CASH MANAGEMENT IN FAST MOVING CONSUMABLE GOODS (FMCG) SECTOR IN INDIA – A STUDY BASED ON SELECTED FMCG COMPANIES

Dr. Davendra Kumar Sharma

Associate Professor
Department of Accountancy and Business Statistics,
S. S. Jain Subodh P.G. (Autonomous) College - Jaipur (Raj.)

***ABSTRACT*: The current study has tried to examine the sources of the companies to finance their working capital requirements threw cash ratio and to analyze and evaluate the cash management. The present work therefore is a modest attempt in this direction by undertaking a study of cash management. The study has also examined the liquidity position of the companies.**

The study analyzed the liquidity position of a limited sample consisting of only five FMCG companies i.e. Nestle, HUL, Britannia, ITC and Dabur. The study of liquidity position is based on only one tool i.e. Ratio Analysis. Further the study is based on last 10 years Annual Reports of the five companies taken into consideration. As only FMCG sector was studied so the findings could only be generalized to this sector's firms.

Study of the working capital management threw cash ratio is very crucial for all the firms. Unless the working capital is planned, managed and monitored effectively, company cannot earn profits and increase its turnover, Also, it helps in removing bottlenecks. Although very studies have been conducted on analyzing the working capital management of Indian companies but very few studies have measured the cashmanagement of five FMCG companies of 10 years. This study bridges the gap and highlights the current status of working capital management threw cash ratio of top 10 FMCG companies in India.

Many companies go under because of cash flow issues, rather than declining profitability. Hence traditional prudence always suggests that a firm should have sufficient cash to cover its immediate liabilities. However there is a growing breed of FMCG companies that claim otherwise. Unlike most other industries, the turnover of a FMCG company is not limited by its ability to produce, but its ability to sell. They can generate cash so quickly they actually have a negative working capital. This happens because customers pay upfront and so rapidly, the business has no problem raising cash. In these companies products are delivered and sold to the customer before the company even pays for them. In other situation, it is a sign a company may be facing bankruptcy or serious financial trouble.

***Keywords: Cash management, Negative working capital, Managerial efficiency,* Bankruptcy**

Introduction

Cash Planning is a technique to plan and control the use of cash. This protects the financial conditions of the firm by developing a projected cash statement from a forecast of expected cash inflows and outflows for a given period. This may be done periodically either on daily, weekly or monthly basis. The period and frequency of cash planning generally depends upon the size of the firm and philosophy of management. As firms grows and business operations become complex, cash planning becomes inevitable for continuing success.

The very first step in this direction is to estimate the requirement of cash. For this purpose cash flow statements and cash budget are required to be prepared. The technique of preparing cash flow and funds flow statements have been discussed in this book. The preparation of cash budget has however, been demonstrated here.

The optimal cash balance is the one when the cost of holding cash will be minimum and the holding cost is minimum when there is a trade off between transaction cost and opportunity cost. Transaction cost decreases with increase in cash balance whereas opportunity cost increases with the increase in cash balance.

Literature Review

Raheman and Nasir, (2013) Management of current assets to meet short term obligations of the company is WCM. Objective of the WCM is to make sure that firm meets the operating requirements and also remain in a position to pay short term debt when they fall due (Mohamad&Noriza 2010). Mismanagement of working capital will lead a firm to liquidity crisis by reducing its profitability and creditability, so managing working capital effectively is necessary for going concern of the business and also for its profitability.

Reilly and Reilly (2012) argue that working capital should be measured also from the operational perspective rather than focus just on financial ratios, and they introduce measurement tools that help to understand the benefit-cost tradeoffs in working capital management.

Agarwal(1983)also studied working capital management on the basis of sample of 34 large manufacturing and trading public limited companies in ten industries in private sector for the period 1966-67 to 1976-77. Applying the same techniques of ratio analysis, responses to questionnaire and interview, the study concluded the although the working capital per rupee of sales showed a declining trend over the years but still there appeared a sufficient scope for reduction in investment in almost all the segments of working capital. An upward trend in cash to current assets ratio and a downward trend in cash turnover showed the accumulation of idle cash in these industries.

