengths of the supermarkets.

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Table 1 : Financial Performance of Supermarkets

Ratios	Particulars	Bangalore	Mysore	Mangalore	Hubli-Dharwad	Belgaum	Overall
Test of Solvency	Ratio of total liability to owned funds	0.798	0.600	1.905	3.353	0.345	1.400
	Fixed assets to owned funds ratio	0.697	0.317	1.731	1.367	0.154	0.853
Test of Liquidity	Ratio of liquid assets to total assets	0.459	0.404	0.399	0.268	0.157	0.337
	Ratio of current assets to current liabilities	1.275	0.994	1.943	1.741	3.623	1.915
Tests of Profitability	Net profits to fixed assets ratio	0.572	1.297	0.677	0.717	0.705	0.811
	Net profits to total assets ratio	1.373	3.146	2.187	0.868	4.509	2.499
	Net profits to owned funds ratio	0.856	1.229	4.621	1.773	0.537	1.989
	Net profits to total sales ratio	0.205	0.191	0.170	0.180	0.178	0.189
Test of Turnover	Working capital turnover	1.431	1.331	1.576	1.375	5.156	2.174
	Fixed assets turnover ratio	2.716	6.784	3.971	3.974	3.931	4.275

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