

## IMPACT OF LIQUIDITY ON THE FINANCIAL PERFORMANCE OF FMCG COMPANIES IN INDIA

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Reeti Gaur\*  
Dr. Rajinder Kaur\*\*

### ABSTRACT

*Over the years, liquidity is recognized as the pre-requisite for the survival of the business and managers of the companies take active participation in the management of liquidity. They realize that adequacy of liquidity in the company determines the financial performance of the company. In light of this, the present study analyses the liquidity position of FMCG companies in India and its impact on the financial performance of the companies for the period 2001-02 to 2016-17. It has been revealed through analysis that the selected FMCG companies in India maintained liquidity level below the standard ratio of 2:1. On the other hand, large disparity has been found in the companies' financial performance ratios and majority of the companies have ROA and ROCE below the industry average. The study showed that financial performance of the companies are significantly affected liquidity position measures and important among these are debtor turnover ratio and cash conversion cycle. Thus, the study concludes that the companies must work upon reduction of cash conversion cycle in order to improve profit margins.*

**KEYWORDS:** *Liquidity, Performance, FMCG, India, Cash Conversion Cycle.*

### Introduction

Liquidity is the speed with which the companies convert their business activities into cash. Cash being the most liquid form of companies' assets, are used to pay the upcoming financial obligations. Other than cash, other liquid assets include short-term investments, account receivables and inventories as they can be easily converted into cash when need arises and are jointly known as current assets. In the words of Chakraborty (2004), "liquidity is an attribute that signifies the capacity to meet financial obligation as and when required". Since 1930s, the managers of big and small corporations realized that managing the liquidity is equally important as the other objectives of the company. An active participation of managers in liquidity management was initiated since then. But, what actually liquidity management signifies? Liquidity management is a day-to-day activity performed by companies assuring that they carry adequate liquidity with themselves. As too low or too high liquidity hamper either of the two objectives of the companies, i.e.

- **Minimization of Risks:** An uninterrupted business operation strives for a smooth flow of cash within the organization. This signifies that the company must have adequate working capital with itself to perform day-to-day activities which involves purchase of raw materials, paying for petty expenses, paying salary to employees etc. Inadequacy of funds to fulfill these financial obligations may lead to dissatisfaction among stakeholders. Thus, jeopardizing company with situation of bankruptcy, bad reputation, loss of creditor's confidence or may be leading to high cost borrowings and thereby, creating a vicious circle of risks. The companies therefore, need to have adequate liquidity to meet its debt obligations and run the business operation with minimal risk.

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\* Research Scholar, Department of Commerce, Punjabi University, Patiala, Punjab, India.

\*\* Professor, Department of Commerce, Punjabi University, Patiala, Punjab, India.

- Maximization of Profitability:** In order to prevent the company from the risk of non-availability of funds, the managers are likely to inject more and more cash in the business. But too much idle cash funds in the balance sheet are a deterrent towards loss of profitable avenues and thereby, hampering the companies' objective of maximizing profitability. Luther (2007) therefore stated that profitability could only be maximized when the current assets and liabilities are jointly targeted. This can be done by investing excess cash in profitable avenues, reducing inventories, speedy account receivables' collection and purging unnecessary short-term liabilities.

Liquidity is thus, an indispensable attribute for the survival of a business and an adequate amount of the liquidity need to be kept in the business for fulfilling the day-to-day financial obligation but without jeopardizing the primary objective of profit maximization. The literatures suggested that liquidity and profitability holds a strong relationship. Thus, trading-off between both is an integral part of corporate strategies.

#### **FMCG Industry in India: A Profile Study**

Indian FMCG industry is positioned four in the list of India's largest industry with a total market size is USD 49 billion in year 2016. It has reported a CAGR of 11 per cent annually since year 2000 (market size USD 9 billion). Fast Moving Consumer Goods Industry or 'CONSUMER PACKAGED GOODS INDUSTRY' is an industry of general public. The industry involves activities like production, distribution and marketing of products that are frequently purchased either in small quantity or sometimes in bulk by the people of any country for daily consumption. The FMCG industry is thus categorized as an industry with increasing consumption of consumer packaged goods that are of low cost but high shift turnover. Indian FMCG industry is characterized as the largest and the highly fragmented non-durable consumer goods industry at the domestic and international level.

