

1 Financial Performance of Supermarkets in Karnataka

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5

6 **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 rise in developed countries. India is attractive to foreign retailers demographically and perhaps economically. Even the low

7

8 **Index terms—**

9 **1 Introduction**

10 Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP (Jonathan, ??., et.al, 2007). The Indian retail market is estimated to be US\$ 450 billion (Majumder, S., 2011) and one of the 11 top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the 12 world, with 1.2 billion people (Bharadwaj, V. ??., et al, 2005).

13 The retail market has been the subject of some profound changes over the recent past. The mix of social and 14 economic conditions which prevailed in the 1980s triggered the arrival of a much more discerning consumer, driven 15 not just by value for money but also increased selectivity and a demand for higher quality shopping environments. 16 These conditions continue to impinge on the nature of today's retail market where consumer loyalty has become 17 a vital ingredient in the success of retailers. Increasingly, successful shopping facilities have to fulfill the role of 18 a destination location. In large parts this means providing a wide range of shopping and leisure facilities able 19 to attract and retain the interest of the entire family. In return such schemes benefit not only from much wider 20 catchment areas, but also from substantially longer shopping trips.

21 Financial performance refers to any company's ability to generate new resources, from day to day operations, 22 over a given period of time. The financial ratio represents the relationship between two accounting figures 23 expressed mathematically. In financial analysis, a ratio is used as an index or yardstick for evaluating the 24 financial performance or status of any institution against certain standards. Ratio analysis technique is popular 25 in the accounting system of enterprises in general and helps in spotting trends towards better or poor performance. 26 It is helpful in finding significant deviations from an average or pre-determined standard.

28 **2 II.**

29 Review of Literature ??rora and ZebulNisha (1996) in their study on rural food processing in Rampur district of 30 UP concluded that even with a low level of operation rural food processing complexes are making profits. Their 31 annual net returns, operating profit to revenue ratio, net profit to revenue ratio, operating ratio and operating 32 efficiency are 23. & profitable and liquid, they were highly solvent. Accounts receivable and inventory comprise 33 nearly half of food manufacturers' total assets and a third of food retailers' assets. By most financial measures, 34 food retailers were statistically smaller than food manufacturers. Both food manufacturers and food retailers 35 utilized computers, primarily for accounting/book keeping, inventory management, and administration. Primary 36 financial services used were for transactions and trade credit. Nearly three-fourths of food manufacturing and 37 one-half of food retailing supply purchases involve trade credit from a large number of trade credit suppliers, on 38 average. Both firm types have higher credit risks and were tardy with repayment of trade credit.

39 **3 III.**

40 **4 Methodology**

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

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

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

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

58 **5 a) Analytical Techniques Employed**

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

63 IV.

64 **6 Results & Discussions**

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

67 **7 a) Solvency Ratios**

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

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

82 **8 b) Liquidity Ratios**

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

87 It was noticed from the table (Table ???.28) that in all the supermarkets the liquid assets to total assets ratio
88 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
89 in Hubli-Dharwad and hence the overall was 0.337. It indicated that more than 50 per cent of the assets were not
90 in liquid assets form. Therefore, all the The current ratio (ratio of current assets to current liabilities) presented
91 in the table indicates that the ratio was more than one in all the cities supermarkets except Mysore, wherein the
92 ratio was 0.994. It means to say the supermarkets had more than one rupee of current assets per rupee of current
93 liabilities. The minimal acceptable level for value of this ratio is two. Hence, there existed a need for improving
94 the liquidity position of the supermarkets by reducing its dependency on the short-term borrowings.

95 9 c) Profitability Ratios

96 In the present study, the profitability ratios were analysed for measuring the efficiency of the firms in utilizing
97 their resources for generating profits. The profitability of the study supermarkets in this case was analysed
98 through net profits to fixed assets ratio, net profits to total assets ratio, net profits to owned funds ratio and net
99 profits to total sales ratio were calculated and presented in Table ??28.

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

111 10 d) Turnover Ratio

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

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

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

128 V.

129 11 Summary & Conclusions

130 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,
131 Mangalore, Hubli-Dharwad and Belgaum, respectively. The ratio of fixed assets to owned funds was found to be
132 the highest in Mangalore (1.731) followed by Hubli-Dharwad (1.367) and Bangalore (0.697).

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138 the supermarkets had more than one rupee of current assets per rupee of current liabilities.

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140 Bangalore (0.572) and in other cities also the ratio was more than 0.677. This indicated that the profit generated
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142 supermarkets. Similarly, the overall net profit to total assets was 2.499 which indicate that the profit generated
143 per rupee of total assets was nearly 2.50 rupees which shown the improved efficiency of supermarkets in utilizing
144 the total assets. The ratio of net profits to owned funds ratio point outs the net profits for each rupee of own
145 funds used in the business, which units should increase the proportion of liquid assets in Hubli-Dharwad and the
146 least was observed in Belgaum (0.537). This ratio shows that the supermarkets were quite able to protect its
147 equity and hence generate profits on the equity. Net profits to total sales were also found to be very significant
148 in all the cities across the state indicating more than a 0.170 rupee contribution to per rupee total sales.

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

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

158 **12 GUSTAFSON**



Figure 1: Financial

159 1

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Ratios	Particulars	Bangalore	Mysore	Mangalore	Hubli	Belgaum	Overall
		Dharwad					
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

Figure 2: Table 1 :

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