



# Comparative Analysis of Working Capital Management: A Study of HUL and ITC in the FMCG Sector

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## Abstract

Working Capital Management is a crucial part of any firm to make financial decisions. Working capital management strategy affects liquidity, operational efficiency, and profitability. The fast-moving consumer Goods (FMCG) sector also needs an effective working capital strategy to sustain the competition. This study is a comparative analysis of the working capital of Hindustan Unilever Limited (HUL) and ITC Limited over ten years from 2014-15 to 2023-24. These companies offer a unique intra-sectoral evaluation. The research is based on secondary data where the financial ratios are calculated using information given in the annual statements of the companies. The data is analysed in an Excel worksheet. The ratios for WCM are Debtors Turnover Ratio, Receivable Days, Inventory Days, Payable Days, Quick Ratio, Sales to Working Capital Ratio, and Total Assets to Working Capital. The research found that HUL follows an aggressive working capital management strategy, while ITC maintains a conservative policy for working capital management. The DTR, payable ratio, and sales-to-working capital ratio of HUL are stronger. ITC maintains a liquidity position. However, the study is limited because of its dependency on secondary data. There is a scope to understand how firms adjust their working capital model in inflation and higher interest rates.

## Keywords

Working Capital Management(WCM), Debtors Turnover Ratio(DTR), Creditors Turnover Ratio(CTR), Aggressive approach, Conservative approach

## Introduction

India's FMCG sector is a dynamic and fast-growing industry. The number of transactions is higher, and there is rapid inventory turnover. This industry is price sensitive. The working capital management is a key element for financial stability. It plays an important role in the operating efficiency and financial performance of a firm. Working capital management is about the management of the short-term assets and liabilities of a firm. Efficient capital utilization helps build liquidity and minimise the cost of financing to gain over price-sensitive customers in this dynamic market. Different industries have different strategies to maintain liquidity, profitability trade-offs, and risk mitigation. It depends on many factors, including the cash conversion cycle, geographies, and capital allocation. Hindustan Unilever Limited and ITC Limited are major players with significant market shares. They both, however, have different business models and management strategies. HUL focuses on personal and home care products. ITC ltd deals with diversified segments like tobacco,

agribusiness, and hotels. Economic Uncertainty, supply chain disruptions, and competitive pricing pressures call the corporate managers, investors, and policymakers to realize the working capital management's practical implications and strategies to assist in making short-term financing decisions. The research intends to make a comparison of the working capital management practices of HUL and ITC. The study considers various financial ratios, including current ratios, inventory turnover, receivables, and payables management.

## Literature Review

It is important to manage the liquidity in the short run and profit in the long run for any industry. Effective management of current assets and liabilities is essential for the financial performance of firms. Their Cash conversion cycle (CCC), accounts receivable turnover, inventory-holding days, and payables days have been major variables affecting profitability. (García-Teruel and Solano ;2007, Yousaf Raza Tarar et al. ;2015, Abdul Rahman;2024) The studies are done across industries like fast-moving consumer goods (FMCG), automotive, steel, and oil, which highlights their relevance across industries. A shorter CCC enhances profitability, and long working capital cycles lead to increased cost of financing, resulting in decreased earnings (García-Teruel and Solano;2007 and Tarar et al. ;2015) There is presence of high efficiency ratio. Long operating cycle needs more liquidity. However, shorter cycles lead to better financial health. Maintaining appropriate liquidity, good inventory, receivables in fast-moving industries is directly linked with the financial performance of the company. (Gbadebo, 2024; Adedeji et al., 2024)

Some studies found that there is a negative relationship between CCC and profitability. The creditworthiness analysis through the Altman Z score asserts that poor management of current assets and liabilities has further imminent implications towards insolvency that extends to weak WCM. (Dr. Abdul Rahman and Parameshwara Acharya;2022, Ritesh Patel and Kalpesh Prajapati;2012). The research identifies that production hindrance, lack of trust in suppliers, and cash shortage affect the operational and strategic repercussions of ineffective WCM. The study of Abdul Rahman (2024) also found that the market size as well as the size of the company also influences the WCM.

