

# A Study on Credit Risk Management in Britannia Industries Limited, Bangalore

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## ABSTRACT

Credit risk management has become an important role in all organizations. Managing credit risk is a key challenge for companies and financial institutions because poor risk management can lead to financial losses, reduced profitability, and weakened stability. This study analyzes the credit risk management at Britannia Industries Limited, Bangalore, by evaluating key financial variables including financial leverage, liquidity, quality of receivables, solvency, and overall long-term financial performance. The research employs secondary data gathered for a period of five years (2021–2025), utilizing analytical research design and purposive sampling. Ratio analysis, common size and comparative balance sheet analysis are applied. It is determined that credit risk management has a great influence on the performance and financial stability of the organization. The analysis reveals that while liquidity and receivables turnover improved in certain years, inconsistencies in debt management, interest coverage and collection performance indicate ongoing credit risk exposure. The conclusion is that enhancing credit assessment, improving collection efficiency, ensuring optimal capital structure, and strengthening liquidity management are essential for overall organizational performance.

**Keywords:** Credit Risk Management, Financial Leverage, Liquidity Ratios, Receivables Management, Solvency, Britannia Industries

## I. INTRODUCTION

### 1.1 Credit Risk Management

The management process of identifying, assessing and reducing the risks associated with extending credit to customers is referred to as credit risk management. It assists companies in evaluating the possibility of customer default and identifying proactive steps to mitigate such risk. Assessing the creditworthiness of customers is one of the major elements of credit risk management, involving examination of financial data, credit ratings, income balances, and other crucial factors. Through proper management of credit risks, the company is able to cushion the business against financial shocks and ensure a stable profit margin. Altman (2000) identified credit risk management as the act of recognizing, quantifying, tracking, and managing the risk of loss experienced due to a borrower defaulting on contract. Jorion (2007) defined credit risk management as the structures and processes followed by financial institutions to control exposure to borrowers at risk of default, involving risk evaluation, establishment of credit limits, repayment tracking and recovery measures.

### 1.2 Company Profile: Britannia Industries Limited

Britannia Industries is one of India's leading food companies with over 100 years of heritage. The company's flagship brands — Good Day, Tiger, NutriChoice, Milk Bikis, and Marie Gold — are household names in India. Britannia Bread is the largest brand in the organized bread market, operating 13 factories and 4 franchisees selling close to 1 million loaves daily across more than 100 cities. The company has a presence in over 60 countries and is a market leader in Nepal. Britannia became India's first Zero Trans Fat Company, having removed over 8,500 tonnes of trans fats from products.

### 1.3 Statement of the Problem

Credit risk management has become increasingly important in financial institutions and organizations due to rising loan defaults, economic uncertainties, and non-performing loans. Many organizations face problems related to their credit

risk management systems, lack of sufficient credit information, and inadequate frameworks for evaluating borrowers. Inefficient risk management leads to higher default rates, liquidity crises, and reductions in profitability. This study aims to assess the credit risk management practices of Britannia Industries Limited and derive findings that may improve overall organizational performance.

#### 1.4 Objectives of the Study

##### Primary Objective:

- To study credit risk management practices in Britannia Industries Limited, Bangalore.

##### Secondary Objectives:

- To evaluate the financial leverage of the company and its role in credit risk management.
- To assess the company's liquidity position in managing credit obligations.
- To assess the quality of the company's receivables portfolio and its impact on credit risk.
- To assess the solvency and long-term financial health of the company.

#### 1.5 Scope and Limitations

The study is limited to Britannia Industries Limited, Bangalore, for the period 2021–2025, focusing on secondary data from published financial statements. It covers financial leverage, liquidity, receivables quality, and solvency. The results may not be generalizable to other FMCG firms, and primary data from management was not collected.

## II. REVIEW OF LITERATURE

Abubakar, Tobi, and Abdullahi (2020) examined the effect of credit risk management on the financial performance of listed microfinance banks in Nigeria (2012–2017), finding that capital adequacy ratio had a significant negative effect while loan loss provisions and non-performing loans significantly impacted financial performance.

Adegbie and Otitolaiye (2020) investigated the relationship between credit risk and financial performance of deposit money banks in Nigeria over 2009–2018, finding that loan-deposit and total loan ratios significantly affected return on assets.

