Analysis of Working Capital Management of Indian FMCG Companies

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Abstract

The most significant function for any company and its corporate finance department is its Working Capital Management (WCM). A delicate balancing of net working capital is the requirement of WCM along with the maintenance of appropriate levels of profitability and liquidity. Correspondingly, the paper examines the WCM of well-known firms in FMCG industry of India. The study undertakes the comparative analysis and evaluation of working capital management through the employment of numerous parameters of Current Ratio, Payable Turnover, Receivable Turnover, Inventory Turnover, Cash Conversion Cycle, and Return on capital. The paper also investigates the impact of negative working capital on the relevant firm's profitability. The analysis was done on the data sourced from the annual reports and accompanying schedules of the company from FY 2010-2014. The companies examined were Nestlé India, Godrej Consumer Products Limited (GCPL), Dabur India, Hindustan Unilever Limited (HUL), and ITC Limited. The analysis found consistent performance of Nestle and HUL even with negative cash conversion cycle (CCC) and negative working capital. Interestingly, better returns on capital employed were found to be generated by companies with negative net working capital, maximizing their shareholder value that translated into higher EPS and market capitalization for them. Similarly, the profitability was also found to be better for companies which had negative CCC relative to those supporting positive CCC. Current ratio for all the companies emerged to be consistently lower than the standard norms. However, the study discourages the lower level of liquidity as maintained by the companies. Instead, in the long-run an appropriate balance between working capital needs and liquidity was suggested by the study.

Key Words: *FMCG, Working Capital Management, Cash Conversion Cycle, Current Ratio.*

INTRODUCTION

Working Capital can be defined as a measure of both a company's efficiency and its short-term financial health. Working capital is calculated as the difference between the current assets and current liabilities. The working capital ratio given as Current Assets/Current Liabilities, indicates at the firm's position w.r.t sufficient short-term assets to facilitate financing its short-term debt subject to the accessibility of sufficient short-term assets. Anything, specifically debt ratio below 1 indicates negative working capital whereas anything in excess of 2 indicates at an under-investment of the firm in assets. Most believe that a ratio between 1.2 and 2.0 is sufficient, popularly known as "*net working capital*" (NWC).

The companies with positive working capital reflect sufficient liquidity which assists them in financing their day-to-day operations efficiently. These companies are believed to be more successful due to higher liquidity which can be used for expanding their business and financing their own growth as much as possible. However, this also means that companies must maintain higher revenues in order to maintain healthy operating

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ratio, particularly companies with positive working capital needs. Alternatively, negative working capital signifies non-liquidity or the existence of less liquidity within the firm which is unfavorable to firms at each and every stage of business. The literature states that better credit management system can assist the company in generating higher return on capital employed in long run. Nevertheless, the negative NWC condition or lower level of liquidity is never preferred in any condition. The experts advise an appropriate balance between working capital needs and liquidity to the companies in the long run.

One of the most important functions of a corporate finance department of any company is the performance of its working capital management (WCM). Though WCM usually involves short term decisions, it is an important and difficult aspect because it involves maintaining certain levels of NWC along with the maintenance of certain levels of liquidity and the profitability. The significance of WCM in company's activities, growth and survival can be understood from its important role in company's current operations (production process, financial relations with customers and suppliers, etc.). The importance of working capital is realized by the company when it is planning the length of the operating cycle, duration of its cash conversion cycle, its current ratio, current liability ratio. This underlines the direct impact of management of the working capital and current ratio on the results of company's business. Consequently, the primary objective of maximization of shareholder's wealth is achieved by the company with help of WCM by giving due consideration to value based management. Accordingly, study attempts to analyze the WCM of well- known firms belonging to the FMCG industry of India. In the later part of the study we have comparatively analyzed and assessed the WCM of the Indian FMCG companies based on various parameters. Further, the study also assesses the impact of negative working capital on the profitability of the relevant companies.

The paper had been organized beginning with the explanation of the concept of Working Capital in Introduction. This is followed by Review of Literature in Section 2. Section 3 discusses the objectives and methodology trailed by Analysis and Interpretation in Section 4. Finally Section 5 offers the conclusion the work.

