International Journal of Academic Research
ISSN: 2348-7666; Vol.4, Issue-12(1), December, 2017
Impact Factor: 6.023; Email: drtvramana@yahoo.co.in

An Empirical Study on Working Capital Management (With Special Reference to Selected FMCG Companies in India)

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Abstract: *Management of Working Capital is one of the most important functions of corporate financial management. Every organization whether public or private, profit oriented or not, irrespective of its size and nature of business, needs adequate amount of working capital. The efficient working capital management is most crucial factor in maintaining survival, liquidity, solvency and profitability Fast Moving consumer Goods(FMCG) business organization. A company needs sufficient finance to carry out purchase of raw materials, payment of day-to-day operational expenses and funds to meet these expenses are collectively known as working capital. Keeping in view the significance of working capital management as a gray area of corporate finance function, an attempt has been made to examine the working capital trends and practices particularity in FMCGs sector in India by selecting five FMCGs companies (Hindustan Unilever Limited, Nestle India Limited, Britannia Industries, Procter Gamble and ITC). The FMCG sector in India is the fourth largest sector with expected to grow to a USD 33 billion industry by 2015. FMCG market in India is expected to grow at a CAGR of 20.6 per cent and is expected to reach US$ 103.7 billion by 2020 from USD 33 billion industry by 2015. This industry primarily includes the production, distribution and marketing of consumer packaged goods, The study is based on secondary data that is Annual Reports of the selected FMCG companies submitted to BSE and NSE, The period of study is five years and traditional method of data analysis and Ratio analysis as tools of financial statement analysis for examine the degree of efficiency of working capital management and Short Term Liquidity and profitability analysis has been adopted.*

Keywords: *Working capital management Process in FMCG, Efficiency of working capital management, Short Term Liquidity and profitability analysis, Other Financial Ratios,*

INTRODUCTION:

The Fast Moving Consumer Goods sector is one of the major contributors in the economic development of any country. It is the fourth largest sector of Indian economy. The FMCG market is expected to reach US$ 20.6 billion by 2020. Major share of this comes from urban markets that account for 65 per cent of total revenues. In last decade average of 11% annual growth is observed in FMCG sector. The compounded annual growth rate for FMCG is expected to touch US$ 110.4 billion during 2012-2020. The pillars of growth for consumer durable market are awareness, easy access and trends of lifestyle. In the perspective of business, policies and regulations support both the existing players as well as new entrants in this sector

The concept of working capital is very important for the day-to-day operation and smooth running of the business firms. Adam Smith (1776) explained, "The goods of the merchant yield him no revenue or profit, till he sells them for money, and the money Yields him as little till it is again exchanged for goods. His capital is continuously going from him 8n one shape, and returning to him in another, and it is only by means of such circulation, or successive exchanges, that it can yield him profit; such capital therefore, may very properly be called circulating capital." What we called working Capital Smith called circulating capital. This capital is needed for regular business operation such as purchase of raw materials, payment of direct and indirect expenses carry on production, investment in stock and store, credit granted to customers keeping balance, etc. Decisions relating to working capital and short –term financing are referred to as WCM. It is best described as the administration of all aspects of current assets and current liabilities. The objectives of WCM are to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short- term debt and upcoming operational expenses. WCM therefore, consists of: a) considering the trade- off between costs and benefits derived from alternative levels of investment in working capital and: b) managing of both control and decisions regarding stock, debtors and cash.

The need for maintaining an adequate working capital can hardly be questioned. Just as circulation of blood is very necessary in the human body to maintain life, the flow of funds is very necessary to maintain business. If it becomes weak, the business can hardly prosper and survive. Working capital starvation is generally credited as a major cause if not the major cause of small business failure in many developed and developing countries.

According to Harris (2005) Working capital management is a simple and straightforward concept of ensuring the ability of the firm to fund the difference between the short term assets and short term liabilities. Nevertheless, complete mean and approach preferred to cover all its company's activities related to vendors, customer and product.

(Hall, 2002). Now a day working capital management has considered as the main central issues in the firms and financial managers are trying to identify the basic drivers and level of working capital management.

(Lamberson, 1995). The working capital meets the short-term financial requirements of a business enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes form and substance during the normal course of business operations. (Jarvis et al, 1996). The study objectives are to examine the working capital management of the sample firms. The amounts invested in working capital are often high in proportion to the total assets employed and so it is vital that these amounts are used in an efficient and effective way. However, there is evidence that small businesses are not very good at managing their working capital.

