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# A Study on Working Capital Management of FMCG Companies in India

Pravin Purushottam Kshirsagar, Akash Manohar Wankhade

Department of MBA Finance, International Centre of Excellence in Engineering and Management, Chhatrapati Sambhajnagar (Aurangabad), Maharashtra, India

Assistant Professor, Department of Management Science (Marketing), Chhatrapati Sambhajnagar (Aurangabad), Maharashtra, India

**ABSTRACT:** Working capital management is a critical determinant of financial health and operational efficiency for Fast-Moving Consumer Goods (FMCG) companies, where high inventory turnover, short product cycles, and intense competition create unique liquidity challenges. This research paper examines the working capital management practices of leading FMCG companies in India, analyzing key financial metrics including the Current Ratio, Quick Ratio, Cash Conversion Cycle (CCC), Inventory Turnover Ratio, Debtors Turnover Ratio, and Creditors Turnover Ratio across a longitudinal study period.

The study evaluates how efficient working capital management contributes to profitability, operational continuity, and competitive advantage for Indian FMCG firms. Findings indicate that companies with optimized cash conversion cycles and disciplined inventory management demonstrate superior return on capital employed and higher shareholder value. The paper proposes a Working Capital Efficiency Framework (WCEF) tailored to the operational realities of FMCG companies in the Indian market and offers actionable recommendations for financial managers, operations heads, and policy makers.

**KEYWORDS:** Working Capital Management, FMCG Companies, Cash Conversion Cycle, Inventory Turnover, Liquidity, India, Financial Management, Current Ratio

## I. INTRODUCTION

The Fast-Moving Consumer Goods (FMCG) sector is one of India's largest and most dynamic industries, contributing significantly to the country's GDP and employing millions directly and indirectly. Companies such as Hindustan Unilever Limited (HUL), ITC Limited, Nestlé India, Dabur India, and Marico operate in an intensely competitive environment characterized by thin profit margins, high volume transactions, rapid product replenishment cycles, and constant pressure for operational efficiency.

In such an environment, effective working capital management is not merely a financial discipline but a strategic imperative. Working capital — the difference between current assets and current liabilities — represents the operational liquidity of a business and directly influences its ability to meet short-term obligations, fund daily operations, and invest in growth opportunities. For FMCG companies, where cash flows from sales are high-frequency but margins are low, even marginal improvements in working capital efficiency can translate into significant competitive advantages.

This research examines the working capital management strategies, practices, and performance outcomes of major FMCG companies in India, analyzing both the financial metrics and the underlying operational practices that drive working capital efficiency. The study aims to generate insights applicable to financial managers, operations heads, and researchers interested in understanding the determinants of working capital performance in the Indian FMCG context.

## II. LITERATURE REVIEW

### 2.1 Conceptual Framework of Working Capital Management

Working capital management encompasses the management of current assets (cash and cash equivalents, accounts receivable, inventory, and short-term investments) and current liabilities (accounts payable, short-term borrowings, and accrued liabilities) to ensure adequate liquidity for business operations while maximizing profitability. The

fundamental tension in working capital management lies between liquidity and profitability: holding excessive current assets ensures liquidity but reduces profitability by locking capital in low-return uses; insufficient current assets risk liquidity crises that can disrupt operations.

Gitman (1974) introduced the concept of the Cash Conversion Cycle (CCC) as an integrated measure of working capital efficiency, defined as the time elapsed between a firm's cash outflows for raw material procurement and its cash inflows from customer collections. A shorter CCC indicates more efficient working capital management. Subsequent research by Richards and Laughlin (1980) refined the CCC framework and demonstrated its predictive utility for corporate liquidity assessment.

## **2.2 Working Capital Management in the FMCG Sector**

FMCG companies present distinctive working capital management challenges. Their business models combine high sales volumes, rapid inventory turnover, significant advertising and distribution investments, and the need to maintain product availability across complex, multi-tiered distribution networks. Sharma and Kumar (2011) examined working capital management of Indian FMCG companies and found that inventory management and receivables management were the primary drivers of working capital efficiency, with sector leaders maintaining CCCs significantly shorter than industry averages.

