FINANCIAL PERFORMANCE OF PANTALOON RETAIL INDIA LTD. : A CASE STUDY

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This study attempts to evaluate the financial performance of Pantaloon Retail India Limited. The paper relates that analysis ratios, such as Current Ratio, Debt Ratio, and Return on Capital Employed, are helpful in determining a company's solvency, liquidity and profitability.

Keywords: Liquidity, profitability,

Introduction:

The framework for business financial management has changed significantly over the past few decades as more corporations move away from checks and balances systems towards more of a juggling act. Increased competition between businesses has forced corporate finance managers to juggle more than one set of balance sheets depending on whether the reporting is going to the tax department or shareholders. Financial analysis is the selection, evaluation, and interpretation of financial data, along with other pertinent information, to assist in investment and financial decision-making. Financial analysis may be used internally to evaluate issues such as employee performance, the efficiency of operations, and credit policies, and externally to evaluate potential investments and the credit-worthiness of borrowers, among other things. The financial analyst must select the pertinent information, analyze it, and interpret the analysis, enabling judgments on the current and future financial condition and operating performance of the firm.

Financial analysis is the tool of finance. With financial analysis, company can know his financial position's strength and performance of his operations. It can also compare with other companies financial statements. It is also to find the financial strengths and weakness of company. For analysis, manager establishes relationship between different items of balance sheet and profit and loss account. It helps in analyzing the profitability, solvency, liquidity and stability of company. Comparative income statement, comparative balance sheet and ratio analysis are the main tools of analyzing financial statement.

Company Profile:

Pantaloon Retail (India) Limited, is India's leading retailer that operates multiple retail formats in both the value and lifestyle segment of the Indian consumer market. Pantaloon has ushered a retail revolution in India and its founder Kishore Biyani is known as India's "King of Retail". Pantaloon's origin can be traced to 1987

when the company was incorporated as Manz Wear Private Limited. The company launched Pantaloons trouser, India's first formal trouser brand. In 1992, Pantaloon launched its IPO. In 1994, The Pantaloon Shoppe - exclusive menswear store in franchisee format was launched across the country. Pantaloon started distribution of distribution of branded garments through multi-brand retail outlets across the nation. Headquartered in Mumbai (Bombay), the company operates over 16 million square feet of retail space, has over 1000 stores across 73 cities in India and employs over 30,000 people.? The company's leading formats include Pantaloons, a chain of fashion outlets, Big Bazaar, a uniquely Indian hypermarket chain, Food Bazaar, a supermarket chain, blends the look, touch and feel of Indian bazaars with aspects of modern retail like choice, convenience and quality and Central, a chain of seamless destination malls. Some of its other formats include Brand Factory, Blue Sky, all Top 10 and Star and Sitara.

Objectives of the Study:

The following are objectives of the study:

1. To evaluate the overall performance of the Pantaloon Retail (India) Ltd through financial ratio analysis.
2. To analyze the financial strengths and weaknesses of the company.
3. To assess the correlation between profitability and liquidity of the company.

Hypothesis:

There is no significant relationship between Current Assets to Total Assets Ratio

(CATAR) and Return on Capital Employed (ROCE) of the company.

Methodology Adopted:

The study is concerned with the five years financial data of Pantaloon Retail (India)

Ltd. The data is of secondary nature and thus limits only to the information that has been collected from the published annual reports of the company from www.moneycontrol.com. A financial performance analysis of the company has been done through ratio analysis, Spearman's rank correlation analysis and t-test has been applied to scrutinize the significance of rank correlation.

Result and Discussion:

Table No. 1:

Liquidity ratios of Pantaloon Retail (India) Ltd:

Current Ratio (CR): Current ratio is a comparison of current assets in relation to current liabilities and is calculated as under:

Current Ratio = Current Assets/Current Liabilities

The current ratio of 2:1 conveys that current liabilities are covered as much as two times by current assets revealing a good liquid position of the concern. The CR of pantaloon showing fluctuating trend and registered 1.10 times in 2006 and 1.84 times in 2007. Its mean, standard deviation and coefficient of variance are 1.30, 0.31 and 23.85% respectively. An increasing ratio is an indicator of improving position of a concern while a decrease in the current ratio raises doubts about the overall functioning of the concern. The CR of Pantaloon is a bit far from the conventional standard of 2:1 thus needs to be improved.

