A Study on Analysis of Liquidity and Working Capital Trends of Listed FMCG Sector in India

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ABSTRACT

Every institution, whether public or private, profit-oriented or not, regardless of size or sort of operation, necessitates enough operating capital. Working capital management is a critical aspect of company management.It is the most critical aspect in assuring any corporate organization's survival, liquidity, solvency, and profitability. The funds utilized to fulfill these charges are referred to collectively as working capital. A company requires sufficient finance to purchase raw materials and pay day-to-day operating expenses. With the importance of working capital management as an in capital tends and practice distinct area of corporate finance function in mind, an attempt has been made to investigate the working tise specificity in the FMCG sectors in India by selecting five top listed FMCG companies from the Indian Stock Exchange. This industry focuses on the production, distribution, and marketing of consumer packaged goods, or products that are regularly consumed. The research is based on secondary data, specifically the Annual Reports of the companies considered.. The study period is five years, and the traditional method of data analysis and ratio analysis as tools of financial statement analysis have been used to examine the degreeof efficiency of working capital management and trend analysis.

Key words: - *FMCG sector, Working Capital, trend analysis.*

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Introduction

Working capital management is viewed as crucial to a company's financial performance since it connects liquidity and profitability. As a result, organizations must constantly examine the linkages between assets and short-term liabilities in order to maximize the company's survival and growth while minimizing the risk of financial difficulty. Working capital management is especially crucial in developing and emerging nations, where unpredictable financial markets and economic uncertainty produce significant turbulence and overall pricing instability. In the framework of the Indian economy, SMEs confront major barriers to entering the credit market, where enterprises have a greater demand for money. The literature in emerging economies emphasizes the need of enterprises efficiently managing their working capital in order to favor profitability and productivity while also favoring employment and economic stability. In industrialized economies, many earlier studies have carefully explored the relationship between working capital and profitability. Working capital is necessary for routine business operations such as the acquisition of raw materials, payment of direct and indirect production expenses, investment in stock and store, credit extended to customers while keeping a balance, and so on. WCM refers to working capital and short-term finance decisions. It is best described as the administration of all present assets and liabilities. WCM's objectives are to ensure the company's ability to continue operations and to have enough cash flow to meet both maturing short-term debt and anticipated operating expenses. Working capital management is today considered one of the most critical concerns in business, with financial managers striving to determine the key drivers and level of working capital management. The study's goals are to look into the sample firm's working capital management. Working capital investments are usually substantial in proportion to total assets employed, thus these monies must be managed efficiently and productively. However, there is evidence that small enterprises are terrible at managing their working capital.

Working capital management is concerned with the company's current assets and liabilities, which act as a link between liquidity and profitability. Effective and efficient working capital management encourages the continuation of corporate operations by increasing the organization's ability to pay short-term commitments. The appropriate size of working capital, on the other hand, is defined by the company's operating characteristics as well as the reference economic backdrop. As a result, finding the proper size is difficult, particularly in conditions with high environmental volatility, and requires continuous monitoring to make the necessary changes.

Review Literature

As previously stated, various research have been conducted in recent years to investigate the link betweenworking capital management and liquidity analysis.

Bhunia and Khan (2011) based on secondary data from 230 companies over a 9-year period between 2002 and 2010, employed statistical methodologies to analyze the liquidity management performance of selected Indian steel enterprises. They discovered a negative relationship between liquidity and profitability. This is the daily expenditure required to keep the business going.

Between 2004 and 2010, Arshad and Gondal (2013) evaluated the association between working capital management and profitability of 21 listed Pakistan cement companies. They demonstrated a significant inverse link between working capital management and profitability.

Rahman (2011) studied the effect of working capital management on the profitability of the Bangladesh textile industry. The profitability and working capital management of the textile sector were judged to be inadequate. The study also discovered a correlation between working capital management and profitability, indicating that working capital management had a positive impact on profitability. Falope and Ajilore (2009) discovered a negative association between profitability and average collection duration, inventory turnover, cash conversion cycle, and average payment period in Nigeria.

Prempeh and Peprah Amankona (2018) examined manufacturing enterprises listed on the Ghana Stock Exchange and discovered a positive relationship between working capital management and profitability.

