

# Short-Term Liquidity Dynamics: A Study of ITC Ltd and Dabur India Ltd

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**Abstract—** *Fast-Moving Consumer Goods (FMCG) companies produce non-durable goods that are sold quickly at relatively low cost, such as beverages, packaged goods and cleaning products. ITC Ltd and Dabur India Limited have emerged as major players in the FMCG sector, each with its own financial context and strategic vision. This study presents a human perspective on their liquidity position (working capital-based liquidity measure) and a comparative analysis of their financial trajectory. The research is based on secondary data, i.e., annual reports of selected companies. This study analyzes the comparative short-term liquidity position of ITC Ltd and Dabur India Limited for the period from 2020 to 2025. For the convenience of the research, current ratio and quick ratio or acid test ratio have been adopted as effective capital-based liquidity measurement tools to assess the level of liquidity situation of the selected companies. It also identifies which companies have good liquidity situations and which are lagging behind, and mentions possible reasons for this.*

**Indexed Terms -** *Dabur India Ltd, FMCG, Financial Analysis, ITC Ltd, India, Liquidity position, Working Capital*

## I. INTRODUCTION

Liquidity is a very important issue for any company. By liquidity, we mean the availability of a company's assets to meet its short-term liabilities, i.e. cash needs. If not managed with due care, it can create instability for any company. Liquidity is essential for meeting short-term liabilities and conducting daily operations. Lack of liquidity creates a liquidity crisis in the company, which damages the company's reputation and can ultimately lead to the company's closure. Companies with good liquidity ratios are better able to handle unexpected expenses and weather economic downturns. Liquidity ratios assess a company's ability to meet unexpected financial obligations or business downturns without relying on external funding sources. A strong liquidity position contributes to financial stability. ITC Ltd and Dabur India Limited have emerged as major players in the FMCG (Fast Moving Consuming

Goods) sector, each with its own financial context and strategic vision. In the context of these discussions, an attempt has been made to highlight how proactive ITC Limited and Dabur India Limited are in meeting their short-term liquidity needs, i.e. cash needs.

## II. RESEARCH OBJECTIVES:

The main objective of this study is to analyze the comparative short-term liquidity position (working capital-based liquidity measure) of ITC Limited and Dabur India Limited for the period 2020 to 2025 and present a human perspective on their financial trajectory. The aim was to identify the most efficient company based on Liquidity Ratios Current Ratio and Quick Ratio or Acid Test Ratio).

## III. LITERATURE REVIEW

Salim and Rahman (2011) studied the relationship between liquidity and profitability of oil and gas companies in Pakistan during the period 2004 to 2009. The results showed that financial position was significantly affected. Mehrotra S (2013), examined working capital trend Liquidity position of FMCG sector. Research has shown that companies use high debtor turnover rates and inventory management to maintain the continuity of their operations, despite having liquidity ratios lower than the prevailing standard. Sharma A (2016), 'A Comparative Study of Profitability and Liquidity between HUL and Dabur India' This report analyzes the financial position of Hindustan Unilever Limited (HUL) and Dabur India Limited. It focuses on liquidity and profitability ratios to compare financial performance within the Indian FMCG sector. Garg A, Tyagi A (2022) titled 'A Comparative Analysis on Financial Analysis with Special References to FMCG Sector'. The samples taken from the FMCG industry were ITC Limited, HUL Limited and Dabur Limited. The researchers found that HUL Limited outperformed Dabur Limited and ITC Limited in almost every respect.

While HUL Limited had a better record in terms of profitability, ITC was at the top in terms of liquidity.

#### IV. RESEARCH GAP

From the above literature review, it is clear that very few comparative studies have been conducted so far analyzing the liquidity position and financial health of major FMCG manufacturing companies in India. There is insufficient analysis of the changes in the liquidity situation of selected FMCG companies in India in the post-pandemic period. In the present study, I have attempted to fill this gap.

