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

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Abstract:-

Every organisation whether public or private, profit oriented or not, regardless of size or nature of business, requires a sufficient amount of working capital. Working capital management is one of the most important functions of corporate management.it is the most the most important factor in ensuring the survival, liquidity, solvency, and profitability of any business organisation. A company requires sufficient finance to purchase raw materials and pay day to day operational expenses and the funds used to meet these expenses are referred to collectively as working capital. Considering the importance of working capital management as an indistinctive area of corporate finance function in mind an attempt has been made to examine the working capital tends and practise specificity in the FMCG sectors in India by selection five top listed FMCG companies from Indian Stock exchange. This industry is primarily concerned with the manufacture, distribution, and marketing of consumer packaged goods, or products that are consumed on a regular basis. The study is based on secondary data, specifically the Annual Reports of the chosen companies. The study period is five years, and the traditional method of data analysis and ratio analysis as tools of financial statement analysis have been used to examine the degree of efficiency of working capital management and trend analysis.

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

Introduction

Working capital management is regarded as critical to a company's financial performance because it represents the link between liquidity and profitability. As a result, firms must constantly monitor the relationships between assets and short-term liabilities in order to favour the company's survival and development while reducing the risk of financial distress. Working capital management is especially important in developing and emerging economies, where the volatile financial markets and the uncertainties associated with the economic situation cause severe turbulence and general price instability. Considering Indian economic context, SMEs face significant challenges in accessing the credit market, where firms have a greater need for capital. The literature in emerging economies has highlighted the importance of companies managing their working capital efficiently in order to favour profitability and productivity while also favouring employment and economic stability. Many previous studies in developed economies have extensively investigated the relationship between working capital and profitability. Working capital is required for regular business operations such as the purchase of raw materials, payment of direct and indirect expenses incurred during production, investment in stock and store, credit granted to customers while maintaining a balance, and so on. Working capital and short-term financing decisions are referred to as WCM. It is best described as the management of all current assets and current liabilities. WCM's goals are to ensure that the company can continue to operate and that it has enough cash flow to cover both maturing short-term debt and upcoming operational expenses. Working capital management is now regarded as one of the most important issues in businesses, with financial managers attempting to identify the fundamental drivers and level of working capital management. The study's objectives are to investigate the sample firm’s working capital management. Working capital investments are frequently large in proportion to total assets employed, so it is critical that these funds are used efficiently and effectively. There is evidence, however, that small businesses are poor at managing their working capital.

Current study is an attempt to analyse liquidity and working capital management of five selected listed FMCG companies from Indian stock market. Companies are Hindustan Unilever Limited, ITC limited, Britannia, Marico and Dabur India. Working capital management is concerned with the company's current assets and obligations, which serve as the link between liquidity and profitability. Working capital management that is effective and efficient promotes the continuation of company operations by enhancing the organization's capacity to pay short-term commitments. However, the ideal size of working capital is determined by the company's operating features as well as the reference economic backdrop. As a result, determining the appropriate size is challenging, especially in situations with significant environmental fluctuation, and requires continual monitoring to make the necessary modifications.

Review Literature

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

Bhunia and Khan (2011) used statistical approaches to analyse the liquidity management performance of selected Indian steel businesses based on secondary data from 230 companies during a 9-year period between 2002 and 2010. They showed a negative link between liquidity measures and profitability. This is the daily investment needed to keep the business running. Arshad and Gondal (2013) investigated the relationship between working capital management and profitability of 21 listed Pakistan cement companies between 2004 and 2010. They proved that there was a significant negative relationship between working capital management and profitability. Rahman (2011) investigated the impact of working capital management on the profitability of Bangladesh textile business. The textiles industry’s profitability and working capital management situation were found to be unsatisfactory. The study also revealed that there is a link between working capital management and profitability and working capital management has a favourable impact on profitability. Falope and Ajilore (2009) discovered a negative association between profitability and average collection duration, inventory turnover, cash conversion cycle, and average payment period in Nigeria. Prempeh and Peprah Amankona (2018) conducted an analysis of manufacturing businesses registered on the Ghana Stock Exchange, revealing a favourable association between working capital management and profitability.

Objectives

The main aim of this study to analysing the working capital management and its trend of listed FMCG companies. The main objectives are.

