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Critical Analysis of Working Capital Management Practices in FMCG Industry

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ABSTRACT: Working capital management is a crucial aspect of financial management, particularly in the Fast-Moving Consumer Goods (FMCG) industry, where high inventory turnover, short operating cycles, and intense competition significantly influence liquidity and profitability. This paper critically examines the working capital management practices adopted by FMCG companies, focusing on key components such as inventory management, receivables, payables, and the cash conversion cycle.

Using a combination of theoretical frameworks and empirical analysis, the study explores how efficient working capital management impacts the operational performance and financial stability of firms across the FMCG sector. Furthermore, it analyses the strategies employed by companies to balance liquidity and profitability while managing short-term financial obligations.

The findings suggest that effective working capital management leads to improved cash flow efficiency, enhanced profitability, and reduced financial risk. However, variations exist among firms due to differences in scale, supply chain structures, and credit policies. The study highlights the importance of optimizing working capital components to sustain competitive advantage in a dynamic market environment.

This paper contributes to the existing literature by providing insights into the working capital dynamics of the FMCG industry, thereby offering practical implications for financial managers, policymakers, and researchers aiming to improve financial efficiency and decision-making. The study uses financial ratio analysis of selected FMCG companies to evaluate working capital efficiency.

KEYWORDS: Working Capital Management, FMCG Industry, Cash Conversion Cycle, Liquidity, Profitability, Inventory Management

I. INTRODUCTION

Working capital management plays a vital role in determining the financial health and operational efficiency of firms, especially in the Fast-Moving Consumer Goods (FMCG) industry. Due to the nature of this sector—characterized by high sales volume, low profit margins, and rapid inventory turnover—efficient management of short-term assets and liabilities becomes essential for sustaining profitability and liquidity.

In India, the FMCG industry has witnessed significant growth driven by rising consumer demand, urbanization, and expanding distribution networks. This growth has increased the complexity of managing working capital components such as inventory, receivables, and payables. Companies must ensure optimal levels of working capital to avoid issues like stockouts, excess inventory, or liquidity shortages, which can directly impact their operational performance.

Traditionally, firms focused primarily on profitability; however, in the current competitive environment, effective working capital management has become equally important. FMCG companies need to strike a balance between maintaining sufficient liquidity and maximizing returns. Efficient inventory management ensures uninterrupted supply, while proper receivables and payables management helps in maintaining a smooth cash flow cycle.



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Furthermore, advancements in supply chain management, digital payments, and credit policies have transformed the way FMCG companies manage their working capital. Companies that adopt efficient working capital practices can reduce their cash conversion cycle, improve operational efficiency, and gain a competitive advantage in the market. The management of working capital also has broader implications for economic growth, as it affects the financial stability of firms and their ability to expand operations. Efficient utilization of short-term resources leads to better capital allocation and supports business sustainability.

This study focuses on analyzing working capital practices of selected Indian FMCG companies using key ratios such as Inventory Days, Receivable Days, Payable Days, and Cash Conversion Cycle.

$CCC = \text{Inventory Days} + \text{Receivable Days} - \text{Payable Days}$

II. LITERATURE REVIEW

Marc Deloof (2003) Examined the relationship between working capital management and firm profitability and found that efficient management of receivables, inventory, and payables significantly improves profitability. The study highlighted that a shorter cash conversion cycle enhances firm performance, which directly supports the importance of CCC analysis in FMCG companies such as Hindustan Unilever Limited.

Hyun-Han Shin and Luc Soenen (1998) Analysed the impact of the net trade cycle on corporate profitability. Their findings indicate that reducing the length of the cash conversion cycle increases firm value by improving working capital efficiency, which is highly relevant for FMCG firms dealing with high-volume and fast-moving goods.

Raheman Abdul and Mohammad Nasr (2007) Studied working capital management practices and concluded that there is a strong negative relationship between working capital components and profitability. This implies that companies can improve profitability by minimizing inventory days and receivable days, as observed in efficient firms like Hindustan Unilever Limited.

Afza Talat and Nazir Muhammad (2009) Explored different working capital policies and found that aggressive policies can increase profitability but involve higher risk, while conservative policies ensure liquidity but may reduce returns. This distinction is important in analyzing firms like ITC Limited, which maintain higher inventory levels.

Filbeck Greg and Krueger Thomas (2005) Focused on industry-level working capital practices and concluded that working capital strategies vary across industries. Their findings emphasize that FMCG companies require efficient inventory and receivables management due to their high turnover and competitive nature.