Verma(1989)evaluated working capital management in iron and steel industry by taking a sample of selected units in both private and public sectors over the period 1978-79 to 1985-86. Sample included Tata Iron and Steel Company Ltd. (TISCO) in private sector and Steel Authority of India Ltd. (SAIL) and Indian Iron and Steel Company, a wholly owned subsidiary of SAIL, in public sector. By using the techniques of ratio analysis, growth rates and simple linear regression analysis, the study revealed that private sector had certainly an edge over public sector in respect of working capital management. Simple regression results revealed that working capital and sales were functionally related concepts.

Objectives of the Study

This study having the following objectives:

- **To Make Payment According to Payment Schedule**: Firm needs cash to meet its routine expenses including wages, salary, taxes etc.
- **To Increase in Profit:** Investment in idle cash balance must be reduced to a minimum. The funds locked up are a dead investment & has no earning. But the objective of minimum cash balance affects the liquidity & thereby increasing the profitability.
- **To Meeting the cash outflow:** to meet the disbursal needs that arise in the normal course of business. It means that the firm should have sufficient cash to meet the payment schedules & disbursement needs. It will help the firm in meeting unexpected cash outflows without much problem & availing the opportunities of getting cash discounts by making early or prompt payments.
- **To Augment Working Capital Resources:** cash is a valuable to the businessman on the ground that it augments their resources.
- **To Speedy Distribution:** Cash play a very important role in accelerating the velocity of distributions. As a middleman would act quickly enough in mobilizing his quota of goods from the productions place for distribution without any hassle of immediate cash payment. As, he can pay the full amount after affecting his sales.
- **To Timely Payment to Creditors:** Similarly, the supplier would hurry for sale their needful even if they are not in a position to receive cash instantly. It is for these receivables are regarded as a bridge for the movement of material for production to distributions among the ultimate Supplier.

Scope of the Study

The scope of the study is identified after and during the study is conducted. The main scope of the study is to check cash ratio of only FMCG sector. The study analyzed the receivable turnover of a limited sample consisting of only five companies i.e. Nestle, HUL, Britannia, ITC and Dabur. The study of cash management is based on only one tool i.e. Ratio Analysis. Further the study is based on last 10 years Annual Reports of the five companies taken into consideration. As only FMCG sector was studied so the findings could only be generalized to this sector’s firms.

Limitations of the Study

- The findings of the study are based on the information retrieved by the annual reports of the companies.
- The study duration is limited to 10 years.
- The study is limited to the analysis of the receivable turnover management of the companies.
- The study has picked up only five companies in the FMCG sector.
- The study is focused on the analysis of FMCG sector only.

Methodology

The research study is conclusive in nature as it has tried to give the status of cash management of FMCG companies in India. It has tried to describe whether the FMCG companies are maintaining an aggressive or flexible cash management policy. To analyze it, most appropriate ratios for 10 years period of five major FMCG companies namely Nestle, HUL, ITC, Dabur and Britannia have been calculated using the annual reports of these companies.

Sample Design:

Population: The population contains all the FMCG companies in India.

Sample Element: Five individual FMCG companies have been analyzed. The five companies are:

- Hindustan Unilever Ltd.
- ITC (Indian Tobacco Company)
- Nestle India
- Britannia
- Dabur India

Sample Size: It comprises of financial data of 10 years of the above five FMCG companies.

Sample Technique: Judgment sampling technique (Non probability sampling technique) has been used.

Tools Used for Data Collection

Secondary Sources has been used to collect data. The websites of above FMCG companies have been used to get the financial data for the period from 1st April 2007 to 31st March 2017. Tool Used for Data Analyses is cash ratio

Analysis and Findings

Cash Ratio

Cash ratio is the ratio of cash and cash equivalents of a company to its current liabilities. It is an extreme liquidity ratio since only cash and cash equivalents are compared with the current liabilities. It measures the ability of a business to repay its current liabilities by only using its cash and cash equivalents and nothing else. Since cashratio lays down very strict and exacting standard of liquidity, therefore, acceptable norm of this ratio is 50 percent. It means cash assets worth one half of the value of current liabilities are sufficient for satisfactory liquid position of a business.