#### V. RESEARCH METHODOLOGY

**Data Source:** The data used for analysis and comparison is secondary in nature, collected from the published annual reports of the selected companies. No primary data collection methods such as surveys or interviews were used for this study.

**Study Period:** We have chosen the study period ranging from Match,2020 to March,2025.

**Sample Technique:** The current study used non-probability convenience sampling technique to generate the sample.

**Sample Size:** Two companies have been selected for comparative analysis: ITC Ltd and Dabur India Ltd.

**Analysis Tools:** Ratio analysis is used for comparative analysis of liquidity situation. Line charts are used for data analysis and interpretation.

#### VI. COMPANY PROFILE

India Tobacco Company Limited (ITC LTD) - ITC Limited is one of India's largest and most diversified FMCG marketers. Historically known as the Imperial Tobacco Company (established: August 24, 1910), ITC has been aggressively expanding into the non-tobacco FMCG sector for over two decades.

Dabur India Ltd. – Founded by Dr. S. K. Burman (in Calcutta in 1884), Dabur India Limited is a leading Indian FMCG company and the world's largest manufacturer of Ayurvedic and natural healthcare products.

#### VII. ANALYSIS AND INTERPRETATION

The collected data have been was examined and interpreted as follows:

The various ratios considered to analyze the effective working capital-based measure of liquidity of the sample company are:

Table 1: Different ratios and their measurements

| Ratio                           | Measure                            |
|---------------------------------|------------------------------------|
| Current Ratio                   | Current Assets/Current Liabilities |
| Liquid Ratio or Acid Test Ratio | Quick Assets / Quick Liabilities   |

**Current Assets:** Cash and cash equivalent, Marketable securities, Trade receivable, Inventories and Prepaid expenses.

**Current Liabilities:** Accounts Payable, Wages Payable, Unearned Revenue/Deferred Revenue, Short-Term Debt/Notes Payable, Current Portion of Long-Term Debt, Taxes Payable, Dividends Payable, Bank Overdrafts (Short term) etc.

**Quick Assets:** [Current Assets - Inventories – Prepaid Expenses] or [Cash + Cash Equivalent + Marketable securities + Trade Receivable]

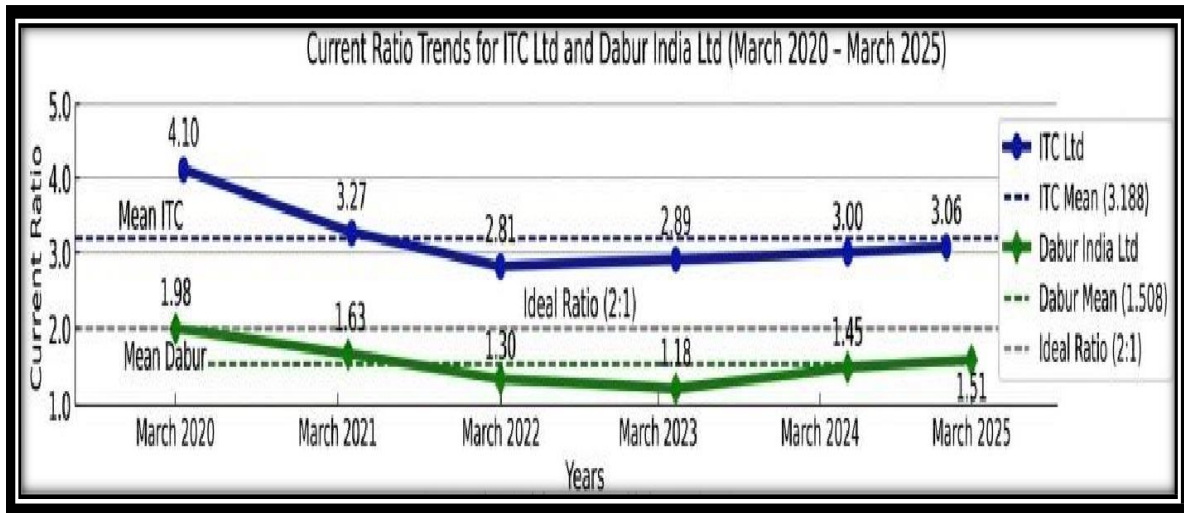
**Quick Liabilities:** [Current Liabilities – Bank Overdraft (non payable on demand) – Income Received in advance]

