A Comparative Profitability Analysis Of Coca Cola & Pepsico

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ABSTRACT:

Keeping sector complexities in mind this study is carried out and it is focused on analyzing the profitability of two multinational companies. Its core aim is to evaluate the past performance, income position and the expected future performance of the two companies in different business environment along with recognizing the effect of profitability ratios on company's future. Therefore this paper deals with the comparative competitive analysis of profitability of the number one company in the index's Food and Beverage Super sector- Pepsico and its giant competitor Coca Cola. It has been analyzed on the basis of ratios. Further their SD and CV, the Sum of Mean Values and Average score are calculated. At last concluding remark has been given on the basis of test of significance. It has been noticed that the Profitability position of both the companies are quite similar inspite of different business environment and market forces.

Keywords: Profitability Analysis, Standard Deviation and *t-test.*

INTRODUCTION:

The financial analysis is to diagnose the information contained in financial statements so as to judge the profitability and financial soundness of the firm. Just like a doctor examines his patients by recording his body temperature, blood pressure etc. before making his conclusion regarding illness and before giving his treatment, a financial analyst analysis the financial statements with various tools of analysis before commenting upon the financial health or weakness of an enterprise. The Focus of study is on the corporate financial performance thus financial reporting to be studied in two Multinational corporations are:-

- Coca-cola Company
- PepsiCo India Ltd.

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Coca-cola Company

The Coca-Cola Company is the world's largest beverage company. The company own or license and market more than 500 nonalcoholic beverage brands, primarily sparkling beverages but also a variety of still beverages such as waters, enhanced waters, juices and juice drinks, ready-to-drink teas and coffees, and energy and sports drinks. It own and market four of the world's top five nonalcoholic sparkling beverage brands: Coca-Cola, Diet Coke, Fanta and Sprite. Finished beverage products bearing our trademarks, sold in the United States since 1886, are now sold in more than 200 countries.

The company make its branded beverage products available to consumers throughout the world through our network of Company-owned or -controlled bottling and distribution operations as well as independent bottling partners, distributors, wholesalers and retailers — the world's largest beverage distribution system. Of the approximately 57 billion beverage servings of all types consumed worldwide every day, beverages bearing trademarks owned by or licensed to us account for more than 1.8 billion servings.

The company believes its success depends on its ability to connect with consumers by providing them with a wide variety of choices to meet their desires, needs and lifestyle choices. Their success further depends on the ability of its people to execute effectively, every day.

The company's goal is to use Company's assets — its brands, financial strength, unrivaled distribution system, global reach, and the talent and strong commitment of its management and associates — to become more competitive and to accelerate growth in a manner that creates value for its shareowners.

We were incorporated in September 1919 under the laws of the State of Delaware and succeeded to the business of a Georgia corporation with the same name that had been organized in 1892.

The Company markets, manufactures and sells:

• Beverage concentrates, sometimes referred to as ''beverage bases,'' and syrups, including fountain syrups (they refer to this part of their business as ''concentrate business'' or ''concentrate operations''); and

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• finished sparkling and still beverages (they refer to this part of their business as ''finished product business'' or ''finished product operations'').

Generally, finished product operations generate higher net operating revenues but lower gross profit margins than concentrate operations.

In concentrate operations, they typically generate net operating revenues by selling concentrates and syrups to authorized bottling and canning operations (to which they typically refer as their ''bottlers'' or ''bottling partners'').

Their bottling partners either combine the concentrates with sweeteners (depending on the product), still water and/or sparkling water, or combine the syrups with sparkling water to produce finished beverages. The finished beverages are packaged in authorized containers bearing our trademarks or trademarks licensed to them — such as cans and refillable and non refillable glass and plastic bottles — and are then sold to retailers directly or, in some cases, through wholesalers or other bottlers. Outside the United States, they also sell concentrates for fountain beverages to their bottling partners who are typically authorized to manufacture fountain syrups, which they sell to fountain retailers such as restaurants and convenience stores which use the fountain syrups to produce beverages for immediate consumption, or to fountain wholesalers who in turn sell and distribute the fountain syrups to fountain retailers.