Quick Ratio (QR): Quick ratio is also known as acid test ratio and is calculated for knowing the short-term financial position and this ratio shows the real liquidity position. No fixed norms have been prescribed for this ratio but a ratio of 1:1 should be considered as adequate. The QR of Pantaloon lies between 0.65 times in 2010 and 2.07 times in 2007 and its mean is 1.42. Its standard deviation is 0.52 whereas its coefficient of variance is 36.62%. The QR of pantaloon is satisfying but it is continuously decreasing after 2007 which should be given due consideration.

Current Assets to Total Assets Ratio (CATAR): This ratio shows the share of investment in current assets in respect to total investment of the concern. This ratio showing decreasing trend and it ranges between 0.36 times in 2010 and 0.48 times in 2006 and its mean is 0.41. The standard deviation is 0.04 and its coefficient of variance is 9.76%. The CATAR of Pantaloon showing that the company has invested nearly 42% in current assets.

Turnover Ratios of Pantaloon Retail (India) Ltd:

Inventory turnover Ratio (ITR): This ratio is an indicator of the movement of inventory over an operating period and this ratio is a measure of the fastness in the turnover of the inventory. The higher ratio indicates that the enterprise is able to achieve higher turnover with low level of inventory thereby reducing the chances of inventory hold ups or carrying over of obsolete inventory. The lower ratio indicates slow turnover with possible chances of carrying over of unsalable inventory. The ITR of Pantaloon showing decreasing trend up to 2009 and it increases in 2010. It falls between 3.76 times in 2008 and 5.06 times in 2010. The mean, standard deviation and coefficient of variance of Pantaloon are 4.06, 0.56 and 13.79% respectively. During first four years, the ratio was below the industry norm (5 times). However in 2010 it is just above the industry norm, which Pantaloon has to maintain it.

Debtors Turnover Ratio (DTR): This ratio indicates the capacity of the unit to realize its sale proceeds. This ratio measures how soon sales will become cash. Higher ratio reveals the credit management of the firm is efficient and good and lower ratio reveals inefficient management. The DTR of Pantaloon showing decreasing trend throughout the study period. It swings between 133.68 times in 2006 and 42.00 times in 2010 and its mean is 72.71. Its standard deviation is 37.60 and coefficient of variance is 51.71%, this reflects that DTR has highly variant during study and there was efficient credit management of the firm.

Fixed Assets turnover Ratio (FATR): This ratio indicates that how efficiently the firm is using its fixed assets to generate sales. The higher ratio reveals efficient utilization of fixed assets and vice versa. This ratio showing decreasing trend except 2010 and it ranges between 3.55 times in 2009 and 6.27 times in 2006. Its mean, standard deviation and coefficient of variance are 4.76, 1.16 and 24.37% respectively. The management of fixed assets of Pantaloon was good in earlier years of study but after then it was declining so they needs to renew it again.

Total Assets turnover Ratio (TATR): This ratio reveals the efficiency with which total assets has been utilized by a concern. High ratio indicates efficient use of total assets in the concern while a low ratio indicates under utilization of total assets in the concern. This ratio also reflecting decreasing trend up to 2009 and it increases in 2010. It varies between 1.30 times in 2009 and 1.74 times in 2006 and its mean is 1.46. Its standard deviation and coefficient of variance are 0.18 and 12.33% respectively. Pantaloon's management of assets is poor and need tremendous improvement.