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

Methodology

The current study attempted to analyse, assess, and evaluate working capital management through ratio analysis, Working Capital trends, and liquidity position of some selected FMCG companies in India over a five-year period. Hindustan Unilever Limited, ITC Ltd, Dabur India, Britannia Industries and Marico India are companies. The study makes use of secondary data extracted from the annual reports of the selected FMCG companies. The methodology used in this study includes financial analysis techniques such as ratio analysis, which deals with all aspects of working capital, computation of ratios, and comparison with fixed standards. It has been displayed as a company-specific working capital analysis. More than half of a typical firm's total investment is in current assets, which can solve a large portion of the firm's total assets. The major components of working capital in any industrial enterprise are inventories, various debtors, cash and bank balances, and loan and advances. Because the level of Working capital determines a firm's liquidity position, the Working Capital trend and liquidity analysis of the units under study are discussed below.

Hindustan Unilever Limited

Hindustan Unilever Limited is India's largest FMCG Company and an effective stock for investors. This company is having 75 year history in the country. According to credit rating agencies market research shows more than 80 percent of population use HUL products. Previously It is owned by the British-Dutch conglomerate Unilever,which owns a 52 percent stake in HUL.Top offering of companies are Packed Food items, Beverages, cleaning agents and personal care product. Lever Brothers India Limited founded in 1933 and in 1956 renamed Hindustan Lever Limited followed a merger with Hindustan Vanaspati MFG.Co.Ltd. And United Traders Ltd.

Hindustan Unilever Limited is a component of the Fast-Moving Consumer Goods (FMCG) industry, which continues to be one of our country's most significant long-term sustainable economic potential. Despite being one of the fastest growing FMCG markets in the world, India's per capita FMCG consumption remains among the lowest in the world, providing the sector with a significant runway for expansion. 2020 was an extremely unpredictable and difficult year. Covid-19 altered practically every element of human life in ways that could not have been predicted. The pandemic's economic toll was unparalleled. Due to limited mobility and compromised supply routes, operational issues grew. The economy suffered a dramatic fall as the number of Covid-19 cases increased rapidly. As the country weathered the crisis, the government and the Reserve Bank of India implemented efficient policies to enable a robust economic recovery. The Union Budget 2021 aimed to re-establish the economy's development momentum through a variety of measures, including maintaining stable tax rates and increasing infrastructure spending.

	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Inventories	3,579.00	2,767.00	2,574.00	2,513.00	2,541.00
Sundry Debtors	1,758.00	1,149.00	1,816.00	1,310.00	1,085.00
Cash and Bank balance	1,702.00	2,039.00	1,049.00	1,477.00	930
Loan and Advances	251	238	215	184	168
Total Current asset	14,217.00	12,321.00	11,914.00	11,660.00	10,172.00
Total current liabilities	11,103.00	9,317.00	8,667.00	8,887.00	7,714.00
Net Current assets	3,114.00	3,004.00	3,247.00	2,773.00	2,458.00

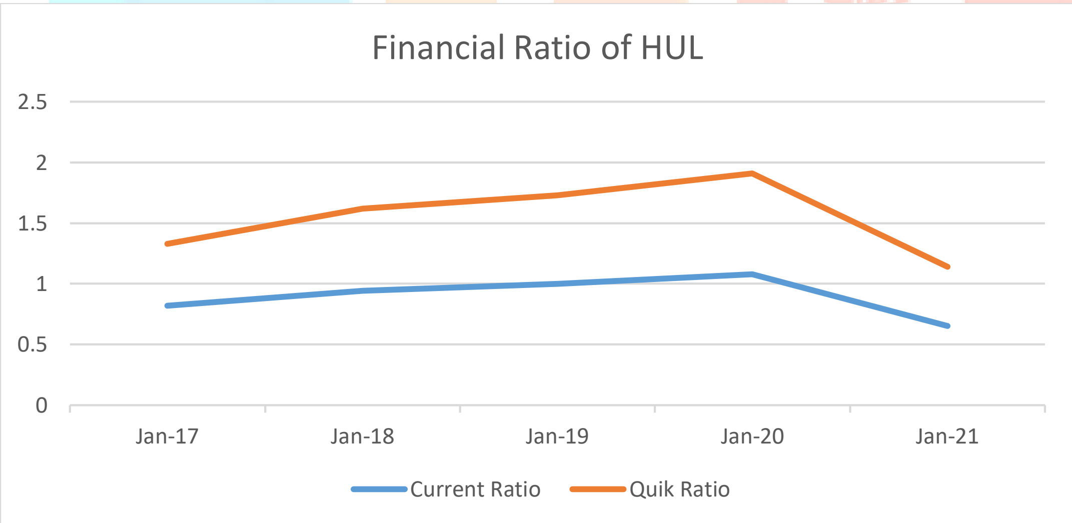
Source: Data accumulate from Annual Reports of HUL