Objectives

- To determine the working capital trends in the listed FMCG sector in India.
- To analyse the liquidity inflow of the selected FMCG companies.
- To determine the relative importance of various current asset components.
- To reach a conclusion on the effectiveness of working capital management.
- To Analyse the Key financial ratio of selected companies.

Methodology

The current study tried to analyze, assess, and evaluate working capital management in some selected FMCG companies in India over a five-year period using ratio analysis, Working Capital trends, and liquidity situation. Companies include Hindustan Unilever Limited, ITC Ltd, Dabur India, Britannia Industries, and Marico India. Secondary data gathered from the annual reports of the selected FMCG businesses is used in the study. This study's approach incorporates financial analysis procedures like ratio analysis, which deals with all areas of working capital, ratio computation, and comparison with set standards. It was shown as a company-specific working capital analysis. More than half of a typical corporation's entire investment is in current assets, which can account for a sizable portion of the firm's total assets. Working capital in every industrial organization is comprised of inventory, various creditors, cash and bank balances, and loans and advances. Because the quantity of working capital determines a firm's liquidity status, the Working Capital trend and liquidity analysis of the units under examination are explained below.

Hindustan Unilever Limited

Hindustan Unilever Limited is India's largest FMCG company and a good stock to own. This company has been in the country for 75 years. According to market research, more than 80% of the public uses HUL products, according to credit rating agencies. Previously It is owned by the British-Dutch corporation Unilever, which controls 52% of HUL.Companies' top offerings include packed foods, beverages, cleaning agents, and personal care products. Lever Brothers India Limited was established in 1933 and renamed Hindustan Lever Limited in 1956 after a combination with Hindustan Vanaspati MFG.Co.Ltd. and United Traders Ltd.

Hindustan Unilever Limited is a part of the Fast-Moving Consumer Goods (FMCG) industry, which continues to be one of our country's most significant long-term sustainable economic potentials. Despite being one of the world's fastest growing FMCG markets, India's per capita FMCG consumption remains among the lowest, giving the sector with a huge runway for growth. The year 2020 was incredibly uncertain and harsh. Covid-19 impacted nearly every aspect of human life in ways that no one could have foreseen. The economic toll of the epidemic was unprecedented. Operational challenges increased as a result of limited mobility and compromised supply channels.The economy faced a significant decline as the number of Covid-19 cases climbed significantly. As the country recovered from the crisis, the government and the Reserve Bank of India put in place effective policies to ensure a strong economic recovery. The Union Budget 2021 aims to re-establish the economy's development momentum through a range of measures, such as keeping tax rates stable and increasing infrastructure expenditure.

Table: 1(a) Represents HUL working capital trend and liquidity analysis from Decmber-18 to March-22

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Inventories	3,579.00	2,767.00	2,574.00	2,513.00	2,541.00
Sundry Debtors	1,758.00	1,149.00	1,816.00	1,310.00	1,085.00
Cash and Bank balance	1,702.00	2,039.00	1,049.00	1,477.00	930
Loan and Advances	251	238	215	184	168
Total Current asset	14,217.00	12,321.00	11,914.00	11,660.00	10,172.00
Total current liabilities	11,103.00	9,317.00	8,667.00	8,887.00	7,714.00
Net Current assets	3,114.00	3,004.00	3,247.00	2,773.00	2,458.00

Source: Data accumulate from Annual Reports of HUL

Table: 1(a) Represents HUL working capital trend and liquidity analysis from Decmber-18 to March-22

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Current Ratio	0.65	1.08	1	0.94	0.82
Quick Ratio	0.49	0.83	0.73	0.68	0.51
Inventory Turnover Ratio	13.6	14.71	15.78	14.93	14.6
Debtors Turnover Ratio	34.15	28.53	27.11	33.28	32.02
Investment Turnover Ratio	0.97	4.83	4.99	14.93	14.6
Avg.Finished Goods held	---	---	---	---	---
No. of days in working Capital	-38.25	-22.74	-19.35	-29.49	-33.73

Table: 1(a) Represents HUL working capital trend and liquidity analysis from Decmber-18 to March-22

Table: 1(b) Key Financial Ratios of HUL

Data from table 1(a) reveal that inventories in current assets have the highest share and account for the greatest proportion of net working capital over the analysis period. Working capital ratios and current ratios are the most commonly utilized ratios. This analyzes the firm's ability to pay off its short-term maturities. This reflects how quickly a corporation can return its short-term liabilities in the shortest amount of time. The major financial ratios of Hindustan Unilever Limited are represented in Table 1(b).