#### **Literature Review**

The review of past studies gives a broad insight over the concept of liquidity and its importance in the determining the profitability of a company. The reviews cover studies examining the liquidity and profitability relation at domestic and international level. **BCG (2010)** examined 122 FMCG companies for the year 2006 to 2009 to examine the working capital performance of the companies. The report found that after global crises the companies revitalized their cash in different segments of the sector but such improvement began to erode due to lack of effectiveness. Further, large disparity was found between the leaders and the underperformers. The report further, suggested various cash management strategies for the FMCG companies to improve their working capital performance. **Bagchi and Khamuri (2012)** examined a sample of 10 FMCG companies in India for the period 2000-01 to 2009-10 to understand the relationship between working capital management and profitability. They found a negative relationship between cash conversion cycle (measure for working capital management) and the profitability and concluded that if companies work upon managing their working capital, they can increase their profitability. Also, similar results were found in other study by Bagchi and Khamuri in 2014 on Indian Public Sector companies. They showed that profitability was negative related to age of inventory, age of debtors and cash conversion cycle but positively rate to age of creditors. **Dash and Hanuman (2008)** stressed upon the importance of liquidity and profitability trade-off. Their study suggested that if the companies restructure their working capital, they can maximize the profits. Moreover, the study advised to reduce the inventory in order to improve profitability. **Saini and Saini (2010)** revealed that Infosys Limited followed conservative policy of liquidity which had a negative influence on profitability. Further, similar results were supported by studies like **Moansoori and Muhammad (2012)**; **Obida and Owolabi (2012)**; **Kaur and Singh (2013)**; **Mohanty (2013)** and **Anjum (2017)** and **Priya and Nimalathan (2013)**.

Many studies, however, found to have insignificant relationship between liquidity and profitability. **Niresh (2012)** examined 31 manufacturing companies in Sri Lanka for the period 2007 to 2011 and found negative but insignificant relationship between liquidity and profitability. Similarly, study by **Patel (2013)** on manufacturing companies in India showed no significant relationship between liquidity and profitability. **Luther (2007)** when assessed the relationship between liquidity, profitability and risk for Madras Cement Ltd (1997-98 to 2004-05) found that company had high liquidity in first half of the study period but thereafter reduced its liquidity. The author was of the idea that in the long run if the illiquidity persisted, it would have bad effect of profitability as well as solvency of the business. Parallel to this, **Gaur and Kaur (2017)** examined the liquidity status of 5 FMCG companies in India for the period 2000-01 to 2013-14 and found that the companies were unable to manage their working capital effectively

which gave unsatisfactory performance. The companies had low level of profits which varied from company to company. The studies proved a positive association between liquidity measures and profitability.

The above studies showed that managing liquidity and profitability efficiently is the pre-requisite for the survival of business. An efficient trade-off between liquidity and profitability is required for the success of the business in long-run. The studies showed that by reducing the cash conversion cycles, firm's performance increases. It is also noteworthy that in long run, if the companies hold less liquid assets, its fails to fulfill debt obligations as a results companies' performance deteriorate creating a vicious circle of losses. Besides, there are studies that indicated that the liquidity and profitability does not hold strong relation. It is evident that the relation between both varies from industry to industry and company to company. With this backdrop, the present study analyses the liquidity position and its impact on the financial position of FMCG companies in India.

**Objectives of the Study**

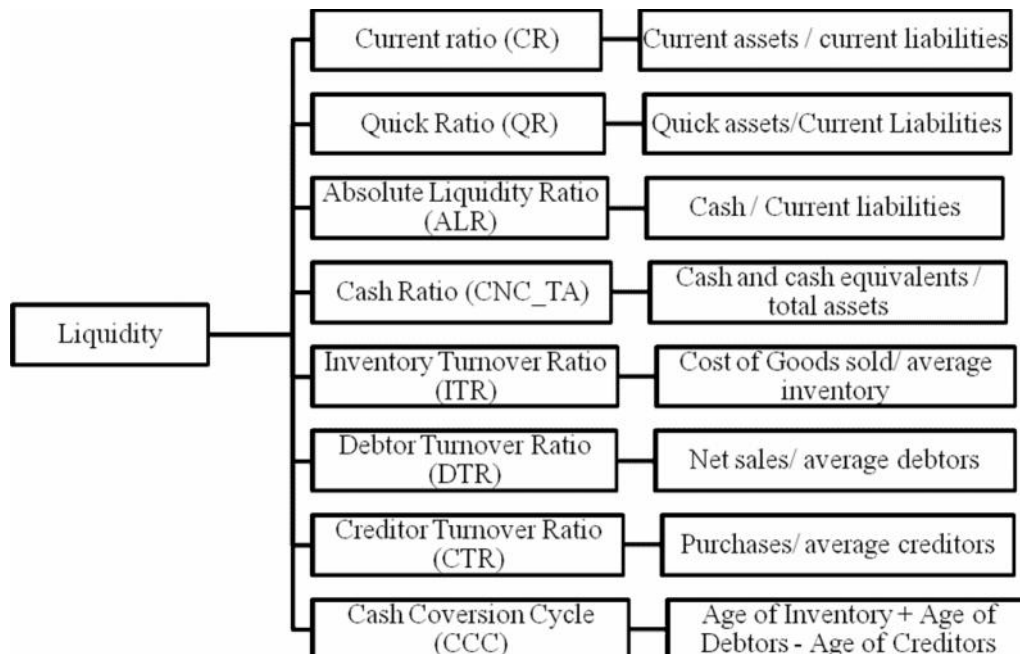
- To study the liquidity position of the FMCG companies in India
- To examine the impact of liquidity on the profitability of the FMCG companies in India