Siddique, Khan, and Khan (2021) investigated credit risk management and bank-specific factors in South Asian commercial banks, finding that higher non-performing loans significantly reduced both ROA and ROE, while capital adequacy and lending rates improved financial outcomes.

Haile and Joshi (2022) examined Ethiopian commercial banks (2008–2018), finding that capital adequacy, loan-to-deposit ratio, and provision for loan loss ratios positively affected profitability, while higher non-performing loans had a negative impact.

Mungara (2023) examined how predictive analytics could enhance credit risk management, demonstrating that predictive models significantly enhanced risk forecasting compared to traditional methods.

Yang and Xu (2024) investigated big data analytics for bank credit risk assessment, finding that combining SMOTE sampling with neural network models significantly enhanced prediction accuracy over traditional statistical methods.

Mala, Chajar, Matari, Fath, Jumono, and Sapto (2025) analyzed how capital adequacy affected credit risk outcomes in Indonesian regional development banks, finding that higher capital adequacy significantly reduced the impact of risk indicators in well-capitalized banks.

#### Research Gap

While prior literature extensively covers the impact of credit risk on banking profitability, limited attention has been paid to the integration of multiple financial dimensions — leverage, liquidity, receivables quality, and solvency — within non-banking FMCG firms. This study addresses that gap by providing a holistic credit risk analysis of Britannia Industries Limited.

## III. RESEARCH METHODOLOGY

The study utilizes an analytical research design to assess and interpret financial data for evaluating the efficiency of credit risk management practices. Secondary data collected from annual reports of Britannia Industries Limited for the

period 2021–22 to 2024–25 are used. The sampling technique is purposive, selecting five years of financial statements for analysis. Analytical tools include ratio analysis (debt-to-equity, debt, interest coverage, current, quick, cash, debtors' turnover, average collection period, accounts receivable to total assets, net worth to total assets, capital gearing, and reserves-to-debt ratios), as well as comparative balance sheet analysis and common size balance sheet analysis.

#### IV. ANALYSIS AND INTERPRETATION

##### 4.1 Ratio Analysis

**Table 1: Debt-to-Equity Ratio**

Year	Credit Sales (₹ Cr)	Average Debtors (₹ Cr)	Ratio
2021	31.68	11.63	2.72
2022	32.09	11.14	2.88
2023	31.01	9.38	3.31
2024	29.61	9.34	3.17
2025	31.47	10.32	3.05

Source: Annual Reports of Britannia Industries Limited

The debt-to-equity ratio increased from 2.72 (2021) to 3.31 (2023), indicating rising leverage. The subsequent decline to 3.05 (2025) suggests partial improvement in equity-debt balance, though the ratio remains relatively high, indicating ongoing credit risk exposure.

**Table 2: Debt Ratio**

Year	Total Debt (₹ Cr)	Total Debt + Net Worth (₹ Cr)	Ratio
2021	44.18	59.67	0.74
2022	42.16	58.17	0.72
2023	44.78	62.38	0.72
2024	44.44	60.41	0.74
2025	44.00	59.39	0.74

Source: Annual Reports of Britannia Industries Limited

The debt ratio remained relatively stable between 0.72 and 0.74, indicating that approximately 72–74% of total assets are financed by debt. This high proportion of debt-funded assets warrants careful credit risk monitoring.

**Table 3: Interest Coverage Ratio**

Year	EBIT (₹ Cr)	Interest Expense (₹ Cr)	Ratio
2021	4.23	2.88	1.47
2022	6.12	5.20	1.18
2023	6.40	5.00	1.28
2024	4.74	4.34	1.09
2025	3.64	3.51	1.04

Source: Annual Reports of Britannia Industries Limited

The interest coverage ratio declined steadily from 1.47 (2021) to 1.04 (2025), approaching dangerously close to 1.0. A ratio near 1 signals that the company barely covers its interest obligations, indicating heightened financial and credit risk.

**Table 4: Current Ratio**

Year	Current Assets (₹ Cr)	Current Liabilities (₹ Cr)	Ratio
2021	37.82	12.55	3.01
2022	39.09	22.26	1.76
2023	37.43	9.35	4.00
2024	39.20	9.06	4.33
2025	38.61	8.38	4.61

Source: Annual Reports of Britannia Industries Limited

After a significant dip to 1.76 in 2022, the current ratio improved consistently to 4.61 in 2025, indicating a strong and improving liquidity position. This reflects the company's growing ability to meet short-term obligations.

