Journal of Advanced Zoology

ISSN: 0253-7214

*Volume **44** Issue **S-2 Year 2023** Page **3358:3370***

A Study on Financial Planning and Forecasting FMCG Industry with specific reference to Bangalore

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Article History

Received: 15 Aug 2023
Revised: 28 Sept 2023
Accepted:29 Oct 2023

Abstract: *Financial management addresses both short-term and long-term issues. For all financial analysts, the significance of working capital in today's industrial functions cannot be overstated. What matters most is estimating the amount of cash, equity, and other liquid assets that the company can use to maintain day-to-day operations. When it comes to identifying areas of financial weakness and taking corrective action, financial analysis assists management in maximizing its financial strength. It is the beginning point for applying any complex forecasting or planning process. The primary focus of corporate finance is raising capital and allocating it wisely while considering the organization's overall goals. The management must exercise extreme prudence and wisdom in this regard.*

Keywords: *Ratio Analysis, Cash Flow Statement, Trend Analysis*

1. INTRODUCTION

In financial management, forecasting is used to forecast a company's future financial requirements. If the finance manager hasn't made an effort to project his company's future financing needs, then every time the company's cash outflows are more than its cash inflows, so the crisis arises. Preparing for expansion entails the financial manager's ability to foresee and plan well in advance of the company's funding demands. Financial planning primarily focuses on the appropriate acquisition and successful utilization of funds, as required by appropriate investment choices.

An established business's performance over the previous year, that of its competitors, the health of the industry, and level of demand is typically taken into account when making a market projection. After passing these variables from a number of statistical equations,forecast can be applied to planning of finance can be generated. In order to estimate the costs for the upcoming year or specified time period, a cost projection will take into account both the fixed expenditures, such as rent, which can be unlikely to change, and variable costs, such as wages, utilities, and supplies. Financial planning is frequently divided into more manageable categories like short-term, mid-range, and long-term goals because it is such a vast subject. Financial planners assist businesses in setting realistic targets, incorporating with accurate and trustworthy financial management strategies, and developing systems for the examination of performance relative to defined objectives using these time frames.

2. REVIEW OF LITERATURE

Financial planning and financial forecasting are crucial aspects of financial management that involve predicting future financial outcomes and developing strategies to achieve financial goals. This literature survey aims to provide an outline of key concepts, methodologies, and the trends in financial planning and financial forecasting. It includes a range of references from reputable sources to support the information presented.

- Choudhury, m. A., &shamsuddin, a. (2014). Financial forecasting models. In financial management (pp. 139-160). Springer. Choudhury and shamsuddin’s “financial forecasting models” provide a more detailed exploration of various forecasting models, such as time series models, econometric models, and simulation models.
- Ranganathan, k., &madhumathi, r. (2012). Financial forecasting using neural networks. International journal of computer applications, 55(16), 23-27. Ranganathan and madhumathi’s “financial forecasting using neural networks” focus specifically on the

application of neural networks for financial forecasting, highlighting their ability to capture complex relationships and patterns in financial data.

- Brierley, j. A. (2013). Cash flow forecasting: the definitive guide to forecasting business cashflow. Kogan page publishers. Brierley's "cash flow forecasting: the definitive guide to forecasting business cash flow" provides a comprehensive understanding of cash flow forecasting techniques, including cash flow statement analysis, cash budgeting, and sensitivity analysis.
- Mercer, j. (2016). Strategic cash flow forecasting: a business case approach. Kogan page publishers. Mercer's "strategic cash flow forecasting: a business case approach" focuses on developing strategic cash flow forecasts aligned with business objectives and risk management.
- Ross, s. A., westerfield, r. W., jordan, b. D., &roberts, g. S. (2018). Long-term financial planning involves creating financial projections for an extended period, typically spanning several years. It helps individuals and businesses in setting long-term financial goals and strategizing for future growth and stability. By forecasting cash flows, income statements, and balance sheets over an extended timeframe, financial planners can identify potential financial gaps, allocate resources efficiently, and make informed investment decisions. Long-term financial planning is instrumental in capital budgeting, debt management, and ensuring financial sustainability in the face of changing economic conditions and business environments.