Table 2: Current Ratio

| Years                                  | ITC Ltd      | Dabur India Ltd |
|--|--------------|-----------------|
| March 2020                             | 4.10         | 1.98            |
| March 2021                             | 3.27         | 1.63            |
| March 2022                             | 2.81         | 1.30            |
| March 2023                             | 2.89         | 1.18            |
| March 2024                             | 3.00         | 1.45            |
| March 2025                             | 3.06         | 1.51            |
| <b>Mean</b> (Authors' own calculation) | <b>3.188</b> | <b>1.508</b>    |

Source: [www.moneycontrol.com](http://www.moneycontrol.com).

The line charts are shown below –



Analysis: The current ratio measures the Margin of Safety provided by current assets relative to short-term liabilities against unexpected losses, uncertainties, and sudden shocks to a company's cash flow. The ideal current ratio is 2:1. This means that for every 1 current liability, there are 2 current assets. Accordingly, the higher the current ratio, the greater the Margin of Safety i.e., the greater the amount of current assets available relative to current liabilities and, consequently, the greater the company's ability to meet its current liabilities. Therefore, a current ratio greater than one is desirable, so that the company has more current assets than current liabilities.

It is observed that the current ratio of Dabur India Limited is stable, whereas the current ratio of ITC Limited is not so stable. It can be seen that during this period, ITC Limited was in a higher liquidity position than Dabur (current ratio more than 2 times). It is observed that in no year did the current ratio of both the companies touch the ideal 2:1 ratio. Both companies have seen fluctuations, but a comparison shows that ITC Limited has performed

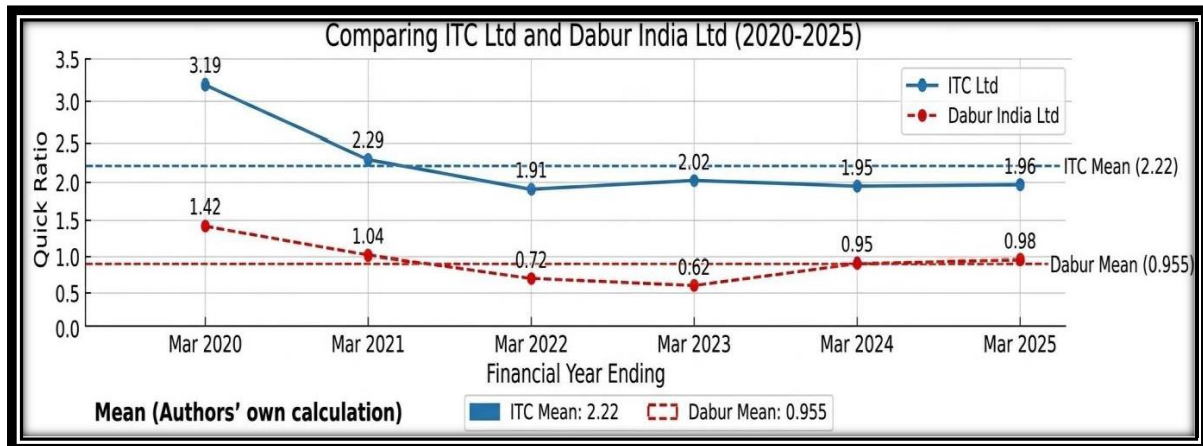
relatively well during the period under review. During the COVID pandemic (March 2020 to March 2021), there was a significant change in the current ratios of both the companies, with ITC Limited's current ratio decreasing from 4.10 to 3.27 and Dabur's decreasing from 1.98 to 1.63. In March 2023, ITC Limited's current ratio increased by 2.845% compared to March 2022, while Dabur's current ratio decreased by 9.231%.