**Research Methodology**

The study is based on secondary data collected from the CMIE database, 'Prowess' and annual reports of the companies. The data is collected for 26 FMCG companies listed on the BSE India for the time period of 16 years beginning from 2001-02 to 2016-17. Further, the data is also collected from other secondary sources such as BSE and NSE website, journals (online/offline), magazines, books, etc. The selection of variables is based on the insight from the past studies and their appropriateness in the study.

**Data analysis and Interpretation**

The analysis of the study is divided into three sections. The first section measures the liquidity position and the financial performance of the selected 26 FMCG companies in India for the period of 16 years i.e. from 2001-02 to 2016-17. The second section represents a graphical presentation depicting the relationship between liquidity and profitability of the FMCG companies. The objective is to identify the relationship between liquidity and profitability for individual companies. Lastly, third section is based on the panel data regression approach to examine the impact of liquidity measures on the profitability of the FMCG companies. In order to measure the liquidity position of the FMCG companies, the variables selected includes:



### **Section I: Liquidity Position and financial performance of selected FMCG companies in India (Average of 2001-02 to 2016-17)**

Table 1a represents the inter-company comparison of liquidity ratios such as current ratio (CR), quick ratio (QR), absolute liquidity ratio (ALR) and cash ratio (CNC\_TA) of FMCG companies based on the average of 16 years. The analysis involves an inter-company comparison along with the industry average of the liquidity ratios calculated by averaging the liquidity measures over 16 years. The ratios such as CR, QR and ALR measure the availability of liquid assets to pay off the financial obligations. Cash ratio measures the proportion of cash and cash equivalents (marketable securities) to the total assets in the balance sheet.

As per table 1a, the results reveal that only Emami Ltd has the current ratio close to 2:1 (ideal ratio) and quick ratio more than the ideal ratio of 1:1 representing a satisfactory liquidity position. On the contrary, Jyothy Laboratories Ltd is highly liquid company with CR as 2.99:1, QR as 2.36:1 and ALR as 1.58:1. All other companies have CR and ALR beyond their standard ratio, with Hatsun Agro Product Ltd being the least liquid company. The industry average of CR (1.31:1), QR (0.75:1), ALR (0.38:1) and CNC\_TA (15.32 per cent) indicates that the companies' liquidity position is satisfactory to a large extent. Average cash maintained by companies is 15.32 per cent which suggests that company is keeping good amount of cash holdings with itself and almost 50 per cent companies have average cash holdings more than the industry average.

Table 1b represents the inter-company comparison of second set of liquidity ratios such as inventory turnover ratio (ITR), debtor turnover ratio (DTR), creditor turnover ratio (CTR) and cash conversion cycle (CCC) of FMCG companies based on the average of 16 years. The ratios such as ITR, DTR and CTR are also known as turnover ratio or activity ratio that measures the efficiency in utilization of liquid assets to generate sales. Cash conversion cycle measures the days or time period consumed to convert the raw materials into cash i.e. period of completion of operating cycle.

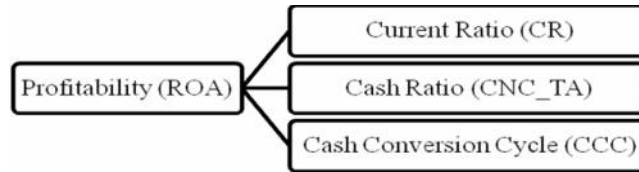
A high turnover ratio represents the efficiency of companies in utilizing its assets to generate sales. As per table 1b, this efficiency can be witnessed in companies such as Hatsun Agro Products Ltd followed by Britannia Industries Ltd. and Agro Tech Foods Ltd having ITR, DTR and CTR more than the industry average. It is also found that the inventory turnover ratio of 70 to 80 per cent companies is below industry average. This indicates that the companies are holding large inventory in proportion of the sales generated. However, the companies are efficiently managing their debtors but holding their creditors for long. As a result, the cash conversion cycle of many companies are very short and even have negative values. The average cash conversion cycle of the industry is 60 days.

