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ACCOUNT PAYABLES MANAGEMENT IN SELECTED COMPANIES OF FAST MOVING CONSUMABLE GOODS (FMCG) SECTOR IN INDIA

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ABSTRACT

The present study is tried to evaluate the Funds used by the companies to finance their working capital requirements and to analyze and evaluate the payable management. The present study therefore is a modest attempt in the direction by undertaking a study of payable management. The study will also examine the liquidity position of the companies. The study analyzed the account payable management of a limited sample consisting of only five companies i.e. Nestle, HUL, Britannia, ITC and Dabur. The study of payable management is based on only one tool i.e. Ratio Analysis. Further the study is based on last 10 years Annual Reports of the five companies taken into consideration which is only Fast Moving Consumable Goods sector was covered. In these companies products are delivered and sold to the customer before the company even pays for them. A negative working capital is a sign of managerial efficiency in a business with low inventory, accounts receivables and high payables. In other situation, it is a sign a company may be facing bankruptcy or serious financial trouble.

KEYWORDS: *Payable Management, Bottleneck, Negative Working Capital, Managerial Efficiency.*

Introduction

A company that employs best practices with regards to payables management can reap the benefits of stable operating cycles that provide a stable source of operating cash flows and place it in a good liquidity position with respect to its competitors. Account Payables Management refers to the set of policies, procedures, and practices employed by a company with respect to managing its trade credit purchases. This typically entails credit analysis by the creditor. The final product of such analysis is usually some form of a credit risk rating. The financial statements of the company are analyzed, paying particular attention to its working capital, short-term liquidity and short and long-term debt to gauge its ability to meet obligations.

Review of Literature

Mathuva (2011) examined the influence of working capital management components on corporate profitability by using a sample of 30 firms listed on the Nairobi Stock Exchange (NSE) for the periods 1993 to 2008. He used Pearson and Spearman's correlations, the pooled ordinary least square (OLS), and the fixed effects regression models to conduct data analysis.

Nazir and Afza (2009) explored the factors that determine the requirements of working capital management, using 204 manufacturing firms from 16 industrial groups listed at Karachi Stock Exchange, Pakistan, for a period of 1998-2006. Researchers found evidences that operating cycle, leverage, ROA and Tobins'Q significantly influenced the working capital requirement.

Teruel and Solano (2005) suggested that account receivable and the position of stock give the impact on profitability and the management can create value by reducing their firms' no. of collection days.in this way firm can improves their firms' profitability.

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Objectives of the Study

This study having the following objectives:

- **To Increase in Profit:** As payable will increase the power of purchases, the sales expansion would favorably raise the marginal contribution proportionately more than the additional costs associated with such an increase. This in turn would ultimately enhance the level of profit of the concern.
- **To Existing in Competition:** A concern purchases of raw material on credit basis always has a sound solvency position. Therefore, a firm may resort granting of credit facility to its customers in order to protect sales from losing it to competitors.
- **To Augment Suppliers Liabilities:** Payables are valuable to the supplier on the ground that it augments their liabilities. It is favored particularly by those supplier, who find it expensive and cumbersome to lend to other liabilities.
- **Speedy Distribution of Funds:** Payables play a very important role in accelerating the velocity of distributions.

Scope of the Study

The scope of the study is identified after and during the study is conducted. The main scope of the study is to check the management of account payable for working capital (current assets and current liabilities) of only FMCG sector. The study analyzed the liquidity position threw payables and working capital management of a limited sample consisting of only five companies i.e. Nestle, HUL, Britannia, ITC and Dabur. The study of Account Payable Management is based on only one tool i.e. Ratio Analysis. Further the study is based on last 10 years Annual Reports of the five companies taken into consideration. As only FMCG sector was studied so the findings could only be generalized to this sector's firms.

Limitations of the Study

- The study duration is limited to 10 years.
- The findings of the study are based on the information retrieved by the annual reports of the companies.
- The study is limited to the analysis of the Account Payable management of the companies.
- The study is focused on the analysis of FMCG sector only.
- The study has picked up only five companies in the FMCG sector.

