

# A STUDY OF FINANCING OF WORKING CAPITAL OF FMCG INDUSTRY

**Miss Lovey Sharma**

(Student, School of Finance & Commerce, Galgotias University)

**Dr. Bhavna Sharma**

(Assistant Professor, School of Finance & Commerce, Galgotias University)

**Abstract** - FMCG products play a crucial role in every aspect of human life. As working capital is defined as current assets over current liabilities, at the time of determination of working capital, quality of current assets especially size of debtors and inventory are important factors. Significance of working capital also increases, as it is directly associated to the liquidity position of the corporate. Negative working capital arises in cash base business, efficient utilization of resources and sound inventory management etc., which leads to minimum stock of inventory etc., and the overall impact is lower level of current assets. On the other hand, due to better contract and negotiations to the creditors and suppliers, they are extending more liberal credit, which enhances the level of current liabilities. An attempt has been made to examine the working capital trends and practices particularly in FMCGs sector in India by selecting top three FMCG companies (named as Dabur India Ltd., Hindustan Unilever Limited, Nestle India Limited). The study is based on secondary data i.e., Annual Reports of the selected companies. The period of study is four years and traditional method of data analysis and ratio analysis as tools of financial statement analysis. Finally, it is found that companies in which negative working capital exist, profitability is more and shareholders are getting more dividend and capital appreciation, which maximizes the shareholders' value in the long run.

## INTRODUCTION

The Indian FMCG sector is the fourth largest in the economy and has a market size of US\$13.1 billion. Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars.

Well-

established distribution networks, as well as intense competition between the organized and unorganized segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the FMCG market will reach to US\$ 33.4 billion in 2015

om US\$ 11.6 billion in 2003. The middle class and the rural segments of the Indian population are the most promising market for FMCG, and give brand makers the opportunity to convert them to branded products.

The Indian economy is surging ahead by leaps and bounds, keeping pace with rapid urbanization, increased literacy levels, and rising per capita income.

The Fast-

moving consumer goods (FMCG) sector is the 4<sup>th</sup> largest sector of the Indian economy. It is characterized by high turnover consumer packaged goods, i.e., goods that are produced, distributed, marketed and consumed within a short span of time. FMCG products that dominate the market today are detergents, toiletries, tooth cleaning products, cosmetics, etc. The FMCG sector in India also includes pharmaceuticals, consumer electronics, soft drinks packaged food products and chocolates. Since the sector encompasses a diverse range of products, different companies dominate the market in various sub-sectors. However, some of the top FMCG companies in India are- Dabur (60%), Colgate (54.7%), Hindustan Unilever (54%).

## RURAL AND URBAN TRENDS

The FMCG industry in India is divided into the demographics of rural and urban India. The urban market contributes 60% of the consumption revenue of the FMCG market in India. In 2017, this sector recorded a market size of \$ 29.4 bn. While urban areas have spearheaded the growth of the FMCG industry in India, semi-urban and rural segments are growing at a rate that cannot be ignored. Semi-urban and rural segments contribute over 40% of the overall revenues of the FMCG sector in India. FMCG companies in India have witnessed higher growth in rural areas compared to urban ones. And with 12.2% of the world's population living in the villages of India, the Indian rural FMCG market cannot be ignored by investors. Dabur, one of the top FMCG companies in India, generates over 45% of its domestic revenue through the sale of packaged consumer goods in rural India. Hindustan Unilever, another name that has consistently dominated the list of top FMCG companies in India, earns over 35% of its revenue from rural areas.

Rural India accounts for more than 40% of consumption in major FMCG categories such as personal care, fabric care, and hot beverages. In urban areas, home and personal care category- including skin care, household care, and feminine hygiene- will continue to grow at attractive rates. Within the foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.

## DEMOGRAPHIC SUPPORT

An FMCG industry overview indicated that India's demographic profile plays a major role in the growth of this sector.

Not only is India's demographic young, but this segment is also characterized by increased urbanization and higher expenditure. Urban development initiatives by the government, as well as the increasing middle class of India, has led to an increase in the number of attractive markets in the country. Ernst & Young's research on the cities of India highlights the emergence of 30 'new wave' cities such as Jaipur and Surat. Consumption in these cities is growing at a faster rate than that of many of India's metros. India's young population is al

so characterized by a high degree of technological awareness. Growing penetration of smartphones and better internet connectivity in India has led to a burgeoning E-Commerce sector, which has, in turn, helped formalize large sections of the unorganised retail sector. The E-Commerce segment is projected to contribute 11% of overall Indian FMCG companies' sales in 2030. The online FMCG market is projected to reach \$ 45 bn in 2020. This has been a major catalyst in the development of the FMCG sector in rural India.