Padachi Kesseven (2006) Examined working capital trends and found that excessive investment in working capital negatively impacts profitability. This supports the need for optimal working capital levels, as seen in the moderate performance of Dabur India Limited and Marico Limited.

III. RESEARCH METHODOLOGY

1. Objectives

1. To analyse the working capital management practices adopted by companies in the FMCG industry.
2. To examine the relationship between working capital components (inventory, receivables, and payables) and profitability.
3. To evaluate the efficiency of the Cash Conversion Cycle (CCC) in selected FMCG companies.
4. To assess the impact of working capital management on liquidity and operational performance of FMCG firms.
5. To identify challenges and suggest improvements in managing working capital in the FMCG sector.

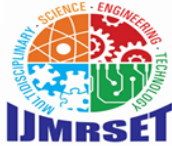
2. Preparation tools of data collection

Data Collection Methods

a. Primary Data Collection

Primary data collection was not undertaken in this study. The research is based on secondary data obtained from published financial statements and reports of selected FMCG companies.

Sampling:



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- Defining the target population (e.g., selected FMCG companies such as large-scale firms to analyse their working capital management practices).

Sample size:

- In this research, a total of 4 FMCG companies are selected for analysis of working capital management practices based on their financial statements.

Total Sample Size - 4 Companies

Data Analysis:

- Using statistical and analytical tools such as **Microsoft Excel, Power BI, and Tableau** for quantitative data analysis.

Applying financial ratio analysis to evaluate working capital efficiency, including:

- Current Ratio
- Quick Ratio
- Inventory Turnover Ratio
- Receivables Turnover Ratio
- Payables Turnover Ratio

Data Analysis Tools:

- Microsoft Excel: <https://www.microsoft.com/en-us/microsoft-365/excel>
- Power BI: <https://powerbi.microsoft.com/>
- Tableau: <https://www.tableau.com/>

Financial Data Sources (for FMCG companies):

- Annual Reports of FMCG Companies (for ratio analysis and working capital data)
- National Stock Exchange of India (NSE): <https://www.nseindia.com/>
- Bombay Stock Exchange (BSE): <https://www.bseindia.com/>

Reporting and Interpretation:

- Present the findings using tables, charts, graphs, and dashboards to clearly show trends in working capital components such as inventory, receivables, and payables.

b. Secondary Data Collection

For this research, the following sources of secondary data are considered:

Academic Journals and Articles: Platforms such as **Google Scholar, JSTOR, and ResearchGate** are used to access relevant studies on cash conversion cycle, inventory management, and firm performance.

Company Annual Reports: Annual reports of selected FMCG companies are a major source of data. These reports provide detailed financial statements required for analyzing working capital components such as inventory, receivables, payables, and short-term liabilities.

Stock Exchange Websites: National Stock Exchange of India (NSE) & Bombay Stock Exchange (BSE) These platforms provide financial data, company filings, and performance reports of FMCG companies.

Hypothesis Statements

H0 (Null Hypothesis): There is no significant difference in working capital management practices among selected FMCG companies.

H1 (Alternative Hypothesis): There is a significant difference in working capital management practices among selected FMCG companies.

IV. LIMITATIONS

1. Limited access to detailed company data.
2. Small sample size may not represent entire FMCG industry.
3. Differences in accounting practices affect comparison.

Analysis and interpretation



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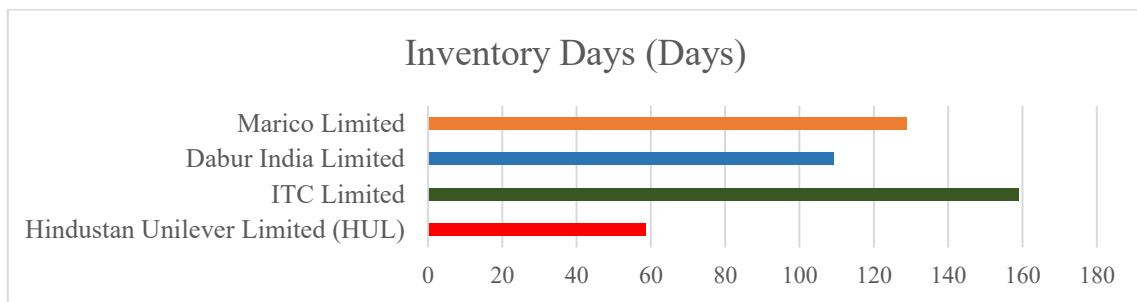
Based on the financial data collected from selected FMCG companies, the following analysis presents key working capital management ratios, including Inventory Days, Receivable Days, Payable Days, and Cash Conversion Cycle (CCC), along with their qualitative and quantitative interpretation.