Table 1c represents the inter-company comparison of financial performance measured by return on assets (ROA) and Return on capital employed (ROCE) of FMCG companies based on the average of 16 years. The analysis involves an inter-company comparison along with the industry average of the financial performance measures calculated by averaging the each measure over 16 years.

Return on assets represents efficiency of companies in utilizing its assets and earn profits whereas return on capital employed represents the efficiency of companies in utilizing the capital invested to earn profits. As per table 1c, the companies that are efficient in utilizing these assets include Nestle India Ltd. (25.14 per cent) followed by Godrej Consumer Products Ltd. (24.25 per cent), Hindustan Unilever Ltd. (24.03 per cent), Colgate-Palmolive (India) Ltd. (23.72 per cent) and Dabur India Ltd. (21.11 per cent). Further, similar companies are found to have efficiency in utilizing their capital invested. It is noteworthy that almost 14 FMCG companies have ROA and ROCE below the industry average of 11.60 per cent (ROA) and 25.77 per cent (ROCE) respectively. Among these companies, United Spirits Ltd. and Bombay Burmah Trading Corp Ltd are the worst performers.

### **Section II: Relationship Between Liquidity and Profitability**

Liquidity and profitability are the two crucial objectives of the company. But the two cannot withstand together. Focusing on one may lead to reduction in another. An efficient manager is one who manages both in a way that success of the company could be defined. Following graphs represent the relation between profitability and liquidity of different FMCG companies in India. The relation is examined using return on assets as the measure for profitability and three measures of liquidity namely, current ratio, cash ratio and cash conversion ratio.



Based on the above tables (Table 1a, Table 1b and Table 1c), the graphs are divided into four quadrants and divided into high and low as per their industry average. The quadrants are as follows:

**Quadrant I** represents companies having low liquidity and high profitability.

**Quadrant II** represents companies having high liquidity and high profitability.

**Quadrant III** represents companies having low liquidity and low profitability.

**Quadrant IV** represents companies having high liquidity and low profitability.

**Graph 1 Relationship between liquidity (Current ratio) and Profitability**

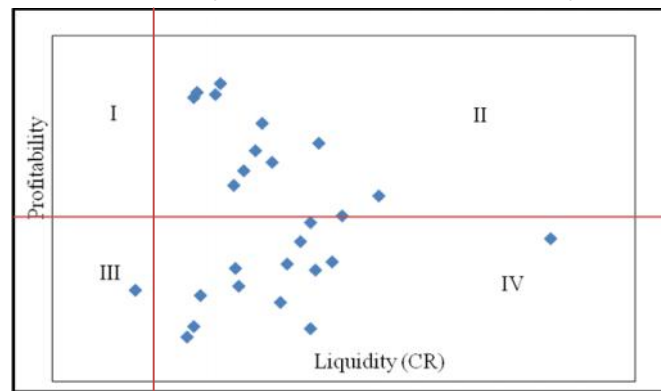


Diagram 1 represents the relationship between profitability (ROA) and Liquidity measured by current ratio (CR). As per diagram 1, there are eight companies that lie in quadrant I having low liquidity with high profitability and eight companies lie in quadrant IV having high liquidity with low profitability. This indicates that majority of FMCG companies show inverse relationship between liquidity and profitability. In addition, there are six companies in the quadrant III which indicate that low liquid companies also likely to have low profitability.

**Graph 1: Relationship Between Liquidity (Cash Ratio) and Profitability**

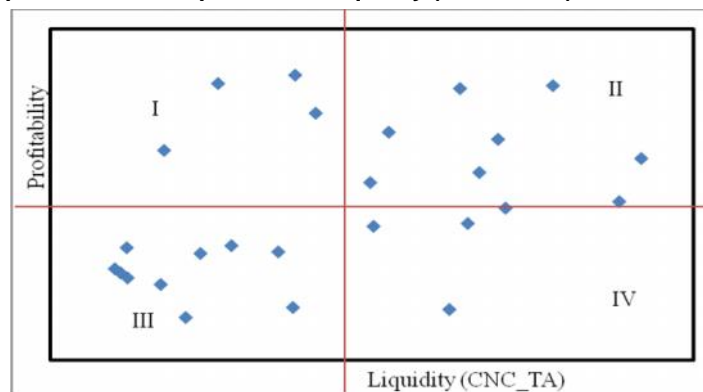


Diagram 2 represents the relationship between profitability (ROA) and the cash ratio (CNC\_TA) representing liquidity of the companies. Looking at the diagram, it is observed that cash ratio hold a positive relation with profitability as majority of companies lie in the II and III quadrant. It is evident that companies having low cash holdings are likely lose profitable avenues due to financial constraints and therefore shows low profits.