PepsiCo

PepsiCo entered India in 1989 and has grown to become the country's largest selling food and Beverage Company. One of the business which aims to serve the long term dynamic needs of consumers in India. PepsiCo nourishes consumers with a range of products from treats to healthy eats that deliver joy as well as nutrition and always, goods taste.

They are a leading global food and beverage company with hundreds of brands that are respected household names throughout the world. Either independently or through contract manufacturers or authorized bottlers, they make, market, sell and distribute a variety of convenient and enjoyable foods and beverages in more than 200 countries and territories.

They continue to be guided by Performance with Purpose — their belief that what is good for business can and should be good for society. Their commitment to deliver sustainable growth by investing in a healthier future for people and our planet is as much of a financial decision as it is an ethical one. In 2011, PepsiCo earned a place on the prestigious Dow Jones

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Sustainability World Index for the fifth consecutive year, the North America Index for the sixth consecutive year and was ranked as the number one company in the index's Food and Beverage Super sector.

Its management monitors a variety of key indicators to evaluate our business results and financial condition. These indicators include market share, volume, net revenue, operating profit, management operating cash flow, earnings per share and return on invested capital.

PepsiCo has made important strides in 2011. In 2012, the journey continued. They are pursuing specific strategic investment and productivity initiatives to build a stronger, more successful company. This includes an increased investment in our iconic, global brands, bringing innovation to market and increasing our advertising and marketing spending by approximately $500–$600 million in 2012, the majority in North America. In addition, they have begun to implement a multiyear productivity program that they believe will further strengthen their complementary food and beverage businesses. These initiatives support their five strategic imperatives on which we continue to be focused.

OBJECTIVE OF THE STUDY:

To find out the comparative profitability position of Coca-Cola Company and PepsiCo India Ltd.

Hypothesis:

H_0 There is no significant difference in the profitability position of Coca-Cola and PepsiCo.

H_1 There is significant difference in the profitability position of Coca- Cola and PepsiCo.

RESEARCH METHODOLOGY:

The study is done with special reference to two most preferred and trusted multinational companies; Coca-Cola Company and PepsiCo India Ltd. For this purpose an exploratory method has been adopted as it helps us to investigate any problem with suitable hypothesis and it is also important for clarification of any concept. The study will be based on secondary data and comparison has been made on the income position of both the companies.

Research tool:

In this study, for interpreting the results modern financial analysis have been carried out which minutely evaluates and examine relevant components for companies smooth functioning 'like' Profitability Analysis in which twelve ratio are tested. Further, SD and

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CV, the Sum of Mean Values and Average score are calculated. The research tool applied to prove the assumption is the test of significance. After judicious evaluation of all performance parameters companies are ranked according to their performance. The outcome of the study depends on the selected period by the researchers which may differ from other analysis.

Data Collection:

The researcher has collected information from various internet sources, published reports, magazines, annual report and websites of the companies and the annual reports published by both the companies. The study is based on the previous 5 years financial data for the period of 2008-2012.

Review of literature

Historically, many studies have been carried out to compare the financial characteristics of automobile sector and different groups of organizations. Most notable are:

Raheman and Nasir (2007) carried on a research on profitability and working capital management of the Pakistani firms for a period of six years (1999-2004) and applied regression analysis to explore the relationship between working capital variables and profitability indicators and the result showed a negative relationship between working capital and profitability due to liquidity-profitability tangle.

Gulsun and Umit (2010) applied Multiple Regression technique in their research paper on Turkish Insurance Companies to develop a warning model to identify the companies that are experiencing deterioration in financial health.

Kavita and Manivanna (2010) conducted a research on Indian software companies for a period of ten years ranging from 1997 to 2007. They applied regression technique to quantify the strength of relationship between operating profit and liquidity factors of the concerned firms and also to evaluate the overall financial performance and operational efficiency of the companies.