Negative Working Capital: Indian FMCG Companies

The negative working capital of many of the Indian and global companies such as McDonald's and Amazon.com are at par with each other. For instance, HUL and Nestlé, the two FMCG companies established in India are thriving with negative working capital for the last ten years. But then this model of negative working capital contradicts the conventional wisdom that advocates positive working capital and ample liquidity for the smooth daily operation of any firm. This variation between ideal and reality arouses the curiosity to assess the factors responsible for smooth daily operations of the companies despite having insufficient liquidity. Nestlé India armed with strong brand name, sound marketing network and distribution channels had managed to build an edge over its competitors yielding financial benefits to it. Alternatively, a positive working capital is maintained by other companies such as ITC, Dabur, HUL, Colgate, and Britannia, etc. belonging to the same segment of FMCG. However, the FMCG companies are conventionally popular for supporting a negative working capital which is attributed to their efficient supply chain management. Efficient supply chain affords the companies lower level of debtors which are sufficiently financed by suppliers or creditors. Hence, negative working capital essentially offers them gains instead of costs. Another reason for affording a negative working capital is the fact that their turnover is not dependent on their production unlike other manufacturing firms. Instead, it is the capability to sales in the competitive market that determines and influences its turnover resulting in diversion of maximum resources of companies towards the marketing and promotion of their product substituting the investment in their manufacturing activities. The development of time and resource management tools such as SCM, ERP and JIT, etc., assisted the FMCG companies in minimizing the size of its current assets through effective management of their inventory and resources. In firms of other industries (like manufacturing), 50 per cent of their current assets are kept in the form of inventory but the efficient inventory holdings and supply chain management affords a significant reduction in the inventory levels to the FMCG companies. Another reason for lower level of current assets is the cash base of its business which reduces its level of debtors significantly. Moreover, the different perspective of investors towards the more rational and strategic evaluation of the company via a thorough assessment of their working capital indicates indicate at the changing nature of investors. It is because the fact that WCM directly influences the earning capacity of the company is increasingly being appreciated by investors.

REVIEW OF LITERATURE

Osisioma (1997) in its study had defined WCM as "the regulation, adjustment, and control of the balance of current assets and current liabilities of a firm such that maturing obligations are met, and the fixed assets are properly serviced". This definition therefore advocates the maintenance of desirable quantities of each component of working capital for management purpose. Smith (1973) in its work offers an overview of diverse state-of-the-art approaches in WCM. Further, Sarantis (1980) in its empirical study employing models of inter-related demand equations in UK demand sector demonstrated the effect of a significant negative financial risk on borrowing and fixed investment. It therefore appeared reasonable to discuss the approaches to optimize working capital. Therefore, the discussion on the strategies which optimizes working capital is merited because an idle working capital fails to earn even the cost of capital whereas deficient working capital jeopardizes the reputation and solvency of the firm. Alternatively, optimum working capital surely maximizes the shareholder's value.

Atseye, Ugwu and Takon (2015) attempt to examine the determinants of working capital management by analyzing the opinions, suggestions, conclusions, and comments of various researchers w.r.t corporate financial management. The study revealed that the combination of endogenous and exogenous factors effectively determines the WCM of a company. The endogenous factors were the firm specific factors like size, age, profitability, market share (power), etc., whereas exogenous factors included GDP, interest rate and tax rate.

Azeem and Marsap (2015) found negative influence of operating cycle, return on assets, leverage, size and level of economic activity on working capital requirement for non-financial Pakistani firms examined from 2004-2009. Alternatively, a significantly positive influence of operating cash flows and sales growth on the working capital requirements was found in the study. The similar results were propounded by Chiou and Cheng (2006), and Nazir and Afza (2009).

Research related to Indian company's WCM:

Sur (1997) examined Colgate Palmolive (India) Ltd by assessing its WCM in terms of acid test ratio, current assets to sales ratio, working capital ratio, current assets to total assets ratio, debtors' turnover ratio and inventory turnover ratio. The study found the inefficiency of WCM during the study period and thereby calling for a special attention towards the inventory management.

A satisfactory performance of measures of working capital was found in the ratio analysis examining the working capital performance of Bharti Airtel from 2007-08 to 2014-15 by Sharma & Kaur (2016). They found a satisfactory performance of operating profit ratio, gross profit ratio, quick ratio, Debtors turnover ratio, and inventory ratio with the exception of current ratio. Interestingly, the relationship between liquidity and profitability was found to be significantly negative indicating that Bharti Airtel had successfully maintained excess liquidity i.e., post optimal level of liquidity for the period understudy.

Kalsie and Arora (2015) in their study investigated the impact of various components of WCM on the stock prices of panel of 6 FMCG companies of India from

2000-2014. The study found that current ratio, inventory turnover ratio and EPS significantly impact the stock prices. However, relatively less influence of receivable turnover ratio on stock prices was unearthed. Interestingly, negative relationship was found between current ratio and stock prices whereas Inventory Turnover Ratio, and EPS supported a positive association with the stock prices.

Kovelskiy (2015) examined the various sources of financing the working capital of a firm followed by the aim to suggest measures for effective utilization of their working capital requirements. The survey method was employed for the collection of data from MSMEs operating in India from Ludhiana, Punjab. The study emphasized that for the smooth day-to-day operation of any firm, WCM plays an important role and thus shortening of the operating cycle was recommended.