The methodology used in the previous papers uses ratio analysis, trend analysis, and operating cycle, based on the secondary data abstracted from the annual report. Some also introduced a performance-based analysis that links working capital decisions with manufacturing outcomes. (e.g., Patel & Prajapati, 2012; Gbadebo 2024). Researches like Tarar et al. (2015) and García-Teruel & Solano (2007) also went one step further with the regression modelling to test the statistical significance of WCM variables on profitability; this rigorous application is not consistent across all papers. There are more industry-specific analyses required to understand the need for WCM and make better decisions. (Patel and Prajapati, 2012; Tarar et al., 2015; García-Teruel and Solano, 2007). Most studies are sector general. There is a lack of intra-sectoral comparison. Few studies have studied the combinative impact of macroeconomic variables (interest rates and inflation) affecting working capital component, even though Adedokun Rofiat et al. (2024) admit to this macro-financial interaction concerning Nigeria. Small and medium enterprises are under greater working capital pressure. They have limited access to long-term financing, whereas large firms may have more working capital efficiency. There is a divergent treatment of firm size and WCM strategy. (García-Teruel and Solano ;2007). The present research finds that an efficient WCM is positively correlated with profitability, operational efficiency, operational continuity, and even bankruptcy prevention. The findings necessities customizing WCM strategies to be firm-specific and industry-specific realities. This research is to understand the WCM strategies of the two giants of FMCG sector that is HUL Ltd and ITC ltd.

## Objective of the Study

1. To analyse the trend of the working capital of both companies and analyze them
2. To compare the working capital management of HUL Ltd and ITC Ltd

## Methodology

The study is based on secondary data, which were collected from the annual reports of Hindustan Unilever Limited (HUL) and ITC Ltd from 2014-15 to 2023-24. Both the FMCG companies are leading in the Indian market. The study is done to analysis the working capital management of the FMCG sectors and understand its efficiency in running a business. The data were then cleaned in Excel for ratio analysis. (Patel & Prajapati; 2012, Rahman & Acharya; 2022) Excel is used for visualisation tools for the study. Descriptive statistics was used in an excel sheet to make a holistic approach. The ratios include Current Ratio, Quick Ratio, Inventory Turnover Ratio, Receivables Turnover Ratio, Payables Turnover Ratio, Working Capital Turnover Ratio, and Cash Conversion Cycle (CCC). The ratios are significant in measuring features of WCM. The assessment of short-term liquidity of the firm is done using the liquidity ratio. Inventory turnover and receivables turnover work towards evaluating operational efficiency. Payable ratio says the firm's policy towards creditors in terms of payment. The CCC measures how long it takes for cash to flow into the business.

The Current Ratio is current assets divided by current liabilities. Quick Ratio is the ratio of current assets minus inventories to current liabilities to assess more immediate liquidity. Inventory Turnover is calculated with the formula of Cost of Goods Sold divided by average inventory for the period. Receivables Turnover is calculated as net credit sales divided by average account receivable. The mean and standard deviation were calculated to understand the average performance of all ratios and their variability in the study period. This statistic tell about the consistency or volatility in working capital practices of the company. Trend analysis is also complemented by visual aids such as histograms and comparative charts.

## Data Analysis and Interpretation

HUL and ITC's WCM is measured using financial ratios. The assessment is done using secondary data. The descriptive and visual representation has been done to understand the efficiency of WCM in both companies.

The average debtor turnover ratio shows how many times in a year a company collects its average accounts receivable. DTR of ITC is 19.07 (Table 2), and HUL is 25.51. (Table 1). HUL has a strong retail distribution, ensuring timely payment cycles. The fast-moving nature of HUL products reaches efficiently to efficient customers who make a timely payment. The average collection period complements the DTR. HUL keeps the average to 14.5 (Table 1), while ITC has a shorter average of 11.89 days. (Table 2) The difference is that ITC is working on shorter credit cycles, and HUL has managed credit policy across a large customer base.

The inventory days are the average days that the inventory takes before being sold. It tells about operational efficiency and supply chains. The average inventory days is 27.9 days (Table 1) for HUL Ltd and 26.5 (Table 2) for ITC Ltd. There is no difference in the companies' maintenance of supply chain and inventory days. They have a reasonable shelf life, and perishability is maintained being an FMCG good. There is minimal variation in a number of inventory days of both the companies. (Graph 5)

