

A Comparative Study of Cash Flow Performance of Selected Mid-Cap FMCG Companies in India

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ABSTRACT

This paper performs a comparative analysis of the cash flow performance of selected midcap fast-moving consumer goods companies from India - Dabur India Ltd, Marico Ltd & Godrej Consumer Products Ltd. The secondary data come from annual reports spanning 2016 to 2020. The study examined the cash flow components and key ratios, such as the Operating Cash Flow Ratio, Cash Flow Margin & Cash Return on Assets. Mean, standard deviation and coefficient of variation were used as tools for inter-firm comparison. We find that all these companies have positive operating cash flows, but Dabur has consistent performance, similar to Marico, whereas Godrej shows the greatest variation. Cash flow sustainability performance proved more consistent in predictions for financial stability.

Keywords: Cash Flow Analysis, FMCG Industry, Financial Performance, Cash Flow Ratios

INTRODUCTION

Historically a firm was judged on profitability measures, but recently this issue has liberated the intrigue of analysts who closely observe cash flow as a more useful measure of financial health in a firm. Being unaffected by accrual concepts or managerial discretion, cash flows therefore present a true picture of the liquidity position compared to accounting profits. That is why Cash Flow Statement forms an essential statement which highlights the cash inflows and outflows from operating, investing, and financing activities.

It is divided in three major areas: cash flows from operating activities (CFO), investing activities (CFI) and financing activities (CFF). All these parts are important but operating cash flow plays a vital role because it shows that whether a firm is able to produce sufficient cash from the normal business operations or not. Due to the inadequacy of its receipts and payments, a company may show large profits but still can be illiquid; therefore an inflow/ outflow analysis is important not only for solvency sustainability but also for efficiency as a whole. Accordingly, this information has been used by investors, creditors, analysts all in their decision-making processes.

The Fast-Moving Consumer Goods sector is a crucial industry in India's economy and manufactures and distributes low-cost, high-volume items like food products, personal care products, and household goods. FMCG sector means the inventory turnover is very high, distribution numbers are voluminous and demand cycles continuous (for example coffee).

India's FMCG sector has gained considerable maturity throughout the years on account of rising disposable earnings and urbanisation, adjustments in intake patterns, and enhancing rural penetration. Mid-cap FMCG firms are especially crucial to filling the void created within the market by large international businesses, but that regional players cannot fill. These companies are normally involved in highly competitive spaces, and as such they need to maintain healthy cash positions to fund their growth, the marketing of the product and supply chain logistics. The reason behind choosing FMCG industry for this study is the natural significance of cash in its operations. With the entire industry contingent on swift turnover of inventory, credit and ongoing production runs, cash flow changes have a greater impact on this sector. As cash flow performance analysis here will yield valuable perspectives into financial cum operations efficiency and sustainability.

The objective of this book chapter is comparative analysis of cash flow performance of selected mid-cap FMCG companies listed on stock exchanges in India. It aims to assess the cash generative ability and controlling aspect of the companies by investigating certain individual segment of cash flows as well as some pertinent ratios related to it. This not only helps to identify the difference between firms but also helps to understand better about financial management practices in the industry like FMCG.

LITERATURE REVIEW

Cash flow analysis has been gaining attention among financial researchers as an approach in evaluating a firm's ability to generate cash, fund operations, and best measure their overall performance. Many researchers have studied the significance of cash flow statements and ratios in making investment decisions and assessing performance. This work is based on an empirical essay by Arimany and Viladecans (2015), who investigated the usefulness of the cash flow statement in financial analysis. The research concludes that it is indispensable a variable not only to tell the short-term financial position, investment activity, financing decisions etc., but also to signal of positioning in cash or liquidity; therefore, traditional financial statements are insufficient for analysis on their own, but their integration with additional information provided by a cash flow statement (CFS) to get an overall picture.

In her doctoral thesis, Kiaupaite-Grusniene (2019) highlighted the theoretical and practical importance of cash flow statements in financial reporting. Since the underlying idea is (2)Ang BC large based formula on cash flows provides more useful information for decision making because they reflect realizable facts in terms of liquidity and solvency, and therefore a base that largely limits the relevance of measurements according to Niderauer (Dumont et al.). In addition, this study suggested that cash flow statements enhance cross-firm comparability by eliminating the effects of alternative accounting approaches on earnings figures.