Formulation of Problem

Study of the working capital management is very crucial for all the firms. Unless the working capital is planned, managed and monitored effectively, company cannot earn profits and increase its turnover, Also, it helps in removing bottlenecks. Although very studies have been conducted on analyzing the working capital management threw account payable of Indian companies but very few studies have measured the working capital management of top FMCG companies of last decade. This study bridges the gap and highlights the current status of working capital management threw account payables of top 5 FMCG companies in India.

Other Research Problem

- To study liquidity position of the FMCG companies by taking Account Payables.
- To compare and analyze various components of working capital management such as accounts payables.
- To open new areas of research.

Research Methodology

The research study is conclusive in nature as it has tried to give the status of working capital management threw account payables of FMCG companies in India. It has tried to describe whether the FMCG companies are maintaining an aggressive or flexible working capital policy. To analyze it most appropriate ratios of FMCG companies have been calculated using the annual reports of these companies.

Sampling Design

- **Population**: The population contains all the FMCG companies in India.
- **Sampling Element**: Five individual FMCG companies have been analyzed. The five companies are:
  - Hindustan Unilever Ltd.
  - ITC (Indian Tobacco Company)

- Nestlé India
- Britannia
- Dabur India

- **Sampling Size**: It comprises of financial data of 10 years of the above five FMCG companies.
- **Sampling Technique:** Judgment sampling technique (non probability sampling technique) has been used.
- **Tools used for data collection:** Secondary Sources has been used to collect data. The websites of above FMCG companies have been used to get the financial data for the period from 1st April 2007 to 31st March 2017.
- **Tools used for data analyses:** Account payable Turnover Ratio

Analysis and Findings

Accounts Payable Turnover Ratio

Accounts payable turnover ratio shows the relation between net credit purchases its average accounts payable during the certain period. It shows short term payable position of business.Accounts payable turnover shows the measurement of short-term liquidity in any business. A higher value of account payable turnover indicates that the business is able to pay its short term liability quickly, when higher volume of accounts payable turnover ratio is favorable for business favorable.

Payable turnover ratio = Annual net credit purchases/Average accounts payable

Accounts Payable Turnover Ratio of Individual Companies (Rs. in Crores)

Table 1: Accounts Payable Turnover Ratio of ITC

Year	Net Purchases	Sundry Creditors	Ratio
2016-17	9698	1425	6.81
2015-16	8431	1395	6.04
2014-15	7337	3444	2.13
2013-14	6092	2924	2.08
2012-13	6767	2740	2.47
2011-12	6032	2343	2.57
2010-11	4607	2148	2.14
2009-10	3236	1892	1.71
2008-09	2601	2804	0.93
2007-08	2331	2051	1.14
		Grand Average	**2.80**

Source: Compiled from annual report of company.

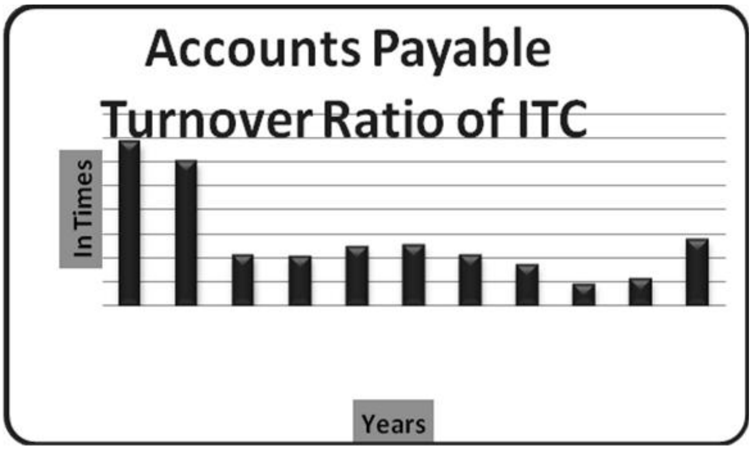
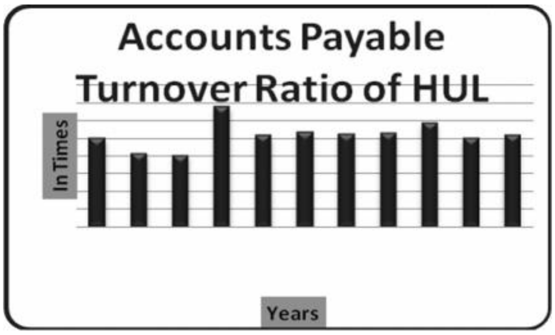


Table shows the value of account payable turnover ratio of ITC. The values started with 1.14 in the year 2007-2008. It decreased in the next year. In year 2009-2010, it increased to 1.71. From year 2010-2011 to 2014-2015, the value stayed in twos. Then the value increased sharply and touched 6.04 in year 2015-2016 and further increased to 6.81 in year 2016-2017. The values show ‘that the company is comfortable in paying to its suppliers and managing the creditors properly.