Payable days tell the time and duration for which the company takes to pay suppliers. Average of U much higher at 91 days (Table 1) whereas ITC Ltd has payable days of 62.7 days (Table 2). HUL has longer credit days with suppliers. It can conserve the cash and finance its working capital. It has good liquidity as compared to ITC Ltd. The Creditors Turnover ratio also differs in both the companies. Creditors Turnover ratio (CTR) gives an idea of how fast a company can settle its debt owed to suppliers. The ratio of HUL is 3.95 (Table 1). It takes a longer period to pay the suppliers. ITC has a higher CTR of 5.99 (Table 2). It settles its debt much faster than HUL. (Graph 6)

The quick ratio of HUL is 1.04, which means its liquid assets is more than its liability. It can satisfy the short-term liability without affecting its inventory. However, ITC has a better stand on maintaining liquidity with a liquid ratio of 1.38. Graph 7 and Graph 8 shows the healthy liquidity buffer of both the companies over 10 years.

Sales to working capital ratio of HUL LTD is 12.31 (Table 1) which is higher than ITC. The higher ratio is better because of its reflection of learner and more responsive working capital model. (Graph 9). The total assets to working capital ratio has a average of 14.74( Table 1) of HUL and ITC has 6.28 (Table 2) as the average sales to working capital ratio. HUL has a more aggressive WCM Model (Graph 10). Such may give higher return in normal days but is risky in uncertain market conditions.

Thus, HUL LTD has a more aggressive WCM combined with efficient customer receivable collections, longer payment terms franchise, and higher working capital for sales generation. ITC takes a more comprehensive approach with a strong liquidity ratio nd relatively stable inventory management. The two FMCGs has a good operating model, making them stand in the market positions.

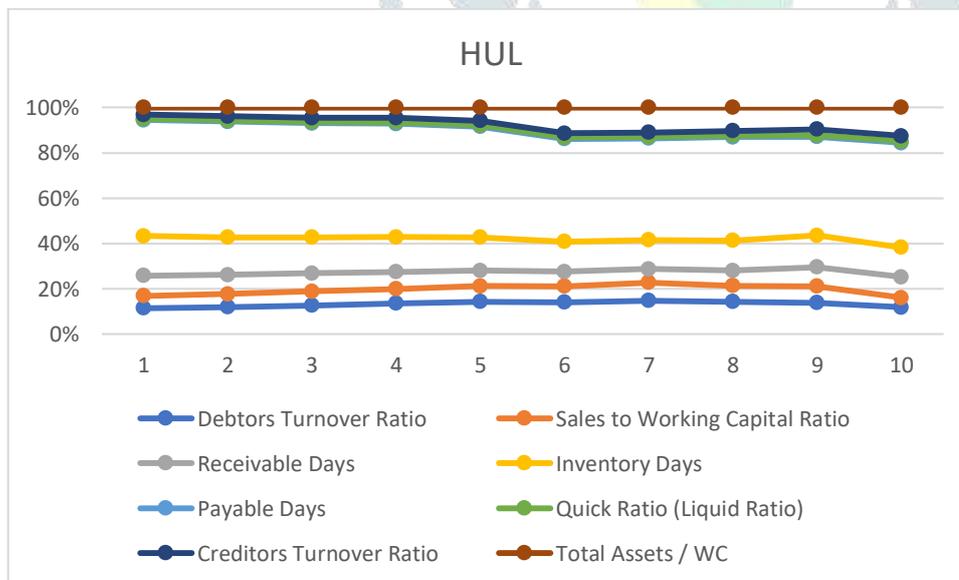
<i>HUL LIMITED</i>	<i>Debtors Turnover Ratio</i>	<i>Sales to Working Capital Ratio</i>	<i>Receivable Days</i>	<i>Inventory Days</i>	<i>Payable Days</i>	<i>Quick Ratio (Liquid Ratio)</i>	<i>Creditors Turnover Ratio</i>	<i>Total Assets / WC</i>
Mean	25.51	12.31	14.5	27.9	91	1.04	3.95	14.744
Standard Error	0.940620363	0.758573	0.562731	0.9	1.825742	0.045216	0.111803	2.253316
Median	25.25	12.55	14.5	27.5	92.5	1.05	3.9	14.18
Standard Deviation	2.97450276	2.398819	1.779513	2.84605	5.773503	0.142984	0.353553	7.12561
Sample Variance	8.847666667	5.754333	3.166667	8.1	33.33333	0.020444	0.125	50.77432
Kurtosis	-1.379990271	0.746468	-1.34389	-0.6183	1.9755	-1.16282	1.141333	-2.11722
Skewness	0.166462056	-0.44552	0.221823	0.451134	-1.42894	-0.31928	0.989949	0.068811
Range	8.4	8.6	5	9	19	0.4	1.2	17.06
Minimum	21.8	7.6	12	24	78	0.8	3.5	6.03
Maximum	30.2	16.2	17	33	97	1.2	4.7	23.09
Sum	255.1	123.1	145	279	910	10.4	39.5	147.44
Count	10	10	10	10	10	10	10	10