### **FMCG MARKET IN INDIA**

The FMCG sector is one of the largest sectors of the Indian economy. According to an FMCG industry overview, revenues of the FMCG sector reached \$ 52.75 bn in FY18, and are estimated to reach \$ 103.7 bn in 2020. As consumption in India grows at an unprecedented rate, the FMCG industry remains a key sector for investors. Acknowledging these trends in the FMCG industry profile, the Government of India has undertaken various initiatives to promote the sector. For instance, 100% FDI is permitted in SBRT and cash-and-carry models of retail, and the minimum capitalization for foreign FMCG companies to invest in India is \$ 100 Mn. Even the implementation of GST in India has had far-reaching consequences for the sector, as the highest selling FMCG products such as soap, toothpaste and hair oil now come under the 18% tax bracket (as opposed to the previous 24%)

### **INVESTMENTS IN FMCG INDUSTRY IN INDIA**

Favorable demand drivers such as rising income levels and growing urbanization, among others, have recently encouraged major and diverse investments in the FMCG sector. While top FMCG companies are expanding their capacity to feed the growing domestic demand, homegrown brands have ventured into international markets. Some of these include:

1. Patanjali-  
Their success has encouraged the brand to look at the international stage, with plans to set up a 100% export-oriented manufacturing unit in Milan SEZ, Nagpur
2. RP-Sanjiv Goenka Group-  
They have created a venture capital fund of \$ 14.74 Mn to invest in FMCG startups. This move was made taking into account the capital appreciation in the FMCG sector

### **Most commonly sold FMCG**

- Toiletries
- Cosmetics
- Household products
- Electronic goods
- Packaged food

### **Market size and projected growth rate**

In the last 10 years, the revenue in FMCG industry in India has been growing at the rate of 21.4%. There was a drastic change in revenues in FMCG sector growing from US\$ 31.6 billion to US\$ 52.8 from 2011 to 2017 -

2018 respectively. FMCG industry in India is expected to grow at the rate of 27.9% CAGR (Compounded A

nnual Growth Rate) to sum to US\$103.7 billion by 2020. Additionally, the rural FMCG market is projected to grow at a CAGR of 14.6% to reach US\$100 billion by 2020 and US\$220 billion by 2025. The rural setting accounts for 45% revenue share while the urban setting dominates with 55% revenue share of the total revenue of the FMCG industry. More than 65% of people in India stay in rural places and those people spend around 50% of their total expenditure on FMCG products. The number of people buying consumer goods online in India is projected to reach 850 million by 2025.

#### Driving factors leading to growth rate

- Increased population of working women
- Increased disposable income and growing per capita expenditure
- Increased purchasing power of the customers
- Increased awareness of online shopping
- Higher brand recognition and consciousness
- Constant change in consumer preference
- Banking policies and government's regulations
- Growing interest for foreign investors

#### Market share (by revenue)

Company's Name	Market Share (%)
ITC	30%
Hindustan Unilever (HUL)	14%
Nestlé	5%
Britannia	1%
Patanjali Ayurved	4%
Dabur	2%
Godrej Group	2%
Marico	5%
GlaxoSmithKline (GSK)	1%
Colgate-Palmolive	1%
Emami	2%
Amul	4%
Parle Products	7%

## OBJECTIVES OF THE STUDY

- ★ To analyze the FMCG Industry.
- ★ To analysis the working capital of FMCG Sector
- ★ To study the concept of working capital and various components of working capital and Ratio Analysis.
- ★ To identify the item responsible for changes in the working capital.
- ★ To evaluate the financial position of the company.

## RESEARCH METHODOLOGY

The present study is mainly based on secondary data that have already been published in annual reports of companies and has been collected from selected FMCG Sector of India. Further other information related to sector and company has been collected from research publications, Websites of respective companies. All three companies are taken for analysis of working capital which includes Dabur India Ltd., Nestle and Hindustan Unilever Limited.

Whereas all the financial data includes companies balance sheet, cash flows are taken data from the website source which is money control which can also show all the companies listed in the NSE and BSE Stock Exchange Markets in India or both considered.

## Data analysis & Interpretation

- **DABUR INDIA LTD.**
- Established in 1884 – more than 128 Years of Trust & Excellence
- Among top 4 FMCG companies in India.
- World's largest in Ayurveda and natural healthcare.
- Strong brand equity: -  
Dabur is a household brand, Vatika and Real are Super brands, Hajmola, Real & Dabur ranked among India's most Admired Brands.
- 12 Brands with Sales of over Rs. 1 billion each.