A study has been conducted by Bhunia (2010) on private sector steel companies of India to test the short term liquidity trend of the companies and its effect on the financial performance. The study reveals that the inventory and receivable management require special attention and proper control over inventory. The investment in loans and advances should be minimized to the extent possible. A balanced and proper amount of working capital should be maintained in the business for smooth running of the same. The management of the

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companies should adopt a viable and proficient payment policy. At the same time maximization of assets and minimization of liabilities should be preserved and help Indian steel companies to grow further. A proper working capital management system ensures the hazard free business operations and also enhances the profitability of the company.

Ramaratnam and Jayaraman (2010) used financial ratios in terms of liquidity, profitability, variability and sustainability to measure the financial performance of Indian steel industry for a period of five years from 2005 to 2010. Their study reveals that the critical situation faced by the Indian steel industry is due to over capacity and demand slowdown resulting in price cuts. The anti-dumping duties imposed by U.S and many European countries contributed to this demand supply mismatch in the market.

Van Hone, Jarnes C. 1994 studying financial management and policy narrated that "sources available for companies to meet their financial needs are plenty.

Pandey I.M. (1997) further elaborated "The sources have their respective cost risk control features. Hence an appropriate capital structure has to be designed based on their underlying features matched with the peculiarities related with companies. Analyzing the 'capital structure decision emerging trends"

Sacheendran V. (2005) noted the assets of a company can be financed by debt fund or equity fund. The proportionate relationship between debt and equity of a firms total capital is known as its structure.

Mishra P.K. examined the performance of Indian capital market through 'an empirical study of the impact of net equity investment by foreign institutional investors'.

PROFITABILITY ANALYSIS:

Profitability ratios help users of an entity's financial statements determine the overall effectiveness of management regarding returns generated on sales and investments. Commonly used profitability ratios are gross profit margin, operating profit margin and net profit margin. Gross profit margin measures profitability after considering cost of goods sold, while operating profit margin measures profitability based on earnings before interest and tax expense. Net profit margin is often referred to as the bottom line and takes all expense into account.

Advantages-

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- It acknowledges time value for money and at the same time the NPV of a venture at its present value which is consistent with investment appraisal requirements.
- It is simple to use and understand.
- The elements of NPV in the venture will indicate which venture is more powerful as the most profitable venture will have highest P.I. as the difference or net P.I. will continue to the company's profitability.

Various profitability ratios evaluated are-

- Return on expenses,
- Return on assets,
- Return on net assets,
- Operating return on assets,
- Gross profit margin rate,
- Operating profit margin rate,
- Pretax margin rate,
- Basic earnings per share,
- Earnings before interest less adjusted tax margin rate,
- Net profit ratio,
- Gross profit ratio,
- Operating profit ratio etc.

DATA ANALYSIS

Financial statements were taken for five years from 2008 to 2012 to evaluate the income position of the companies taken as sample i.e. of Coca-Cola Company and PepsiCo India Ltd and profitability ratios were calculated and further their standard deviations and covariance were ascertained. The calculations are summarized in Table no. 1 as follows:

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Table no.1

S.NO	PROFITABILITY RATIOS OF COCA COLA AND PEPSICO								
	RATIOS	2008	2009	2010	2011	2012	AVERAGE	S D	C V
1-	RETURN ON EQUITY								
	COCACOLA	0.287	0.278	0.13	0.27	0.277	0.2484	0.07	26.76
	PEPSICO	0.411	0.343	0.295	0.31	0.277	0.3272	0.05	16.12
2-	RETURN ON ASSETS=								
	COCACOLA	0.101	0.101	0.105	0.08	0.084	0.0942	0.01	12.04
	PEPSICO	0.18	0.188	0.123	0.12	0.11	0.1442	0.04	25.49
3-	RETURN ON NET ASSETS=								
	COCACOLA	0.172	0.162	0.168	0.14	0.151	0.1586	0.01	8.24
	PEPSICO	0.317	0.302	0.202	0.21	0.178	0.2418	0.06	26.11
4-	OPERATING RETURN ON ASSETS=								
	COCACOLA	0.235	0.156	0.322	0.2	0.202	0.223	0.06	27.83
	PEPSICO	0.356	0.368	0.238	0.23	0.161	0.2706	0.09	32.80
5-	GROSS PROFIT MARGIN RATE=								
	COCACOLA	0.644	0.642	0.481	0.609	0.603	0.5958	0.07	11.22
	PEPSICO	0.529	0.535	0.541	0.525	0.522	0.5304	0.01	1.45
6-	OPERATING PROFIT MARGIN RATE=								
	COCACOLA	0.264	0.266	0.24	0.219	0.224	0.2426	0.02	9.02
	PEPSICO	0.161	0.186	0.144	0.145	0.139	0.155	0.02	12.38
7-	PRETAX MARGIN RATE=								
	COCACOLA	0.235	0.289	0.405	0.246	0.246	0.2842	0.07	24.85
	PEPSICO	0.127	0.133	0.142	0.187	0.163	0.1504	0.02	16.35
8-	BASIC EARNING PER SHARE=								
	COCACOLA	2.508	2.949	2.554	1.879	2.001	2.3782	0.44	18.39
	PEPSICO	3.192	3.186	3.975	4.088	4.006	3.6894	0.46	12.43
9-	EARNING BEFORE INTEREST LESS ADJUSTED TAX MARGIN RATE								
	COCACOLA	0.184	0.223	0.337	0.186	0.189	0.2238	0.07	29.16
	PEPSICO	0.119	0.138	0.11	0.097	0.095	0.1118	0.02	15.77
10-	NET PROFIT RATIO=								
	COCACOLA	18.388	22.285	33.71	18.58	18.922	22.3754	6.53	29.19
	PEPSICO	11.889	13.754	10.93	9.688	9.433	11.1382	1.77	15.85
11-	GROSS PROFIT RATIO=								
	COCACOLA	64.394	64.221	63.86	60.86	60.32	62.731	1.97	3.14
	PEPSICO	52.947	53.509	54.05	52.5	52.222	53.0452	0.75	1.40
12-	OPERATING PROFIT RATIO=								
	COCACOLA	26.44	26.56	23.96	21.86	22.448	24.2524	2.19	9.03
	PEPSICO	16.09	18.607	14.41	14.49	13.913	15.5002	1.92	12.39

INTERPRETATION:

From table no.1 it has been found that the average return on equity ratio of Coca-Cola Company and PepsiCo India Ltd. are 0.2484 and 0.3272 respectively. The study revealed that the return on equity ratio of coca-cola in the year 2010 was lower than the average return on equity ratio and in rest of the year it was above than the average ratio. For Pepsico the return on equity ratio in the year 2010 and 2012 were below than the average ratio and in rest of the year it was above than the average ratio. It has been observed that the average return on assets ratio for Coca-Cola and Pepsico Company is 0.942 and 0.1442 respectively. The return on assets ratio in the years 2011 and 2012 is below the average ratio whereas in the rest of the years it is above average. Pepsico has its highest ratio in the year 2009 whereas Coca-Cola has its highest ratio in the year 2010. It has been found that the average return on net assets for Coca-Cola and pepsico is 0.1586 and 0.2418 respectively. The return on net assets ratio for Coca-Cola is below the average ratio in the years 2011 and 2012 whereas in the rest of the years it is above average. Pepsico has its highest ratio in the year 2008 which is the year of highest ratio for Coca-Cola too. From the above table it has been found that the average operating return on assets ratio for Coca-Cola and pepsico is 0.223 and 0.2706 respectively. The operating return on assets ratio for Coca-Cola is below average in the years 2009, 2011 and 2012. Whereas for pepsico this ratio is below average in the years 2010, 2011 and 2012. Pepsico has its highest ratio in the year 2009 and for Coca-Cola its highest ratio was in the year 2010. It has been found that the average gross profit margin rate for Coca-Cola and pepsico is 0.5958 and 0.5304 respectively. The gross profit margin rate for Coca-Cola is below average in the year 2010 whereas for pepsico it is below average in the years 2008, 2011 and 2012. Pepsico has its highest ratio in the year 2010 whereas Coca-Cola has its highest ratio in the year 2008. From the above table it has been derived that the average operating profit margin rate for Coca-Cola and pepsico is 0.2426 and 0.155 respectively. The operating profit margin rate for Coca-Cola is below average in the years 2010, 2011 and 2012, wherein in the year 2010 there is only a slight difference between the average and the respective ratio. For pepsico, the ratio is below average in the years 2008, 2011 and 2012 whereas it is above average in the rest of the years. Pepsico has its highest ratio in the year 2009 as well as Coca-Cola too has its highest ratio in the year 2009. It has also been found that the average pre-tax margin rate for Coca-Cola and pepsico is 0.2842 and 0.1504 respectively. The pretax margin rate for Coca-Cola is below average in the years 2008, 2011 and 2012 whereas in the rest of the years it is above average. Similarly for pepsico this ratio