TABLE 1: Descriptive Statistics of HUL Limited

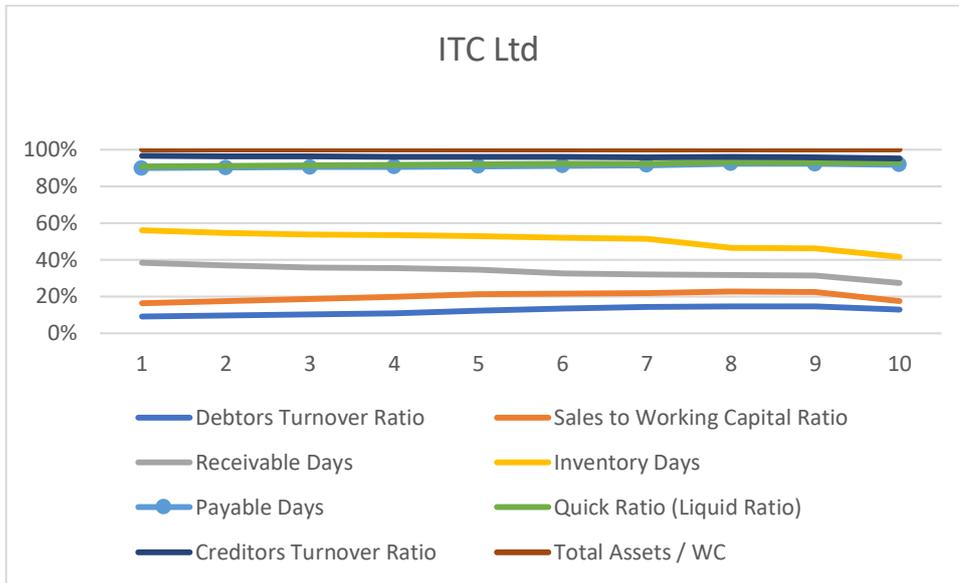
Table 2: Descriptive Statistics of ITC Ltd

ITC LTD	Debtors Turnover Ratio	Sales to Working Capital Ratio	Receivabl e Days	Inventor y Days	Payable Days	Quick Ratio (Liquid Ratio)	Creditor s Turnove r Ratio	Total Assets / WC
Mean	19.07	11.89	20.5	26.5	62.7	1.38	5.99	6.28
Standard Error	1.47422 7	0.60137 8	1.714319	0.77817 5	4.19536 8	0.04422 2	0.38106 6	0.31404 2
Median	19.8	12.2	18.5	25.5	59.5	1.4	6	6.25
Mode	24.9		17	25	78	1.3	4.7	#N/A
Standard Deviation	4.66191 4	1.90172 4	5.421152	2.46080 4	13.2669 2	0.13984 1	1.20503 6	0.99308 7
Sample Variance	21.7334 4	3.61655 6	29.38889	6.05555 6	176.011 1	0.01955 6	1.45211 1	0.98622 2
Kurtosis	-1.56688	1.99525 8	-1.07457	-0.41923	-1.0031	0.81270 3	-1.14775	-0.20641
Skewness	-0.15859	-1.36497	0.635507	0.89476 2	0.59888 3	-0.47538	0.07628 3	0.29562 2
Range	12.6	6.3	15	7	39	0.5	3.6	3.3
Minimum	12.3	7.6	15	24	46	1.1	4.3	4.8
Maximum	24.9	13.9	30	31	85	1.6	7.9	8.1
Sum	190.7	118.9	205	265	627	13.8	59.9	62.8
Count	10	10	10	10	10	10	10	10