Table No. 2:

Leverage Ratios of Pantaloon Retail (India) Ltd:

Debt Equity Ratio: It is a measurement of long?term solvency of concern and is calculated by comparing term liabilities with the net worth of the concern The ratio gives an indication of the dependence of the concern on borrowed funds. A lower ratio means high financial stake of the concern in the business whereas a higher ratio would mean that the firm is working with a thin equity. A low debt equity ratio will, therefore, be preferable. This ratio showing increasing trend till 2009 and decreases in 2010. It was 1.27 times in 2009 and 0.54 times in 2010. The mean, standard deviation and coefficient of variance of Pantaloon are 1.70, 0.30 and 28.04% respectively. The debt equity ratio of Pantaloon showing that there total outside liabilities a bit ahead than their net worth but less than the accepted standard of 2:1,this concludes that the Pantaloon deprived from taking the advantage of low cost of borrowed fund.

Debt to Total Assets Ratio (DTAR): This ratio establishes a relationship between the total debt and total assets. The DTAR of Pantaloon ranges between 0.33 times in 2010 and 0.56 times in 2009. The mean, standard deviation and coefficient of variance of Pantaloon are 0.50, 0.10 and 20.00% respectively. This reveals that the Pantaloon's total debts are nearly half of their total assets in first four years of study period and in fifth year it comes down to one third of their total assets.

Interest Coverage Ratio (ICR): This ratio indicates the number of times the fixed interest charges (debenture interest, interest on loans etc.) are covered by the net profit (i.e, net profit before interest and tax). The ICR of Pantaloon showing decreasing trend during the study period. It varies between 1.84 times in 2010 and 4.38 times in 2006 and its mean is 2.59. Its standard deviation is 1.03 and coefficient of variance 39.77%. The ICR of pantaloon is low which reflects less margin of safety for the lenders.

Table No. 3:

Profitability Ratios of Pantaloon Retail (India) Ltd:

Gross Profit Ratio: The gross profit ratio is a relationship of gross profit earned to total sales. There cannot be any norms for minimum or maximum percentage of gross profit earned by any project. Two types of comparisons can, however, are made to determine relative competitiveness of the project in relation to other similar projects and to watch its progress through successive years. If the gross profit ratio is low, the reasons therefore are to be probed to improve the working results for the future. The GP Ratio has been fluctuating throughout the study period. It swings between 4.23% in 2007 and 7.98% in 2009. The mean, standard deviation and coefficient of variance of Pantaloon are 6.54, 1.41 and 21.56% respectively. Pantaloon's GP Ratio is not good enough and must take more necessary steps to upswing their profits.

Net Profit Ratio: Net profit ratio is the percentage of net profit earned on net sales. This ratio is important because businesses need to make a profit to survive in the long run. This ratio also showing fluctuating trend throughout the study period. It varies between 2.10% in 2009 and 3.53% in 2007. The mean, standard deviation and coefficient of variance of Pantaloon are 2.82, 0.60 and 21.28% respectively. The net profit ratio of Pantaloon is not adequate to combat adverse economic conditions, hence needs to revise it.

Return on Capital Employed: The return on capital employed ratio is just like the return on equity (ROE) ratio, by adding a company's debt liabilities, or funded debt, to equity we get company's total "capital employed". Any deterioration would mean lower earning capacity of the project due to erosion in margins as a result of many factors that may include increase in cost of production, overheads and difficult competitive market. This ratio has been showing increasing trend after 2008. It ranges between 7.75% in 2007 and 12.00% in 2006 and its mean is 10.33,standard deviation is 1.60 and coefficient of variance is 15.49%.

Return on Net Worth: The ratio indicates the earning power of any project in relation to the investment made and risks undertaken. This ratio is showing decreasing trend and falls between 6.24 % in 2009 and 12.18% in 2006 and its mean is 8.69, standard deviation is 2.69 and coefficient of variance is 30.96%.

Hypothesis Testing:

In table No.4, the degree of association between liquidity and profitability of the company has been computed by using Spearman's rank correlation. To examine whether the computed value of such coefficient is significant or not "t" test has been made. The ranks of return on capital employed (profitability) and current assets to total assets (CATAR) ranks have been used. The above table reveals that the correlation coefficient between current assets to total assets and return on capital employed ranks is 0.10 and calculated value of 't' is 0.17, which is significant at 0.05 level.