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is below average in the years 2008, 2009 and 2010 whereas in the rest of the years it is above average. Pepsico has its highest ratio in the year 2011 whereas Coca-Cola has its highest ratio in the year 2010. Further from the above table it has been found that the average basic earnings per share for Coca-Cola and pepsico is 2.3782 and 3.8154 respectively. The basic earnings per share for Coca-Cola is below average in the years 2011 and 2012 whereas in the rest of the years it is above average. Similarly for pepsico this ratio is below average in the year 2008 whereas in the rest of the years it is above average. Pepsico has its highest ratio in the year 2011 and Coca-Cola has its highest ratio in the year 2009. The average earnings before interest less adjusted tax margin rate for Coca-Cola and pepsico is 0.2238 and 0.1118 respectively. The earnings before interest less adjusted tax margin rate for Coca-Cola is below average in all the years except in the year 2010. At the same time, this ratio for pepsico is below average in all the years. Pepsico has its highest ratio in the year 2009 whereas Coca-Cola has its highest ratio in the year 2010. The average net profit ratio for Coca-Cola and pepsico is 22.3754 and 11.1382 respectively. The net profit ratio for Coca-Cola is below average in all the years except 2010 (33.705) whereas in pepsico it is below average in the years 2010, 2011 and 2012. Pepsico has its highest ratio in the year 2009. Similarly, Coca-Cola has its highest ratio in the year 2010. It has been found that the average gross profit ratio for Coca-Cola and pepsico is 62.731 and 53.0452 respectively. The gross profit ratio for Coca-Cola is below average in the years 2011 and 2012 whereas in pepsico this ratio is below average in all the years except in 2009 and 2012. Pepsico has its highest ratio in the year 2010 as well as for Coca-Cola also its highest ratio was in the year 2010. The average operating profit ratio for Coca-Cola and pepsico is 24.2524 and 15.6622 respectively. The operating profit ratio for Coca-Cola is below average in the years 2010, 2011 and 2012 whereas in pepsico this ratio is below average in all the years except in 2008 and 2009. Pepsico has its highest ratio in the year 2009 as well as for Coca-Cola also its highest ratio was in the year 2009.