Soboleva et al. (2018) explained that cash flow analysis plays a large role in monitoring business activities, particularly for small and medium-sized companies. Evidence we found that effective management of cash flow ultimately impacts performance and long-term sustainability; too much or too little cash adversely affects performance. The study also introduced several analytical models for cash flow assessment to facilitate optimal financial decision-making. Monika, Z & Riyanto (2020) examined the financial performance of PT MitrabaraAdiperdanaTbk using cash flow ratios. The results showed that they are useful indicators of financial performance because they provide information about a firm's ability to generate and invest cash. Although the company performed well overall, the study noted that ongoing improvements would still be required by monitoring cash flow ratios.

Rohmiatun (2020). It has been based on a case study to examine financial performance using cash flows and ratios. It was discovered that cash flow ratios would be sufficient to represent organisational performance and that any negative ratio signals an unhealthy company. The study further highlighted the need to compare that ratio year on year and to measure performance against an industry standard. Kamaluddin et al. Kumar et al. (2019) examined the relationship between the cash flow ratio and bankruptcy. By analysing the cash flow ratios, it was discovered that financial distress could be reliably predicted using cash flow ratios (e.g. solvency and profitability). The results showed that financially distressed firms are typically also those from companies with a weak cash-flow position.

An example in this category was written by Andreas (2017) relating to the effect of operating cash flow on real activities manipulation. Real activities realignment ONLY to impact reported income; while operating cash flow can help detect creative accounting, it is also useful for fraud detection, and it becomes crucial not only as a performance measure but also for performing financial quality checks. Joshi and Ramapati (2018) compared working capital management of cash flow practices among the FMCG companies sector and asserted that the huge turnover in economies, along with continuous operating cycles, makes it exceedingly necessary to analyse working capital via ratio analysis, as well; thus forms an appropriate barb for evaluating financial efficiency within their respective industrial domain.

Qomarullah et al built an information system in 2017 to analyse cash flow and assess the company's health. The research established that cash flow analysis reflects an extant organisation, at least in theory, because it relates to real cash inflows and outflows. One important indicator of a firm's financial health is positive operating cash flow.

Cash Flow Management and Its Relationship with Financial Performance in SMEs - Malm, 2020. The outcomes showed that cash flow management appears to significantly influence financial performance, while poor management can cause liquidity crisis and less profitability.

RESEARCH GAP

The reviewed literature indicates that substantial research on cash flow analysis, cash flow ratios, financial performance assessment, and financial distress prediction has already been conducted. Various other studies have examined single firms, SMEs, or a general framework of financial analysis. There was some academic work too, around cash flow management practices in certain sectors (notably only the FMCG sector, related mostly to working capital)

Nevertheless, there are no extensive comparative analyses of only mid-cap FMCG companies' cash flow performance in India. Compared to cash flow metrics over a well-defined time period, most studies rely on what they consider profitability, working capital, or power case analyses of one-off cases. Moreover, we find that very few studies have compared operating efficiency, liquidity and financial sustainability performance in a single framework.

So, this paper attempts to fill that void by empirically assessing the overall financial efficiency and cash management practices of select mid-cap FMCG companies in India.

OBJECTIVES OF THE STUDY

1. To analyse components of cash flows (operating, investing and financing activities) in selected companies.
2. To evaluate financial performance through select cash flow ratios of certain companies.
3. To compare the cash flow associated performance of the mentioned companies over this period of study.

RESEARCH METHODOLOGY

The methodology depicts the systematic approach adopted to fulfil the objectives articulated by this study. The research design, nature and sources of data, sample selection, study period and analytical tools for measuring performance based on cash flows from selected firms are all covered.