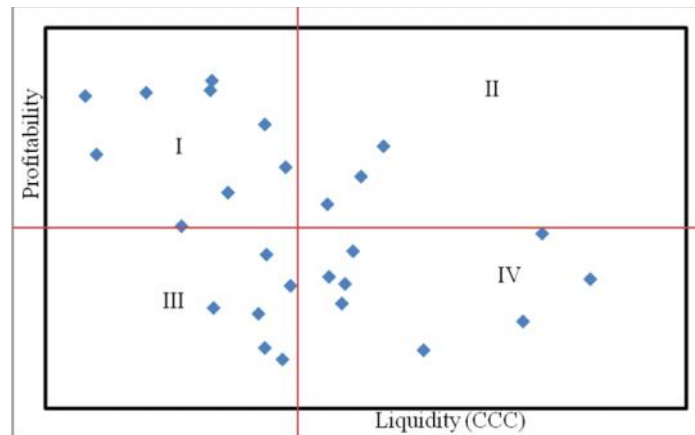
**Graph 1: Relationship between Liquidity (Cash Conversion Cycle) and Profitability**

Diagram 3 represents the relationship between profitability (ROA) and the cash conversion cycle (CCC) representing the days taken by companies to complete the operating cycle. Looking at the diagram, the study found that majority of companies i.e. 17 out of 26 companies fall in quadrants indicating the inverse relationship between cash conversion cycle and profitability. This suggests that when the companies manages its working capital effectively i.e. by reducing the operating cycle, it tends to earn more profits. Further, six companies falling quadrant III indicates that a shorter cash conversion cycle is related to low profitability. The possible explanation for this could be that since cash conversion cycle is measured as age of inventory and age of debtors less the age of creditors, such companies are likely to have more creditors. This might reduce its creditability in market, resulting into lower trading volumes.

### Section III: Impact of liquidity position on the profitability of FMCG companies in India: Panel Data Regression Approach

Further, to examine the impact of liquidity position on the profitability of the FMCG companies, the study considers return on assets (ROA) as the dependent variable measure financial performance and includes 6 independent variables namely, current ratio (CR), cash ratio (CNC\_TA), inventory turnover ratio (ITR), debtor turnover ratio (DTR), creditor turnover ratio (CTR) and cash conversion ratio (CCC). Besides, there is high correlation between QR and CR, QR and ALR and CR and ALR. Considering three together in the regression equation may lead to inconsistent results. Therefore, one of them i.e. CR is selected for the regression equation.

#### Descriptive Statistics

Table 3 titled "Descriptive Statistics of Liquidity and Profitability Variables for Selected FMCG Companies in India" measures the liquidity and profitability position of the select FMCG companies. In the table, a panel form of liquidity and profitability ratios have been examined by using descriptive statistical techniques, namely, Mean, Standard Deviation (overall, between and within), Minimum and Maximum values. It is a necessary step before determining the impact of liquidity position of FMCG companies in its financial performance (measured by ROA). As per the table results, the study reveals the following findings:

- The overall mean value of CR is 1.30 which is slightly below the ideal ratio (1.33) recommended by the Tandon Committee<sup>1</sup>. The minimum CR value is 0.27 and maximum value is 7.29.
- The turnover ratios, ITR, DTR and CTR have the overall mean value of 6.78 times, 37.22 times and 6.59 times which indicates that the companies have high debtor turnover ratio but low inventory turnover and creditor turnover ratios. In addition, the high values of overall, within and between standard deviation reveal high variation in the ratios of companies.
- The CNC\_TA has an overall average value of 15.32 per cent which ranges between 0.24 per cent and 52.58 per cent. The ratio is quite high when compared to cash ratios of other countries in similar studies.

- The CCC indicates that the overall mean days spent in the operating activities of a FMCG company is 60 days which ranges between -174 days and 660 days. In addition, the values of overall, within and between standard deviation reveal high variation in the operating cycle of companies.
- Lastly, the ROA representing the performance of the companies has an overall mean value of 11.59 per cent with a minimum of -42 per cent and maximum value of 52.02 per cent.