Table 2: Accounts Payable Turnover Ratio of HUL **(Rs in Crores)**

Year	Net Purchases	Sundry Creditors	Ratio
2016-17	11609	4623	2.51
2015-16	10369	5009	2.07
2014-15	8901	4374	2.03
2013-14	11232	3305	3.40
2012-13	7455	2878	2.59
2011-12	6619	2464	2.69
2010-11	6114	2345	2.61
2009-10	5357	2029	2.64
2008-09	5389	1841	2.93
2007-08	5199	2072	2.51
		Grand Average	**2.60**

Source: Compiled from annual report of company



Values of accounts payable turnover ratio are shown in table. The values of almost all the years except for year 2013-2014 are ranging between 2.03 to 2.69. The year 2013-2014 has the increased value of 3.40. This shows that the company is satisfying its creditors by making payments to them on time. The company has managed to keep short term liquidity.

Table 3: Accounts Payable Turnover Ratio of Nestle **(Rs. in crores)**

Year	Net Purchases	Sundry Creditors	Ratio
2016-17	3638	997	3.65
2015-16	3139	745	4.21
2014-15	2457	582	4.22
2013-14	2139	502	4.26
2012-13	1752	456	3.84
2011-12	1337	366	3.65
2010-11	1128	317	3.56
2009-10	1041	266	3.91
2008-09	950	236	4.03
2007-08	851	212	4.01
		Grand Average	**3.93**

Source: Compiled from annual report of company

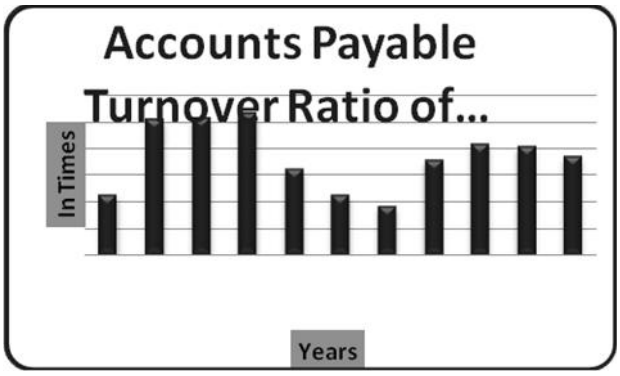


Table shows the values of account payable turnover ratio of nestle. Year 2007-08 has 4.01 as the ratio which got increased to 4.03 in the next year. Year 2009-10 sees a slight decline in the ratio value to 3.91 which further declined to 3.56 in the next year. The ratio is 3.65 in the year 2011-12 which got increased to 3.84 in the next year. The value stayed more or less near four in the next three years and then it declined to 3.65 in year 2016-17. The value of account payable ratio indicates that the company is maintaining its trade creditors.

Table 4: Accounts Payable Turnover Ratio of Dabur **(Rs in crores)**

Year	Net Purchases	Sundry Creditors	Ratio
2016-17	2080	585	**3.56**
2015-16	1729	495	**3.49**
2014-15	1400	349	**4.01**
2013-14	1283	282	**4.55**
2012-13	1029	250	**4.12**
2011-12	796	190	**4.19**
2010-11	564	132	**4.27**
2009-10	560	133	**4.21**
2008-09	483	115	**4.20**
2007-08	540	81	**6.67**
		Grand Average	**4.33**