Shanmwgam and Poornima (2001) conducted a study on 28 medium and large scale spinning mills in Coimbatore industrial area (Tamil Nadu). In this study they underlined the significance of effective WCM in the success of any organization. Their study showed that there was a sufficient dependency on reduction plans in working capital planning in case of most of the industries (10 mills) without considering all norms.

Swamy in 1997 made a study on primary agricultural societies (19) in the area of Dakshinakamada district in Karnataka. The study revealed that the balancing of liquidity and profitability was the major issues of WCM. In this study he stressed the significance of the effective WCM in the societies.

In 1983, Ghosh conducted a study regarding the existing practices of working capital in crane manufacture industry in India. His study indicates at the erratic approach towards the management of individual components of working capital. The study advocated the delay of payments to suppliers in order to maintain the highest share of payables pending, for a period more than agreed or allowed.

Banerjee (1979) in kits study investigated the relationship between creditors' turnover ratio, debtors' turnover ratio, liquid ratio, and the movement of overdraft. He opined that when the liquid ratio was below the norm, debtors' turnover ratio and creditors' turnover ratios were high whereas the movement of overdraft showed declining capital was not satisfactory.

Chakraborty (1976) assessed the relationship between the profitability and working capital in Indian fertilizer, cement, and industries. A positive relationship was found in the study between them.

Saha (1987) investigated the association between WCM and profitability crisis in case of Indian Public sector. The profitability of selected public enterprise was found to suffer in the study owing to the inefficient WCM.

Jain (1988) considered 10 manufacturing, trading and service industries from the state of Rajasthan in his study and suggested the aversion from under-investment in working capital by the companies if higher profit margins were desired.

All the above studies are very important for the present study because all studies focuses on the sufficient positive working capital in the organizations. But in the present studies there is an attempt to prove that a company with the negative working capital can also do well and it doesn't adversely affects the profitability as stated by Jain (1988) above.

OBJECTIVES OF THE STUDY

The basic objective of the paper is to comparatively examine and evaluate the WCM of Indian FMCG companies based on the various parameters. It further seeks to assess the effect of negative working capital on profitability of the companies.

Methodology and data collection

Balance sheet data sourced from the published annual statements of the company had been used from the analysis of working capital levels of a company. Various ratios and the NWC over the past 5 years have been calculated for the selected companies.

The main research objectives of the paper had been achieved through the employment of quantitative methods. The relevant data assisted in investigating the cause-effect relationship between profitability and WCM, identifying the determinants of profitability associated with working capital of the company. Following, the data collection along with analysis method duly adopted had been discussed in brief.

The survey of structured documentary review was leveraged to collect the data on working capital and profitability. Correspondingly, the special attention was paid to the review of company's audited financial statement particularly, income statement and balance sheet.. Annual reports were thoroughly seen for all the details and schedules detailing the various important components such as assets, liabilities, sales, profit etc. Once data were found acceptable, data entry and process were made using Microsoft EXCEL. Analysis of data was undertaken with the help of ratio calculations and plotting of graphs.

The following five companies were selected for the analysis:
1. Hindustan Unilever Limited
2. ITC Ltd
3. Nestlé India
4. Godrej Consumer Products Limited (GCPL)
5. Dabur India

The following parameters were chosen for the comparison of WCM:
1. Current ratio
2. Receivable Turnover (in days)
3. Inventory Turnover (in days)
4. Return on capital employed (profitability measure)
5. Cash Conversion Cycle
6. Payable Turnover (in days)

HUL, Nestle and Godrej Consumers Products Ltd have ROCE in excess of 40%.The success of this high return is associated with the way these companies have managed their working capital management cycles.

Leveraging on Supply Chain

FMCG companies first sell their goods and later on pay their raw material suppliers. This is possible only when the companies are huge in size and represents the bulk of turnover for their suppliers. Strong brand loyalty of FMCG Sector helps them maintain a low inventory as well as generate speedy sales. In such a situation, they are always in a position to arm-twist the suppliers by taking more credit. Thus the products are sold to the customers and the cash generated even before the company pays its suppliers. The additional cash generated can be utilized for other purposes. Nestle collects its money from customers in just four days (average collection period), whereas it pays in 52 days to its raw material suppliers. HUL, which had a net negative working capital, has been able to maintain its creditor days at 64 as compared to receivable days at 16. Godrej Consumer Products (GCPL) is another company with negative working capital maintains creditor days at 53compared to average debtors of six days only.

The superior bargaining powers of the FMCG companies with their debtors and creditors can be attributed to their strong distribution and dominant position in the industry enabling them to increase the payment cycle in their own favor. The creditors have been maintained equal to the debtors and inventory by the FMCG companies, generating sufficient cash surplus to be invested and thereby enhancing the growth of their business. Short-term investments in call money and short-term papers also earn them good returns. FMCG companies conventionally are known to exist on negative working capital by riding on strong supply chain management. The whole trade in this industry is apparently financed by creditors from the vendors, production and dealers from the supply side besides enjoying negligible number of debtors.