CCC = Inventory Days + Receivable Days – Payable Days

1. Inventory Days

Company	Inventory Days (Days)
Hindustan Unilever Limited (HUL)	58.59
ITC Limited	159
Dabur India Limited	109.06
Marico Limited	128.81

Graph No.1

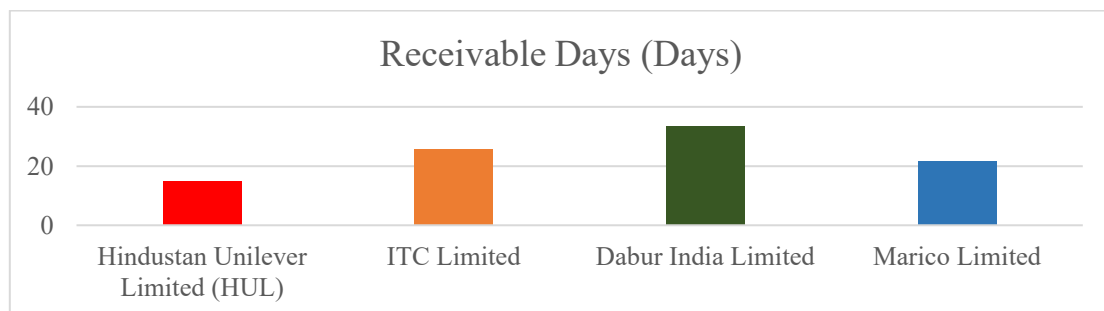


Hindustan Unilever Limited has the lowest inventory days (58.59), indicating fast stock turnover, while ITC Limited has the highest (159.00), showing higher inventory holding. Dabur India Limited (109.06) and Marico Limited (128.81) fall in between, reflecting moderate efficiency in inventory management.

2. Receivable Days

Company	Receivable Days (Days)
Hindustan Unilever Limited (HUL)	14.75
ITC Limited	25.63
Dabur India Limited	33.37
Marico Limited	21.5

Graph No. 2





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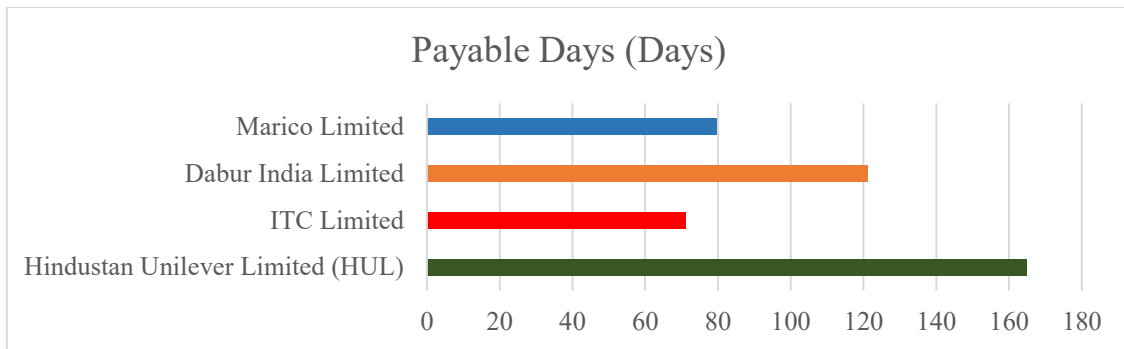
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Hindustan Unilever Limited has the lowest receivable days (14.75), indicating faster collection efficiency, while Dabur India Limited has the highest (33.37), showing slower recovery of credit sales. Marico Limited (21.50) and ITC Limited (25.63) show moderate collection periods, reflecting average receivables management.

3. Payable Days

Company	Payable Days (Days)
Hindustan Unilever Limited (HUL)	164.95
ITC Limited	71.08
Dabur India Limited	120.99
Marico Limited	79.73

