

Research Paper

Working Capital Management in FMCG Sector ITC Limited

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Abstract

Working capital management is an important aspect of financial management that ensures the smooth functioning and operational efficiency of business organizations. This study focuses on the working capital management practices of ITC Limited in the FMCG sector. The research aims to analyze the efficiency of ITC Limited in managing its short-term assets and liabilities through financial ratio analysis. The study examines important financial indicators such as current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, and net profit ratio to evaluate the company's liquidity, profitability, and operational performance. The research is based on secondary data collected from annual reports, financial statements, journals, and company publications. Effective working capital management helps FMCG companies maintain adequate cash flow, manage inventory efficiently, and improve profitability in a highly competitive market. The findings of the study indicate that ITC Limited has maintained a satisfactory liquidity position and efficient utilization of working capital resources over the study period. The study concludes that proper financial planning, inventory control, and efficient management of current assets and liabilities contribute significantly to the financial stability and long-term growth of the company in the FMCG sector.

Keywords: Working Capital Management, FMCG Sector, ITC Limited, Liquidity Management, Inventory Management, Receivables Management, Cash Management, Current Assets, Current Liabilities, Financial Performance.

I. INTRODUCTION

Working capital management is an important aspect of financial management that deals with the management of current assets and current liabilities of an organization. It plays a vital role in maintaining liquidity, profitability, and operational efficiency of a company. In the FMCG sector, effective working capital management is highly essential because companies handle large-scale production, inventory movement, sales transactions, and continuous customer demand. Proper management of working capital helps

companies maintain sufficient cash flow, manage inventory efficiently, reduce operational risks, and ensure smooth business operations. Financial ratio analysis is commonly used to evaluate the efficiency of working capital management by analyzing liquidity, profitability, solvency, and operational performance through various financial indicators.

ITC Limited is one of the leading FMCG companies in India with diversified business operations in packaged foods, personal care products, cigarettes, hotels, paperboards, and agri-business. The company has achieved strong market growth through

efficient financial planning and operational management. Working capital management is especially important for ITC Limited due to the large volume of inventory, receivables, and daily financial transactions involved in its business activities. This study focuses on analyzing the working capital management practices of ITC Limited using financial ratio analysis. The study aims to evaluate the company's efficiency in managing short-term financial resources and maintaining financial stability. Effective working capital management helps the company improve profitability, strengthen operational performance, and maintain long-term sustainability in the competitive FMCG market.

Research Objectives

- To study the concept and importance of working capital management in the FMCG sector.
- To analyze the working capital management practices followed by ITC Limited.
- To evaluate the liquidity position of ITC Limited through financial ratio analysis.
- To examine the efficiency of the company in managing current assets and current liabilities.
- To analyze important financial ratios such as current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, and net profit ratio.
- To study the relationship between working capital management and profitability of ITC Limited.
- To evaluate the operational efficiency and financial performance of the company.
- To identify the strengths and weaknesses in the working capital management system of ITC Limited.
- To understand the role of inventory management and cash flow management in the FMCG sector.
- To suggest suitable measures for improving working capital management and financial performance of the company.

Research Methodology

- The study is based on a descriptive research design to analyze the working capital management practices of ITC Limited in the FMCG sector.
- The research is analytical in nature as it involves evaluation and interpretation of financial data using ratio analysis.
- Both primary and secondary data were used for conducting the study.
- Primary data was collected through discussions with finance professionals, company employees, and market observations.
- Secondary data was collected from annual reports of ITC Limited, company financial statements, journals, books, websites, and industry publications.
- The study mainly focuses on analyzing the liquidity position, profitability, and operational efficiency of the company.
- Financial ratios such as current ratio, quick ratio, inventory turnover ratio, working capital turnover ratio, and net profit ratio were used for analysis.
- The collected financial data was classified and organized systematically using tables and statistical methods.
- Ratio analysis was used as the primary tool for evaluating working capital efficiency and financial performance.
- Comparative analysis was conducted to understand changes in financial performance over different accounting years.

II. REVIEW OF LITERATURE

Working capital management is considered one of the most important areas of financial management, especially in the FMCG sector where companies deal with continuous production, inventory management, sales, and cash transactions. Several researchers have emphasized that effective working capital management helps organizations maintain liquidity, profitability, and operational efficiency. Previous studies indicate that proper management of current assets and current liabilities enables companies to meet short-term obligations

and ensure smooth business operations. Financial ratio analysis has been widely used by researchers to evaluate liquidity position, inventory management efficiency, profitability, and overall financial performance of organizations. Ratios such as current ratio, quick ratio, inventory turnover ratio, and working capital turnover ratio are considered important tools for analyzing the efficiency of working capital management.