Table: 1(a) Represents HUL working capital trend and liquidity analysis from Decmber-17 to March-21

	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Current Ratio	0.65	1.08	1	0.94	0.82
Quick Ratio	0.49	0.83	0.73	0.68	0.51
Inventory Turnover Ratio	13.6	14.71	15.78	14.93	14.6
Debtors Turnover Ratio	34.15	28.53	27.11	33.28	32.02
Investment Turnover Ratio	0.97	4.83	4.99	14.93	14.6
Avg.Finished Goods held	---	---	---	---	---
No. of days in working Capital	-38.25	-22.74	-19.35	-29.49	-33.73

Table: 1(b) Key Financial Ratios of HUL

Data from table 1(a) shows that Inventories in current assets has the largest share and it represent largest share in net working capital during analysis period. Most universally used ratios are Working capital ratio or Current ratio. This compare the ability of firm to pay off its short term maturity obligations. This represents that how quickly can company repay its short term obligations in minimum time period. Table 1(b) represent key financial ratio of Hindustan Unilever Limited. The current ratio of HUL varies from 1.08 and .64 during five year. Company manages to pay .330 rupees of current assets to meet current liabilities. Quick ratio ranges between .83 and .49.This ratio more emphasis on liquidity of company. Inventory turnover ratio is highest during Mar-19 (15.78) and lowest in Mar-21 (13.6).Whereas Debtor turnover ratio is highest in Mar-21 (34.15) and lowest in Mar-19 (27.11).Debtor management appears quite satisfactory during study period and shows better liquidity position of company. Number of days in working capital describe how many days a company will take to convert its working capital into revenue fewer the number of days better the conversion of revenue. Here in HUL negative number of days in working capital shows company in less time covert capital in revenue. Short working capital cycle means good cash flow in business.



Graph represents Ratio Analysis of Hindustan Unilever.

Dabur

Dabur India is leading FMCG company with quality and 137 year experience.Dabur is most trusted and leading brand of Ayurveda and natural health care brand of India.Dabur India portfolio include Dabur Chyawanprash, Honey, Honitus, Pudin hara and dabur lal tail in the health care space. Personal care products are Dabur red paste, dabur Vatika hair oil. And Real Juices in the foods company. Dabur has been putting in disproportionate investments behind these brands to not just improve ability to pay higher dividend to shareholders. The company shows high degree of flexibility and engagement of quickly adopting to changing environment and business operating condition. Dabur India focus on its power brand and ayurvedic health care portfolio. Company is planning to move to market strategies to drive profitable growth.to enhance the visibility of products company pushes digital media and invest in marketing for brands. Distribution channels are also expanded especially village area company's distribution partners reached 59217 village by the end of March 2021.Plannig to expand it till 80k village in coming years. Despite the challenges bought by COVID-19 pandemic. Company implement measures for green and sustainable development of communities. Companies plastic waste management process recycle over 11413 MT of plastic waste during last year.33% reduction in Hazardous waste generation from 2017-18 base year.