Table 3: Quick Ratio

| Years                                  | ITC Ltd     | Dabur India Ltd |
|--|-------------|-----------------|
| March 2020                             | 3.19        | 1.42            |
| March 2021                             | 2.29        | 1.04            |
| March 2022                             | 1.91        | 0.72            |
| March 2023                             | 2.02        | 0.62            |
| March 2024                             | 1.95        | 0.95            |
| March 2025                             | 1.96        | 0.98            |
| <b>Mean</b> (Authors' own calculation) | <b>2.22</b> | <b>0.955</b>    |

Source: [www.moneycontrol.com](http://www.moneycontrol.com).

The line charts are shown below –



(Author's own calculation)

Analysis: The quick ratio or acid-test ratio is a more stringent test of liquidity than the current ratio, because if current assets contain a large amount of slow-moving inventory, it can give a misleading picture of liquidity even if it shows a favorable current ratio.

ITC Limited's Quick Ratio was 3.19 times in March 2020, which decreased to 2.29 times in March 2021. The very next year (March 2022) it decreased to 1.91 times and in March 2023 it increased slightly to 2.02 times. In March 2024 it decreased to 1.95 times and in the following year it increased slightly to 1.96 times. On the other hand, Dabur India Limited's Quick Ratio performance was almost half that of ITC Limited. It was 1.42 times in March 2020 and decreased to 1.04 times, 0.72 times and 0.62 times in March 2021, 2022 and 2023 respectively. Then, it increased to 0.95 times and 0.98 times in March 2024 and 2025 respectively.

#### VIII. FINDINGS

ITC Limited's Current Ratio decreased from 4.10 in March 2020 to a low of 2.81 in March 2022 and then increased to 3.06 by March 2025. Dabur India Limited's Current Ratio decreased from 1.98 in March 2020 to a low of 1.18 in March 2023 and then increased to 1.51 by March 2025. This indicates a possible market or industry-wide trend, which has affected both the companies during this period (COVID pandemic).

ITC Limited's Quick Ratio was consistently above 1 from March 2020 to March 2025, with an average of 2.22. This indicates that ITC Limited has consistently maintained a strong ability to meet

short-term liabilities using its most liquid assets. Dabur India Limited's Quick Ratio was generally lower than ITC Limited's and was below 1 most of the time (except March 2020 and March 2021), with an average of 0.955. A ratio below 1 indicates that the company may face difficulties in meeting its current liabilities with its quick-paying assets. However, at the time of the review, ITC had a lot of money lying around but it was not being invested properly.

The overall results show that the liquidity position of ITC Limited is significantly better and more stable than that of Dabur India Limited during the period under review.

#### CONCLUSIONS

A financial analysis of ITC Limited and Dabur India Limited for the last six years (March 2020 to March 2025) reveals differences in the financial statements of the two companies (Table 2 and 3). Both ITC Limited and Dabur India Limited have good liquidity in their respective companies. ITC Limited has experienced significant ups and downs in the last six years, whereas Dabur India Limited has maintained its position by remaining stable. Based on the short-term liquidity ratios (Current Ratio and Quick Ratio), it has been determined that ITC Limited has not only improved its financial position in the last six years, but has also outperformed its competitors, as evidenced by the Current Ratio and Quick Ratio (Tables 2 and 3). Dabur India Limited needs to work more on its current ratio and quick ratio. It is also worth noting that this situation can be improved further positively if efforts are made. To

achieve better profits, both the company needs to reduce its current liabilities as quickly as possible.

#### LIMITATION OF THE STUDY

This study focuses on only two FMCG companies in India (ITC Limited and Dabur India Limited) for a limited period from March 2020 to March 2025. Future researchers could further expand their dataset by including financial analysis data from a wider range of years and companies, which is noticeably absent in this study.

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