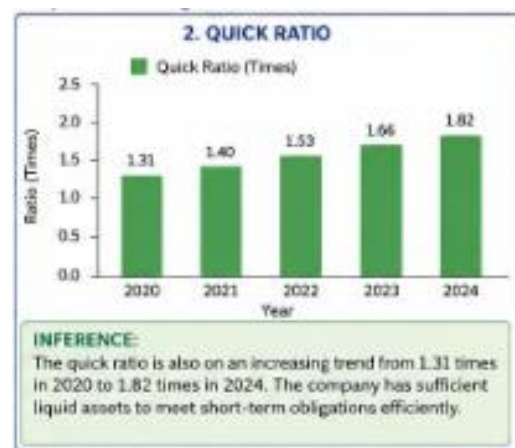
Several studies conducted on FMCG companies reveal that efficient inventory management and proper cash flow control significantly influence profitability and business growth. Researchers have observed that companies with effective working capital management practices are able to reduce operational costs, improve customer satisfaction, and achieve better financial stability. Studies related to ITC Limited show that the company has maintained a strong financial position through efficient resource utilization, strategic financial planning, and operational efficiency. Literature also highlights that technological advancements, supply chain management, and effective marketing strategies have contributed to the growth and competitiveness of FMCG companies. The existing literature provides valuable insights into working capital management practices and forms a strong foundation for analyzing the financial performance of ITC Limited in the FMCG sector.

III. DATA ANALYSIS & INFERENCES



Interpretation

The above graph represents the Current Ratio analysis of ITC Limited from 2020 to 2024. The current ratio shows a continuous increase from 1.83 times in 2020 to 2.37 times in 2024. This indicates that the company has improved its ability to meet short-term liabilities using its current assets. The increasing trend reflects a strong liquidity position, efficient working capital management, and effective utilization of current assets and liabilities. The analysis also suggests that ITC Limited has maintained adequate financial resources to ensure smooth business operations and fulfill short-term financial obligations efficiently. The steady growth in the current ratio highlights the company's sound financial stability and improved operational performance in the FMCG sector.



Interpretation

The above graph represents the Quick Ratio analysis of ITC Limited from 2020 to 2024. The quick ratio shows a steady increase from 1.31 times in 2020 to 1.82 times in 2024. This indicates that the company has improved its ability to meet short-term liabilities using its most liquid assets. The increasing trend reflects strong liquidity position, efficient cash management, and effective utilization of current assets. The analysis also suggests that ITC Limited has maintained sufficient liquid resources to fulfill immediate financial obligations without depending heavily on inventory sales. The continuous improvement in the quick ratio highlights the company's sound

financial management practices and strong short-term solvency position in the FMCG sector.



Interpretation

The above graph represents the Debt-Equity Ratio analysis of ITC Limited from 2020 to 2024. The debt-equity ratio shows a continuous decrease from 2.05 times in 2020 to 1.41 times in 2024. This indicates that the company has reduced its dependence on external borrowings and improved its financial stability over the years. The declining trend reflects a stronger solvency position, better capital structure, and efficient financial management practices. The analysis also suggests that ITC Limited has effectively balanced its debt and shareholders' equity, thereby reducing financial risk and improving long-term sustainability. The consistent reduction in the debt-equity ratio highlights the company's strong financial performance and improved ability to manage long-term financial obligations efficiently.



Interpretation

The above graph represents the Inventory Turnover Ratio analysis of ITC Limited from 2020 to 2024. The inventory turnover ratio shows a steady increase from 8.21 times in 2020 to 10.31 times in 2024. This indicates that the company has efficiently managed its inventory and converted stock into sales at a faster rate over the years. The increasing trend reflects effective inventory control, improved sales performance, and better operational efficiency. The analysis also suggests that ITC Limited has minimized inventory holding costs and maintained smooth supply chain operations. The consistent improvement in the inventory turnover ratio highlights the company's strong working capital management practices and efficient utilization of resources in the FMCG sector.



Interpretation

The above graph represents the Working Capital Turnover Ratio analysis of ITC Limited from 2020 to 2024. The ratio shows a continuous increase from 3.24 times in 2020 to 4.27 times in 2024. This indicates that the company has efficiently utilized its working capital to generate higher sales and revenue over the years. The increasing trend reflects effective management of current assets and liabilities, better operational efficiency, and improved utilization of financial resources. The analysis also suggests that ITC Limited has strengthened its working capital management practices, which contributed to improved business performance and profitability. The steady growth in the turnover ratio highlights the company's strong financial management

and efficient operational performance in the FMCG sector.

6. NET PROFIT RATIO			
Year	Net Profit (₹ Crore)	Net Sales (₹ Crore)	Net Profit Ratio (%)
2020	14,021	50,219	27.90
2021	15,375	56,253	27.32
2022	17,153	60,761	28.22
2023	19,664	68,502	28.68
2024	21,914	74,864	29.27

INFERENCE:
Net profit ratio shows an increasing trend from 27.90% in 2020 to 29.27% in 2024. This indicates improvement in profitability and efficient cost management.