Table no. 2

Comparisons on the Basis of Mean Values of Ratios				
S.NO.	PROFITABILITY RATIOS	FORMULAE	VERAGE RATIOS O	
			COCACOL	PEPSICO
1-	RETURN ON EQUITY=	NET INCOME	0.2484	0.3272
		SHAREHOLDER'S EQUITY		
2-	RETURN ON ASSETS=	NET INCOME+INTEREST EXPENSES*(1-TAX RATE)	0.0942	0.1442
		ASSETS		
3-	RETURN ON NET ASSETS=	NET INCOME+INTEREST EXPENSES*(1-TAX RATE)	0.1586	0.2418
		EQUITY+INTEREST BEARING DEBT		
4-	OPERATING RETURN ON ASSET	NET INCOME+(INTEREST EXPENSES-INTEREST INCOME)*(1-TA	0.223	0.2706
		EQUITY+DEBT+CASH AND SHORT TERM INVESTMENTS		
5-	GROSS PROFIT MARGIN RATE=	SALES-COST OF SALE	0.5958	0.5304
		SALES		
6-	OPERATING PROFIT MARGIN R	OPERATING INCOME	0.2426	0.155
		SALES		
7-	PRETAX MARGIN RATE=	INCOME BEFORE INCOME TAX	0.2842	0.1504
		SALES		
8-	BASIC EARNING PER SHARE=	NET INCOME AVALABLE TO COMMON SHAREHOLDERS	2.3782	3.6894
		WEIGHTED AVERAGE NUMBER OF COMMON SHARES O/s		
9-	EARNING BEFORE INTEREST LESS ADJUSTED	EARNING BEFORE INTEREST LESS ADJUSTED TAX	0.2238	0.1118
	TAX MARGIN RATE	SALES		
10-	NET PROFIT RATIO=	(NET PROFIT AFTER TAX)*100	22.3754	11.1382
		(NET SALES)		
11-	GROSS PROFIT RATIO=	(GROSS PROFIT)*100	62.731	53.0452
		(NET SALES)		
12-	OPERATING PROFIT RATIO=	(OPERATING PROFITS)*100	24.2524	15.5002
		(NET REVENUES)		
		Sum of Mean Values	113.8076	85.3044
		Average Score	9.48397	7.1087
		Ranking	I	II

Interpretation:

To analyse the above table no.1 it was found necessary to compare both the companies on the basis of mean values of their ratios. Table no. 2 clearly states the earning capacity of both the companies by giving them ranks on the basis of average scores. It is evident from the Table no. 2 that Coca-Cola leads in the profitability analysis as compared to Pepsico. Coca-Cola's average score of profitability score is 9.5 approx whereas for Pepsico ltd., the score is 7.1. But it was also inferred that the comparative variability of Coca Cola is lesser than that of Pepsico only in 5 out of 12 profitability ratios. Therefore the need for further clarification was felt and an attempt was made to find the result on the basis of an important parametric test *t-test*.

t-test

t-test is based on t-distribution and is considered an appropriate test for judging the significance of a sample mean or for judging the significance of difference between the means of two samples in case of small sample(s) when population variance is not known (in which case we use variance of the sample as an estimate of the population variance). The relevant test statistic, *t* ,is calculated from the sample data and then compared with its probable value based on *t*-distribution (to be read from the table that gives probable values of *t* for different levels of significance for different degrees of freedom) at a specified level of significance for concerning degrees of freedom for accepting or rejecting the null hypothesis.

Table no.3

TABLE SHOWING TEST OF SIGNIFICANCE (t-test)

S.NO	PROFITABILITY RATIOS	$\bar{X}_1$ for COCA-COLA	$\bar{X}_2$ for PEPSICO	Standard Deviation	Observed / t Value	Table Value	Significant
1-	RETURN ON EQUITY	0.2484	0.3272	0.06	-0.66	2.306	YES
2-	RETURN ON ASSETS	0.0942	0.1442	0.08	-0.32	2.306	YES
3-	RETURN ON NET ASSETS	0.1586	0.2418	0.13	-0.32	2.306	YES
4-	OPERATING RETURN ON ASSETS	0.223	0.2706	0.22	-0.11	2.306	YES
5-	GROSS PROFIT MARGIN RATE	0.5958	0.5304	0.05	0.69	2.306	YES
6-	OPERATING PROFIT MARGIN RATE	0.2426	0.155	0.02	2.13	2.306	YES
7-	PRETAX MARGIN RATE	0.2842	0.1504	0.05	1.27	2.306	YES
8-	BASIC EARNING PER SHARE	2.3782	3.6894	0.45	-1.46	2.306	YES
9-	ADJUSTED TAX MARGIN RATE	0.2238	0.1118	0.05	1.17	2.306	YES
10-	NET PROFIT RATIO	22.3754	11.1382	4.78	1.17	2.306	YES
11-	GROSS PROFIT RATIO	62.731	53.0452	1.49	3.25	2.306	NO
12-	OPERATING PROFIT RATIO	24.2524	15.5002	2.06	2.12	2.306	YES