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

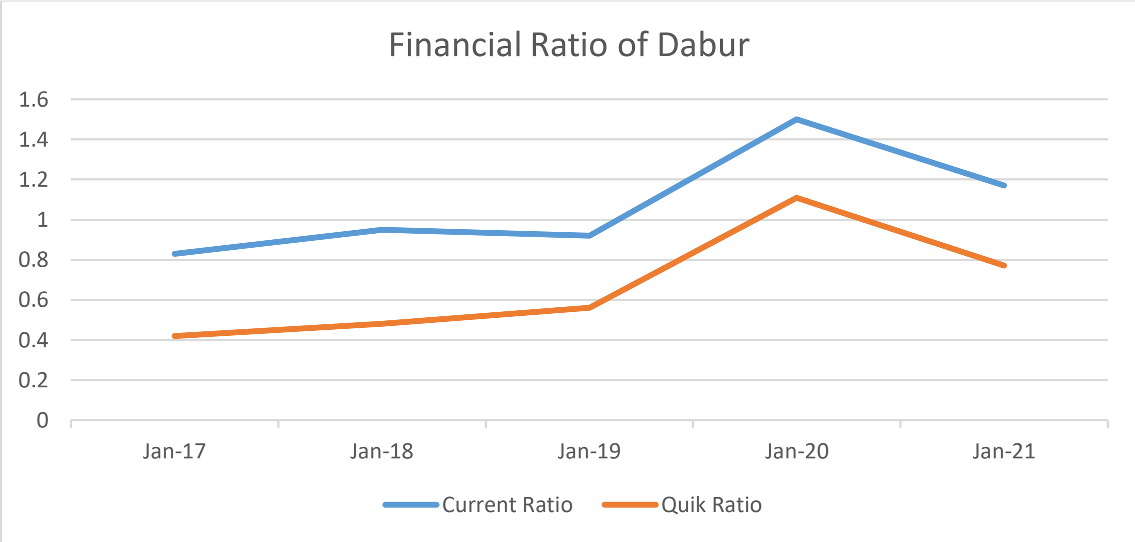
	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Inventories	1,734.28	1,379.57	1,300.53	1,256.18	1,106.71
Sundry Debtors	390.58	471.33	387.53	423.16	307.98
Cash and Bank balance	1,329.03	811.37	328.16	306.06	304.81
Loan and Advances	14.46	13.07	11.04	34.88	3.8
Total Current asset	4,775.94	4,880.26	3,586.23	3,439.75	3,114.47
Total current liabilities	2,934.19	2,463.88	2,660.31	2,434.44	2,224.54
Net Current assets	1,841.75	2,416.38	925.92	1,005.31	889.93

Table 2 (a) Represents Dabur India working capital trend and liquidity analysis from Decmber-17 to March-21

	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Current Ratio	1.17	1.5	0.92	0.95	0.83
Quick Ratio	0.77	1.11	0.56	0.48	0.42
Inventory Turnover Ratio	6.45	7.8	8.56	7.96	8.96
Debtors Turnover Ratio	21.74	15.56	16.67	17.09	14.03
Investment Turnover Ratio	1.29	1.35	1.53	7.96	8.96
Avg.Finished Goods held	----	----	----	----	----
No. of days in working Capital	15.59	18.51	-9.31	-5.15	-14.2

Table: 2(b) Key Financial Ratios of Dabur

It can be observed from Table 2(a) that company is proceeding with positive working capital during analysis period from Mar-17 to Mar-21. Current liabilities and current assets remained almost constant. Among total current asset inventory has the largest share in gross working capital. As far as number of days in working capital is concerned it has shown a declining trend and even turned into negative during Mar-19-17.it indicates that company has good cash flow and working capital reflects that the company operates short term liabilities in that year only. This is the sign of a company's financial strength.



Graph represents Ratio Analysis of Dabur India.

ITC Limited

ITC is the country's top FMCG marketer, the undisputed market leader in the Indian Paperboard and Packaging business, a worldwide recognised pioneer in farmer empowerment through its extensive Agri Business, and India's pre-eminent hotel network that is a pioneer in Responsible Luxury. ITC InfoTech, a fully owned subsidiary of ITC, is a specialist provider of worldwide digital solutions. The origins of the Company were modest. The Company's headquarters were at a rented office on Radha Bazar Lane in Kolkata. On August 24, 1926, the Company celebrated its 16th birthday by acquiring a block of property at 37 Chowringhee in Kolkata for Rs 310,000. In more ways than one, the Company's action was momentous. It would be the start of a long and dramatic trip towards India's future. The Company's headquarters, 'Virginia House,' which was built on that parcel of land two years later, would become one of Kolkata's most recognisable monuments.