3. OBJECTIVES OF THE STUDY

- The primary objective of the research is to determine if firms use information from budgeting, forecasting, and finance planning as a strategic tool in decision-making.
- To research the present organizational paradigms for forecasting, financial planning, and budgeting.
- To investigate the numerous elements affecting forecast and budget quality and accuracy.
- To determine an important part of finance planning data in businesses strategic decision-making by examining the functions of the finance department in a value-adding budgeting, forecasting, and for finance planning process.

4. RESEARCH METHODOLOGY

To calculate the cost single item based on anticipated developments for the period for which the financial statements are to be prepared.

By calculating the items based on the percentage growth or reduction when compared to the similar item from the base year. For the foreseeable future, it is slightly adaptable.

The following tools are prepared

- Cashflow statement
- Trend analysis
- Ratio analysis

5. RESEARCH DESIGN

Analytical research is adopted because it includes the analysis and interpretation of data to provide new knowledge, comparisons, and judgments. In this case, the research's objective is to use a variety of techniques to examine the subject's financial performance in order to draw conclusions and insights regarding the subject's financial patterns and health.

6. ANALYSIS

Cash flow statement

It is a financial statement that includes full information on all cash inflows and outflows that a firm experiences throughout the duration of a given period, including all money received from ongoing operations and outside sources of investment.

Cash flow of ABC (in rs. Cr.)	Mar 2023	Mar 2022	Mar 2021	Mar 2020	Mar 2019
Net profit/loss before extraordinary items and tax	0.88	2.00	-1.68	0.21	0.25
Net cashflow from operating activities	-0.85	-3.99	-1.46	0.02	4.08

Net cash used in investing activities	0.44	3.60	1.85	-0.26	-4.00
Net cash used from financing activities	0.10	0.08	-0.18	0.15	0.00
Foreign exchange gains / losses	0.00	0.00	0.00	0.00	0.00
Adjustments on amalgamation merger demerger others	0.00	0.00	0.00	0.00	0.00
Net inc/dec in cash and cash equivalents	-0.31	-0.31	0.21	-0.09	0.08
Cash and cash equivalents begin of year	0.05	0.36	0.15	0.24	0.16
Cash and cash equivalents end of year	-0.26	0.05	0.36	0.15	0.24

Table 1

Analysis and interpretation

ABC financial data shows inconsistent profitability over five years, with a significant loss in 2021 followed by a marginal recovery in 2023. Operating cash flow remained negative in recent years, indicating ongoing operational challenges. Despite positive cash flow from investing activities, the company faced a decline in cash and cash equivalents, potentially indicating financial strain and a need for strategic adjustments. Overall, prudent financial management and a focus on enhancing operational performance are crucial for the company's future financial stability.

Trend analysis

it is a technique used to analyze and forecast the movements of items based on past and present data. Trend analysis can be used to improve business by using trend data for decision making.

Balance sheet of ABC (in rs. Cr.)	Mar 21		Mar 22		Mar 23	
	Year 1 in ₹	Trend %	Year 2 in ₹	Trend %	Year 3 in ₹	Trend %
Equities and liabilities						
Shareholder's funds						
Equity share capital 5	10.01	100	10.01	100	10.01	100
Total share capital	10.01	100	10.01	100	10.01	100
Reserves and surplus	2.09	100	3.03	144.97	0.17	8.13
Total reserves and surplus	2.09	100	3.03	144.97	0.17	8.13
Total shareholder’s funds	12.09	100	13.03	107.77	10.18	84.20
Non-current liabilities						
Current liabilities						
Trade payables	0.08	100	0.21	262.5	2.75	3437.5
Other current liabilities	0.00	100	0.01	0.00	0.00	0.00
Short term provisions	0.16	100	0.09	56.25	0.15	93.75
Total current liabilities	0.24	100	0.31	129.16	2.90	1208.33
Total capital and liabilities	12.33	100	13.34	108.19	13.07	106.00
Assets						
Non-current assets						
Tangible assets	0.01	100	0.01	100	0.01	100
Fixed assets	0.01	100	0.01	100	0.01	100
Non-current investments	1.54	100	1.92	124.67	3.13	203.24
Total non-current assets	1.54	100	1.93	125.32	3.14	203.89
Current assets						
Inventories	10.01	100	11.05	110.38	4.20	41.95
Trade receivables	0.54	100	0.31	57.40	5.02	929.62
Cash and cash equivalents	0.05	100	-0.26	-520	0.36	720
Short term loans and	0.00	100	0.00	0	0.27	

advances						
Other current assets	0.18	100	0.30	166.66	0.09	50
Total current assets	10.79	100	11.41	105.74	9.94	92.12
Total assets	12.33	100	13.34	108.19	13.07	106.0

Table 2

Interpretation

ABC showed consistent growth in shareholders' equity and reserves over three years, with a slight decline in the final year. Rising current liabilities and stable non-current liabilities suggest potential challenges in managing short-term obligations. Increased assets due to investments and current assets raise concerns about liquidity and debt management.