ANALYSIS AND INTERPRETATION

1. Brief Profile of companies selected

1.1 Hindustan Unilever Limited (HUL)

The consumer goods company HUL, owned and controlled by an Anglo-Dutch Company Unilever is based in Mumbai, Maharashtra. Unilever as of March 2015 owns 67% controlling share in HUL. The product portfolio of HUL comprises of foods, cleaning agents, personal care products, water purifiers and beverages. HUL has a wide distribution network managed via more than 2 million retailers directly and offering its product range through 6.4 million outlets across India. Such is its grip on the market that HUL products are used by every two out of three Indians, as per Nielsen report.

It was established as Levers Brothers in India in 1933 followed by its merger with Hindustan Vanaspati Mfg. Co. Ltd. and United Traders Ltd. rechristening it by the name of *Hindustan Lever Limited* in 1956. The company received its final (current) name in June 2007 as "Hindustan Unilever Limited". It offers direct employment to more than 16000 people and indirect employment to more than 65000 people.

1.2 ITC Limited

A purely an Indian conglomerate, ITC Limited or ITC is headquartered in Kolkata, West Bengal. The business across five segments viz., Information Technology, Fast Moving Consumer Goods (FMCG), Paperboards & Packaging, Hotels and Agri Business makes it a diversified conglomerate.

ITC was first established as the Imperial Tobacco Company of India Limited in 1910 followed by its first renaming in 1970 to Indian Tobacco Company Limited. It got its current name of I.T.C. Limited in 1974 which again witnessed slight modifications in September 2001 with the removal of periods (dots) from its previous name to be recognized as ITC Ltd. A century celebration of its existence was celebrated in 2010.As of 2012-13, it boast of an annual turnover of USD 8.31 billion and a market capitalization of USD45 billion. More than 25000 people are employed by it from 60 locations across India and also feature as the World's biggest companies by appearing on the Forbes 2000 list.

1.3 Nestlé India

Another FMCG Company having base in India, Nestlé India Limited offers a wide range of products extending from beverages, chocolates, milk products and nutrition, confectionery to semi-prepared dishes and cooking aids. Name of some of its popular chocolates and confectionery products includes Munch, Bar One, Kit Kat and Alpino. Alternatively, Maggi, Maggi -Oat Noodles, -Pazzta, -Bhuna Masala, -Masala-ae-Magic, and -Vegetable Atta Noodles are some of its popular prepared dishes and cooking aids. Nestlé also has a substantial presence in the segment of diary products offering milk, dahi, Slim- Milk and Dahi, a+ Milk and Dahi, Milkmaid, etc. While in the segment of beverages it offers coffees with different variant such as Cappuccino, Classic and Gold, etc.

1.4 Godrej Consumer Products Limited (GCPL)

An Indian consumer goods company, GCPL is based out of Mumbai, India. The company's product portfolio comprises of toiletries, hair colourants, soap and liquid detergents where its brand portfolio boasts of some famous names such as 'Godrej No.1', 'Godrej Fair Glow', 'Godrej Shikakai' and 'Cinthol' in soaps; 'Ezee' liquid detergent; and 'ColourSoft' 'Renew' and 'Godrej Powder Hair Dye' in hair colourants. GCPL is currently operating out of four Operating Clusters spread and seven locations encompassing many manufacturing facilities across India. The four operating clusters are located at Baddi- Katha (Himachal Pradesh), Malanpur (Madhya Pradesh), Pondicherry, Guwahati (Assam), Sikkim and Chennai.

1.5 Dabur India

An Indian origin consumer products manufacturing company, Dabur India Limited owns 1,000 stock keeping units (SKUs) and a product portfolio of 381 products catalogued into 21 categories. Consumer Care

Business and International Business are the two strategic business entities of the company. The product range offered in Europe, South Asia, Middle East, Africa, and America together forms its international business unit. Alternatively, ayurvedic ethical products, over-the-counter (OTC), health supplements, and digestives; home and personal care (HPC) encompassing skin care, oral care, home care, and hair care, and foods, including fruit-based beverages and culinary pastes business together outlines its Consumer Care Business unit. It portfolio of popular brands boasts of Real, Dabur Glucose, Dabur Chyawanprash, Hajmola, Dabur Honey, Vatika and Dabur Baby Powder, among others.