Source: Compiled from annual report of company

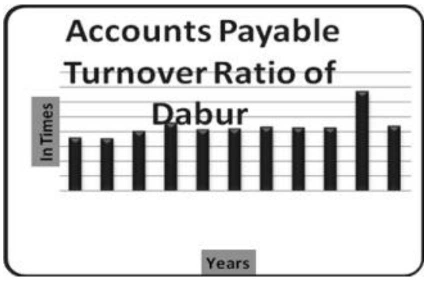
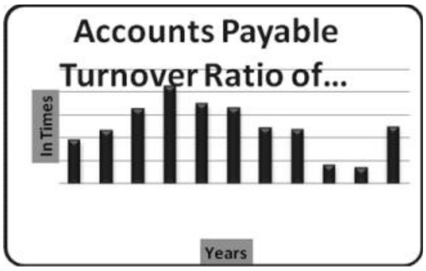


Table shows that Dabur has maintained quite a comfortable account payable turnover ratio by paying the suppliers on time and satisfying them. Year 2007-2008 has a value of 6.67 which is quite high. Then the ratio kept on declining and reached 4.12 in year 2012-2013. It increased to 4.55 in year 2013-2014 and then again kept on declining and reached 3.56 in the year 2016-2017.

Table 5: Accounts Payable Turnover Ratio of Britannia **(Rs in crores)**

Year	Net Purchases	Sundry Creditors	Ratio
2016-17	3184	336	9.48
2015-16	2782	240	11.59
2014-15	2183	133	16.41
2013-14	1862	88	21.16
2012-13	1643	94	17.48
2011-12	1428	86	16.60
2010-11	1054	86	12.26
2009-10	869	74	11.74
2008-09	642	155	4.14
2007-08	560	157	3.57
		Grand Average	**12.44**

Source: Compiled from annual report of company



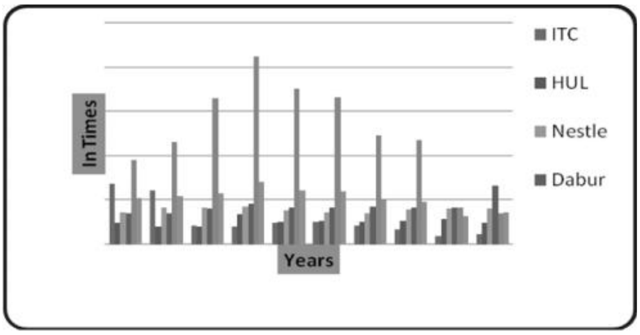
The values of Account payable turnover ratio of Britannia are very high and are highest among all the companies taken in the study. The year 2007-2008 has the lowest value of 3.57 among all 10 years. The value started increasing and reached 21.16 in the year 2013-2014 which shows a very efficient turnover ratio and indicate that the company is paying to the creditors very fast. The ratio value started declining after that year and reached 9.48 in the year 2016-2017. Still the value of account payable turnover ratio is comparatively very high.

Comparison of Accounts Payable Turnover Ratio among the Companies & with the Industry's Average

Table 6: Accounts Payable Turnover Ratio of 5 Companies and the Industry Average

Year	ITC	HUL	Nestle	Dabur	Britannia	Industry Average
2016-17	6.81	2.51	3.65	3.56	9.48	5.20
2015-16	6.04	2.07	4.21	3.49	11.59	5.48
2014-15	2.13	2.03	4.22	4.01	16.41	5.76
2013-14	2.08	3.40	4.26	4.55	21.16	7.09
2012-13	2.47	2.59	3.84	4.12	17.48	6.10
2011-12	2.57	2.69	3.65	4.19	16.60	5.94
2010-11	2.14	2.61	3.56	4.27	12.26	4.97
2009-10	1.71	2.64	3.91	4.21	11.74	4.84
2008-09	0.93	2.93	4.03	4.20	4.14	3.25
2007-08	1.14	2.51	4.01	6.67	3.57	3.58
Grand Average	**2.80**	**2.60**	**3.93**	**4.33**	**12.44**	**5.22**

Source: Compiled from Annual Report of Company



Year 2016-17

In year 2016-17, the average payable turnover ratio in the FMCG sector is 5.20 which is not very high. It was 9.48 with Britannia having the highest value followed by ITC at 6.81 and Nestle at 3.65. Higher the payable turnover ratio, better it is considered for FMCG companies because it generally indicates that the business was able to repay its suppliers quickly. Thus higher value of accounts payable turnover is favorable. The company having the least payable turnover ratio is HUL with the value of 2.51 which is less than the average ratio of the industry in that year. It shows that the company is converting its payable into sales at a very low pace because of the short term liquidity problem. Refer Table 6.