During the last five years, HUL's current ratio has ranged between 1.08 and.64. To meet current liabilities, the company pays.330 rupees in current assets. The quick ratio is between.83 and.49.This ratio places a greater emphasis on the company's liquidity. The inventory turnover ratio is at its highest in March (19.78) and lowest in March (21.6).In comparison, the debtor turnover ratio is highest in March 22 (34.15) and lowest in March 20 (27.11).During the research period, debtor management looks to be pretty satisfactory, indicating an improved liquidity situation for the organization. The number of days in working capital describes how long it will take a corporation to turn its working capital into revenue; the fewer the days, the better the revenue conversion. Here in HUL negative number of days in working capital shows company in less time covert capital in revenue. Short working capital cycle means good cash flow in business.

Dabur

Dabur India is a renowned FMCG firm with 137 years of expertise.Dabur is India's most trusted and leading Ayurvedic and natural health care brand.Dabur India's health care portfolio includes Dabur Chyawanprash, Honey, Honitus, Pudin hara, and Dabur Lal Tail. Dabur red paste and Dabur Vatika hair oil are personal care items. And Real Juices in the food industry. Dabur has made disproportionate investments in these brands in order to not only strengthen its ability to pay bigger dividends to shareholders. The corporation demonstrates a high level of adaptability and engagement in rapidly adapting to changing environments and commercial operating conditions. abur India focuses on its power brand and array of ayurvedic health care products. The company intends to shift to market tactics in order to promote profitable growth.To increase product visibility, the corporation promotes digital media and invests in brand promotion. Distribution channels are also being developed, particularly in the village region, with the company's distribution partners reaching 59217 villages by the end of March 2021.In the next years, it is planned to expand to an 80k village. Regardless of the obstacles posed by the COVID-19 epidemic. The company implements green and sustainable community development methods. During the previous year, companies recycled about 11413 MT of plastic trash through their waste management processes.Hazardous waste generation has been reduced by 33% since the base year of 2017-18.

For financial year 20-21 Company shows true resilience and converted crisis into opportunity. In spite second wave and Lockdown Company delivered 10% growth in consolidated revenue for the year alongwith 17.2% growth in consolidated net profit. Overall company shows 3.4% growth for the year.Covid-19 led to high demand of immunity booster products and ayurvedic health care products in India.Dabur aggressively grab the opportunity and increase the awareness and visibility of products on ecommerce website. Company runs Immunity Van programme for awareness of customer through doorstep marketing.Helathcare product growth 31.9% this year. Introduction of new products like health juices, Tulsi and haldi drops in immunity booster product series. Chyawanprash sells increased significantly with increasing number of younger consumer adopting tested remedy for immunity. Personal care product or dabur as Red paste touched 1000cr mark in Fiscal year 20-21.

Table 3 (a) Represents ITC India working capital trend and liquidity analysis from Decmber-18 to March-22

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18

Inventories	1,734.28	1,379.57	1,300.53	1,256.18	1,106.71
Sundry Debtors	390.58	471.33	387.53	423.16	307.98
Cash and Bank balance	1,329.03	811.37	328.16	306.06	304.81
Loan and Advances	14.46	13.07	11.04	34.88	3.8
Total Current asset	4,775.94	4,880.26	3,586.23	3,439.75	3,114.47
Total current liabilities	2,934.19	2,463.88	2,660.31	2,434.44	2,224.54
Net Current assets	1,841.75	2,416.38	925.92	1,005.31	889.93

Table 3 (a) Represents ITC India working capital trend and liquidity analysis from Decmber-18 to March-22