**Table 5: Quick Ratio**

Year	Current Assets – Inventories (₹ Cr)	Current Liabilities (₹ Cr)	Ratio
2021	21.81	12.55	1.74
2022	24.20	22.26	1.09
2023	21.06	9.35	2.25
2024	18.92	9.06	2.09
2025	17.60	8.38	2.10

Source: Annual Reports of Britannia Industries Limited

The quick ratio dropped to 1.09 in 2022 but recovered to 2.25 in 2023, with a slight decline to 2.10 in 2025. The declining trend in recent years due to reduced liquid assets highlights a need to manage inventory and receivables carefully.

**Table 6: Cash Ratio**

Year	Cash + Marketable Securities (₹ Cr)	Current Liabilities (₹ Cr)	Ratio
2021	2.17	12.55	0.17
2022	7.38	22.26	0.33
2023	0.13	9.35	0.01
2024	7.13	9.06	0.79
2025	2.13	8.38	0.25

Source: Annual Reports of Britannia Industries Limited

The cash ratio showed high volatility — from 0.01 in 2023 to 0.79 in 2024 — indicating inconsistent cash management. A low cash ratio reflects vulnerability to immediate liquidity shocks and heightens short-term credit risk.

**Table 7: Debtors' Turnover Ratio**

Year	Net Credit Sales (₹ Cr)	Accounts Receivable (₹ Cr)	Ratio
2021	31.68	11.63	2.72
2022	32.09	10.65	3.01
2023	31.01	8.10	3.83

Year	Net Credit Sales (₹ Cr)	Accounts Receivable (₹ Cr)	Ratio
2024	29.61	8.58	3.45
2025	31.47	12.06	2.61

Source: Annual Reports of Britannia Industries Limited

The debtors' turnover ratio peaked at 3.83 in 2023, reflecting efficient receivables collection, but declined to 2.61 in 2025, signaling a slowdown in collection efficiency and a rise in outstanding receivables.

**Table 8: Average Collection Period**

Year	360 Days	Debtors Turnover Ratio	Collection Period (Days)
2021	360	2.72	132
2022	360	3.01	120
2023	360	3.83	94
2024	360	3.45	104
2025	360	2.61	138

Source: Annual Reports of Britannia Industries Limited

The average collection period decreased to a minimum of 94 days in 2023 before rising to 138 days in 2025. A longer collection period indicates slower realization of receivables, increasing credit risk exposure.

**Table 9: Accounts Receivable to Total Assets Ratio**

Year	Accounts Receivable (₹ Cr)	Total Assets (₹ Cr)	Ratio
2021	11.63	59.67	0.19
2022	10.65	58.17	0.18
2023	8.10	62.38	0.13
2024	8.58	60.41	0.14
2025	12.06	59.39	0.20

Source: Annual Reports of Britannia Industries Limited

This ratio rose to 0.20 in 2025, indicating that a larger share of company assets is now tied up in receivables, which increases credit risk if collections slow down.

**Table 10: Net Worth to Total Assets Ratio**

Year	Net Worth (₹ Cr)	Total Assets (₹ Cr)	Ratio (%)
2021	15.49	59.67	25.96
2022	16.01	16.01	100.00
2023	17.60	62.39	28.21
2024	15.97	60.40	26.44
2025	15.39	59.39	25.91

Source: Annual Reports of Britannia Industries Limited

Excluding the anomalous 2022 figure, the net worth to total assets ratio shows a declining trend (28.21% in 2023 to 25.91% in 2025), indicating a decreasing equity buffer relative to total assets and an increasing reliance on debt.

**Table 11: Capital Gearing Ratio**

Year	Fixed Cost Capital (₹ Cr)	Equity Shareholders' Funds (₹ Cr)	Ratio
2021	44.18	15.49	2.85
2022	42.16	16.01	2.63
2023	44.78	17.60	2.54
2024	44.44	15.97	2.78
2025	44.00	15.39	2.86

Source: Annual Reports of Britannia Industries Limited

The capital gearing ratio increased from 2.54 (2023) to 2.86 (2025), indicating increasing financial leverage. A higher gearing ratio implies greater dependency on debt and higher credit risk vulnerability.