### Correlation Matrix

The table 4 titled, 'Correlation Matrix for the liquidity and profitability ratios of FMCG Companies in India', represents the relationship between the selected liquidity measures as the independent variables and the dependent variable for financial performance i.e. ROA. The table shows that ROA is negatively related to CR, ITR, CTR and CCC, while positively related to DTR and CNC\_TA. Further, it is found that the correlation between independent variables is very low. Hence, the problem of multi-collinearity is refuted.

### Panel Data Regression- Model Specification

For the model, the dependent variable used as a proxy for financial performance is return on assets (ROA) of the companies and the contributing variables include the different liquidity measures. The model is constructed using 26 firms for 16 years (2001-02 to 2016-17) form a total of 416 observations. Testing the presence of heteroscedasity in the model, the study found that there is unobserved heterogeneity between companies as well as within the years. This lead to conclude that running a linear OLS regression on the pooled data is inconsistent and biased in such study. Thus, a panel data form of regression is applied to capture the unobserved heterogeneity in the data. The regression diagnostic results further showed that the data is seriously affected by the problem of heteroskedascity and autocorrelation. Therefore, the most commonly used method of within-cluster error correlation proposed by Rogers (1993) is applied in the regression model.

Further, the best suited model is specified among the three different panel data model. This task is performed using Sargan-Hansen Test statistic on the model which are induced to problem of autocorrelation and heteroscedascity. Similar to Hausman test, the test considers the null hypothesis that random effect model is the most appropriate one. However, based on the test results, the study rejects the null hypothesis and therefore, fixed effect model is considered as the appropriate model for the study. The formulated model is as follows:

$$ROA = \beta_1(CR) + \beta_2(ITR) + \beta_3(DTR) + \beta_4(CTR) + \beta_5(CNC\_TA) + \beta_6(CCC) + u_i + \epsilon_{it}$$

As per fixed effect model results, the study found that profitability has a statistically significant relationship with debtor turnover ratio and cash conversion cycle. The DTR is found to be positively related to ROA. This suggests that the companies are efficiently managing its debtors to earn more and more profits. A high DTR ratio signifies shorter debtor holding period and in so doing the companies are able to earn better returns on assets. Further, CCC has a negative relationship with profitability which signifies that shorter CCC is better for companies to improve its performance. Besides, the study found that CR, ITR and CNC\_TA are positively related to profitability and CTR is negatively related to ROA. However, following the results, these relationships are statistically insignificant.

### Conclusion

Liquidity determines flexibility in the movement of funds in the business. FMCG companies that deals with reasonably low cost products having large volume sales are often expected to hold more liquidity in form of cash in the business. However, it is important to examine that whether this excess liquidity hampers the companies' financial performance or not. As studies like Bagchi and Khamuri (2012), Priya and Nimalathasan (2013) and many others have shown that the companies carrying more liquid assets loses profitable avenues when funds are locked up in cash reserves. The study found that most of the FMCG companies maintained liquidity ratios below the standard level. Among the companies, only Emami Ltd. has liquidity ratios close to the standard ratio whereas Jyothy Laboratories Ltd has a very high current ratio. This suggests that large disparity is found in the companies' liquidity ratios while managing large cash holdings. The study further showed that the companies showed efficiency in managing their debtors but failed to manage its inventory turnover ratio and creditor turnover ratio. The overall financial performance of most of these companies is below industry average with wide disparity. The study found that financial performance of the companies is affected by its liquidity position and majority of companies showed negative relationship between both. The two liquidity measures such

as debtor turnover ratio and cash conversion ratio are found to be significant determinants of profitability. The study concluded that FMCG companies' liquidity position negatively influences the financial performance of the companies. It is, therefore, suggested that companies should work on reducing their cash conversion period in order to maximize their profitability and improve companies' performance. Also, an integrated cash management system is also required in this regard.

#### Notes

- Chandra (2011) stated that in India, the general norm for current ratio is 1.33:1 whereas it is 2:1 internationally. The ratio was recommended by the Tandon committee and Chore Committee (appointed by The Reserve Bank of India) during the seventies to assess the borrowing capacity of the companies. This guides the creditors' to understand whether the firm is above or below margin of safety and take decisions accordingly.
- Similar studies such as Kim et al, 1998; Okzan and Okzan, 2004; Drobetz and Gruninger, 2006 and Opler et al, 1999.