ITC's new Consumer Goods Businesses have created a thriving portfolio of 25 world-class Indian brands that create and maintain value in India during the previous decade. ITC's world-class FMCG brands, such as Aashirvaad, Sun feast, Yippee, Bingo, B Natural, ITC Master Chef, Fabelle, Sunbean, Fiama, Engage, Vivel, Savlon, Classmate, Paper Kraft, Mangaldeep. While many of these businesses are market leaders in their respective categories, others are making significant development.

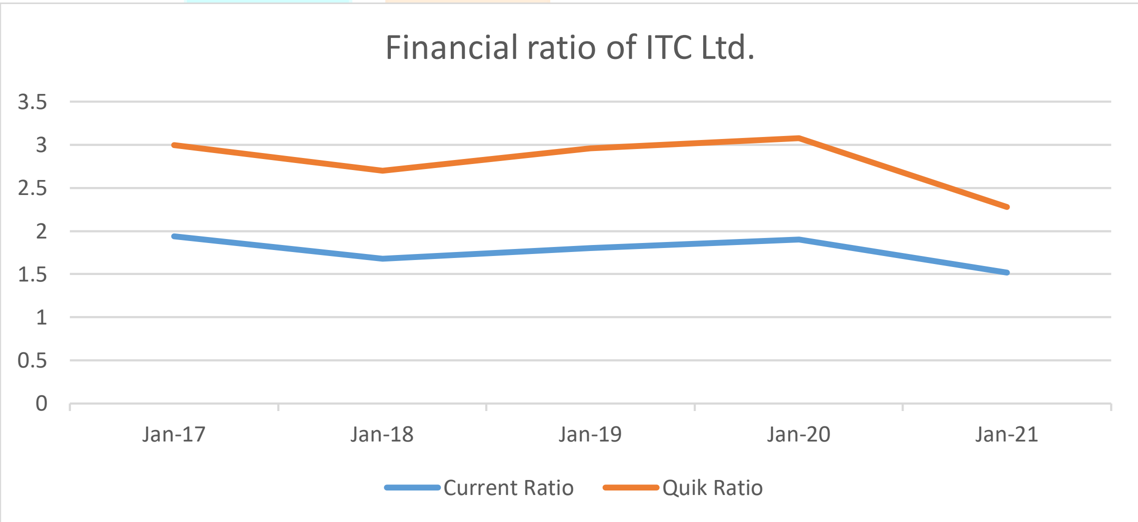
	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Inventories	10,507.22	8,965.53	7,943.97	7,584.53	8,186.15
Sundry Debtors	2,474.25	2,745.34	2,261.74	2,652.29	1,747.09
Cash and Bank balance	4,659.02	7,277.34	4,152.03	2,899.60	2,967.40
Loan and Advances	3.47	6.33	6.75	5.84	6.78
Total Current asset	34,991.99	39,505.35	31,747.27	26,393.62	26,269.10
Total current liabilities	10,689.68	9,559.77	10,011.99	9,250.14	7,121.01
Net Current assets	24,302.31	29,945.58	21,735.28	17,143.48	19,148.09

Table 3 (a) Represents ITC India working capital trend and liquidity analysis from Decmber-17 to March-21

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

Table: 3(b) Key Financial Ratios of ITC

It can be observed from Table 3(a) that company is proceeding with positive working capital during analysis period from Mar-17 to Mar-21.This shows strength financial condition of company and it easily manage its short term liabilities. Current liabilities and current assets remained almost constant. Among total current asset inventory has the largest share in gross working capital. Table 3(b) shows key financial ratio of ITC ltd. Current ratio of the company ranges between 1.94 and 1.52.it implies that average per one rupee of current liabilities. Quick ratio varies between1.18 and 0.76 during study period. Inventory turnover ratio shows 1% decrease in financial year 19-20 and 20-21 implies covid-19 impact. Debtor turnover ratio increase from Mar18- Mar21 and it represent effective debtor management. Number of days in working capital is concerned it shows variation around 25%.lesser the number of days better the position of company cash flow.



Graph represents Ratio Analysis of ITC Ltd.