Interpretation

The above table and analysis represent the Net Profit Ratio of ITC Limited from 2020 to 2024. The net profit ratio shows a gradual increase from 27.90% in 2020 to 29.27% in 2024. This indicates that the company has improved its profitability and operational efficiency over the study period. The increase in net profit reflects effective cost management, better utilization of resources, and growth in sales revenue. The analysis also suggests that ITC Limited has maintained strong financial performance by controlling operational expenses and increasing overall business efficiency. The consistent improvement in profit ratio highlights the company's ability to generate higher earnings and maintain financial stability in the competitive FMCG sector.

IV. FINDINGS

- The current ratio of ITC Limited showed a continuous increase during the study period, indicating strong liquidity position and effective management of current assets and liabilities.
- The quick ratio analysis revealed that the company maintained sufficient liquid assets to meet short-term financial obligations efficiently.
- The debt-equity ratio showed a declining trend, indicating reduced dependence on external borrowings and improved solvency position.

- The inventory turnover ratio increased steadily over the years, reflecting efficient inventory management and faster conversion of stock into sales.
- The working capital turnover ratio showed continuous improvement, indicating effective utilization of working capital for generating higher revenue.
- The net profit ratio increased gradually from 2020 to 2024, showing improvement in profitability and operational efficiency.
- ITC Limited maintained effective control over operational expenses and financial resources during the study period.
- The company demonstrated strong financial stability and efficient working capital management practices.
- Efficient inventory control helped the company reduce inventory holding costs and improve sales performance.
- Proper liquidity management enabled the company to fulfill short-term obligations without financial difficulties.
- The company showed strong operational performance through efficient utilization of financial and inventory resources.
- Effective financial planning and resource management helped ITC Limited maintain long-term sustainability and competitiveness in the FMCG sector.

V. CONCLUSION

The study on working capital management in the FMCG sector with special reference to ITC Limited concludes that effective management of working capital plays a significant role in maintaining liquidity, profitability, and operational efficiency of the company. The financial ratio analysis revealed that ITC Limited has shown continuous improvement in liquidity position, inventory management, profitability, and overall financial performance during the study period from 2020 to 2024. The increasing current ratio and quick ratio indicate that the company maintained sufficient current and liquid

assets to meet short-term financial obligations efficiently. The declining debt-equity ratio reflects reduced financial risk and improved solvency position. Similarly, the increasing inventory turnover ratio and working capital turnover ratio demonstrate efficient utilization of resources and better operational performance. The study also highlights that proper financial planning, inventory control, and efficient working capital management have contributed significantly to the company's growth, profitability, and long-term sustainability in the competitive FMCG sector.

- Working capital management plays an important role in maintaining liquidity and profitability in FMCG companies.
- ITC Limited showed continuous improvement in liquidity position through increasing current and quick ratios.
- The declining debt-equity ratio indicates reduced dependence on external borrowings and improved financial stability.
- The inventory turnover ratio reflects efficient inventory management and faster conversion of stock into sales.
- Efficient inventory control and supply chain management supported business growth and customer satisfaction.
- The study concludes that ITC Limited maintained strong financial performance and long-term sustainability through effective working capital management practices in the FMCG sector.

VI. FUTURE SCOPE

The future scope of studying working capital management in the FMCG sector with reference to ITC Limited is significant because FMCG companies operate in a highly competitive environment with large volumes of inventory, frequent sales transactions, and extensive distribution networks. Future studies can examine how effectively ITC manages its current assets and current liabilities while maintaining adequate liquidity and profitability. Changes in consumer demand, market conditions, and distribution requirements can also be

considered when evaluating working capital efficiency.

The increasing use of digital technologies, Artificial Intelligence (AI), and data analytics provides new opportunities for improving working capital management. ITC can use real-time data to forecast product demand, optimize inventory levels, monitor receivables, and improve cash-flow planning. Predictive analytics can help identify potential shortages or excess inventory and support faster financial decision-making. Future research can evaluate how technology-driven working capital practices affect operational efficiency and profitability.

Another important area of future development is inventory and supply-chain management. FMCG companies need to maintain sufficient stock to meet customer demand while avoiding excessive inventory holding costs. Future studies can examine the impact of demand forecasting, warehouse automation, supplier coordination, logistics efficiency, and just-in-time inventory practices on ITC's working capital cycle. Sustainable supply-chain practices can also be incorporated into future research.

Future research can also focus on receivables and cash management. Efficient collection of outstanding payments and effective utilization of available cash are essential for maintaining financial stability. Studies can examine credit policies, payment cycles, cash conversion periods, and relationships with distributors and retailers. Improved digital payment systems and automated financial monitoring may provide opportunities to reduce collection periods and strengthen liquidity.

Finally, future studies can conduct a comparative analysis of ITC with other leading FMCG companies to evaluate differences in working capital ratios, inventory turnover, receivables management, liquidity, profitability, and cash conversion cycles. Research can also examine how inflation, interest rates, changing consumer demand, economic conditions, and supply-

chain disruptions influence working capital requirements. Such studies can help ITC and other FMCG companies optimize their working capital, improve financial performance, reduce liquidity risks, and achieve sustainable long-term growth.

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