2 Net working capital (NWC) and Ratios

2.1 Hindustan Unilever Limited

The component-wise analysis of working capital of HUL from 2010-11 to 2014-15 had been provided in the following table 1. The net working capital is found to be negative for the entire study period, as per the data in table 1. In normal circumstances, a negative working capital indicates at the probable insolvency threat or financial distress for the company and its stakeholders. Paradoxically, the company even with the negative working capital was found to be generating excellent return on capital employed (ROCE) for all the years understudy. The contrasting result of negative NWC and impressive ROCE signifies the managerial efficiency of the organization.

Table 1 : Working capital (short term liquidity position)

Year	Inventory (1)	Sundry Debtors (2)	Cash & Bank Balances (3)	Total Current Assets (4)=(1)+(2)+(3)+(5)	Loans and Advances (5)	Total Current Liabilities (6)	Net Working Capital (7) = (4)-(6)
2014-15	2,602.68	782.94	2,537.56	7419.59	1,496.41	9909.28	-2,489.69
2013-14	2,747.53	816.43	2,220.97	7162.44	1,377.51	9721.35	-2,558.91
2012-13	2,526.99	833.48	1,707.89	6673.27	1,604.91	8838.45	-2,165.18
2011-12	2,516.65	678.99	1,830.04	6157.14	1,131.46	7445.34	-1,288.20
2010-11	2,810.77	943.21	1,628.47	6444.13	1,061.68	7503.14	-1059.01
Average	**2640.924**	**811.01**	**1984.986**	**6,771.31**	**1334.394**	**8,683.51**	**-1,912.20**

Table 2 : WCM efficiency

Year	Current Ratio (1)	Receivable days (2)	Inventory days (3)	Payable days (4)	Cash Conversion Cycle (5)=(2)+(3)-(4)	Return On Capital Employed (%) (6)
2014-15	0.75	8.92	29.84	71.58	-32.82	148.75
2013-14	0.74	10.19	32.57	71.91	-29.15	147.59
2012-13	0.76	10.12	33.74	69.59	-25.73	163.63
2011-12	0.83	12.77	41.94	78.25	-23.54	95.42
2010-11	0.86	14.28	44.13	91.91	-33.50	102.69
Average		**11.256**	**36.44**	**76.648**	**-28.95**	**131.62**

The above table 2 exhibits the decrease of Current Ratio (CR) of HUL from 0.86 in year 2010-11 to 0.75 in year 2014-15 which is pretty below the ideal ratio of 2:1. This indicates that current liabilities are substantially more than its current assets assisting the company in earning high rate of returns. This also points to the fact that the company has managed to accelerate its cash inflows by collecting the payments for its sales from the customers upfront leading to swift cash generation. Consequently, the company does not appear to face any issue in raising the cash. Hence, it can be asserted that NWC cannot always be associated with the profitability of the company. Negative NWC not always necessarily means bad financial condition is proven by HUL. On the contrary, net negative working capital highlights the managerial efficiency in management of HUL's operations with low inventory and accounts receivable being maintained. In essence, the company is basically operating strictly on cash basis. Also, it can be said that the growth in working capital was managed sensibly by the company by targeting days cover for inventories, accounts receivable and accounts payable instead of focusing on the absolute value. Further, most of the day to day activities of the company have been found to be financed by customers instead of company's own working capital.

Further, the cash conversion cycle for HUL was found to be negative throughout the study period. This indicates that the brands/products sold by HUL are getting sold faster than that of the HUL paying its creditors. In other words, we can say that HUL is able to recover the money from the customers much faster than the payment to be made to its creditors.

2.2 ITC Limited

The component-wise analysis of the working capital of ITC can be observed from the table 3 below for the period 2010-11 to 2014-15. The NWC was found to be positive throughout the study period.

Working capital Table 3 : (short term liquidity position)

Year	Inventory (1)	Sundry Debtors (2)	Cash & Bank Balances (3)	Total Current Assets (4)=(1)+(2) +(3)+(5)	Loans and Advances (5)	Total Current Liabilities (6)	Net Working Capital (7)=(4)-(6)
2014-15	7836.76	1,722.40	7588.61	19,497.57	2349.8	13421.26	6,076.31
2013-14	7359.54	2,165.36	3289.37	16,097.49	3283.22	12916.23	3,181.26
2012-13	6600.2	1,163.34	3615	14,260.01	2881.47	11663.18	2,596.83
2011-12	5637.83	986.02	2818.93	11,273.87	1831.09	10095.42	1,178.45
2010-11	5269.17	885.10	2243.24	10,200.69	1803.18	9392.03	808.66
Average	**6540.7**	**1,384.44**	**3911.03**	**14,265.93**	**2429.752**	**11,497.62**	**2,768.30**

Table 4 : WCM efficiency

Year	Current Ratio (1)	Receivable days (2)	Inventory days (3)	Payable days (4)	Cash Conversion Cycle (5) = (2)+(3)-(4)	Return On Capital Employed (%) (6)
2014-15	1.45	14.08	55.04	32.65	36.47	45.74
2013-14	1.25	12.91	54.13	33.75	33.29	48.21