Conclusion:

Financial analysis helps in the process of examining various financial statement items with the objective of performance, and perhaps more importantly, projecting future performance and financial condition. It is concluded from the above analysis that the liquidity position of Pantaloon is satisfactory The DTR, FATR and TATR has been declining during study, hence management has to work on to amend it. The company is not taking the advantage of low cost of borrowed capital. The Pantaloon has to work more hard to improve their profitability, as profit is needed not only to survive, face competition but also to face adverse economic conditions and it also lays the foundation for growth. The overall financial performance of Pantaloon has been satisfying.

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Annual report of Pantaloon Retail (India) Ltd.

Table No: 1 Liquidity & Turnover Ratios of Pantaloon Retail India Ltd.

Year	Liquidity Ratios			Turnover Ratios			
	Current Ratio	Quick Ratio	Current Assets to Total Assets	ITR	DTR	FATR	TATR
2006	1.10	1.29	0.48	3.88	133.68	6.27	1.74
2007	1.84	2.07	0.42	3.84	82.58	5.65	1.42
2008	1.14	1.64	0.39	3.76	59.40	3.87	1.31
2009	1.29	1.45	0.40	3.77	45.88	3.55	1.30
2010	1.13	0.65	0.36	5.06	42.00	4.46	1.52
Mean	**1.30**	**1.42**	**0.41**	**4.06**	**72.71**	**4.76**	**1.46**
Std. Dev.	**0.31**	**0.52**	**0.04**	**0.56**	**37.60**	**1.16**	**0.18**
C.V. %	**23.85**	**36.62**	**9.76**	**13.79**	**51.71**	**24.37**	**12.33**

Source: www.moneycontrol.com

Note: CR-Current Ratio, QR- Quick Ratio, CATAR- Current Assets to Total Assets ratio, ITR- Inventory Turnover Ratio, DTR- Debtors Turnover Ratio, FATR- Fixed Assets Turnover Ratio, TATR- Total Assets Turnover Ratio

Table No: 2 Leverage Ratios of Pantaloon Retail India Ltd.

Year	Debt/Equity Ratio	Debt/Total assets Ratio	Interest Coverage Ratio
2006	1.14	0.53	4.38
2007	1.19	0.54	2.36
2008	1.23	0.54	2.37
2009	1.27	0.56	2.01
2010	0.54	0.33	1.84
Mean	**1.07**	**0.50**	**2.59**
Std Dev.	**0.30**	**0.10**	**1.03**
C.V. %	**28.04**	**20.00**	**39.77**

Source: www.moneycontrol.com

Table No: 3 Profitability Ratios of Pantaloon Retail India Ltd.

Year	Gross Profit Margin (%)	Net Profit Margin (%)	Return on Capital Employed (%)	Return on Net Worth (%)
2006	6.37	3.26	12.00	12.18
2007	4.23	3.53	7.75	10.99
2008	7.17	2.36	10.17	7.06
2009	7.98	2.10	10.62	6.24
2010	6.94	2.83	11.12	6.99
Mean	**6.54**	**2.82**	**10.33**	**8.69**
Std Dev.	**1.41**	**0.60**	**1.60**	**2.69**
C.V. %	**21.56**	**21.28**	**15.49**	**30.96**

Source: www.moneycontrol.com

Table No: 4 Rank correlation between liquidity and profitability of Pantaloon Retail India Ltd.

Year	**Pantaloon Retail India Ltd.**			
	CATAR		**ROCE**	
	%age	**Rank (L_1)**	**%age**	**Rank (P_1)**
2006	47.99	**1**	12.00	**1**
2007	41.90	**2**	7.75	**5**
2008	38.73	**4**	10.17	**4**
2009	40.41	**3**	10.62	**3**
2010	35.70	**5**	11.12	**2**
r	**0.10**			
t	**0.17**			
Table value of t with (n-2) degree of freedom at 0.05 level of significance is 2.31				