Cash Ratio = Absolute Liquid Assets / Current Liabilities

Cash Ratio of Individual Companies

(Rs in crores)

Table 1 :Cash Ratio of ITC

Year	Absolute Liquid Assets	Current Liabilities	Ratio
2016-17	7182	9102	**0.79**
2015-16	6234	8477	**0.74**
2004-15	5496	8048	**0.68**
2013-14	2976	4704	**0.63**
2012-13	2659	4432	**0.60**
2011-12	3132	3858	**0.81**
2010-11	3588	3578	**1.00**
2009-10	3145	3034	**1.04**
2008-09	1931	3533	**0.55**
2007-08	1052	2720	**0.39**
Grand Average			**0.72**

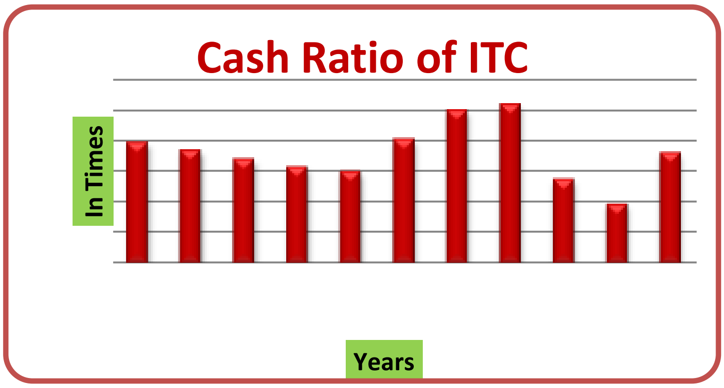
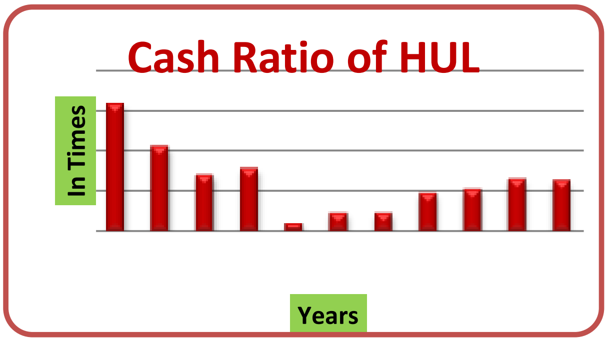


Table 1 shows the value of cash ratio of ITC for a period of 10 years. The values of the ratio of ITC are at a higher side of the standard value of 0.5:1. In the year 2007-2008, the ratio is 0.39 which is less than the ideal value. In the next year the ratio increased and reached to the ideal value of 0.5. Years 2009-2010 and 2010-2011 saw a drastic increase in this ratio by keeping double the cash and cash equivalent assets and touched 1.04 and 1 respectively. In year 2011-2012 the value dropped to 0.81 but is still more than 0.5. The values of the cash ratio in the next three years 2012-2013 to 2014-2015 varied between 6 and 68. The ratio increased in the next two years and reached to 0.79 in 2016-2017. On seeing all the three ratios i.e. current ratio, liquid ratio and cash ratio of ITC for last 10 years , it can be said that the company ITC believe in keeping a very liberal working capital policy by keeping excess of current assets.