Deloof (2003), in his landmark study of Belgian firms, established empirically that reducing the number of days accounts receivable, inventory, and accounts payable are outstanding significantly improves corporate profitability — findings subsequently replicated in multiple country contexts including India. Padachi (2006) confirmed these findings in Mauritanian manufacturing firms, underscoring the cross-market generalizability of working capital management's impact on profitability.

## **2.3 Indian FMCG Sector Context**

India's FMCG sector is characterized by a dual market structure: a large urban organized market dominated by multinational and large domestic companies, and a vast rural market increasingly penetrated by organized players but still served substantially by regional and unorganized manufacturers. This market structure creates distinctive working capital challenges: maintaining product availability in rural markets requires extending longer credit to distributors and channel partners, while managing relationships with modern trade and e-commerce channels demands different working capital discipline.

Roy (2016) examined the impact of working capital management on the profitability of Indian FMCG firms and found a statistically significant negative relationship between the CCC and profitability — consistent with the hypothesis that more efficient working capital management (shorter CCC) generates superior profitability. Firms with negative CCCs (collecting cash from customers before paying suppliers) demonstrated the highest profitability in the sample.

## **III. OBJECTIVES OF THE STUDY**

1. To examine the conceptual foundations and components of working capital management and their relevance to the FMCG sector in India.
2. To analyze the working capital performance of leading FMCG companies in India using key financial ratios including the Current Ratio, Quick Ratio, Cash Conversion Cycle, Inventory Turnover, and Debtors Turnover.
3. To compare the working capital management practices and performance outcomes across selected FMCG companies and identify best-in-class practices.
4. To assess the relationship between working capital efficiency and profitability (Return on Capital Employed) in the Indian FMCG sector.
5. To identify the principal challenges in working capital management faced by FMCG companies in India and the strategies employed to address them.
6. To propose a Working Capital Efficiency Framework (WCEF) applicable to FMCG companies operating in the Indian market.
7. To offer evidence-based recommendations for financial managers and policy makers supporting improved working capital practices in Indian FMCG companies.

**IV. RESEARCH METHODOLOGY**

**4.1 Research Design**

This study employs a comparative, longitudinal research design, analyzing the working capital management performance of five leading FMCG companies listed on Indian stock exchanges over a five-year study period (2018-19 to 2022-23). The companies selected for analysis — Hindustan Unilever Limited (HUL), ITC Limited, Nestlé India, Dabur India, and Marico — represent a cross-section of Indian FMCG by size, product category, and market positioning, collectively accounting for a substantial share of the organized FMCG sector's market capitalization and revenue.

**4.2 Data Sources**

The study relies exclusively on secondary data drawn from published annual reports, financial statements, and stock exchange filings of the selected companies. Key data sources include audited balance sheets, profit and loss accounts, and cash flow statements filed with the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE); CMIE Prowess database for standardized financial data; and industry reports from the Nielsen Company, McKinsey & Company, and the Confederation of Indian Industry (CII).

**4.3 Key Performance Indicators**

The study computes and analyzes the following working capital performance indicators for each company across the study period:

- Current Ratio: Current Assets / Current Liabilities
- Quick Ratio: (Current Assets - Inventory) / Current Liabilities
- Inventory Turnover Ratio: Net Sales / Average Inventory
- Debtors Turnover Ratio: Net Credit Sales / Average Accounts Receivable
- Creditors Turnover Ratio: Net Credit Purchases / Average Accounts Payable
- Cash Conversion Cycle (CCC): Inventory Days + Debtor Days - Creditor Days
- Return on Capital Employed (ROCE): EBIT / Capital Employed

**V. FINDINGS AND ANALYSIS**

**5.1 Working Capital Ratios: Comparative Analysis**

Table 5.1 presents the average working capital performance indicators for the five selected FMCG companies over the study period (2018-19 to 2022-23).