2012-13	1.22	9.3	52.04	31.15	30.19	48.29
2011-12	1.12	9.68	56.52	34.29	31.91	47.69
2010-11	1.09	10.41	58.14	65.68	2.87	45.88
Average		**11.276**	**55.17**	**39.504**	**26.95**	**47.16**

As per table 4, the cash conversion cycle (CCC) was also found to be positive for ITC throughout the study period. The return of capital for this firm too was found to be positive for all the years under study. However, the current ratio was observed to increase from 1.09 in year 2010-11 to 1.45 in year 2014-15 but still did not confirmed to the ideal ratio of 2:1.

2.3 Nestlé India

The component-wise analysis of the working capital of Nestlé India can be observed from table 5 below for the period 2010-11 to 2014-15. The NWC was found to be negative throughout the study period.

Working capital Table 5 : (Short term liquidity position)

Year	Inventory (1)	Sundry Debtors (2)	Cash & Bank Balances (3)	Total Current Assets (4)=(1)+(2)+(3)+(5)	Loans and Advances (5)	Total Current Liabilities (6)	Net Working Capital (7) = (4)-(6)
2014-15	844.10	99.1	445.82	1,586.26	197.24	2,962.72	-1,376.46
2013-14	735.93	84.27	749.36	1,799.17	229.61	2,756.03	-956.86
2012-13	745.58	87.57	236.96	1,250.71	180.60	2,315.32	-1,064.61
2011-12	734.04	115.42	227.21	1,319.88	243.21	2,156.95	-837.07
2010-11	575.95	63.29	19.45	1,094.70	200.17	1,751.62	-656.92
Average	**727.12**	**89.93**	**335.76**	**1,410.14**	**210.166**	**2,388.53**	**-978.38**

In normal circumstances, a negative working capital indicates at the looming insolvency threat or financial distress for the company and its stakeholders. Paradoxically, the company even with the negative working capital was found to be generating excellent return on capital employed (ROCE) for all the years understudy. The contrasting results of negative NWC and impressive ROCE signifies the managerial efficiency of the organization.

The above table 2 exhibits the decrease of Current Ratio (CR) of Nestlé India from 0.62 in year 2010-11 to 0.54 in year 2014-15 which is pretty below the ideal ratio of 2:1. This indicates at the higher levels of current liabilities as compared to its current assets leading the company to earn high rate of returns. This also points to the fact that the company has managed to generate the cash quickly with the customers not turning into debtors, instead paying for the purchases upfront. Consequently, the company does not appear to face any issue in raising the cash. Hence, it can be asserted that NWC cannot always be associated with the profitability of the company. Negative NWC not always necessarily means bad financial condition is proven by Nestlé India. On the contrary, net negative working capital highlights the managerial efficiency in management of Nestlé India's

Table 6 : WCM Efficiency

Year	Current Ratio (1)	Receivable days (2)	Inventory days (3)	Payable days (4)	Cash Conversion Cycle (5) = (2)+(3)-(4)	Return On Capital Employed (%) (6)
2014-15	0.54	3.29	28.33	34.11	-2.49	62.66
2013-14	0.65	3.33	28.71	32.36	-0.32	47.79
2012-13	0.54	4.3	31.35	30.56	5.09	56.58
2011-12	0.61	4.24	31.06	40.72	-5.42	64.60
2010-11	0.62	3.65	30.76	52.10	-17.69	135.06
Average		**3.762**	**30.04**	**37.97**	**-4.17**	**73.34**

operations with low inventory and accounts receivable being maintained. In essence, the company is basically operating strictly on cash basis. Also, it can be said that the growth in working capital was managed sensibly by the company by targeting days cover for inventories, accounts receivable and accounts payable instead of focusing on the absolute value. Further, most of the day to day activities of the company have been found to be financed by customers instead of company's own working capital.

Further, the cash conversion cycle for Nestlé India was found to be negative throughout the study period. This indicates that the brands/products sold by Nestlé India are getting sold faster than that of the Nestlé India paying its creditors. In other words, we can say that Nestlé India is able to recover the money from the customers much faster than the payment to be made to its creditors.

2.4 Godrej Consumer Products Limited (GCPL)

The component-wise analysis of the working capital of Godrej Consumer Products Limited (GCPL) can be observed from the table 3 below for the period 2010-11 to 2014-15. The NWC was found to be positive throughout the study period.

As per table 4, the cash conversion cycle (CCC) was found to be negative for GCPL throughout the study period. However, the return of capital for this firm was found to be positive for all the years under study. However, the current ratio was observed to decrease from 1.01 in year 2010-11 to 0.90 in year 2014-15 which was very low and did not confirmed to the ideal ratio of 2:1. This indicated at higher proportion of current liabilities as compared to the current assets of the firm.