(Rs in crores)

Table 2:Cash Ratio of HUL

Year	**Absolute Liquid Assets**	**Current Liabilities**	**Ratio**
2016-17	4082	6449	**0.63**
2015-16	2768	6620	**0.42**
2004-15	1892	6733	**0.28**
2013-14	1777	5784	**0.31**
2012-13	201	5111	**0.04**
2011-12	417	4523	**0.09**
2010-11	355	4118	**0.09**
2009-10	698	3714	**0.19**
2008-09	806	3871	**0.21**
2007-08	943	3671	**0.26**
Grand Average			**0.25**

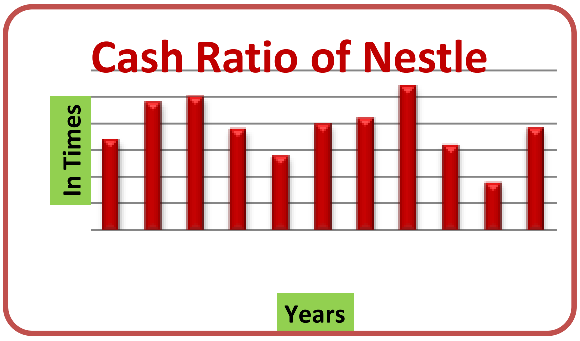


The values of cash ratio of HUL for last 10 years are very low than the standard value of 0.5. Table 2 shows that in years 2007-2008 and 2008-2009 the ratio ranged in 0.2 which is less than half of the ideal value. As we move further in the years 2009-2010 to 2012-2013, the value further declined to the least of 0.04 which indicates that the company maintained a very low value of cash and cash equivalent assets. In year 2013-2014, the ratio increased drastically and reached 0.31 which is still lower than the standard value. The value fell again to 0.28 in the next year. The company improved its ratio in the year 2015 -2016. It is only in year 2016-2017 that the ratio was found more than the standard value. This shows that the company has been very strict in maintaining levels of all kinds of current assets as was seen with current ratio and liquid ratio too.

(Rs in crores)

Table 3:Cash Ratio of Nestle

Year	Absolute Liquid Assets	Current Liabilities	Ratio
2016-17	361	2134	**0.17**
2015-16	406	1670	**0.24**
2004-15	359	1422	**0.25**
2013-14	229	1185	**0.19**
2012-13	132	958	**0.14**
2011-12	154	769	**0.20**
2010-11	141	685	**0.21**
2009-10	164	618	**0.27**
2008-09	80	492	**0.16**
2007-08	39	429	**0.09**
Grand Average			**0.19**



The values of cash ratio in the above table show that Nestle has maintained very less cash and cash equivalent assets in all last 10 years. The year 2007-2008 shows the lowest value of this ratio at .09. In year 2008-2009 the ratio increased to 0.16 which further increased to 0.27 in the next year. In years 2010-2011 and 2011-2012 the values were almost the same at 0.20 which again is less than the ideal ratio. In 2012-2013, the ratio further fell to 0.14. In the next years, the ratio rose slowly from 0.19 in 2013-2014 to 0.25 in 2014-2015 and further declined by 0.01 and reached 0.24 in year 2010-2011. The ratio fell again in the last year to 0.17. Nestle also maintained a very tight working capital policy.

(Rs in crores)

Table 4: Cash Ratio of Dabur

Year	Absolute liquid assets	Current Liabilities	Ratio
2016-17	684	1078	**0.63**
2015-16	610	925	**0.66**
2004-15	404	872	**0.46**
2013-14	262	664	**0.39**
2012-13	271	583	**0.46**
2011-12	130	356	**0.37**
2010-11	79	307	**0.26**
2009-10	55	322	**0.17**
2008-09	127	236	**0.54**
2007-08	45	212	**0.21**
Grand Average			**0.42**