Objectives: The study aims at analyzing the working capital management of Fast

Moving Consumer Goods (FMCG) Sector in India. The main objectives are:

- To study the working capital Management in FMCG sector.
- To discover the relative importance of various current assets components.
- To know the how Companies handle debtors, Inventories and other current assets.
- To draw conclusion on the effectiveness of working capital management.

Working Capital Trends and Liquidity analysis:

This study an attempt has been made to analyze, Evaluate and assess the working capital management (WCM) through ratio analysis and WC trends and liquidity position of selected FMCG companies in India for the period of five years. These companies are: Hindustan Unilever Limited (HUL), ITC Ltd, P&G India, Britannia Industries and Nestle India. The study uses secondary data that have been extracted from the annual reports of the selected FMCG companies.

The methodology followed in this study includes techniques of financial analysis, such as ratio analysis which deal with every aspect of WC (working capital), computation of ratios and their comparison with the fixed standards. It has been shown as company wise working capital analysis.

Working Capital can solve a large portion of the firm's total assets more than half of a typical firm's total investment is in current assets. In any industrial undertaking the major components of working capital are inventories, sundry debtors, cash and bank balances and loan and advances. Since the level of WC determines the liquidity position of a firm, the WC trend and liquidity analysis of the units under study have been discussed below.

1. Hindustan Unilever limited (HUL):

Hindustan Unilever limited (HUL) is Indian largest FMCG Company with the heritage of over 75 years in India. As per Nielsen market research data, two out of three Indians use HUL products. It is owned by the British-Dutch company Unilever which controls 52% majority stake in HUL. Its products include foods, beverages, cleaning agents and personal care products. HUL was formed in 1933 as Lever Brothers India Limited and came into being in 1956 as Hindustan Lever Limited through a merger of Lever Brothers, Hindustan Vanaspati Mfg. Co. Ltd. and United Traders Ltd. Lever Brothers started its actual operations in India in the summer of 1888, when crates full of Sunlight soap bars, embossed with the words "Made in England by Lever Brothers" were shipped to the Kolkata harbor and it began an era of marketing branded Fast Moving Consumer Goods (FMCG)

HUL works to create better future every day and helps people feel good, look good and get more out of life with brands and services. With over 35 brands spanning 20 distinct categories such as soap, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, water purifiers, etc. the company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Ponds, Vaseline, Lakme, Dove, Clinic Plus, Sunsilk, Pepsodent,

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CloseUp, Axe, Bru, Knorr, Kissan, Kwality Walls and Pureit.

The company has over 16000 employees and has an annual turnover of around Rs.19400 corers (financial year 2010-2011). Over the last two years, HUL have added one million new stores, doubling its coverage and taking the HUL products and services to some of the remotest corners.

Working Capital Trends and Liquidity Analysis of FMCG Sector In India:

Table-1A

W C Trends and Liquidity Analysis of HUL from March 2011 to 2015

(Rs. In crores)

Particulars	2015	2014	2013	2012	2011
Inventories	2516.65	2811.26	2179.93	2528.86	1953.6
Sundry Debtors	678.99	943.20	678.44	536.89	443.37
Cash & Bank Balance	510.05	281.91	231.37	190.59	200.11
Loan & Advances	1314.72	1099.72	1068.31	1196.95	1083.28
Total Current Assets	6340.40	6494.19	5818.89	6040.05	3681.11
Total Current Liabilities	7634.36	7589.19	6935.52	5968.06	5302.31
Net Current Assets	-1293.96	-1095.00	-1116.63	71.99	-1621.20

Source: Compiled from the Annual Reports of HUL.