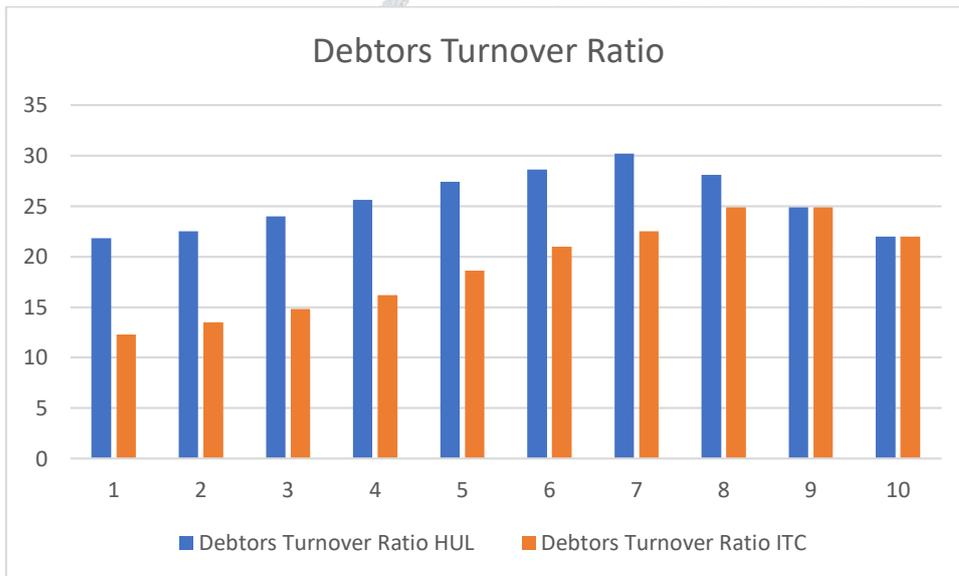
Graph 1: Graph of ratios of HUL LTD



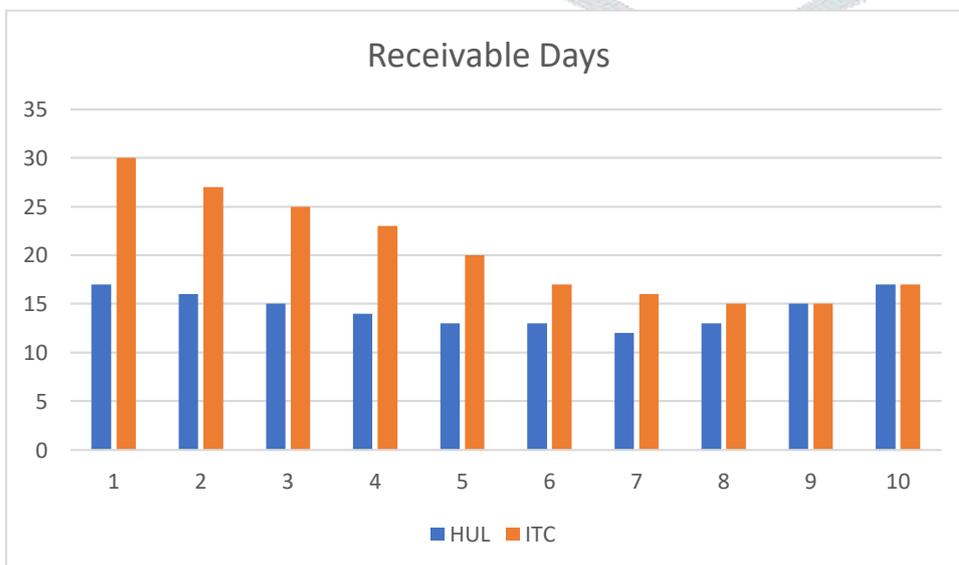
Graph 2: Graph of ratios of ITC LTD



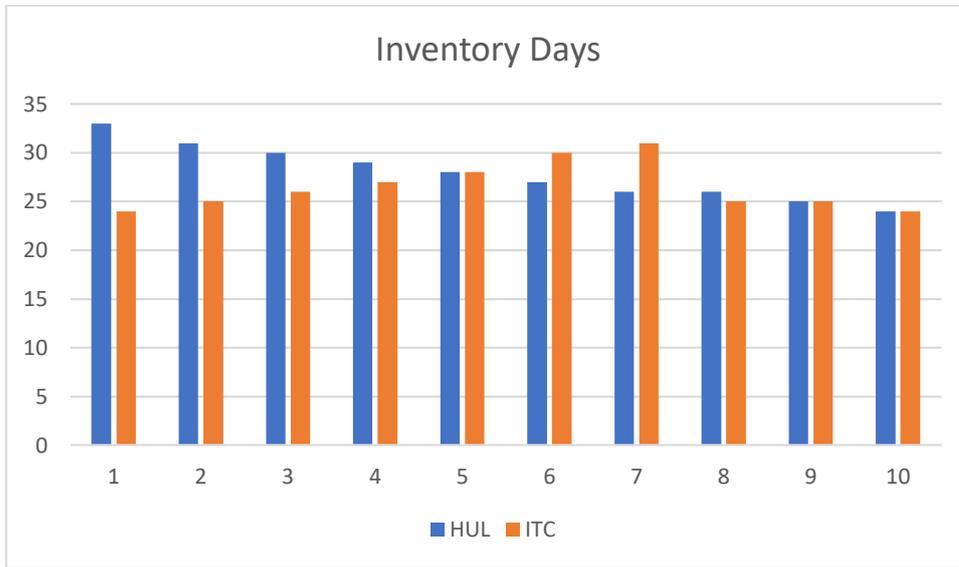