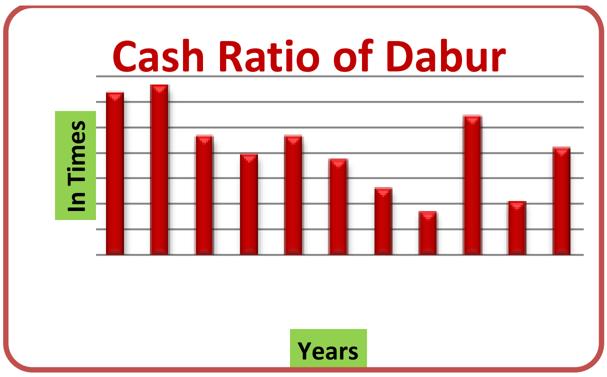


Table 4 shows the values of cash ratio of Dabur. In 2007-2008 the value of this ratio was less than half of the standard value of 0.5. But in 2008-2009 the company followed the ideal value. In the next year the ratio again fell to 0.17. The value of the ratio increased to 0.26 in 2010-2011 and further increased to 0.37 in year 2011-2012 which is still lower than the ideal ratio of 0.5. In year 2012-2013, the value increased further to 0.46 which is approximately near to the ideal. The value further decreased and then increased in the next two years. It is years 2015-2016 and 2016-2017 that Dabur changed its strict working capital policy to a liberal one by keeping more of cash and cash equivalent assets as the ratio values are 0.66 and 0.63 respectively.

(Rs in crores)

Table 5: Cash Ratio of Britannia

Year	Absolute liquid Assets	Current Liabilities	Ratio
2016-17	242	979	**0.25**
2015-16	265	456	**0.58**
2004-15	303	486	**0.62**
2013-14	338	413	**0.82**
2012-13	225	348	**0.65**
2011-12	239	323	**0.74**
2010-11	141	303	**0.47**
2009-10	150	303	**0.5**
2008-09	66	215	**0.31**
2007-08	71	191	**0.37**
Grand Average			**0.53**

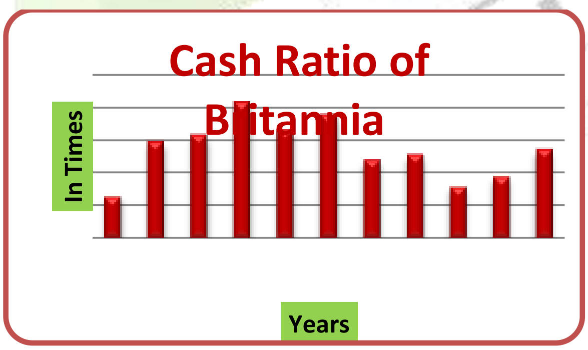
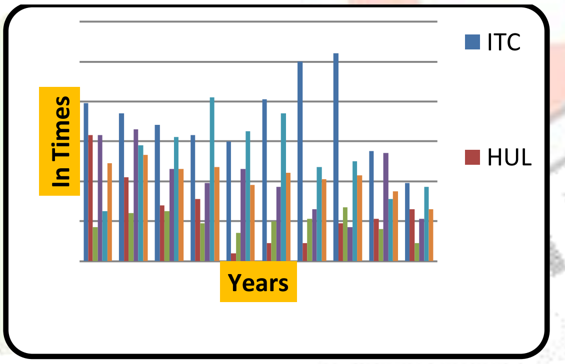


Table 5 shows the values of cash ratio of Britannia for 10 years period starting from year 2007-2008 to 2016-2017. The ratio value was more than the ideal value of 0.5 for most of the years except for 0.37, 0.31 and 0.25 in 2007-2008, 2008-2009 and 2016-2017 respectively. Britannia had the perfect value of the ratio in 2009-2010. It dropped slightly to 0.47 in the next year. Although the ratio was at a higher side from 2011-2012 to 2015-2016 with the highest value at 0.82 in the year 2013-2014. It can be said that the company has been quite liberal in keeping cash and cash equivalent assets.

Comparison of Cash Ratio among the Companies and with the Industry's Average

Table 6: Cash Ratio of 5 companies and the industry Average

Year	ITC	HUL	Nestle	Dabur	Britannia	Industry Average
2016-17	**0.79**	**0.63**	**0.17**	**0.63**	**0.25**	0.49
2015-16	**0.74**	**0.42**	**0.24**	**0.66**	**0.58**	0.53
2004-15	**0.68**	**0.28**	**0.25**	**0.46**	**0.62**	0.46
2013-14	**0.63**	**0.31**	**0.19**	**0.39**	**0.82**	0.47
2012-13	**0.60**	**0.04**	**0.14**	**0.46**	**0.65**	0.38
2011-12	**0.81**	**0.09**	**0.20**	**0.37**	**0.74**	0.44
2010-11	**1.00**	**0.09**	**0.21**	**0.26**	**0.47**	0.41
2009-10	**1.04**	**0.19**	**0.27**	**0.17**	**0.50**	0.43
2008-09	**0.55**	**0.21**	**0.16**	**0.54**	**0.31**	0.35
2007-08	**0.39**	**0.26**	**0.09**	**0.21**	**0.37**	0.26
Year	**0.72**	**0.25**	**0.19**	**0.42**	**0.53**	**0.42**