## **ANALYSIS OF WORKING CAPITAL OF DABUR INDIA LTD.**

Dabur India Limited Balance Sheet Statement - Assets

As of 31 Mar 2021, the **total current assets of Dabur India Limited (NSE: DABUR) was around ₹47,759,400,000** which consisted of ₹2,412,300,000 of Cash, ₹17,342,800,000 of Inventory and ₹5,789,900,000 of Net receivables. Current assets represent all the assets of a company that are expected to be conveniently sold, consumed, used, or exhausted through standard business operations within one year.

All amounts in INR

Cash

₹2.41B

Current assets

₹47.76B

Total assets

₹108.47B

The latest balance sheet of Dabur India Limited also showed ₹19,590,000,000 of Property Plant Equipment and ₹3,360,100,000 of good will. Also, there were ₹447,100,000 of Intangible assets and ₹2,319,300,000 of other assets. The **total assets** including current and Intangibles/Deferred Long Term Asset Charges were ₹108,471,300,000.

Dabur India Limited Balance Sheet Statement - Liabilities

DABUR's latest annual results shows the balance sheet has ₹19,152,600,000 of Accounts Payable. Also, there were **no Short/Long term debt, ₹13,100,000 of long-term debt**, ₹2,956,100,000 of Other Current liabilities and ₹29,341,900,000 of Total Current Liabilities. Current liabilities are a company's short-term financial obligations that are due within one year or within a normal operating cycle.

Account payable

₹19.15B

Current liabilities

₹29.34B

Total liabilities

₹31.47B

As per the 31 Mar 2021's annual report of Dabur India Limited, the **total liabilities were ₹31,469,100,000**.

DABUR Balance Sheet Statement - Stock Holder Equity

Stockholders' equity, also referred to as shareholders' equity, is the remaining amount of assets available to shareholders after all liabilities have been paid. It is calculated either as a firm's total assets less its total liabilities or alternatively as the sum of share capital and retained earnings less treasury shares. Stockholders' equity might include common stock, paid-in capital, retained earnings and treasury stock.

The latest Balance sheet of Dabur India Limited showed the **total stock holder equity was ₹76,635,300,000** which consisted of ₹1,767,400,000 of Common stocks, ₹71,325,000,000 of Retained earnings and ₹-107,100,000 of other stock holder equity.

### **DABUR Balance Sheet Statement History**

Following table shows the history of balance sheet for Dabur India Limited (DABUR).

	<b>31 Mar 2021</b>	<b>31 Mar 2020</b>	<b>31 Mar 2019</b>	<b>31 Mar 2018</b>
Cash	2.41B	1.64B	1.08B	1.54B
Net Receivables	5.79B	8.3B	8.71B	7.46B
Inventory	17.34B	13.8B	13.01B	12.56B
Total Current Assets	47.76B	48.8B	35.86B	34.4B
Property Plant Equipment	19.59B	19.68B	16.12B	15.94B
Good Will	3.36B	3.36B	3.36B	4.12B
Intangible Assets	447.1M	441.8M	329.2M	103.1M
Other Assets	2.32B	1.89B	1.59B	1.53B
Deferred Long Term Asset Charges	179.5M	220M	-	-
Total Assets	108.47B	93.54B	84.37B	87.02B
Accounts Payable	19.15B	14.82B	14.55B	14.1B
Short/Long Term Debt	-	250M	1.75B	1.09B
Other Current Liabilities	2.96B	2.39B	2.24B	1.69B
Long Term Debt	13.1M	-	250M	3.63B
Other Liabilities	785.9M	850.3M	872.2M	1.7B
Total Current Liabilities	29.34B	24.64B	26.6B	24.34B
Total Liabilities	31.47B	27.12B	27.74B	29.69B
Common Stock	1.77B	1.77B	1.77B	1.76B
Retained Earnings	71.33B	60.27B	52.18B	53.71B
Treasury Stock	-107.1M	497.4M	-885.2M	-712.4M
Other Stockholder Equity	-107.1M	497.4M	-885.2M	-712.4M
Total Stockholder Equity	76.64B	66.06B	56.32B	57.07B



Net Tangible Assets	72.83B	62.26B	52.63B	52.85B
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#### NESTLE: -

**Nestlé India Limited** is the Indian subsidiary of [Nestlé](#) which is a Swiss [multinational company](#). The company is headquartered in [Gurgaon, Haryana](#). The company's products include [food](#), [beverages](#), [chocolate](#), and [confectioneries](#). The company was [incorporated](#) on 28 March 1959 and was [promoted](#) by Nestle Alimentana S.A. via a subsidiary, Nestle Holdings Ltd. As of 2020, the parent company [Nestlé](#) owns 62.76% of Nestlé India. The company has 9 production facilities in various locations across India. Nestlé India is one of the largest players in India's [Fast-moving consumer goods](#) segment and has a long history in the country. Nestlé India Limited was incorporated at New Delhi on 28 March 1959 and was [promoted](#) by Nestle Alimentana S.A. via a wholly owned subsidiary, Nestle Holdings Ltd., Nassau, Bahama Islands.