Graph 3: Graph showing DTR



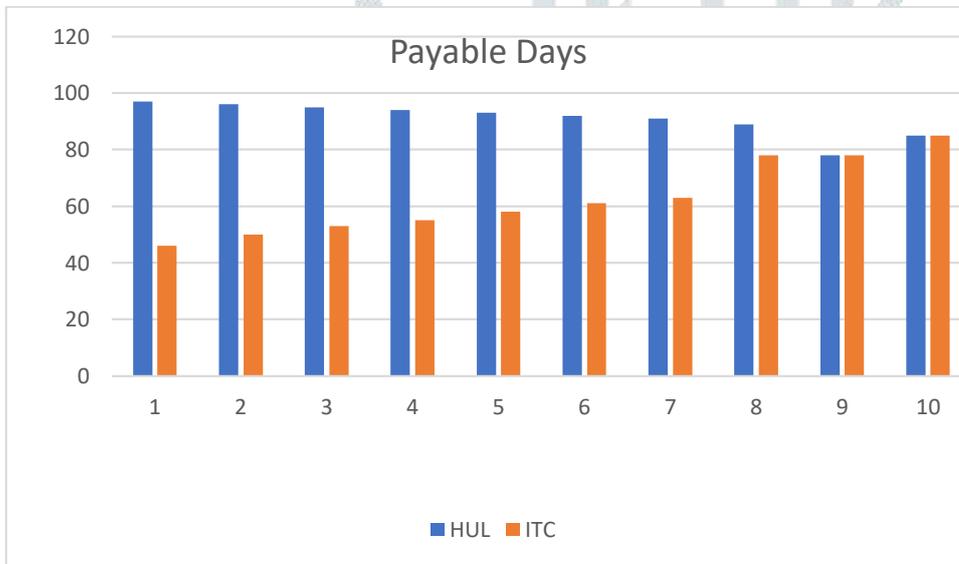
Graph 4: Graph Showing Receivables Days



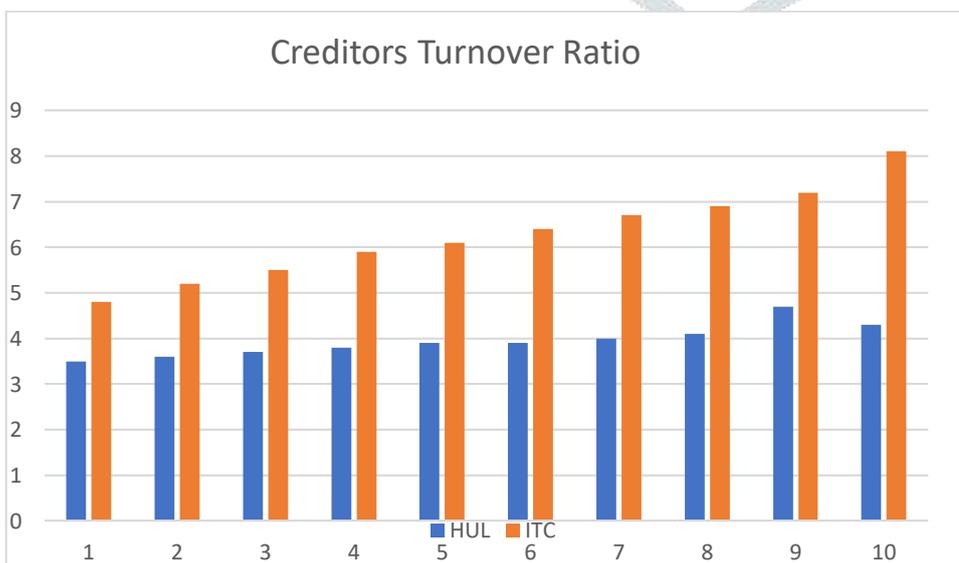
Graph 5: Graph Showing Inventory Days