2.5 Dabur India

The table below shows the component-wise analysis of the working capital of Dabur India from 2010-11 to 2014-15. The table shows that, the NWC is positive throughout the period of study except for the last period of the study i.e., 2014-15 where it turned out to be negative due to an increase in the total current liabilities and a simultaneous decline in total current assets of the company.

Working capital Table 7 : (short term liquidity position)

Year	Inventory (1)	Sundry Debtors (2)	Cash & Bank Balances (3)	Total Current Assets (4)=(1)+(2)+(3)+(5)	Loans and Advances (5)	Total Current Liabilities (6)	Net Working Capital (7) = (4)-(6)
2014-15	489.51	142.94	495.36	1382.85	255.04	1538.69	-155.84
2013-14	493.57	139.26	205.26	1065.98	227.89	1460.81	-394.83
2012-13	536.37	122.13	460.55	1371.4	252.35	1066.46	304.94
2011-12	433.04	94.27	369.63	1192.26	295.32	817.89	374.37
2010-11	306.37	103.29	80.62	727.65	237.37	723.87	3.78
Average	**451.772**	**120.38**	**322.284**	**1,148.03**	**253.594**	**1,121.54**	**26.48**

Table 8 : WCM Efficiency

Year	Current Ratio (1)	Receivable days (2)	Inventory days (3)	Payable days (4)	Cash Conversion Cycle (5) = (2)+(3)-(4)	Return On Capital Employed (%) (6)
2014-15	0.90	10.95	38.15	83.56	-34.46	25.28
2013-14	0.73	11.09	43.71	84.18	-29.38	24.84
2012-13	1.29	10.42	46.69	72.81	-15.70	21.45
2011-12	1.46	11.63	43.54	58.62	-3.45	21.9
2010-11	1.01	9.76	33.94	32.57	11.13	31.83
Average		**10.77**	**41.21**	**66.348**	**-14.37**	**25.06**

Working capital Table 9 : (Short term liquidity position)

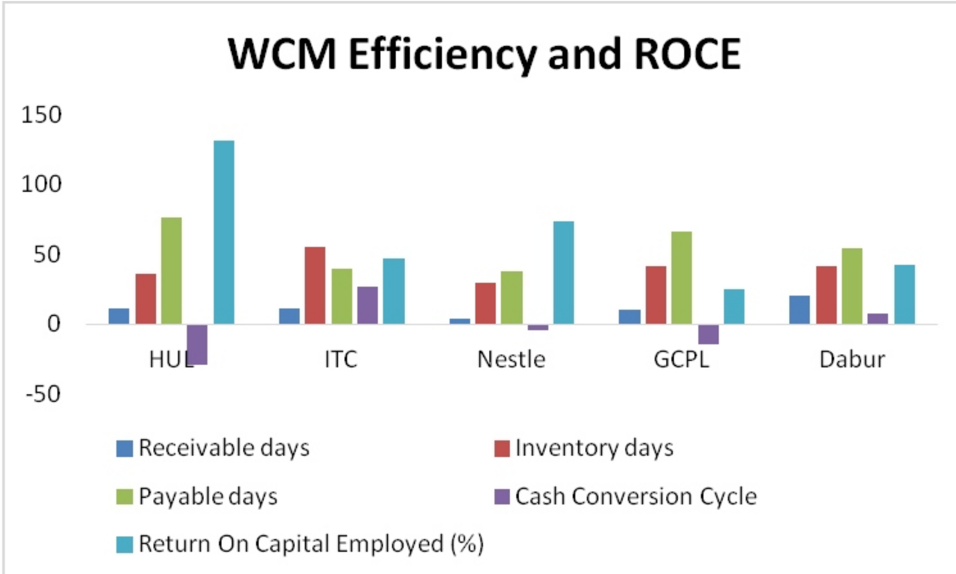
Year	Inventory (1)	Sundry Debtors (2)	Cash & Bank Balances (3)	Total Current Assets (4)=(1)+(2)+(3)+(5)	Loans and Advances (5)	Total Current Liabilities (6)	Net Working Capital (7) = (4)-(6)
2014-15	550.6	338.79	123.94	1,215.45	202.12	1,223.04	-7.59
2013-14	558.2	323.12	297.47	1,333.00	154.21	1,175.17	157.83
2012-13	499.74	255.32	319.4	1,464.83	390.37	991.53	473.30
2011-12	528.57	224.17	261.29	1,301.90	287.87	874.99	426.91
2010-11	460.59	202.46	192.41	1,386.49	531.03	1,054.74	331.75
Average	**519.54**	**268.77**	**238.902**	**1,340.33**	**313.12**	**1,063.89**	**276.44**