Graph No. 3

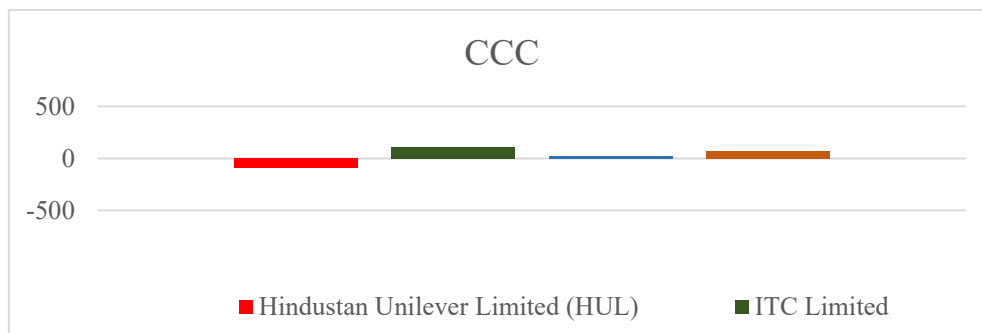


Hindustan Unilever Limited has the highest payable days (164.95), indicating it delays payments the longest, improving liquidity, while ITC Limited has the lowest (71.08), reflecting quicker payments to suppliers. Dabur India Limited (120.99) and Marico Limited (79.73) show moderate payment periods, suggesting balanced payables management.

4. Cash Conversion Cycle (CCC)

Company	CCC (Days)
Hindustan Unilever Limited (HUL)	-91.61
ITC Limited	113.55
Dabur India Limited	21.45
Marico Limited	70.58

Graph No. 4





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Hindustan Unilever Limited has a negative CCC (-91.61), indicating highly efficient working capital management, while ITC Limited has the highest CCC (113.55), showing cash is tied up for a longer period. Dabur India Limited (21.45) and Marico Limited (70.58) show moderate CCC, reflecting average efficiency in managing the working capital cycle.

Hypothesis Testing using Descriptive Statistics

Data (CCC Values)

Company	CCC (Days)
Hindustan Unilever Limited	-91.61
ITC Limited	113.55
Dabur India Limited	21.45
Marico Limited	70.58

Mean

Mean = $(-91.61 + 113.55 + 21.45 + 70.58) / 4 = 28.49$

Standard Deviation

$$\begin{aligned}
 &= \sqrt{\frac{(-120.10)^2 + (85.06)^2 + (-7.04)^2 + (42.09)^2}{4}} \\
 &= \sqrt{\frac{14424 + 7235 + 49.6 + 1771.6}{4}} \\
 &= \sqrt{5870.05} \approx 76.63
 \end{aligned}$$

Interpretation

The mean CCC of selected FMCG companies is 28.49 days, while the standard deviation is 76.63 days, indicating a high level of variation among the companies. This suggests that working capital management practices differ significantly across the selected firms.

Result of Hypothesis Testing

Based on the above analysis:

- H_0 (Null Hypothesis) is Rejected
- H_1 (Alternative Hypothesis) is Accepted

V. FINDINGS

Hindustan Unilever Limited shows the most efficient working capital management with a negative CCC. (Negative CCC → Best efficiency)

ITC Limited has the highest inventory levels, resulting in a longer cash conversion cycle. (High inventory → High CCC)

Dabur India Limited & Marico Limited demonstrate moderate working capital efficiency. (→ Moderate performance)

VI. SUGGESTIONS

1. FMCG companies should focus on **optimizing inventory levels** to reduce holding costs and improve efficiency in stock management.
2. Firms should adopt **effective receivables management policies** to ensure faster collection and better cash flow.
3. Companies can improve liquidity by **strategically managing payables**, without affecting supplier relationships.
4. Adoption of **advanced supply chain and digital technologies** can enhance overall working capital efficiency and reduce the cash conversion cycle.



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VII. CONCLUSION OF THE RESEARCH STUDY

The research study on “Critical Analysis of Working Capital Management Practices in FMCG Industry” provides valuable insights into how efficiently FMCG companies manage their short-term financial resources. Through analysis of key ratios such as **Inventory Days, Receivable Days, Payable Days, and the Cash Conversion Cycle (CCC)**, important conclusions have been drawn regarding liquidity and operational efficiency.

The study highlights that effective working capital management plays a crucial role in improving both liquidity and profitability. **Hindustan Unilever Limited** demonstrates highly efficient practices with a negative cash conversion cycle, indicating strong control over inventory, receivables, and payables. In contrast, **ITC Limited** shows a longer cash conversion cycle due to higher inventory levels, reflecting greater working capital requirements.

Further, **Dabur India Limited and Marico Limited** exhibit moderate working capital efficiency, suggesting a balanced but improvable approach toward managing inventory and cash flows. The comparative analysis indicates that companies with lower or negative CCC are better positioned to maintain liquidity and operational flexibility.

Overall, the study concludes that efficient management of working capital components is essential for sustaining competitiveness in the FMCG industry. Firms that optimize their cash conversion cycle can enhance financial performance, reduce dependency on external financing, and achieve long-term growth.

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