Britannia Industries

A biscuit company was founded in 1892 in a nondescript house in Kolkata with an initial investment of Rs. 295. The firm we currently known as Britannia. The beginnings may have been modest, but the dreams were anything but. Britannia industrialised its operations by 1910, with the arrival of electricity, and in 1921, it became the first firm east of the Suez Canal to employ imported gas ovens. Britannia's company was doing well. More significantly, Britannia was establishing a reputation for quality and value. As a result, during the disastrous World War II, the British government put its confidence in Britannia by as time passed, the biscuit market expanded and Britannia expanded alongside it. The Britannia Biscuit Company took over the distribution of biscuits from Parry's, who had previously supplied Britannia biscuits in India, in 1975. In the ensuing public offering of 1978, Indian ownership surpassed 60 percent, effectively establishing the Indianans of the enterprise. Britannia Biscuit Company was renamed Britannia Industries Limited the next year. It surpassed the Rs. 100 crore revenue threshold four years later, in 1983.Company to deliver enormous amounts of "service biscuits" to the armed forces. The corporation was making similarly rapid leaps in terms of operations. It achieved its Platinum Jubilee in 1992. In 1997, the firm introduced its new corporate brand, "Eat Healthy, Think Better," and entered the dairy products industry for the first time. The "Britannia Khao, World Cup Jao" advertising in 1999 strengthened customer’s loyalty for "Brand Britannia." Britannia entered the twenty-first century as one of India's most recognisable trademarks and the country's leading food brand. It was also acknowledged for its unique approach to products and marketing: the Lagaan Match was named India's most successful promotional activity in 2001, and the delectable Britannia 50-50 Maska-Chaska was named India's most successful product launch. Britannia's New Business Division launched a joint venture with Fonterra, the world's second biggest dairy company, in 2002, resulting in the formation of Britannia New Zealand Foods Pvt. Ltd. In acknowledgment of its vision and rapid growth, Forbes Global named Britannia "One of the Top 200 Small Companies in the World," and The Economic Times named Britannia "India's Second Most Trusted Brand."

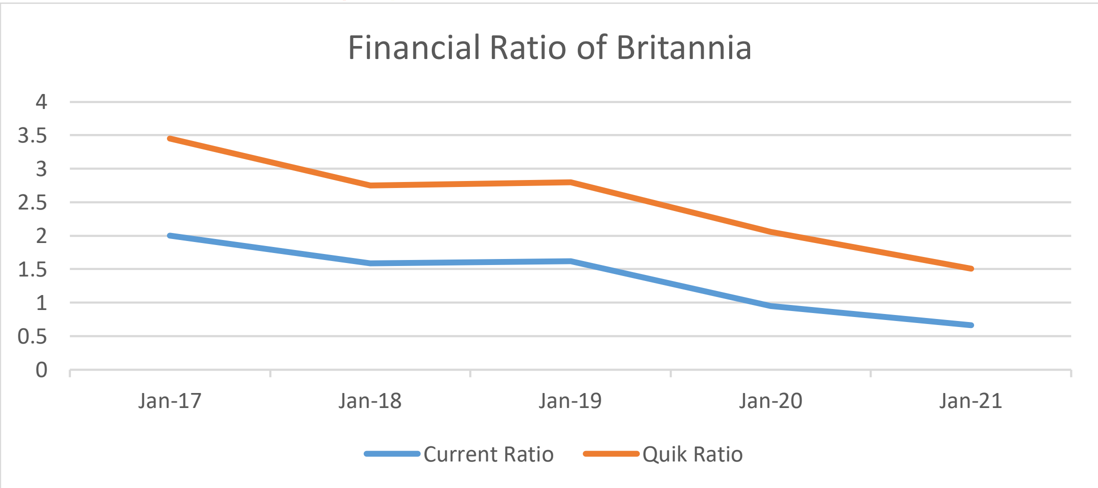
	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Inventories	1,091.49	740.96	781.38	652.79	661.45
Sundry Debtors	519.77	371.92	287.1	306.33	373.92
Cash and Bank balance	211.34	122.85	109.82	186.42	120.76
Loan and Advances	946.56	1,110.11	1,203.92	844.34	829.1
Total Current asset	4,419.68	3,674.97	3,526.34	3,151.28	2,339.24
Total current liabilities	3,614.27	2,578.46	1,851.41	1,647.97	1,345.40
Net Current assets	805.41	1,096.51	1,674.93	1,503.31	993.84