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## Annexure

Company	(Times)			
	CR	QR	ALR	CNC_TA
Agro Tech Foods Ltd.	1.58	0.75	0.23	8.14
Bata India Ltd.	1.68	0.53	0.3	9.83
Bombay BurmahTrdg. Corpn. Ltd.	1.55	0.89	0.33	21.7
Britannia Industries Ltd.	1.09	0.47	0.35	23.33
Colgate-Palmolive (India) Ltd.	0.85	0.66	0.37	22.28
Dabur India Ltd.	1.26	0.83	0.4	14.42
Emami Ltd.	1.96	1.29	0.56	17.39
Gillette India Ltd.	1.49	1	0.49	17.57
Glaxosmithkline Consumer Healthcare Ltd.	1.74	1.4	0.97	30.95
Godfrey Phillips India Ltd.	1.55	0.54	0.36	24.76
Godrej Consumer Products Ltd.	0.87	0.43	0.3	9.1
Hatsun Agro Products Ltd.	0.5	0.2	0.11	3.79
Hindustan Unilever Ltd.	0.98	0.59	0.44	27.34
I T C Ltd.	1.6	0.84	0.66	18.4
Jyothy Laboratories Ltd.	2.99	2.36	1.58	22.7
Marico Ltd.	1.32	0.56	0.22	6.16
Nestle India Ltd.	1.01	0.48	0.39	13.3
Procter & Gamble Hygiene & Health Care Ltd.	1.22	0.99	0.64	24.35
RadicoKhaitan Ltd.	1.12	0.7	0.11	3.48
Ruchi Soya Inds. Ltd.	0.85	0.49	0.05	13.18
Som Distilleries & Breweries Ltd.	1.37	0.76	0.17	5.98
Tata Coffee Ltd.	1.41	0.55	0.1	4.13
Tata Global Beverages Ltd.	1.1	0.55	0.14	12.38
United Breweries Ltd.	0.89	0.63	0.11	4.17
United Spirits Ltd.	0.81	0.49	0.09	7.34
V S T Industries Ltd.	1.15	0.55	0.5	32.15
INDUSTRY AVERAGE	1.31	0.75	0.38	15.32

Source: Compiled and calculated using Prowess data base

Company	(Days)			
	ITR	DTR	CTR	CCC
Agro Tech Foods Ltd.	11.27	23.86	12.27	53
Bata India Ltd.	2.49	32.01	3.11	77
Bombay BurmahTrdg. Corpn. Ltd.	2.63	5.64	5.75	136
Britannia Industries Ltd.	11.13	71.75	13.36	14
Colgate-Palmolive (India) Ltd.	9.14	79.8	2.64	-75
Dabur India Ltd.	5.41	19.62	3.83	37
Emami Ltd.	6.24	18.17	9.23	76
Gillette India Ltd.	3.89	12.95	2.88	38
Glaxosmithkline Consumer Healthcare Ltd.	4.94	33.26	3.16	-15
Godfrey Phillips India Ltd.	2.36	85.44	5.16	210
Godrej Consumer Products Ltd.	5.96	50.86	4.67	3
Hatsun Agro Products Ltd.	39.39	123.77	22.87	5
Hindustan Unilever Ltd.	5.62	29.31	2.57	-37
I T C Ltd.	2.25	33.41	4.46	111
Jyothy Laboratories Ltd.	7.05	12.58	13.88	92
Marico Ltd.	4.92	26.93	7.36	50
Nestle India Ltd.	6.76	84.17	5.59	4
Procter & Gamble Hygiene & Health Care Ltd.	8.59	27.12	2.73	-68
RadicoKhaitan Ltd.	5.24	8.65	5.7	85
Ruchi Soya Inds. Ltd.	9.34	8.6	5.31	37
Som Distilleries & Breweries Ltd.	2.96	3.63	2.88	198
Tata Coffee Ltd.	2.19	9.11	12.85	240
Tata Global Beverages Ltd.	3.58	19.49	6.84	87
United Breweries Ltd.	6.02	7.53	4.88	33
United Spirits Ltd.	4.66	11.47	3.86	48
V S T Industries Ltd.	2.3	128.8	3.73	97
Average	6.78	37.23	6.60	60