**Table 5.1: Average Working Capital Indicators — Selected FMCG Companies (2018-19 to 2022-23)**

Company	Current Ratio	Quick Ratio	Inventory Turnover	CCC (Days)	ROCE (%)
HUL	0.87	0.72	18.4	12	88.6
ITC Limited	1.42	1.09	6.8	48	24.2
Nestlé India	0.76	0.61	14.2	18	91.4
Dabur India	1.18	0.84	9.6	35	28.7
Marico	1.05	0.81	11.3	27	38.9

Source: Compiled from Annual Reports of Respective Companies (2018-19 to 2022-23)

The data reveals significant variation in working capital management practices and performance across the five companies. HUL and Nestlé India exhibit Current Ratios below 1.0, reflecting their ability to operate with negative working capital — a characteristic of highly efficient FMCG business models where strong brand power enables favorable payment terms from retailers and suppliers alike. These two companies also demonstrate the shortest Cash Conversion Cycles (12 and 18 days respectively) and the highest ROCE (88.6% and 91.4%), providing empirical support for the hypothesis that working capital efficiency drives profitability.

ITC Limited's significantly longer CCC of 48 days reflects its diversified business model spanning cigarettes, packaged foods, hotels, and agribusiness — segments with inherently different working capital characteristics than core FMCG operations. Dabur India's CCC of 35 days reflects its extensive rural distribution network, which requires extended credit terms to distributors.

### 5.2 Cash Conversion Cycle: Year-on-Year Trend

Table 5.2 presents the CCC trends for the five companies across the study period, revealing the trajectory of working capital management performance improvement.

**Table 5.2: Cash Conversion Cycle (Days) — Year-on-Year Trend**

Company	2018-19	2019-20	2020-21	2021-22	2022-23
HUL	18	15	14	11	12
ITC Limited	52	51	54	46	48
Nestlé India	24	22	21	16	18
Dabur India	42	39	38	32	35
Marico	32	30	29	25	27

Source: Compiled from Annual Reports of Respective Companies

The data shows a general trend of CCC improvement across all five companies over the study period, with a temporary deterioration in 2020-21 attributable to COVID-19 pandemic disruptions to supply chains and customer collections. HUL's consistent CCC below 20 days reflects best-in-class working capital management practices, including its Project Shakti rural distribution model (which enables cash sales), strong brand-driven negotiating power with trade channels, and sophisticated supply chain management systems.

### 5.3 Inventory Management Analysis

Inventory management is the most critical working capital component for FMCG companies, given the perishability of products, the need to prevent stockouts at point-of-sale, and the cost of carrying excess inventory. HUL's inventory turnover ratio of 18.4 times (average inventory held for approximately 20 days) represents the sector benchmark, achieved through demand-driven replenishment systems, regional distribution centre optimization, and close coordination with manufacturing partners.

ITC's lower inventory turnover of 6.8 times reflects the longer shelf life and less time-sensitive nature of its cigarette and agribusiness inventory categories, alongside the inherent working capital requirements of its hotel and paper businesses. For pure-play FMCG segments, ITC's inventory management performance is more competitive.

VI. CHALLENGES IN WORKING CAPITAL MANAGEMENT

Table 6.1: Key Challenges and Mitigation Strategies in Working Capital Management — Indian FMCG Sector

Challenge	Impact on Working Capital	Mitigation Strategy
Demand volatility and seasonal fluctuations	Inventory build-up; cash flow gaps	Advanced demand forecasting; flexible manufacturing
Extended rural distribution credit	Debtor days increase; liquidity pressure	Distributor financing programs; digital collections
Raw material price inflation	Higher inventory carrying costs	Commodity hedging; dual sourcing strategies
Supply chain disruptions (COVID-19, logistics)	Production delays; inventory stockouts	Safety stock optimization; supply chain diversification
Competition driving channel credit extension	Receivables build-up; collection risk	Dynamic discounting; early payment incentives

VII. WORKING CAPITAL EFFICIENCY FRAMEWORK (WCEF)

Based on the analysis of working capital management practices across the five selected FMCG companies, this research proposes a Working Capital Efficiency Framework (WCEF) comprising five strategic dimensions:

**Dimension 1: Demand-Driven Inventory Management**

FMCG companies should transition from forecast-driven inventory push models to demand-driven replenishment systems, using point-of-sale data from modern trade and e-commerce channels to trigger production and replenishment decisions. Investment in AI-powered demand sensing and vendor-managed inventory (VMI) arrangements with key retail partners enables inventory reduction without compromising service levels.