1. **Research Design:** This is descriptive and analytical with regard to comparative performance analysis through cash flows of selected mid-cap FMCG firms based in India. Desk study includes assessing claims regarding cash flows and utilizes as statistically and monetary tools in order to establish factual-literal differences between identified companies.
2. **Nature of Data:** The nature of the study is completely depends on secondary data, for this purpose, required data has been taken from published financial statements of selected companies.
3. **Data Sources:** The sources for collecting the data were as follows: Annual Reports of a few selected companies, Financial databases to refer to and verify. The main data is the cash flow statement and associated financial indicators
4. **Sample Selection:** The sample for this study is limited to three mid-cap FMCG companies in India with comparable scale, comprehensive financial reports, and readily available data. They were: Dabur India Ltd., Marico Ltd. and Godrej Consumer Products Ltd. They all belong to roughly similar categories

of the fast-moving consumer goods (FMCG) sector and have broadly similar business models, so they can be compared.

5. **Study Period:** This study spans five financial years (2016–2020).

6. **Tools and Techniques of Analysis**

(A) Analysis Of Cash Flow Components: This research analyses three major components of a cash flow statement: Cash Flow from Operating Activities (CFO), Cash Flow from Investing Activities (CFI), and Cash Flow from Financing Activities (CFF). Such an analysis would give insight into where each company gets its money and how it spends it.

(B) Ratios Related to Cash Flows Analysis: The financial performance of these selected firms has been determined using some vital cash-flow ratios: Operating Cash Flow Ratio, Cash Flow Margin Ratio, and Cash Return on Assets (Cash ROA). These ratios would reflect liquidity efficiency and overall financial solidity as well.

(C) Statistical Tools for Inter-Company Comparison: The inter-company comparison, in this studied, is done basis on standard tools of Mean, S.D. and C.V.

(D) Comparative Analysis: The inter-company benchmarking is done using mean values for the period under study, standard deviance and coefficient of variation to assess not only performance but also consistency by controlling short term fluctuations as a tool for holistic evaluation of cash flow performance.

7. **Limitations of the Study:** This study uses only secondary data, which relies upon the correctness and veracity of published earnings reports. All three companies do not give a full representation of an industry based on FMCG Company analysis over a specific time horizon (2016–2020) this is not covered by a new development is wholly quantitative in nature, Qualitative parameters attributed to performance are ignored.

DATA ANALYSIS AND INTERPRETATION

Objective-1 To analyse components of cash flows (operating, investing and financing activities) in selected companies.

Table-1 Cash Flow Components–Dabur India Ltd (in Rs. Crores)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
CFO	960.29	926.94	813.67	1,123.57	1,154.77	995.85
CFI	-497.64	-682.12	-262.38	416.71	-331.54	-271.39
CFF	-451.47	-273.66	-493.44	-1,619.39	-826	-732.79

Analysis: Dabur India Limited has always had a healthy operating cash flow, which indicates business efficiency at its best. Most investing cash flows are negative (-) on account of significant investment in fixed assets and expansion. Financing cash flows are also predominantly negative due to repayments of borrowings and dividend payments. Overall, Dabur manages its carp ideally, keeping the growth angle as its primary agenda

Table-2 Cash Flow Components – Marico Ltd. (Rs. in Crores)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
CFO	656.73	711.26	659.28	785	969	756.25
CFI	-130.16	87.48	177.38	-79	128	36.74
CFF	-532.32	-560.01	-602.28	-704	-1,080.00	-695.72

The review period indicates stable, positive operating cash flows for Marico Ltd, reflecting consistent business performance. Investing cash flows are above or below the previous year, indicating investment or disinvestment, with consistent long-term growth potential. Financing cash flows are negative, indicating that

the company is repaying its obligations while also paying dividends. It reflects financial stability, maintaining efficient use of cash.

Table-3 Cash Flow Components – Godrej Consumer Products Ltd. (Rs. in Crores)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Mean
CFO	511.2	1,177.18	1,235.44	1,082.16	919.98	985.19
CFI	1.31	-1,008.43	-302.42	459.99	-191.36	-208.18
CFF	-541.51	-121.18	-934.91	-1,548.50	-744.55	-778.13

Interpretation: Godrej Consumer Products Ltd: positive operating cash flows but much more volatile than Dabur and Marico; high variability in investing cash flows indicates irregular investment; negative, highly variable financing cash flows also hint at an erratic financing strategy. Therefore, we can say that the company exhibits mostly more volatile patterns of Cash Flow Movements

Objective 2 : To evaluate financial performance through select cash flow ratios of certain companies.