The following Table-1B shows Ratios Analysis of HUL:

Table-1B

Financial statement Analysis (Ratios) of HUL

Particulars	2015	2014	2013	2012	2011
Operating Profit per share (Rs.)	15.38	12.34	12.82	13.60	9.54
Operating Profit Margin (%)	15.03	13.53	15.74	14.46	14.95
Gross Profit Margin (%)	14.04	12.41	14.70	13.50	15.86
Net Profit margin (%)	12.07	11.56	12.29	12.69	12.58
Current Ratio	0.83	0.86	0.84	0.92	0.68
Quick Ratio	0.45	0.43	0.46	0.51	0.25
Inventory Turnover Ratio	9.93	7.91	8.99	9.26	7.20
Debtors Turnover Ratio	27.27	24.28	29.24	41.83	31.41
Investment Turnover Ratio	9.93	7.91	8.99	9.26	8.20
Fixed Assets Turnover Ratio	6.26	5.63	5.35	7.81	9.80
Total Assets Turnover Ratio	6.37	8.31	7.66	9.22	10.53
Average Finished Goods held	29.08	35.15	32.05	34.18	29.81
Number of days in WC	-21.06	-20.02	-22.62	1.5	-42.05

Source: From annual reports of HCL

The above Table shows the relation among current assets inventories has the largest share and it dominants the gross working capital during study period. Inventories and Loan and Advances represent almost more than 50 per cent of gross working capital except during March 2011. The current ratio or working capital ratio is perhaps the most universally used of all the ratios. A short working capital cycle means a business has good cash flow. However, HUL has negative working capital during study period except in 2011. A negative working capital Cycle means what a company purchases and sells turns into cash quicker than it has to pay to its creditors and has more capital available to fund growth. For a business to grow it needs access to cash and being able to free up cash from working capital cycle is cheaper than other sources of finance such as loans.

2. ITC Limited:

ITC Limited is an Indian public conglomerate company (25.4% owned by British corporation, British American Tobacco) headquartered in Kolkata, West Bengal, India. Its diversified business includes four segments: Fast Moving Consumer Goods (FMCG), Hotels, Paperboards, Paper & Packaging and Agri Business. ITC's annual turnover stood at $7 billion and market capitalization of over $34 billion. The company has its registered office in Kolkata. It started off as the Imperial Tobacco Company, and shares ancestry with Imperial Tobacco of the United Kingdom, but it is now fully independent, and was rechristened to India Tobacco Company in 1970 and then to I.T.C. Limited in 1974. The company is currently headed by Yogesh Chander Deveshwar. It employs over 29,000 people at more than 60 locations across India and is listed on Forbes 2000. ITC Limited completed 100 years on 24 August 2011.

ITC has a diversified presence in FMCG (Fast Moving Consumer Goods), Hotels, Paperboards & Specialty Papers, Packaging, Agri-Business and Information Technology. While ITC is an outstanding market leader in its traditional businesses of Hotels, Paperboards, Packaging, Agri-Exports and Cigarettes, it is rapidly gaining market share even in its nascent businesses of Packaged Foods & Confectionery, Branded Apparel, Personal Care and Stationery.

Table -2A

Working Capital Trends and Liquidity Analysis of ITC Ltd. from 2011 to 2015

(Rs. In crores)

Particulars	2015	2014	2013	2012	2011
Inventories	5637.83	5267.53	4549.07	4599.72	4050.52
Sundry Debtors	986.02	907.62	858.80	668.67	736.93
Cash & Bank Balance	140.50	988.77	120.16	68.73	153.34
Loan & Advances	1952.54	2173.89	1929.16	2150.21	1949.29
Total Current Assets	11395.32	10592.28	8463.31	8450.99	7306.99
Total Current Liabilities	10519.67	9772.94	9169.48	5862.08	5265.09
Net Current Assets	875.65	819.34	-706.17	2588.91	2041.90

Source: Compiled from the Annual Reports of ITC Ltd.

Table- 2B:

Key Financial Ratios of ITC Ltd.

Particulars	2015	2014	2013	2012	2011
Current Ratio	1.08	1.08	0.92	1.42	1.36
Quick Ratio	0.51	0.50	0.39	0.61	0.56
Inventory Turnover Ratio	6.53	6.05	6.04	5.26	5.51
Debtors Turnover Ratio	26.50	23.91	24.31	21.32	20.43
Investment Turnover Ratio	6.53	6.05	6.04	5.26	5.51
Total Assets Turnover Ratio	1.34	1.34	1.33	1.09	1.61
No. of days in working	12.56	13.97	-13.69	62.19	52.39
Average finished goods held	40.51	40.67	36.33	64.35	43.88