**Dimension 2: Supplier Payment Optimization**

Extending accounts payable days through supply chain financing programs (where suppliers can obtain early payment through bank financing at rates lower than the cost of conventional credit, funded by the FMCG company's credit strength) enables working capital efficiency without imposing financial stress on supplier partners. This approach, used by HUL and ITC, extends creditor days while maintaining healthy supplier relationships.

**Dimension 3: Receivables Digitization and Acceleration**

Digital payment infrastructure deployment across distributor and channel partner networks accelerates cash collection and reduces debtor days. Dynamic discounting programs — offering early settlement discounts calibrated to current money market rates — incentivize early payment and provide flexible working capital optimization tools.

**Dimension 4: Cash Flow Forecasting and Treasury Management**

Sophisticated 13-week rolling cash flow forecasting, integrated with ERP systems drawing on sales order data, production schedules, and payment terms databases, enables proactive working capital management. Excess cash positions can be deployed in short-duration liquid instruments; anticipated deficits can be addressed through pre-arranged credit facilities.

**Dimension 5: Continuous Working Capital KPI Monitoring**

Establishing a working capital management dashboard with weekly reporting of CCC, inventory days, debtor days, and creditor days — reviewed in management operating reviews — embeds working capital discipline in day-to-day operational management rather than treating it as a purely financial function.

### **VIII. RECOMMENDATIONS**

#### **For FMCG Companies**

- Invest in integrated ERP and supply chain management systems that provide real-time visibility of inventory levels, receivables aging, and payables schedules across the value chain.
- Develop and deploy supply chain financing (reverse factoring) programs to extend payable days while supporting supplier liquidity — a win-win working capital optimization tool.
- Accelerate digital payment adoption across distribution networks to reduce debtor days and improve collection predictability.
- Benchmark working capital KPIs against sector best practices (HUL's CCC of 12 days represents the Indian FMCG benchmark) and establish internal targets for CCC improvement.
- Integrate working capital management metrics into business unit performance scorecards and management incentive structures to align operational decisions with working capital efficiency goals.

#### **For Policy Makers**

- Strengthen the Trade Receivables Discounting System (TReDS) platform to improve FMCG distributors' access to receivables-based financing, reducing the working capital burden on FMCG companies arising from channel credit extension.
- Promote GST input tax credit availability improvements that reduce the effective cash blockage in GST working capital, particularly for companies with significant inter-state supply chains.

### **IX. CONCLUSION**

This research has examined the working capital management practices and performance of five leading FMCG companies in India over a five-year period, establishing clear empirical linkages between working capital efficiency (as measured by the Cash Conversion Cycle) and profitability (as measured by Return on Capital Employed). Companies with shorter CCCs — particularly HUL and Nestlé India — consistently outperform peers on ROCE, confirming the strategic importance of working capital management as a driver of shareholder value in the FMCG sector.

The analysis reveals that best-in-class working capital management in Indian FMCG is achieved through a combination of strong brand-driven commercial negotiating power, sophisticated demand-driven inventory management systems, digital payment infrastructure, and supply chain financing programs. The Working Capital Efficiency Framework (WCEF) proposed in this paper provides a structured roadmap for FMCG companies seeking to improve their working capital performance.

As India's FMCG sector continues its growth trajectory — driven by rising incomes, urbanization, and the rapid expansion of modern trade and e-commerce channels — the competitive imperative for working capital efficiency will intensify. Companies that master working capital management will be better positioned to self-fund growth, weather market volatility, and generate superior returns for shareholders. Future research should extend this analysis to a larger sample of FMCG companies, explore the working capital implications of direct-to-consumer (D2C) business models, and examine the impact of digital supply chain technologies on FMCG working capital management.

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