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A Study on Balance Sheet, Cash Flow and Profitability of Indian FMCG Sector Companies (Fy 2024-Fy 2026)

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Abstract

The Indian Fast-Moving Consumer Goods (FMCG) sector has expanded rapidly over the last decade, driven by rising incomes, urbanization, and a gradual shift from unorganized to organized retail. This paper examines the financial health of the sector by analyzing five major companies—Hindustan Unilever Limited (HUL), Britannia Industries Limited, Dabur India Limited, ITC Limited, and Nestlé India Limited—drawing on a Summer Internship Project (SIP) carried out at Prasuta Capital. The study combines a review of the Indian FMCG industry, an analysis of the selected companies' business models, and a three-dimensional financial analysis covering Balance Sheets, Cash Flow Statements, and Profitability from FY 2024 to FY 2026. The paper finds that large FMCG entities operate with structurally low leverage and highly cash-generative models, allowing them to maintain negative working capital safely due to immense supplier bargaining power. Based on these observations, the paper recommends ITC Limited as the most robust entity financially, while identifying Nestlé India and Britannia as high-potential due to recent capex recoveries and active deleveraging. The study is exploratory, utilizing secondary financial data, and its findings provide actionable insights for financial analysts and investors evaluating consumer-space equities.

Keywords: FMCG sector, financial statement analysis, balance sheet, cash flow quality, capital structure, liquidity, Prasuta Capital.

1. Introduction

1.1 Background

The Fast-Moving Consumer Goods (FMCG) sector is the fourth-largest sector in the Indian economy and one of the most consistently cash-generative segments of Indian industry. The industry is broadly divided into three sub-segments: household and personal care (roughly half of sector revenue), healthcare (close to a third), and food and beverages (just under a fifth). Industry estimates place the sector's current size in the range of USD 245-288 billion, with projections indicating continued double-digit growth driven by rising per-capita incomes, e-commerce penetration, and policy support like the Production Linked Incentive (PLI) scheme for food processing.



1.2 Research Problem

While the overall growth of the FMCG industry is well documented, interpreting the financial statements of these companies requires moving beyond mechanical ratio reading. Metrics like negative working capital, which might signal distress in capital-heavy industries, are often signs of strategic dominance in FMCG due to high supplier bargaining power. This paper addresses the gap in contextual financial analysis by examining how five distinctly structured FMCG companies allocate capital, manage liquidity, and generate free cash flow over a three-year period.

1.3 Purpose and Scope

The purpose of this study is to build practical competence in interpreting corporate financial statements and benchmarking ratios against sector norms. The scope is limited to five listed Indian FMCG companies chosen to represent different sub-segments: HUL (personal and home care), Britannia (biscuits), Dabur (Ayurveda), ITC (diversified conglomerate), and Nestlé India (packaged foods). The analysis spans three financial years (FY2024 to FY2026)

annual reports.

2. Literature Review

Classical finance textbooks establish that working capital is a deliberate strategic choice rather than a default outcome. Firms with strong bargaining power over suppliers and rapid cash collection from customers—a description fitting large FMCG companies perfectly—can operate with structurally negative working capital without signaling distress, financing operations through supplier credit rather than external debt (Pandey, 2015).

On capital structure, traditional views hold that an optimal mix of debt and equity minimizes the overall cost of capital. The Modigliani-Miller propositions demonstrate that under idealized assumptions, capital structure is irrelevant to firm value; however, real-world exceptions (taxes, bankruptcy costs) explain why practically all five FMCG companies studied here choose overwhelmingly equity-funded, low-leverage structures despite debt's tax-shield advantage (Modigliani & Miller, 1958).

Regarding earnings quality, the cash-flow-versus-accrual literature emphasizes that a CFO/Operating-Profit ratio consistently near or above 100% is a positive quality signal, indicating that reported profits are converted into collectible cash (Chandra, 2019). Furthermore, complementary analytical techniques such as the DuPont Framework and Altman’s Z-Score reinforce the need to balance profitability margins with asset turnover efficiency to truly gauge a firm's long-term sustainability.

3. Industry Overview: The Indian FMCG Sector

3.1 Structure and Growth

India's FMCG industry is experiencing a transition toward volume-led growth in 2026, helped by improving urban demand, steadily recovering rural consumption, and stabilizing input costs. The sector remains the largest advertiser in the Indian economy, underlining how brand-building and distribution reach—rather than heavy fixed-asset investment—are the primary competitive levers.



3.2 Competitive Dynamics: Porter's Five Forces

Force	Assessment
Threat of new entrants	Moderate: Brand loyalty and distribution reach are high barriers, though digital-first D2C brands can enter niches quickly.
Bargaining power of suppliers	Low to Moderate: Large FMCG players negotiate favorable contracts, though agricultural input volatility can pressure margins.
Bargaining power of buyers	Moderate to High: Retail trade and quick-commerce platforms hold growing negotiating power over margins.
Threat of substitutes	Moderate: Private labels and regional brands compete in low-switching-cost categories; muted in categories with habitual loyalty.
Competitive rivalry	High: Intense competition among large diversified players (HUL, ITC, Nestlé, Dabur, Britannia) keeps advertising and innovation cycles elevated.