Year 2016-17

In year 2016-17, the average cash ratio in the FMCG sectors comes out to be 0.49 which is almost equal to the ideal cash ratio considered for manufacturing companies. As was seen with other two ratios , the company having the least cash ratio is again Nestle with the value of 0.17 which is less than half of the average ratio of the industry in that year. The company with second lowest cash ratio is Britannia with the value of 0.25 which is again approximately half of the industry's average. The company whose ratio is near and above to the industry's average are ITC with the value of 0.79, HUL and Dabur with the same value of 0.63. Refer Table 6.

2015-16

In year 2015-16, the average cash ratio in the FMCG sectors comes out to be 0.53 which is almost equal to ideal cash ratio considered for manufacturing companies i.e. 0.5:1. In this year also, the company having the least cash ratio is Nestle with the value of 0.24 which is more than half of the average ratio of the industry in that year followed by HUL with the value of 0.42 which is again not very bad. Rest of the three companies ITC, Dabur and Britannia have values which are more than the ideal and are also above to the industry's average in this year which indicates that the company are keeping surplus of cash in hand to meet the day to day requirement and smooth functioning of work. Refer Table 6

2014-15

In year 2014-15, the average cash ratio in the FMCG sectors comes out to be 0.47. In the same year, the company which is following the trend of keeping the lowest cash ratio is Nestle with the value of 0.24 followed by HUL with a value of 0.28. the third position in keeping the lower value of cash ratio is Dabur although the value 0.46 is much near to the ideal ratio. The companies whose ratio is not only above to the industry's average but are also above the ideal ratio of manufacturing FMCG sector are ITC with the value of 0.68 and Britannia with the value of 0.62. Refer Table 6.

2007-08 to 2013-14

If we analyse these seven years, we see that the value of industry average of cash ratio has shown an increasing trend since 2007-08 to 2013-14, except an exception in year 2012-2013. In all these seven years, HUL has maintained itself to be a company with the most aggressive working capital policy with the minimum value of cash among all companies. Nestle took the second place in keeping the minimum cash ratio. Moreover, the companies that have maintained a reasonably higher and the best cash ratio among all the companies are ITC and Britannia. Throughout the 10 years of time period, ITC always has a cash ratio which is more than the industry's average cash ratio. So, it can be said that among all the FMCG companies, ITC has the most liberal working capital policy. Britannia has also maintained a ratio near or above to the industry's average. Refer Table 6.

Conclusion

The study highlighted some major findings like the company maintaining the highest cash ratio in ITC and Britannia followed by Dabur, HUL and Nestle. ITC and Britannia has high cash ratio, it means the solvency power of these company is greater than other company. So this is good symptoms for companies.

More companies go under because of liquidity issues, rather than declining profitability. Hence traditional prudence always suggests that a firm should have sufficient cash to cover its immediate liabilities. However there is a growing breed of FMCG companies that claim otherwise. Unlike most other industries, the turnover of a FMCG company is not limited by its ability to produce, but its ability to sell. They can generate cash so quickly they actually have a negative working capital. This happens because customers pay upfront and so rapidly, the business has no problem raising cash (like Nestle, Britannia). In these companies products are delivered and sold to the customer before the company even pays for them. Hence they concentrate their resources on marketing and either outsource their manufacturing or make a limited investment (as compared to their turnover) in plant and machinery. Therefore there is a limited room to raise funds by mortgaging the plant and machinery. Typically a firm pledges its plant, machinery or inventory to raise the bank loan/overdraft required to fund its operation.