Table 10 : WCM Efficiency

Year	Current Ratio (1)	Receivable days (2)	Inventory days (3)	Payable days (4)	Cash Conversion Cycle (5) = (2)+(3)-(4)	Return On Capital Employed (%) (6)
2014-15	0.99	21.94	36.75	52.12	6.57	40.98
2013-14	1.13	21.43	39.21	51.2	9.44	45.27
2012-13	1.48	19.89	42.68	51.42	11.15	41.82
2011-12	1.49	20.51	47.55	59.04	9.02	40.99
2010-11	1.31	18.35	41.83	60.02	0.16	44.16
Average		**20.424**	**41.60**	**54.76**	**7.27**	**42.64**

3. **Comparative analysis of the 5 companies selected**

Company	Average Net Working Capital	Average Receivable days	Average Inventory days	Average Payable days	Average Cash Conversion Cycle	Average Return On Capital Employed (%)
HUL	-1912.2	11.256	36.44	76.648	-28.95	131.62
ITC	2768.3	11.276	55.17	39.504	26.95	47.16
Nestle	-978.38	3.762	30.04	37.97	-4.17	73.34
GCPL	26.48	10.77	41.21	66.348	-14.37	25.06
Dabur	276.44	20.424	41.6	54.76	7.27	42.64



CONCLUSION

Net Working capital (NWC)

Average NWC of companies like Nestle and HUL is negative throughout the period of study. Both of these companies are the subsidiaries of the foreign parent companies and both of them are performing consistently for the past many years. Also if we see the products sold by these two companies are sold very quickly of the shelves in the retail environment this makes the cash recovery faster. Another thing here is that these two companies enjoy greater bargaining power with the suppliers of raw materials as well as the debtors. This makes them negotiate the payment terms as per their convenience.

While the other companies such as Dabur, ITC and GCPL have a positive working capital during the period of study, this shows that though they are managing their operations efficiently it is may be not as efficient as the leaders in the industry.

Cash Conversion Cycle (CCC)

Cash Conversion Cycle (CCC) refers to the average net time difference in days between the payment in cash by the firm for its purchases to its creditors and the receipt of cash from its debtors for the product sold. CCC can also be defined as the average number of days for which the operating cycle requirements had to be financed by the company either through debt or equity. Therefore, negative CCC indicates at the managerial efficiency of the firm where it is financing its day to day operations from the funds received from its customers instead of the conventional source of short term debt. Alternatively, it is the positive CCC which leads the company to finance its operating cycle from the short-term debt. Therefore the companies like HUL, Nestle and GCPL which reflected a negative CCC, efficiently managed to finance their operating cycle through customers, saving sufficient cost on short-term debt.

Return on capital employed

Return on capital employed (ROCE) can be defined as the ratio of company's returns measured in EBIT to the capital employed. It is thereby estimated as: ROCE = Earnings before Interest and Tax (EBIT) / Capital Employed.

It represents the efficiency in the usage of the capital employed by the company. The capital employed on the other hand refers to the difference between the total assets and current liabilities. The companies exhibiting negative CCC have been found to reflect significantly higher ROCE than those with positive CCC.

Observations

The analysis of the NWC of the companies and several components of profitability significantly indicates that in general:

- Negative working capital is preferred by the FMCG companies in order to reduce the cost of borrowing for the financing of the working capital.
- The negative NWC with the companies had been found to be associated with higher profitability. This could be attributed to the lower cost of interest and borrowings.
- The negative NWC had been persistently supported by the leading FMCG companies in India namely, Nestle India and HUL for their daily operations.
- Interestingly, the negative working capital was not found to adversely impact the operations of the companies as per the conventional theories. Instead FMCG companies thrived on negative working capital with the help of their strong brand in the market that assisted them in lowering the operating cost for their product.
- The higher profitability of FMCG companies can be attributed to early cash realization and low levels of debtors leading to minimum instances of bad debt.
- The inventory in absolute terms is showing decreasing trend which is directly contributing in the fall of working capital.
- Low debt collection period indicates at the efficiency of the company that effectively contributes to the decline in its working capital.
- The Current Ratio was found to be consistently lower compared with the standard norms throughout the study period.

Hence, it can be concluded that negative working capital is not always detrimental to the companies as verified by the performance of FMCG companies. The FMCG companies which supported negative NWC was found to reflect an impressive figure for Return on Capital Employed. It has been observed that the foreign company subsidiaries have done pretty well whereas managing their working capital at an optimal levels had helped them to increase the profitability.

The reason behind negative working capital is attributed to the efficiency of the companies in selling the products and recovering the money from the customers at a faster speed compared to the payment they have to make to the creditors. Another reason here is that the larger FMCG companies who are leading the market are able to dictate their own terms when it comes to decide the time for payables or receivable.

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