3.3 PESTEL Factors

Factor	Relevance to FMCG Growth
Political	PLI schemes for food processing encourage domestic manufacturing capacity and supply-chain resilience.
Economic	Rising per-capita income and GST rationalization on essentials support a shift towards volume-led growth.
Social	Health-consciousness and premiumization for urban consumers alongside affordable pack sizes for rural markets.
Technological	Rapid growth of quick-commerce and online grocery, projected to grow at a CAGR above 25% into the next decade.
Environmental	Sustainable packaging and water stewardship are increasingly embedded in CSR, driven by global parents.



Legal	Compliance with FSSAI, Legal Metrology rules, and SEBI disclosure norms is mandatory.

4. Company Profiles and SWOT Analysis

4.1 Hindustan Unilever Limited (HUL)

HUL is India's largest FMCG company, operating across home care, beauty & personal care, and foods. Its purpose centers on making sustainable living commonplace. HUL faces margin pressure from input-cost volatility but leverages its massive 9 million+ outlet reach to sustain dominance.

4.2 Britannia Industries Limited

Britannia leads India's food and beverage market with a strong emphasis on biscuits, bakery, and dairy. Its key strength is the best asset turnover ratio in the study, though it faces a challenge with commoditized category pricing.

4.3 Dabur India Limited

Rooted in Ayurvedic heritage, Dabur positions itself around health and wellbeing. It possesses the best cash-quality ratio (122% CFO/OP) in this study but must monitor slightly softening asset turnover efficiency.

4.4 ITC Limited

A diversified conglomerate, ITC operates across FMCG, agri-business, paperboards, and cigarettes. It boasts the highest equity ratio and largest absolute free cash flow, holding a fortress balance sheet, despite regulatory risks in its cigarette division.

4.5 Nestlé India Limited

A subsidiary of Nestlé S.A., Nestlé India dominates prepared dishes (Maggi) and beverages (Nescafé). Mid-way through a deliberate capacity-investment cycle, it experienced a sharp FY2026 cash-flow recovery after temporary capex pressure.

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4.6 Consolidated SWOT Summary

Company	Strength	Weakness	Opportunity	Threat
HUL	9M+ outlet reach	Declining reserves from high payout	D2C/premium acquisitions	Rising D2C competition
Britannia	Best asset turnover in the study	Highest leverage of the five	Continued deleveraging	Commoditized category pricing
Dabur	Best cash-quality ratio (122%)	Softening asset turnover	Ayurveda demand growth	Legacy and new Ayurveda rivals
ITC	Highest equity ratio; largest cash flow	Lower CFO/ Operating-Profit ratio	FMCG foods scale-up	Cigarette regulation/ taxation
Nestlé India	Sharp FY2026 cash-flow recovery	Lowest equity ratio of the five	New capacity now productive	Renewed input-cost or capex pressure

5. Research Objectives

- To analyze and compare the balance sheet structure of five leading Indian FMCG companies over FY2024-FY2026.
- To compute and interpret key liquidity, solvency, and efficiency ratios and benchmark them against sector-appropriate ranges.
- To evaluate the quality of each company's cash flows (Operating, Investing, Financing, and FCF) and profitability trends.
- To derive sector-wide findings and provide a comparative ranking of the five companies based on overall financial strength.



6. Research Methodology

6.1 Research Design

This project utilizes a descriptive and comparative research design. It relies on quantitative secondary data (financial statements) supplemented by qualitative data (annual report commentary) spanning FY 2024 to FY 2026.

6.2 Data Collection and Process Flow

Data was collected systematically across a five-stage process flow: Company Selection (purposive sampling of 5 companies representing distinct sub-segments), Data Collection (from Screener.in and annual reports), Ratio Computation (utilizing established formulas for Liquidity, Solvency, Efficiency, and Cash Flow Quality), Interpretation & Benchmarking (applying FMCG-specific contextual theory), and Reporting & Visualisation.

6.3 Scope and Limitations

The study is limited to a three-year horizon (FY2024-FY2026) for five selected companies, meaning it cannot be universally generalized across all unlisted or mid-cap FMCG players. Additionally, the analysis focuses purely on financial relative valuation).

7. Data Analysis and Findings

7.1 Hindustan Unilever Limited (HUL)

HUL shows a virtually debt-free balance sheet. Borrowings remained flat around ₹1,478 Cr in FY26 against a massive revenue base of ₹64,468 Cr. Its D/E ratio stayed constant at 0.03x. The current ratio tightened to 0.58x with working capital dropping to negative ₹12,450 Cr—a reflection of its exceptional brand-driven ability to extend supplier credit rather than distress. Net profit margin expanded sharply to 23.4% in FY26, and its Free Cash Flow remained highly robust at ₹9,668 Cr.