This study has analyzed the receivable turnover management of five FMCG companies namely Dabur, Nestle, ITC, HUL and Britannia for a period of ten years using ratio analysis method. It has focused on how much liquidity these companies are maintain for the smooth functioning of the operation which doesn't affect the production which in turn doesn't affect the sales which in turn doesn't affect the profitability of the companies.

Suggestion

- ITC maintaining high cash ratio it is good symptom for solvency power but it should not be greater than 0.50 : 1 which is ideal ratio. If it is greater than 0.50 it means cash remain idle in company, therefore ITC should use their cash in productive term. Britannia has good cash ratio near to Ideal ratio.
- Dabur, HUL and Nestle has less cash ratio, it means the solvency power of these companies is less than other companies. So this is not good for companies. Therefore they should try to increase their cash ratio.
- Various factors affecting the requirement of liquidity in a concern, like nature of business, production policies, etc. must be considered and kept in mind while estimating the need of liquidity.
- The requirement of working capital should be properly assessed in view of the present availability of the concern. This will help the management to avoid any over-investment or under-investment in current assets.
- A proper combination of long-term and short-term sources should be employed to finance working capital requirements, both, of permanent nature and temporary nature.
- There should be a more efficient utilization of current assets by the management. Increase in sales should correspond to the increase in current assets. Individual attention should be paid to the management of each component of current assets, viz. Inventories, receivables, cash, etc.

Reference

1. Archer, S.H., etal. (1972), Business Finance - Theory and Management. New York: The Macmillan Company, Vol-7,Page, 147-152

2. Agarwal(1983)Working Capital Management And Profitability: Evidence From An Emerging Market". International Research Journal Of Finance And Economics, Issue 62. Page, 11-19

3. Ben McClure (2010), Journal of Finance, Vol. 23, Dec 2010, Page, 115-119.

4. Deloof M. (2003), "Does Working Capital Management Affect Profitability Of Belgian Firms?",Journal Of Business, Finance And Accounting, Vol. 30, Nos. 3-4, Pp. 573-587

5. Lambrix and Singhvi(1979) "Contemporary Financial Management", 9th Edition, South-Western College Publishing, New York. Edition3, Pp. 113-122.

6. Khoury (1999), liquidity management practices in Canadian companies. Vol. 14 Page, 12-16

7. Lyle, H.C. (1967), A Critique, The Use of Accounting Data in Decision- making (ed.) Columbus, Ohio, College of commerce and Administration, The Ohio State University.

8. Mohamad&Noriza (2010)'Looking Around: Finance for the Non- Financial Managery: Harvard Business Review. Vol. 37

9. Raheman, Abdul &Nasir M., (2013), "Working Capital Management And Profitability- Case Of Pakistani Firms". International Review Of Business Research Paper, Vol 3, No1, Pp.279-300.

10. Reilly and Reilly (2012), "Investment And Financing In Pesticides Industry In India", Indian Journal Of Finance And Research, Vol. No.2, Pp. 67-83.

11. Sharma Dr. Davendra, (2016), "Receivable Management in FMCG Sector: A Study of Selected Companies" Professional Panorama: An International Journal of Applied Management & Technology, India, Vol. 3 (1), p.10-28.

12. SinghalRicha, VyasVarshaTiwari (2017), Inventory Turnover Optimization criteria of efficiency(with special reference to FMCG sector in India) , International Journal of Academic Research and Development, Vol.2, Issue 6, Page no 588-592.

13. Sharma Dr. D K, (2016), "Receivable Management in FMCG Sector: A Study of Selected Companies" Professional Panorama: An International Journal of Applied Management & Technology, India, Vol. 3 (1), p.10-28.

14. Van Horne J.C. And Wachowicz J.M., (2004), "Fundamentals Of Financial Management", 12th Edition, Prentice Hall Publishers, New York

15. Verma(1989) " Efficiency of Working Capital: A study on the Indian Auto industry" , The Management Accountant, Vol. 34, No. 25, Pp, 63-74.