The above Table shows that ITC limited is dealing with positive working capital during study period except in March 2013. During March 2013 current liabilities shown drastic increment of 56 per cent but current assets remained almost constant. Among total current assets inventory has the largest share and it comprises more than 50 per cent of gross working capital. Loans and advances has second largest share in gross working capital in last five years. The current ratio of the company ranges between 0.92:1 and 1.42:1. It means on an average per every one rupee of current liabilities, the company has been maintaining 1.17 rupees of current assets as a caution to meet its short- term obligations which is good. Quick ratio varies between 0.39:1 and 0.61:1 during the period. It has been noticed that there was continuous increment in debtors' turnover ratio and inventory turnover ratio. Moreover the table disclosed a mean value of debtors' turnover ratio at 23.29 times which indicates effective debtor management. As for as Number of days in working capital is concerned, number of days in working capital has been decreased during the study period and even it turned into negative in 2013. Fewer the number of days better the position and it means the company has better cash flow.

3.Proctor & Gamble (P&G) India:

P&G is one of the largest and amongst the fastest growing consumer goods companies in India. Established in 1964, P&G India now serves over 650 million consumers across India. Its presence pan across the Beauty and Grooming segment, the Household Care segment as well as the Health and Well Being segment with trusted brands that are household name across India. These include Vicks, Ariel, Tide, Whisper, Olay, Gillette, Ambipur, Pampers, Pantene, Oral-B, Head & Shoulders, Wella and Duracell.

Table-3A

Working Capital Trends and Liquidity Analysis of P&G India from 2011 to 2015

(Rs. In crores)

Particulars	2014	2013	2012	2011	2010
Inventories	92.27	65.33	54.41	53.98	46.52
Sundry Debtors	48.15	31.02	28.68	22.51	13.34
Cash & Bank Balance	182.37	3.76	8.76	4.52	6.67
Loan & Advances	548.45	461.28	322.40	336.65	208.95
Fixed Deposits	0.00	126.19	223.57	83.51	159.81
Total Current Assets	871.24	687.58	637.82	501.17	435.29
Total Current Liabilities	401.49	284.98	300.01	217.94	224.61
Net Current Assets	469.75	402.60	337.81	283.23	210.68

Data Source from Annual reports of P&G

Table-3B

Financial Ratios Analysis of ITC Ltd

Ratios	2014	2013	2012	2011	2010
Current Ratio	2.17	2.14	2.13	2.30	1.94
Quick Ratio	1.94	2.16	1.92	2.02	1.47
Inventory Turnover Ratio	14.13	20.48	21.28	17.79	16.88
Debtors Turnover Ratio	32.78	33.54	35.21	53.11	46.03
Investment Turnover Ratio	14.13	20.48	21.28	17.79	16.88
Fixed Assets Turnover Ratio	3.75	3.20	3.71	3.48	3.70
Total Assets Turnover Ratio	1.86	1.67	1.69	1.75	1.86
Average finished goods held	--	18.42	23.59	30.05	28.42
No. of days in working	131	145	135	132	118

From the above-mentioned table it can be viewed that the company has positive working capital throughout study period. It is observed that Loans and advances have major share in gross working capital followed by fixed deposits except in June 2013 (as fixed deposit was nil in 2013). The volume of net working capital has also increased over the study period. Cash and bank balance has lowest share in total current assets except in June 2013 and the percentage of cash and bank balances have been increased i.e. 47 per cent drastically in 2013 as compared to the last year. The current ratio ranges between 1.94 to 2.41 which reflects that there is over investment in current assets and the portions of current assets are almost double the current liabilities during study period. However, inventory turnover ratio disclosing an average value of 18.11 times which means efficient management of inventory and more frequently the stock are sold. Debtor turnover ratio ranges between 32.78 times and 46.03 times and it has shown a decreasing trend during study period which is a pinch for the company. The number of days in working capital of the company is on higher side and it is a sign a company may be facing some cash trouble.

4. Nestle India:

Nestlé is the world's leading Nutrition, Health and Wellness Company. Its mission of "Good Food, Good Life" is to provide consumers with the best tasting, most nutritious choices in a wide range of food and beverage categories and eating occasions from morning to night. The Company was founded in 1866 by Henri Nestlé in Vevey, Switzerland, where our headquarters are still located today. We employ around 2, 80,000 people and have factories or operations in almost every country in the world.