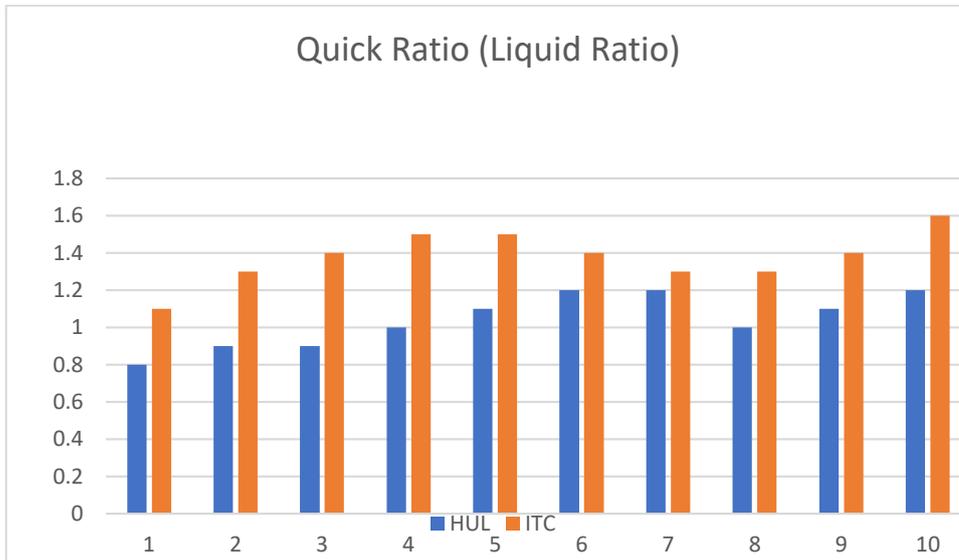
Graph 6: Graph Showing Payable days



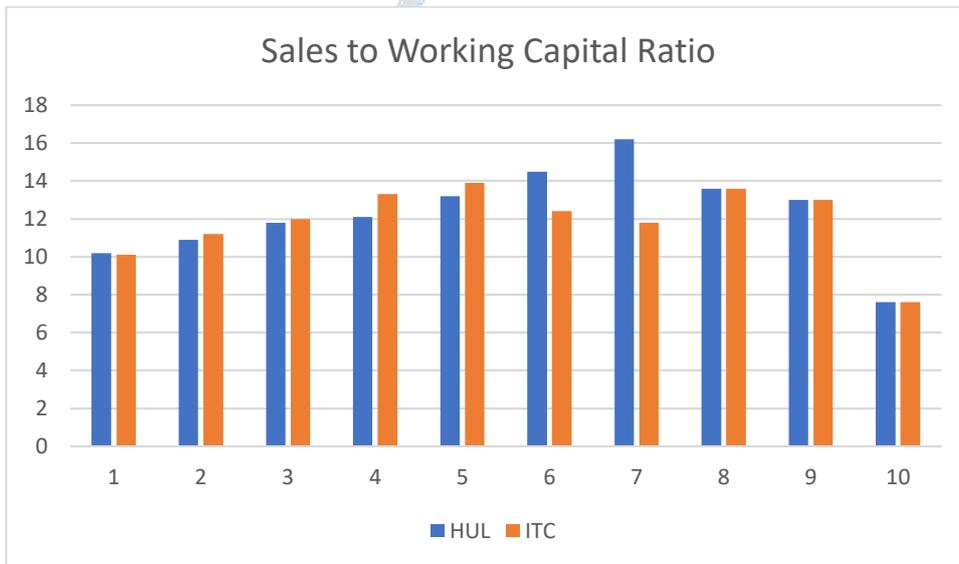
Graph 7: Graph showing Creditors Turnover Ratio