Table 4: Operating Cash Flow Ratio

Company	Mean	SD	CV (%)
Dabur	0.72	0.06	8.16%
Marico	0.77	0.08	10.23%
Godrej	0.63	0.13	21.02%

Interpretation: Marico has the highest mean ratio of operating cash flow which reflects good liquidity or the capacity to meet short term obligations Dabur has slightly lower but with minimum variability hence more consistency in performance Godrej has the worst mean as well as maximum variability indicating poor and stable liquidity outperformance

Table 5: Cash Flow Margin Ratio

Company	Mean (%)	SD (%)	CV (%)
Dabur	16.89%	1.34%	7.95%
Marico	14.06%	1.40%	9.96%
Godrej	18.54%	4.64%	25.02%

Interpretation: Goods sales at the margin of its cash flow that has high variability mean all companies reporting revenues, so their new business operations will differ from this. Dabur, on the other hand, enjoys strong steady state margins (lowest CV) with effective and stable operations and Marico lies somewhere between the two extremes.

Table 6: Cash Return on Assets (Cash ROA)

Company	Mean (%)	SD (%)	CV (%)
Dabur	18.48%	2.57%	13.91%
Marico	18.19%	1.52%	8.36%
Godrej	15.48%	3.37%	21.79%

Interpretation: Dabur topped the chart with highest cash return on assets (a measure of asset efficiency), followed by Marico, which had relatively lower returns but lesser regularity compared to its above and definitely Godrej, which is exhibiting low returns at a high level of volatility.

Objective 3: To compare the cash flow associated performance of the mentioned companies over this period of study.

Table 7: Overall Comparative Summary

Company	Liquidity (OCF)	Efficiency (CF Margin)	Asset Utilization (Cash ROA)	Stability
Dabur	Strong	Strong	Strong	Highest
Marico	Strongest	Moderate	Strong	High

Godrej	Moderate	Highest but volatile	Weak	Low
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- Marico Ltd. is backed by strong liquidity and continues to deliver steady performance which can be seen in its asset efficiency.
- Godrej Consumer Products Ltd., though strong in terms of cash generated from sales, is highly erratic showing inconsistency.
- Dabur is declared as the most dependable performer as it performs consistently across all ratios, Marico comes a close second with a solid and stable financial performance, while Godrej shows high variability making its performance less predictable.

CONCLUSION

The study has analysed and compared the cash flow performance of selected mid-cap FMCG firms in India, namely Dabur India Ltd., Marico Ltd. and Godrej Consumer Products Ltd. during the study period. The analysis was based on the elements of cash flow and cash flow ratios, supported by statistical measures such as mean, standard deviation, and coefficient of variation.

The results demonstrate that all the three organisations have positive operating cash flows which suggest good operational efficiency and capacity to generate cash from their core business operations. There are substantial differences with respect to the efficiency, consistency and stability of cash flow management.

Dabur India Ltd. has a healthy and stable cash flow generation, supported by consistent operating cash flows, judicious investment activities, and effective utilisation of assets. Decreased variability of key measures is a reflection of sound financial discipline and effective cash management practices.

Marico Ltd. has good liquidity and consistent performance especially in terms of its operating cash flow ratio and asset efficiency. The company, although marginally lower in performance than Dabur in some areas, shows a good level of consistency and is a reliable performer among the selected companies.

The cash flow margins of Godrej Consumer Products Ltd. are higher, but the cash flow components and ratio analysis vary significantly. Higher variability means inconsistent performance, so strong cash generation in some periods doesn't translate across the board.

The research comprehensively indicates that the consistency and stability of cash flow performance are as important as the amount of cash produced. Lower variation in cash flow ratios are generally indicative of more stable financial performance and better operational management in organisations.

In this regard, it is recommended that enterprises aim for stable and predictable operating cash flows, pursue a balanced investment strategy, and stimulate efficiency in the use of assets in order to improve long-term financial sustainability. A greater focus on cash flow-based performance evaluation, coupled with traditional profitability metrics, can lead to better financial decision making.

Finally, it is found that Dabur India Ltd. is the most stable and consistent performer followed by Marico Ltd. On the other hand, it is found that Godrej Consumer Products Ltd. is performing erratically. The study highlights the importance of cash flow analysis as a key tool for evaluating financial performance and sustainability in the FMCG industry.

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