Ratio analysis

It is the analysis and study of present items in the financial statements of the company. It can be used for checking the various factors of the business-like solvency, efficiency, profitability and liquidity of the company or the business.

Current ratio

It is the comparison of current assets to current liabilities.Potential creditors use the current ratio to measure a company's liquidity or ability to pay off short-term debts.

$$\boldsymbol{CURRENTRATIO} = \frac{\text{current asset}}{\text{current liability}}$$

Years	Current asset	Current liability	Current ratio
2019	8.10	0.96	8.43
2020	7.96	0.78	10.20
2021	9.94	2.90	3.42
2022	10.79	0.24	44.95
2023	11.41	0.31	36.80

Table 3

Interpretation

The current ratio compares a company's capacity to meet and balancing its current liabilities with its current assets. The company's excellent current ratios of 8.43 and 10.20 in 2019 and 2020 demonstrated a sound ability to meet its immediate liabilities. The ratio fell to 3.42 in 2021, though, indicating a possible liquidity issue brought on by rising liabilities. The ratio dramatically increased in 2022 and 2023 to 44.95 and 36.80, respectively, which might signify either a big rise in assets or a sharp decline in liabilities. The business's short-term financial health appears to have fluctuated overall during these years.

Quick ratio

This ratio illustrates how much of a company's liquid assets may be used to settle short-term debts or liabilities. It may alternatively be said that it quantifies the percentage of a company's current liabilities that it can cover with cash and easily convertible assets.

$$\boldsymbol{QUICKRATIO} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$$

Years	Current assets	Inventories	Current Liabilities	Quick ratio
2019	8.10	1.88	0.96	6.47
2020	7.96	4.22	0.78	4.79
2021	9.94	4.20	2.90	1.97
2022	10.79	10.01	0.24	3.25
2023	11.41	11.05	0.31	1.16

Table 4

Interpretation

The fast ratios for 2019 and 2020 were 6.47 and 4.79, respectively, indicating a strong capacity to pay short-term obligations without largely depending on inventories. The ratio fell to 1.97 in 2021, suggesting a possible issue with promptly paying obligations. However, it increased to

3.25 and 1.16 in 2022 and 2023, indicating varied levels of liquidity. The company's immediate liquidity condition varied throughout time.

Proprietary ratio

This ratio shows the proportion of all of a company's assets that are financed by owner money. The equity ratio is another name for the proprietary ratio.

$$PROPRIETARYRATIO = \frac{\text{shareholders fund}}{TOTAL\ ASSETS}$$

Years	Shareholders fund	Total assets	Proprietary ratio
2019	4.76	12.85	0.37
2020	10.01	12.97	0.77
2021	10.01	13.07	0.76
2022	10.01	12.33	0.81
2023	10.01	13.34	0.75

Table 5

Interpretation

This ratio is also known as the equity ratio, calculates how much of total assets are been funded by shareholder equity. According to the 2019 ratio of 0.37, 37% of assets were funded with equity. The ratio fluctuated over time, reaching a peak in 2020 at 0.77, which was indicative of a greater reliance on equity funding. The ratio showed a continuous usage of equity to sustain the company's assets in the following years, remaining very stable with minor changes between 0.75 and 0.81. In general, the corporation kept a modest to solid equity basis during this time.

Capital turnover ratio

The capital turnover ratio indicates how well a company uses its capital.A company's annual sales are compared to the entire amount of its stockholders' equity to determine its capital turnover. The goal is to calculate the percentage of revenue that a business can produce with a specific level of equity.

$$\text{CAPITAL TURNOVER RATIO} = \frac{\text{net sales}}{\text{shareholder's equity}}$$

Years	Net sales	Shareholder's equity	Capital turnover ratio
2019	39.69	4.76	8.33
2020	9.28	10.01	0.92
2021	18.14	10.01	1.81
2022	6.02	10.01	0.60
2023	13.10	10.01	1.30

Table 6

Interpretation

This ratio assesses how well a business generates revenues using its stock. The ratio in 2019 was 8.33, meaning that each stock unit generated 8.33 units of revenues. The ratio drastically decreased to 0.92 in 2020, possibly pointing to a decline in sales compared to equity. However, the number improved significantly in 2021, rising to 1.81, showing greater use of equity to drive sales. The ratio fluctuated between 0.60 and 1.30 between 2022 and 2023, indicating changing degrees of efficiency in using equity for sales creation. Over the course of these years, the corporation showed varied levels of capital usage effectiveness.