Calculation of *t-test*

$$t = \frac{\bar{x}_1 - \bar{x}_2}{S} * \frac{\sqrt{n_1 * n_2}}{n_1 + n_2}$$

where

$$\sqrt{\sum d_1{}^2 + \sum d_2{}^2}$$

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S = ――――――――

$n_1 + n_2 - 2$

The table value is calculated at 5% level of significance for 8 degree of freedom.

After the above calculations of test of significance with all the profitability ratios a summary has been prepared below to interpret the results accurately.

Interpretation:

As in this case variance of the populations is not known and sample sizes small, to measure the difference between the means of two samples, we used *t-test* (Fisher's *t-test*) to work out the test statistic. The observed 't' value of all the profitability ratios except gross profit ratio are lesser than table value of 't' at 5% level of significance with d.f.8, which is 2.306. This shows that the null hypothesis i.e. There is no significant difference in the profitability position of Coca-Cola and PepsiCo is accepted.

CONCLUSIONS

The study explored the truth that ratios by themselves mean nothing. It is found that ratios are calculated from the financial statements' which are prepared as desired by the management and policies adopted on depreciation and stock values and thus produce only a collection of facts expressed in monetary term and cannot produce complete and authentic picture of the business and also may not highlight other factors which affects performance. It is also found that to control manager's management often overuse ratio and concentrate more on improving the ratios. It is also known fact that ratio is simple comparison of numerator and a denominator and in comparing ratios it become difficult to adjudicate whether differences are due to change in the numerator or denominator or in both. It is also found that ratios are interconnected but are often treated by management in isolation. It is also found that analysis of ratios lack authenticity as data used in calculation are not accurate but manipulated presentation by the promoters. It is also found that different firms follow different accounting policies like depreciation allowance; valuation of inventory etc. and often management ignore these differences while making inter-firm comparison. It is known fact that ratios are calculated from past records and have no indicator of future and are also not compared according to standard. It is also found that change in price levels due to inflation is also not properly considered by management.

In the shadow of above revelation and fact the study conclude that Coca-Cola has slightly better strategic position in comparison to its competitor in all the respective profitability

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ratios. It has secured top position in profitability analysis. Pepsico ltd. on other hand has secured second position.

SUGGESTIONS

By analyzing the current trend of Indian economy and food and beverage industry we can say that future of this industry is bright and still it has to cross many levels.

Industry is booming and investing in food and beverage industry will be prudent. Investing in both the companies for long period could be good. While using ratios great degree of carefulness has to be exercised and must be compared with norm or set target, with previous ratios in order to asses trends and with achieved ratios of other comparable companies. In order to get relevant and judicious analysis companies have to use accurate data and also have to consider other factors which affect performance including non- financial performance measures. Companies must have complete knowledge of ratios advantage limitations, policy and standards of different industry along with ability to make comparative analysis in order to use them effectively to investigate adverse trend or deviation thoroughly and take corrective measures accordingly. In order to avoid meaninglessness and calculative confusion company must exercise proper care in studying such figures which have cause and effect relationship. Companies have to be vigilant about the inflation in order to avoid error and loss. In order to get meaningful ratio it should be compared against the standard and past performance of a company may not be considered as a benchmark when change due to circumstances are possible.

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