2015-16

In year 2015-16, the average payable turnover ratio in the FMCG sector comes out to be 5.48 which is slightly more than the ratio in year 2016-2017. In this year, the company having the highest payable turnover ratio is Britannia with the value of 11.59 which is double the average ratio of the industry. It is followed by ITC with the value of 6.04which is again high and more than the industry's average. Rest of the three companies Nestle, Dabur and HUL have values which are much less than the industry's average in this year which indicates that the companies are not having short term liquidity to pay regularly to their suppliers. Refer Table 6.

2010-11

In year 2010-11, the average payable turnover ratio in the FMCG sector comes out to be 5.76 which is reasonably good for FMCG companies. In the same year, the company having the highest payable turnover ratio is Britannia. The ratio is 16.41. And that shows that the company is keeping an efficient payment system by paying its creditors on time and maintaining its short term liquidity effectively during one year. Nestle and Dabur are the companies with the second and third highest ratio of 4.22 and 4.02 respectively. Other two companies namely ITC and HUL had their ratios around 2. Refer Table 6.

2007-08 to 2013-14

If we analyze these seven years, we see that the value of industry average of payable turnover ratio has been moving in the northward direction from the value of 3.58 in 2007-2008 to 7.09 in 2013-2014. In all these seven years, Britannia is the only company that have maintained itself to be the most effective and efficient in converting its account payables into cash on time followed by Dabur. All other companies have maintained reasonably low and below average payable turnover ratio. Throughout the 10 years of time period, ITC always has a payable turnover ratio which is least compared to all the companies. So, it can be said that among all the FMCG companies, ITC has maintained a very poor picture in the eyes of the suppliers. Refer Table 6.

Conclusion

This study has analyzed the payable turnover management of top five FMCG companies namely Dabur, Nestle, ITC, HUL and Britannia for a period of ten years using ratio analysis method. It has focused on how much liquidity these companies are maintain for the smooth functioning of the operation which doesn't affect the production which in turn doesn't affect the purchases which in turn doesn't affect the profitability of the companies. Many companies go back due to liquidity issues, rather than decrease in profitability. Traditionally it is always suggested that firm should have sufficient cash to cover their immediate liabilities. Thus there is a growing breed of Fast Moving Consumer Goods companies that claim otherwise. They can generate liquid so quickly they actually have a negative working capital. This happens because supplier receives upfront and so slowly, the business has no problem raising liquid. In these companies products are manufactured and purchase from the supplier before the company even pays for them. Hence they concentrate their resources on marketing and either outsource their manufacturing or make a limited investment (as compared to their turnover) in plant and machinery. Therefore there is a limited room to raise funds by mortgaging the plant and machinery. Typically a firm pledges its plant, machinery or inventory to raise the bank loan/overdraft required to fund its operation. The study highlighted some major findings like the company maintaining the lowest payable turnover ratio in ITC, HUL, Nestle and Dabur. Britannia has high payable turnover ratio, it means the payment period of these company is lesser than other company. So this is good symptoms for company. In this way the working capital requirement is less than other companies.

Suggestions

- The requirement of working capital should be properly assessed in view of the present availability of the concern. This will help the management to avoid any over-investment or under-investment in current assets.
- Various factors affecting the requirement of liquidity in a concern, like nature of business, production policies, etc. must be considered and kept in mind while estimating the need of liquidity.
- A proper combination of long-term and short-term sources should be employed to finance working capital requirements, both, of permanent nature and temporary nature.
- The accepted norm should also be considered with the personal choices while financing of working capital. As a rule, the permanent working capital should be financed from long-term sources, preferably the equity, while the variable working capital should be financed from short-term sources only.
- There should be a more efficient utilization of current assets by the management. Increase in sales should correspond to the increase in current assets. Individual attention should be paid to the management of each component of current assets, viz. Inventories, receivables, cash and payable etc.
- ITC, Dabur, HUL and Nestle less payable turnover ratio, it means the payment period of these companies is more than Britannia Company. So this is not good for companies. In this way the working capital requirement is greater than other company. Therefore Britannia should try to decrease their payment period.

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