The company built their first production facility in 1961 at [Moga](#), in the Indian [state](#) of [Punjab](#).

#### WORKING CAPITAL OF NESTLE LTD.

BALANCE SHEET OF NESTLE INDIA (in Rs. Cr.)	DEC 21	DEC 20	DEC 19	DEC 18	DEC 17	
	12 months	12 months	12 months	12 months	12 months	
TOTAL CURRENT LIABILITIES	2,603.24	2,492.55	2,190.55	1,854.95	1,492.71	
TOTAL CAPITAL AND LIABILITIES	8,209.93	7,899.73	7,172.94	8,088.08	7,362.59	
TOTAL CURRENT ASSETS	2,738.76	4,185.08	3,817.17	4,736.95	3,937.39	
TOTAL ASSETS	8,209.93	7,899.73	7,172.94	8,088.08	7,362.59	



### 3-Hindustan Unilever Ltd :-

With over 85 years of heritage in India, Hindustan Unilever Limited (HUL) is India's largest fast-moving consumer goods company. On any given day, nine out of ten Indian households use our products, giving us a unique opportunity to build a brighter future. We are known for our great brands, the positive social impact we create and our belief in doing business the right way. HUL works to create a better future every day and helps people feel good, look good and get more out of life with brands and services that are good for them.

#### WORKING CAPITAL OF HINDUSTAN UNILEVER LIMITED

BALANCE SHEET OF HINDUSTAN UNILEVER (in Rs. Cr.)	MAR 22	MAR 21	MAR 20	MAR 19	MAR 18	
TOTAL CURRENT LIABILITIES	10,944.00	10,841.00	9,104.00	8,353.00	8,636.00	
TOTAL CAPITAL AND LIABILITIES	69,737.00	68,116.00	19,602.00	17,865.00	17,149.00	
TOTAL NON-CURRENT ASSETS	55,090.00	54,476.00	7,694.00	6,491.00	6,010.00	
TOTAL CURRENT ASSETS	14,647.00	13,640.00	11,908.00	11,374.00	11,139.00	
TOTAL ASSETS	69,737.00	68,116.00	19,602.00	17,865.00	17,149.00	

## DATA INTERPRETATION

We have to take a data interpretation of Dabur India Ltd. There are three major Strategic Business Units (SBU's): -

### (A) Consumer Care Division

Consumer Care Business, which incorporates the entire FMCG business of Dabur comprising Health Care and Home & Personal Care verticals accounts for 53.4% of the Company's consolidated revenues. The Consumer Care Business is the largest segment, contributing to 53.4% of consolidated sale and grew by 12.8% during fiscal 2017-18.

### (B) Foods Division

It consisting of fruit-based beverages, contributes 10.1% of total sales. Dabur's foods business emerged as the star performer of 2017-18. This marks a 10-fold jump in its sales in nine years.

### (C) International Business Division

Dabur's International Business continued on a strong growth trajectory with sales growing by 22.3% to Rs. 2,310.8 Crores. The International Business now contributes 32.4% to consolidated sales.

## FINDINGS

1. On the basis of the data collected from the Website Source which is Money control and certain findings arrived that relates to the Ratio Analysis of Dabur India Ltd., Nestle, Hindustan Unilever Limited Companies in FMCG Industry.
2. The good profit margin and companies' liquidity is also important from the viewpoint of the creditors and shareholders that company have sufficient fund to pay them.
3. We also find the Working capital which includes all the assets and liabilities of Dabur India Ltd., Hindustan Unilever Limited & Nestle Companies. Also find the Cash flow analysis of these companies.
4. This is basically financial structure of these 3 companies includes ITC, Dabur India Ltd., Nestle.

## CONCLUSIONS

The financial statements of the firm for the four consecutive years (2018-2021) were analyzed and various ratios and analysis were done. The company should try to increase the duration of the average collection period to compete with its competitors, by offering the customer high cost in credit sales. The company should try to maintain its net worth for having satisfactory fund for equity shareholders. The company should give more emphasis to sufficient utilization of the resources and funds. The company should improve the return on capital employed as a source of long-term fund. The company should reduce its variable cost to increase gross profit margin which is very low relatively other FMCG

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