Net profit ratio

The net profit ratio is a profitability ratio that is expressed as a percentage, it is multiplied by 100. Net sales include both cash and credit sales, whereas net profit is the net operating profit, or the net profit before interest and taxes.

$$NETPROFITRATIO = \frac{\text{netprofit}}{\text{netsales}} \times 100$$

Years	Net profit	Net sales	Net profit ratio
2019	0.10	39.69	0.25
2020	0.15	9.28	1.61
2021	-1.68	18.14	-9.26
2022	1.84	6.02	30.56
2023	0.79	13.10	6.03

Table 7

Interpretation

The net profit ratio shows how much net profit there is in relation to net sales, which reflects how profitable a firm is. The ratio in the year 2019 was 0.25 (or 25%), meaning that 25% of net sales were profitable. The ratio increased to 1.61 (161%) in 2020, potentially as the result of the considerable rise in net profit relative to sales. However, a negative ratio of -9.26% in 2021 indicated a loss, presumably the result of excessive costs in compared to revenues. In 2022, the ratio significantly increased to 30.56%, indicating high sales profitability. The ratio decreased to 6.03% in 2023, suggesting consistent profitability. Overall, the business showed variable degrees of profitability throughout time, with notable oscillations caused by changes in net profit and sales.

7. Findings

Profitability trends: FMCG industry experienced inconsistent profitability over the analyzed years. It saw a significant loss in 2021, followed by a marginal recovery in 2023. However, in 2022, there was a substantial increase in net profit ratio, indicating a potential rebound in profitability.

Cash flow challenges: The cash flow analysis highlights persistent negative net cash flow from operating activities in recent years, indicating ongoing operational challenges. Despite positive cash flow from investing and financing activities, a decline in cash and cash equivalents suggests potential financial strain and the need for strategic adjustments.

Liquidity concerns: The trend analysis of the balance sheet indicates a potential liquidity issue in 2021, as reflected by a significant drop in the current ratio. However, the quick ratio, measuring immediate liquidity, showed fluctuations but generally improved from 2022 to 2023, suggesting varied levels of liquidity.

Equity funding and stability: The proprietary ratio revealed that the company primarily relied on equity funding to sustain its assets, with a consistent ratio between 0.75 and 0.81 in the later years. This suggests a stable equity base and a prudent approach to financial management.

Capital efficiency: The capital turnover ratio exhibited variations, indicating the company's changing efficiency in generating revenue from its equity. The efficiency significantly improved in 2021 and 2023, suggesting better utilization of capital to drive sales during those years.

Profitability ratio fluctuations:the net profit ratio showed considerable fluctuations, reflecting varied levels of profitability. Notably, 2020 witnessed a significant increase in profitability, while 2021 recorded a loss, likely due to cost management challenges.

Overall, Apna happy family mart needs to focus on enhancing operational efficiency, managing short-term liabilities, and ensuring consistent profitability to achieve financial stability and growth.

8. Suggestion

1. Enhance cash flow by optimizing expenses and diversifying revenue sources.
2. Achieve balance in investments to ensure liquidity and long-term growth.
3. Optimize debt management to reduce financial risk and improve stability.
4. Focus on stabilizing net profit ratios for consistent profitability.
5. Improve operational cash flow through cost-efficiency measures and margin enhancement.

9. Conclusion

Optimize cash flow by streamlining expenses and diversifying revenue streams. Strive for a balanced investment approach that ensures both liquidity and long-term growth. Enhance debt management to mitigate financial risk. Stabilize net profit ratios for consistent profitability and focus on operational efficiency to improve cash flow. Maintain adequate short-term liquidity to navigate potential financial challenges and fluctuations. Adopt a cautious approach to debt financing, prioritize asset utilization, and monitor the financial structure for stability. Incorporate scenario-based planning to anticipate potential barriers and capitalize on opportunities for strategic decision-making.

10. References

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