Fmcg sector

2. 3. Indian; FMCG Sector

Beyond depicting and crunching numbers within financial statements, there is the elemental goal of cash management in capital formation. Creation of wealth is realized through maximization of the firms value via utilization of resources for a long time. Putting all those into perspective, creation of wealth is a series of well-informed business decisions made consequently which originate from scientific and structured scientific basis. Risks prevent firms from achieving the set objectives. Forming scientific and structured bases of different decisions reduces the probability of occurrence of risks. In management of finance, one of the scientific and structured bases of making decisions is anchored in financial statement analysis.

Analysis of financed is done to compare the profitability, growth and financial wellness of the firms or industry by diagnosing information that is contained in financial statements. Financial analysis can be done in the identification of weaknesses and strengths of the firm or industry by establishing a good relationship between loss and profit account and the items contained in the balance sheet. It also help understand the companys financial growth, position and performance by making an analysis of financial statements with different tools as well as evaluating the relation between various financial statements. An effective FMCG business is recognized and has become a basic requirement for economic development. FMCG also provides goods for consumers and the community in a productive channel.

As competition increases and efficiency becomes an important part of the industry

Especially in operational optimization, all companies invest in activities so as to optimize

Operations and provide customers with the best goods and services at low market prices without interfering with the profit margin. Doing so leads to financial burdens on the businesses without making profits and to give enough returns to investors.

2. 3. 1 Hindustan Unilever Limited

Hindustan Unilever Limited is the largets FMCG in India. It has a heritage of more than eighty years and is quite important because it touches the lives of most Indians. HUL serves the purpose of creating a good future by helping people look good, feel good and get a lot in life with services and brands which are good for everyone. With more than thirty five brands found in twenty categories such as detergents, soaps, shampoos, toothpastes, skin care, coffee, tea, cosmetics, water purifiers and ice cream, the business helps millions of consumers in India. It offers products such as Lifebuoy, Lux, Rin, Surf Excel, Vaseline, Wheel, Dove, Fair and lovely, Sunsilk, Clinic Plus, Axe, Pepsodent, Brooke Bond, Knorr, Bru, Pureit and Kwality Walls. It is worth noting that the company has more than sixteen thousand employees. HUL works with Unilever which is among the leading FMCG suppliers in the world. It works in over one hundred countries around the world (Huang & Huang 2012).

2. 4. Cash Management in FMCG sector

It is impossible to conduct business activities in the modern world without using cash. Payments are made easy because funds can be used for future purposes. It is treated as funds storage that is used for meeting emergencies. Currently, most businesses use credit for most of their work. Nowadays, use of draft, bills, debit cards, money transfer through internet, ECS and credit cards has replaced both paper and coin currency. Generally, cash is the currency money and bank account balance that is held at various commercial banks (Maysami 2010).

Cash management involves the management of an organizations short term resources that are meant for ongoing activities. Management of cash is related to the popular concept of management of treasury which emphasizes on cash liquidity by different processes and factors for increasing profitability. Mismanagement of cash usually leads to the bankruptcy of a company. In the current world, it is impossible to conduct business activities without the use of cash. It is therefore considered as storage of money which can be used to meet emergencies. Currently most companies use cash for operation of their businesses.

In the modern world, the use of credit cards, bills, debit cards, ECS, draft and fund transfer by the use of internet has been replaced due to the use of paper and coin currency. Cash mainly refers to bank account balances and currency money at different banks. Management of cash is both an art and science of managing a businesss resources so as to sustain its current activities, optimize liquidity and mobilize funds. There are three functions of cash management which include (i). Proper use of current liabilities and current assets of a company all through the operating of the business (ii)

synchronized and proper planning, management and monitoring of the companys disbursements, collections and account balances. (iii) The management and collection of information to use resources effectively and to identify risks. Improper avoidance of risks through management of cash leads a company to bankruptcy (Saunders and Allen, 2010). In other words, efficient management of cash does not only prevent the bankruptcy of an organization but also makes improvements on profitability.

Cash Conversion Cycle is the time taken between collection of money from debtors and purchasing of raw materials. According to Working Capital Management, Cash Conversion Cycle is important in measuring efficiency. It can therefore be said that a company shows efficiency of managing funds. By using proper cash flow, finance managers are sure that there is a minimum in differences in actual and projected figures of cash. With reliable implementation of management of cash flow, a company should improve. The commonly accepted methods of cash flow control are cash payments and Accelerating Cash inflows. Accelerating the flow of cash is done using three methods. The methods are; centralizing cash functions, streamlining banking arrangements and internal control of cash receipts (Duffie & Singleton 2012).

Efficient cash management is supposed to have fixed a fixed framework within the organization to control cash flow. The framework helps to identify the individuals who are responsible for functions such as collecting cash, making payments, payment authorization, bank accounts, arranging overdraft loans and facilities, investing foreign currency transaction and cash surpluses. Availability of credit can help solve such problems. When the

economy falls into recession, most businesses face additional risk of clients running into difficulty in finances and the ability to pay invoices that force the organization to use the sources such as bank loans. The resources can push the organization farther. Using credit is quite complex. Most people have a wrong attitude about the application and use of credit at the time of sale. People had the concept of buying and paying for goods in future, some also promised to pay in future. The concept was mainly used in agricultural societies. Granting credit involves putting a business at a risk. Credit analysis can be seen as risk analysis (Zhang & Zhu 2009). Credit analysts should consider the type and nature of a business. The applicant should also be considered.

Currently, we live in a world where people use credit. Few business activities are possible if liberal credit extension is not used. It is inevitable in the world of business. Granting credit is a complex activity. Credit was used in the early 1300 BC by the Egyptians, Assyrians and Babylonians. Under most occasions, it can be seen that information that is related to credit decision making is not found from credit applicants. As a result, companies make decisions that are based on past experiences of customers by looking at how they pay their dues. Evaluation of risks regarding credit granting decisions is important before sales are made. When credit is accepted by the lending organization, loss and servicing mitigation techniques may control future losses to a short period. This study shows how credit risks influence cash holding, CCC or cash management system.

The data that is required for making credit analysis can be adjusted as required. After making analytical procedures, financial figures are then used

for determining the creditworthiness of the client. Such developments and statistical techniques are quite new in most businesses. Financial analysis tools such as fund flow analysis, ratio analysis, common size statement, trend analysis, and common size statements can be used in determining the position of the applicants. This study shows the impact of credit risks on cash management of the FMCG sector.

Duffie & Singleton 2012) studied approximately five hundred and one Spanish firms which had more than ten employees. Analysis of confirmatory factors was done. The chi-square value did not reach the recommended figure. The chi-square value was due the samples size. They also showed that cash management is the practice which forms strategies used by companies. It also depends on managers rather than the companys characteristics. In Europe, cash management models such as cash flow management, decentralized liquidity, decentralized management of cash flow, and centralized management of cash flow are used. Decentralized organizations gained the most because they could use a centralized approach.

Cornett & Tehranian et al 2011 studied a cash-to-cash metric. For the study, they used 21, 608 companies which were reduced to 5, 884 firms. The study presented a cash-to-cash overview, while making comparison between service and product industries. The research showed that cash-to-cash skills of managers can help industries to make improvements in overall and value and liquidity positions. Using the Bathory risk description model eight cement companies were studied. Data of four years was used to form a model. Secondary data was used for the study. Such data include Capitaline

Database and Stock Exchange Directory. The main focus is on profitability, capital adequacy and liquidity. The model showed that the ratios had an influence on the score of the companies.