	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Current Ratio	1.52	1.9	1.8	1.68	1.94
Quick Ratio	0.76	1.18	1.16	1.02	1.06
Inventory Turnover Ratio	5.12	5.82	6.03	6.13	7.05
Debtors Turnover Ratio	21.75	15.9	14.99	17.8	20.59
Investment Turnover Ratio	0.79	0.74	6.03	6.13	7.05
Avg.Finished Goods held	----	----	----	----	----
No. of days in working Capital	37.89	59.17	42.3	28.25	53.18

Table 3(a) shows that the company had positive working capital during the analysis period of March 18 to March 22.This demonstrates the company's strong financial position and ability to manage its short-term responsibilities. Current obligations and current assets were practically unchanged. The highest share of gross working capital is held by total current asset inventories. The major financial ratios of ITC Ltd are shown in Table 3(b). The company's current ratio fluctuates between 1.94 and 1.52.It denotes the average of current obligations per rupee. During the study period, the quick ratio ranged between 1.18 and 0.76. Inventory turnover ratio decreases by 1% in fiscal years 19-20 and 20-21, implying a covid-19 impact. Debtor turnover ratio increased from March 18 to March 21, indicating good debtor management. Days remaining

Britannia Industries

In 1892, a biscuit firm was formed in a run-down house in Kolkata with a Rs. 295 investment. The company is now known as Britannia. The origins were humble, but the dreams were anything but. With the arrival of electricity in 1910, Britannia began to industrialize its operations, and in 1921, it became the first enterprise east of the Suez Canal to use imported gas ovens. Britannia's business was doing nicely. More importantly, Britannia was developing a reputation for excellence and value. As a result, throughout the tragic World War II, the British government placed its trust in Britannia, and as time went, the biscuit market flourished, as did

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The Britannia Biscuit Company took over the distribution of biscuits from Parry's, who had previously supplied Britannia biscuits in India, in 1975. In the ensuing public offering of 1978, Indian ownership surpassed 60 percent, effectively establishing the Indianans of the enterprise. Britannia Biscuit Company was renamed Britannia Industries Limited the next year. It surpassed the Rs. 100 crore revenue threshold four years later, in 1983.Company to deliver enormous amounts of "service biscuits" to the armed forces.The corporation was making similarly rapid leaps in terms of operations. It achieved its Platinum Jubileein 1992. In 1997, the firm introduced its new corporate brand, "Eat Healthy, Think Better," and entered the dairy products industry for the first time. The "Britannia Khao, World Cup Jao" advertising in 1999 strengthened customer's loyalty for "Brand Britannia." Britannia entered the twenty-first century as one Britannia Industries

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Table 4 (a) Represents Marico India working capital trend and liquidity analysis from December-18 to March-22

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18
Inventories	1,091.49	740.96	781.38	652.79	661.45
Sundry Debtors	519.77	371.92	287.1	306.33	373.92
Cash and Bank balance	211.34	122.85	109.82	186.42	120.76
Loan and Advances	946.56	1,110.11	1,203.92	844.34	829.1
Total Current asset	4,419.68	3,674.97	3,526.34	3,151.28	2,339.24

Total current liabilities	3,614.27	2,578.46	1,851.41	1,647.97	1,345.40
Net Current assets	805.41	1,096.51	1,674.93	1,503.31	993.84

Conclusion

The bulk of Indian enterprises have considerable investments in working capital. As a result, the way these businesses manage their working capital is projected to have a big impact on their profitability. Working capital management is a key component of every firm's financial management decisions. The organization's ability to operate over longer periods of time is based on the proper balance of managing short-term and long-term financial investments. Companies can optimize their working capital management by balancing profitability, working capital, and liquidity. Cash flow issues kill more enterprises than diminishing profitability. As a result, traditional wisdom dictates that a corporation keep enough cash on hand to cover its immediate liabilities.

However, an increasing number of FMCG corporations argue the opposite. Unlike most other businesses, the capacity to sell rather than manufacture determines an FMCG company's turnover. They can create cash so quickly that their working capital is negative. This happens because clients pay in advance and so rapidly that the company (like amazom.com, McDonald) has no issue raising funds. In these enterprises, products are delivered and sold to clients before the corporation even pays for them. As a result, they concentrate their efforts on marketing and either outsource or make a limited investment in plant and gear. As a result, the quantity of money that can be raised is limited.

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