Source: Compiled and calculated using Prowess data base

Company	(Per cent)	
	ROA	ROCE
Agro Tech Foods Ltd.	6.25	11.12
Bata India Ltd.	7.08	13.08
Bombay Burmah Trdg. Corpn. Ltd.	0.32	5.64
Britannia Industries Ltd.	14.83	26.04
Colgate-Palmolive (India) Ltd.	23.72	76.77
Dabur India Ltd.	21.11	39.57
Emami Ltd.	13.76	26.86
Gillette India Ltd.	9.13	17.20
Glaxosmithkline Consumer Healthcare Ltd.	11.74	26.45
Godfrey Phillips India Ltd.	11.06	16.04
Godrej Consumer Products Ltd.	24.25	56.96
Hatsun Agro Products Ltd.	4.21	13.00
Hindustan Unilever Ltd.	24.03	74.92
I T C Ltd.	19.1	28.91
Jyothy Laboratories Ltd.	9.43	13.21
Marico Ltd.	17.17	25.58
Nestle India Ltd.	25.14	69.09
Procter & Gamble Hygiene & Health Care Ltd.	18.34	34.16
RadicoKhaitan Ltd.	4.62	11.46
Ruchi Soya Inds. Ltd.	0.53	6.28
Som Distilleries & Breweries Ltd.	2.97	7.36
Tata Coffee Ltd.	6.86	10.01
Tata Global Beverages Ltd.	6.42	10.67
United Breweries Ltd.	3.67	9.38
United Spirits Ltd.	-0.53	4.89
V S T Industries Ltd.	16.31	35.33
Average	11.60	25.77

Source: Compiled and calculated using Prowess data base

Variable		Mean	Std. Dev	Min	Max
CR	Overall	1.304808	0.78461	0.27	7.29
	Between		0.487506		
	Within		0.621725		
ITR	Overall	6.78113	9.958449	0.84	117.82
	Between		7.172666		
	Within		7.041527		
DTR	Overall	37.22813	41.6182	0.94	250.66
	Between		35.99139		
	Within		21.98899		
CTR	Overall	6.598846	5.556866	0.65	29
	Between		4.823026		
	Within		2.908257		
CNC_TA	Overall	15.31964	12.87032	0.24	52.58
	Between		8.866552		
	Within		9.48003		
CCC	Overall	59.83137	98.55581	-173.28	660.1
	Between		77.51275		
	Within		62.62736		
ROA	Overall	11.59649	9.966714	-42.29	52.02
	Between		8.12991		
	Within		5.968998		

Variables	CR	ITR	DTR	CTR	CNC_TA	CCC	ROA
CR	1.00						
ITR	-0.15	1.00					
DTR	-0.21	0.25	1.00				
CTR	0.22	0.45	0.19	1.00			
CNC_TA	0.27	-0.08	0.22	-0.19	1.00		
CCC	0.27	-0.24	-0.17	0.20	-0.22	1.00	
ROA	-0.02	-0.07	0.36	-0.18	0.30	-0.36	1.00

<b>Table 5: Impact of Liquidity Position on the Financial Performance of Fmcg Companies in India (2001-02 to 2016-17): a Panel Data Model</b>						
	<b>OLS</b>		<b>Fixed effects</b>		<b>Random Effects</b>	
	<b>Coefficient</b>	<b>SE</b>	<b>Coefficient</b>	<b>SE</b>	<b>Coefficient</b>	<b>SE</b>
	<b>t-statistics</b>		<b>t-statistics</b>		<b>t-statistics</b>	
Cons	8.830	1.914	6.428	1.903	6.823	2.106
	4.610	***	3.380	***	3.240	***
CR	1.806	0.633	0.495	0.652	0.680	0.612
	2.850	***	0.760		1.110	
ITR	-0.136	0.055	0.015	0.032	-0.001	0.029
	-2.470	**	0.460		-0.040	
DTR	0.090	0.015	0.063	0.027	0.066	0.027
	6.020	***	2.310	**	2.450	**
CTR	-0.269	0.092	-0.014	0.191	-0.082	0.161
	-2.930	**	-0.070		-0.510	
CNC_TA	0.054	0.042	0.062	0.051	0.066	0.052
	1.300		1.210		1.270	
CCC	-0.033	0.004	-0.012	0.006	-0.014	0.006
	-8.000	***	-1.890	*	-2.230	**
Observation		416		416		416
Assumption			corr(u <sub>i</sub> ,X <sub>b</sub> )	0.1765	corr(u <sub>i</sub> ,X)	0
F-statistics	F(21,394)	9.05	F(21,25)	3.05	Wald Chi2(21)	100.85
R-squared		0.3182	Within	0.1591	Within	0.1575
			Between	0.302	Between	0.3625
			Overall	0.24	Overall	0.2706
			Rho	0.591	Rho	0.502
Sargan-Hansen statistic						28.91
Chi-sq(6) P-value						0.0001

\*\*\* P-value < 0.01, \*\* P-value < 0.05, \* P-value < 0.10.