Table 4 (a) Represents Dabur India working capital trend and liquidity analysis from Decmber-17 to March-21

	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Current Ratio	0.66	0.95	1.62	1.59	2
Quick Ratio	0.85	1.11	1.18	1.16	1.45
Inventory Turnover Ratio	12.49	17.34	14.58	15.78	14.41
Debtors Turnover Ratio	56.19	37.04	36.07	52.16	72.19
Investment Turnover Ratio	2.43	2.02	2.59	15.78	14.41
Avg.Finished Goods held	--	--	--	--	--
No. of days in working Capital	0.73	13.83	22.19	17.48	25.04

Table: 4(b) Key Financial Ratios of Dabur

Data from table 4(a) represents financial condition of Britannia Industries from Mar-21 to Mar-19.The Company was dealing with positive working capital and current liabilities increased drastically by almost 40 percent as compared to current assets which has rose by only 21 percent. Moreover in gross working capital loan and advances has largest share whereas current ratio varies from 2 to 0.66 during study period and variation can be seen in last two year Covid-19 in one of the reason as distribution channels are affected.as we look in number of days in working capital concerned it shows decline trend during FY20-21. Company has good cash flow and liquidity of companies are expecting the meet.



Graph represents Ratio Analysis of Britannia.

Marico

Marico Limited is a significant consumer products firm in India, focusing in food, cosmetics, and health. Marico has a presence in over 25 countries spanning Asia and Africa, with its headquarters in Mumbai. It cultivates premier brands in hair care, skin care, edible oils, nutritious meals, cleanliness, male grooming, and fabric care, among other categories. Marico's products are a part of the daily lives of millions of people all over the world.

On April 2nd, 1990, Marico was founded. In the same year, Marico also produced Hair & Care, a non-sticky hair oil. Sunflower oil from Sweekar has also become well-known. Marico moved their headquarters from Masjid Bunda Bazar to the affluent Bandra neighbourhood of Mumbai in 1992. When it built its first overseas office in Dubai in 1992, the company changed from being an exporter to a worldwide marketer.

Famous Indian home brands include Parachute, Parachute Advance Livon, Set Wet, Mediker, Saffola, Nihar Naturals, and Revive. Among the foreign brands that have been localised to fulfil the fashion demands of Indian clients are Parachute, X-Men, Isoplus, Code 10, Hercules, and Black Chic. Despite increased raw material prices, Marico Ltd reported a 13 percent rise in earnings. Because of excellent growth throughout the majority of its portfolio, the company's earnings exceeded analysts' forecasts. The maker of Parachute coconut oil and Saffola edible oil reported a net profit of INR 307 crore for FY-21, up from INR 272 crore the previous year. During this year, the business adopted selected price increases in its primary Parachute brand in response to rising pricing. Marico reported excellent demand across 95 percent of its portfolio in India, indicating that consumer mood is rising.

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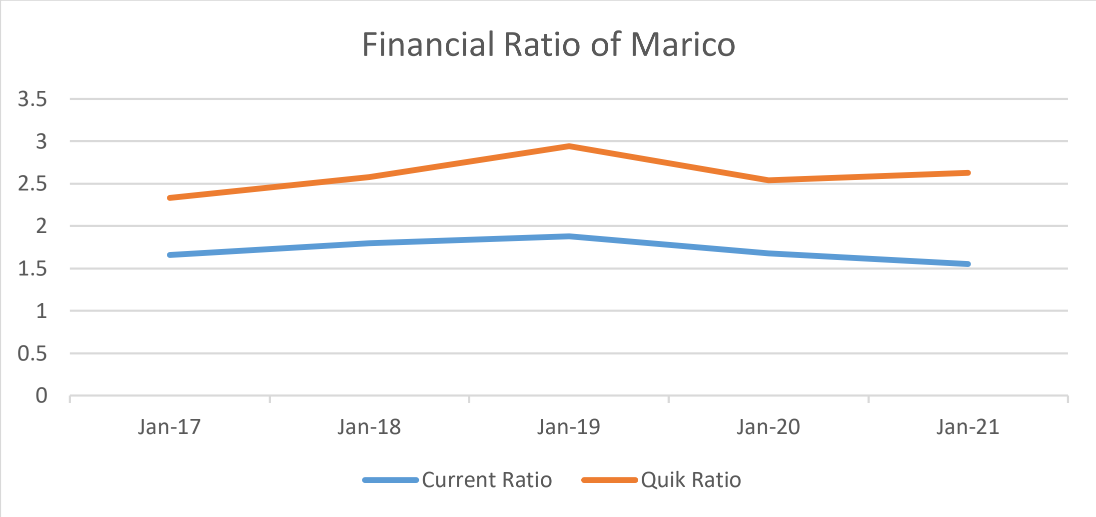
	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Inventories	1,126.00	1,380.00	1,411.00	1,510.88	1,253.44
Sundry Debtors	244	318	324	251.74	113.5
Cash and Bank balance	944	279	552	200.12	235.96
Loan and Advances	18	20	18	4.13	3.73
Total Current asset	3,336.00	3,149.00	3,200.00	2,793.43	2,389.51
Total current liabilities	2,013.00	1,753.00	1,724.00	1,457.68	1,249.20
Net Current assets	1,323.00	1,396.00	1,476.00	1,335.75	1,140.31