Table- 4A

Working Capital Trends and Liquidity Analysis of Nestle India from 2011 to 2015

(Rs. In crore)

Particulars	2015	2014	2013	2012	2011
Inventories	734.04	575.95	498.74	434.911	401.22
Sundry Debtors	115.42	63.29	64.19	45.59	53.49
Cash & Bank	25.55	19.45	26.73	12.66	15.75
Loan & advances	256.36	200.17	184.85	162.67	186.23
Fixed Deposits	201.66	235.84	128.86	181.03	22.01
Total Current assets	1333.03	1094.70	903.37	836.86	678.70
Total Current liabilities	2216.96	1751.62	1501.18	1259.76	1027.30
Net Current assets	-883.93	-656.92	-597.81	-422.90	-348.60

Source: Compiled from the Annual Reports of Nestle India

Table- 4B

Key Financial Ratios Analysis of Nestle India

Particulars	2015	2014	2013	2012	2011
Current Ratio	0.42	0.62	0.60	0.66	0.66
Quick Ratio	0.24	0.27	0.24	0.29	0.23
Inventory Turnover Ratio	11.60	12.33	11.61	11.39	8.79
Debtors Turnover Ratio	83.83	98.22	93.68	87.37	64.09
Investment Turnover Ratio	11.60	12.33	11.61	11.39	10.02
No. of days in working capital	-42.48	-37.78	-41.86	-35.17	-35.85
Average finished goods held	22.14	22.77	22.17	26.46	28.54

The above table shows that inventories has the largest share (almost more than 50 per cent) in gross working capital followed by loans and advances. The table is also disclosing that the company is dealing negative working capital as the total current liabilities are more than total current assets. The current ratio of the company is very low i.e.0.60:1 on an average as against the standard ratio i.e. as per Tandon Committee1 which indicates that the company is maintaining only 0.60 rupee of current assets as a caution to meet the short-term liabilities. Quick ratio is also very low during study period. Inventory turnover ratio fluctuated between 8.79 times and 12.33 times which means the company has satisfactory inventory management. Debtors turnover ratio stood at 85.4 times on an average basis during study period which reflects efficient debtor management. Moreover, the company has negative working capital during study period. A negative working capital is a sign of managerial efficiency in a business with low inventory and accounts receivables (which means it operates on an almost strictly cash basis). In other situation, it is a sign a company may be facing bankruptcy or serious financial trouble. However, it is not with Nestle India. In fact, it indicates that it may be collecting money from sale before it pays for goods which mean it has good cash flow.

5. Britannia Industries:

In 1892 to be precise a biscuit company was started in a nondescript house in Calcutta (now Kolkata) with an initial investment of Rs. 295. The company we all know as Britannia today. The beginnings might have been In 1974, a study group under the chairmanship of Mr. P. L. Tandon was constituted for framing guidelines for commercial banks for follow-up & supervision of bank credit for ensuring proper end-use of funds. The group submitted its report in August 1975, which came to be popularly known as Tandon Committees Report. Its main recommendations related to norms for inventory and receivables, the approach to lending, style of credit, follow ups & information system. humble-the dreams were anything but. By 1910, with the advent of electricity, Britannia mechanized its operations, and in 1921, it became the first company east of the Suez Canal to use imported gas ovens. Britannia's business was flourishing. But, more importantly, Britannia was acquiring a reputation for quality and value. As a result, during the tragic World War II, the Government reposed its trust in Britannia by contracting it to supply large quantities of "service biscuits" to the armed forces. As time moved on, the biscuit market continued to grow... and Britannia grew along with it. In 1975, the Britannia Biscuit Company took over the distribution of biscuits from Parry's who till now distributed Britannia biscuits in India. In the subsequent public issue of 1978, Indian shareholding crossed 60%, firmly establishing the Indianans of the firm. It was equally recognized for its innovative approach to products and marketing: the Lagaan Match was voted India's most successful promotional activity of the year 2001 while the delicious Britannia 50-50 Maska-Chaska became India's most successful product launch. In 2002, Britannia's New Business Division formed a joint venture with Fonterra, the world's second largest Dairy Company, and Britannia New Zealand Foods Pvt. Ltd. was born. In recognition of its vision and accelerating graph, Forbes Global rated Britannia 'One amongst the Top 200 Small Companies of the World', and The Economic Times pegged Britannia India's 2nd Most Trusted Brand.