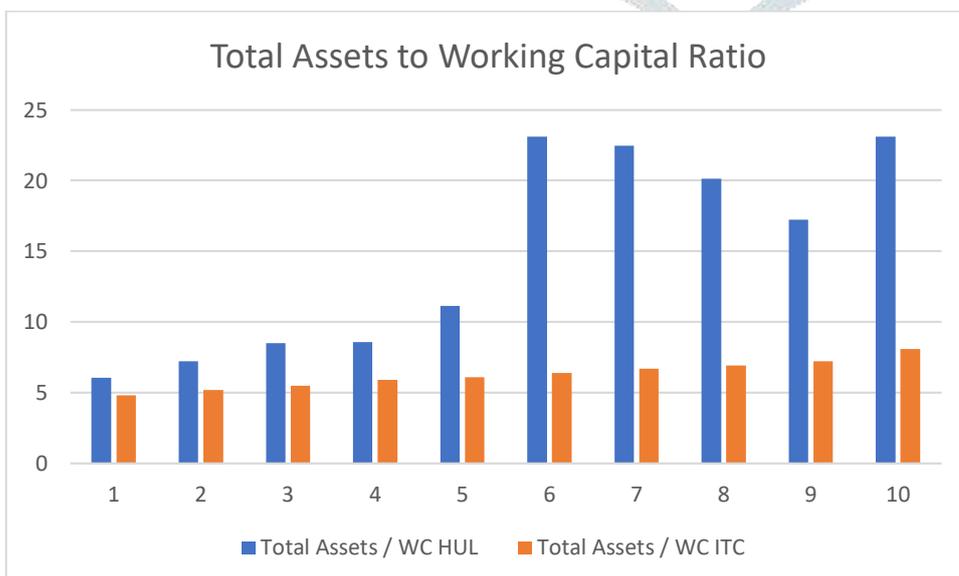
Graph 8: Graph Showing Quick Ratio



Graph 9: Graph showing Sales to Working Capital Ratio.



Graph 10: Graph showing Total Assets to Working Capital Ratio.



## Findings

The study is done to understand the WCM of HUL Ltd and ITC Ltd. Financial Ratios throughout 2014-15 to 2023-24 are used for the same. HUL has a better WCM management regarding efficiency. The DTR of HUL is 25, 51, and ITC is 19.07. HUL has good liquidity and operational efficiency. Patel & Prajapati (2012). In terms of maintaining the credit policies and cash conversion efficiencies also HUL is better. The inventory management practices of both the companies are similar having a almost same inventory days (Table 1 and Table 2).

This appraises the days of receivable for both entities, i.e., 14.5 days for HUL and 11.89 days for ITC, showing credit policies and cash conversion efficiencies, and corroborates the views of Tarar et al. (2015) observed that minimum receivable standing positively correlates with profitability. . Garcia-Teruel and Solano (2007) found that having a lean inventory increases profitability in the future by minimizing holding costs and maximizing operational efficiency. Both companies maintain a good operational efficiency. They both have a good position in the FMCG sector. Both have succeeded in balancing the inventories necessary for product availability. And not holding extra stock as seen in the existing literature. HUL has a good relationship with its supplier, making it able to maintain a low payable day as compared to ITC. HUL's longer payable period supports the findings of Patel & Prajapati (2012) that companies sustaining longer trade credit are supposed to maintain the cash flow by incurring supplementary costs. The quick ratio for both firms supports the financial viability of both firms to meet short-term obligations. The higher ratio of ITC indicates its conservative approach to financial management, supporting the study of García-Teruel & Solano (2007). They stated that the higher the quick ratios, the more cautious is the management of the finance. The sales-to-working ratio is better in HUL. HUL has utilised its working capital to generate sales.

## Conclusion

The study is about the distinctive variations in the working capital management practices between HUL and ITC Ltd. HUL has an aggressive WCM strategy, especially in terms of receivables management. It uses efficient working capital to generate sales. It has a long payable period. Its liquidity increases without affecting the supplier's relation. ITC has a conservative approach. It maintains higher liquidity and a shorter receivables period. Both maintain financial stability. The findings are similar to Patel & Prajapati (2012) and García-Teruel & Solano (2007). It clarifies that efficient inventory and receivables management leads to profitability. This also supports Tarar et al. (2015), who prove that firms with lesser receivable days and optimized working capital cycles experience greater profitability. Both firms have their own adaptive WCM strategy as per their business model. This helps each of them to maintain liquidity and gain a competitive advantage in the FMCG sector. There are possibilities of study on this area to understand how inflation, interest rates affect the supply chain and how the business model is adjusted.

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