7.2 Britannia Industries Limited

Britannia exhibits the clearest multi-year deleveraging trend. Borrowings fell from ₹2,065 Cr in FY24 to ₹1,380 Cr in FY26, improving its D/E ratio from 0.52x to 0.27x and pushing the equity ratio up to 52.5%. It maintains a highly efficient asset-light model, sustaining an asset turnover ratio above 1.85x throughout. Operating Cash Flow remained exceptionally steady at approximately ₹2,600 Cr across all three years.

7.3 Dabur India Limited

Dabur maintains a highly conservative, investment-heavy balance sheet, with investments of ₹8,947 Cr representing over 51% of total assets in FY26. Its equity ratio remained above 65%. Notably, Dabur generated the highest cash-quality signal in the entire study, recording an Operating Cash Flow of ₹2,579 Cr in FY26 and a staggering CFO/Operating-Profit ratio of 122%.



7.4 ITC Limited

ITC possesses the strongest and most conservatively financed balance sheet of the group. Its equity ratio hovers around 77-81%, backed by a working-capital buffer of roughly ₹12,700 Cr. In FY26, ITC generated the largest absolute free cash flow in the study at ₹16,332 Cr, off a revenue base of ₹78,868 Cr. Normalizing for a FY25 demerger anomaly, its sustainable Net Profit Margin of 26.7% remains the highest of the five entities.

7.5 Nestlé India Limited

Nestlé India illustrates a deliberate capacity-investment cycle. Fixed assets surged by 82% from ₹3,460 Cr to ₹6,290 Cr, which temporarily depressed FY25 revenue (₹20,202 Cr) and inflated borrowing. However, FY26 showcased a dramatic V-shaped recovery: Free Cash Flow multiplied nearly 4.5x to ₹4,221 Cr, operating cash flow jumped to ₹5,048 Cr, and the equity ratio rebounded to 39.7%.

7.6 Sector-Wide Synthesis and Comparative Ranking

To systematically evaluate these entities, a composite scorecard was utilized, assigning ranks from 1 to 5 across six critical financial metrics for FY2026: Equity Ratio, Leverage (D/E), Cash Quality, Revenue CAGR, Net Profit Margin, and Asset Turnover.

Metric	HUL	Britannia	Dabur	ITC	Nestlé India
Equity Ratio (FY26)	3	2	4	5	1
Leverage (D/E) (FY26)	5	1	2	4	3
Cash Quality (CFO/OP)	3	2	5	1	4
Revenue CAGR	2	4	3	5	1
Net Profit Margin	4	1	2	5	3
Asset Turnover	2	5	1	3	4
Composite Score (out of 30)	19	15	17	23	16

Financial Statement Analysis - FMCG Sector

8. Discussion

The financial analysis validates that the Indian FMCG sector remains structurally cash-positive, driven by rapid consumer collections and minimal receivables risk. Crucially, the presence of negative working capital—prominent in HUL and Nestlé, and emerging in Dabur—is a function of massive supplier bargaining power, not a sign of liquidity distress. This dynamic is reinforced by the Herzberg-style "hygiene" stability of their cash-conversion cycles. Furthermore, event-driven anomalies, such as ITC's hotel demerger and Nestlé's aggressive capacity buildup, emphasize the necessity of reading corporate balance sheets over multi-year horizons rather than static



single-year evaluations.

9. Limitations

- Sample Size: The study is confined to five leading firms and cannot be blindly generalized to emerging mid-cap players or regional brands.
- Time Horizon: The three-year window (FY2024-FY2026) captures recent strategic moves but may obscure longer-term cyclical trends spanning a decade.
- Data Dependency: Reliance on secondary, published data exposes the analysis to inherent accounting constraints and potential retrospective restatements.

10. Recommendations

- For Investors: Prioritize ITC, HUL, and Dabur for capital-structure safety, given their consistently low leverage, high equity ratios, and exceptional cash quality.
- For Analysts: Monitor Nestlé India's post-capex performance closely over the next two years; its FY26 cash-flow recovery indicates that the newly commissioned capacity is becoming highly productive.
- For Structural Evaluation: Adopt Dabur's 122% CFO/Operating-Profit ratio as a benchmark template for identifying exceptional earnings quality across the sector.

11. Conclusion

This study demonstrates that the Indian FMCG sector is among the most financially robust segments of the corporate economy, characterized by low capital intensity, low leverage, and exceptional free cash flow generation. ITC Limited stands as the undisputed financial leader of the group, boasting the highest equity buffer, industry-leading margins, and immense absolute cash generation. Hindustan Unilever and Dabur represent the pinnacle of risk-averse financial structuring, while Britannia and Nestlé India showcase dynamic operational trajectories through active deleveraging and capex-driven recoveries. Ultimately, ratio analysis in the FMCG space must be applied contextually, recognizing that sector-specific advantages—like negative working capital—are strategic assets rather than liabilities.

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