Table 5 (a) Represents Marico India working capital trend and liquidity analysis from Decmber-17 to March-21

	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17
Current Ratio	1.55	1.68	1.88	1.8	1.66
Quick Ratio	1.08	0.86	1.06	0.78	0.67
Inventory Turnover Ratio	7.26	5.02	4.84	3.95	4.5
Debtors Turnover Ratio	16.35	13.08	16.63	20.05	23.11
Investment Turnover Ratio	2.01	1.97	1.65	3.95	4.5
Avg.Finished Goods held	0	0	0	0	0
No. of days in working Capital	38.4	36.83	53.95	58.58	50.77

Table: 5(b) Key Financial Ratios of Marico

In the above mentioned table 5(a) and 5(b) data represents financial data of Marico. Working capital trend and liquidity analysis is done through data from annual report of company apart from that key financial ratios are taken in consideration for analysis from Mar-21 to Mar-17.Company has positive working capital throughout study period. It is observed that Inventories are has largest share in current assest.The volume of net working capital has also increased over the study period. Cash and bank balance has increased during the study period show company with higher liquidity ratio considered healthier and poses less of a risk. This reflects low interest rate and higher profitability. The current ratio ranges between 1.88 and 1.55 which reflects that investment in current assets. Inventory turnover ratio disclosing an average value of 6.08 times which means efficient management of inventory and more frequently the stock sold. Debtor turnover ratio ranges between 13.08 times and 20.05 times.



Graph represents Ratio Analysis of Marico.

Conclusion

The majority of Indian businesses have significant amounts of money invested in working capital. As a result, the manner in which these companies manage their working capital is expected to have a significant impact on their profitability. Working capital management is an important component of financial management choices in every firm. The capacity of the organisation to run for extended periods of time is dependent on the right balance of managing short-term and long-term financial investments. Companies can achieve optimal working capital management by balancing profitability and working capital as well as liquidity. More businesses fail due to cash flow problems than to declining profitability. As a result, traditional prudence always suggests that a company should have enough cash to cover its immediate liabilities. However, there is a growing number of FMCG companies that assert the opposite. Unlike most other industries, an FMCG company's turnover is determined by its ability to sell rather than its ability to produce. They are able to generate cash so quickly that they have a negative working capital. This occurs because customers pay in advance and so quickly that the company has no trouble raising funds (like amazom.com, McDonald). Products are delivered and sold to customers in these businesses before the company even pays for them. . As a result, they focus their resources on marketing and either outsource their manufacturing or make a small investment in plant and machinery. As a result, there is only a limited amount of money that can be raised by mortgaging the plant and machinery. Because of advancements in SCM, ERP, and JIT implementation, firms have become leaner, and it is no longer possible to raise significant funds through inventories. Typically, a company will pledge its plant, machinery, or inventory in order to obtain the bank loan/overdraft needed to fund its operations. Recognizing these constraints, many companies (particularly Dell and Dabur) began to use their negotiating power over their customers and suppliers to fund their operational expansion. In a business with good inventory and accounts receivables, a positive working capital is a sign of managerial efficiency and strengthen financial condition of company. In other cases, it is a sign that a company is about to go bankrupt or is in serious financial trouble.

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