**Table 12: Reserves-to-Debt Ratio**

Year	Reserves (₹ Cr)	Total Debt (₹ Cr)	Ratio
2021	4.90	44.18	0.11
2022	5.42	42.16	0.13
2023	7.01	44.78	0.16
2024	5.38	44.44	0.12
2025	4.80	44.00	0.11

Source: Annual Reports of Britannia Industries Limited

The reserves-to-debt ratio peaked at 0.16 in 2023 and declined to 0.11 in 2025, indicating that internal reserves are insufficient relative to total debt. This signals limited capacity to absorb credit shocks using retained earnings.

**4.2 Comparative Balance Sheet Analysis (Summary)**

The comparative balance sheet analysis for the period 2021–2025 reveals the following key trends:

- 2021–2022: Total assets declined marginally by 2.53%. Current liabilities increased significantly by 77.44%, reflecting elevated short-term financial pressure, while long-term debt reduced by 4.57%.
- 2022–2023: Total assets increased by 7.24%, driven by improved capital and reserves (+9.93%). Current liabilities reduced sharply by 58%, easing short-term risk.
- 2023–2024: Current assets improved by 46.31%, largely due to a 538.5% surge in cash and bank balances. Total assets declined slightly by 3.19%.
- 2024–2025: Sundry debtors increased by 40.56%, while cash reduced by 70.11%, indicating a shift from cash-based to credit-based transactions. Total current liabilities declined by 7.51%.

**4.3 Common Size Balance Sheet Analysis (Summary)**

The common size analysis reveals that secured loans consistently represent approximately 71–74% of total liabilities across all years, indicating heavy reliance on debt financing. Net worth as a proportion of total liabilities ranged between 25.91% and 28.21%, reflecting a thin equity cushion. Fixed assets as a share of total assets declined from 57.65% (2021) to 49.10% (2025), while current assets increased from 42.35% to 50.90%, suggesting a shift toward more liquid asset deployment.

**V. FINDINGS, SUGGESTIONS AND CONCLUSION**

**5.1 Key Findings**

- The debt-to-equity ratio increased from 2.72 (2021) to 3.31 (2023), then declined to 3.05 (2025), indicating persistent high leverage.
- The interest coverage ratio declined steadily from 1.47 (2021) to 1.04 (2025), approaching a critical threshold.

- The current ratio improved consistently from 1.76 (2022) to 4.61 (2025), reflecting strengthening short-term liquidity.
- The quick ratio fluctuated, settling at 2.10 in 2025, while the cash ratio showed high volatility (0.01 in 2023 to 0.79 in 2024).
- The debtors' turnover ratio peaked at 3.83 (2023) but declined to 2.61 (2025), and the average collection period rose to 138 days in 2025.
- The accounts receivable to total assets ratio increased to 0.20 in 2025, signaling growing credit exposure.
- The capital gearing ratio increased to 2.86 (2025), and the reserves-to-debt ratio declined to 0.11, indicating limited internal risk buffers.

## 5.2 Suggestions

- Optimize the debt-to-equity ratio by targeting a balanced capital structure to minimize financial risk.
- Strengthen the interest coverage ratio by increasing operating profits or reducing interest-bearing liabilities.
- Implement tighter credit control processes to reduce the average collection period and improve debtors' turnover.
- Maintain a steady cash ratio through improved cash flow planning to avoid acute liquidity gaps.
- Enhance credit screening and monitoring of accounts receivable to control the receivables-to-assets ratio.
- Build reserves through improved retained earnings to strengthen the reserves-to-debt ratio.

## 5.3 Conclusion

This study demonstrates that credit risk management plays a critical role in the financial performance and stability of Britannia Industries Limited. While the company shows improvement in short-term liquidity (current and quick ratios), significant concerns persist in interest coverage, capital gearing, and receivables management. The consistently high debt ratio and declining reserves-to-debt ratio indicate that the company operates with limited internal buffers against credit shocks. Continuous monitoring and refinement of credit risk practices — including enhanced credit assessment, efficient collections, and optimized capital structure — are essential for long-term financial stability. These findings offer practical guidance for financial managers in FMCG companies seeking to strengthen their credit risk frameworks.

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