NOLEGEIN Journal of
Performance Management & Retention Strategies

ISSN: 2581-5067
Volume 5, Issue 2, 2022
DOI (Journal): 10.37591/NJPMRS

http://mbajournals.in/index.php/JoPMRS/index

Review NJPMRS

A Study of Ratio Analysis of Hindustan Unilever Limited (HUL)

Prachi Rajput[1,*], Meghna Jain[2]

Abstract

Hindustan Unilever Limited (HUL) has been considered the largest FMCG company in India. In our country, many Indian households have been using many products of the HUL brand, and this gives them unique opportunities for becoming better day by day. HUL is known for its unique and great brands, the positive social impact Hindustan Unilever creates, and their belief in doing business the positive and right way. In this study, the financial importance of HUL has been analysed and all the relevant data of the company has been extracted that helps me to analyse the liquidity position, profitability, and soundness of a company with the view of determining that whether a company is good or not for investment purposes. I took relevant data from various other sources—the website of the company and its annual report. I took 5 years' worth of financial data and information from Hindustan Unilever Ltd. and analysed it in the form of tables and graphs. Following that, I interpreted the graph based on the ratios of 5 years and also I made some of the finding which I got in the data analysis. This paper used survey data from secondary research. These findings need to be confirmed through more research using a variety of data sources.

Keywords: Financial analysis, Hindustan Unilever Ltd., liquidity position, profitability position, ratio analysis

INTRODUCTION

Hindustan Unilever Limited (HUL) is the largest FMCG company in India. HUL is known for its unique and great brands, the positive social impact Hindustan Unilever creates, and its belief in doing business the positive and right way. For almost the last six decades, HUL has been among the top five most valuable companies in India in the FMCG field. Some people may not know about HUL and their products, even though they use HUL products regularly like Surf Excel, Dove, Ponds, etc. Today, nearly 90 years later, Hindustan Unilever continues to work with the same belief as it continues to strive towards a better future and helps people feel good, look good, and get more out of life [1].

***Author for Correspondence**
Prachi Rajput
E-mail: prachirajput2406@gmail.com

[1]Student, Department of MBA, Gyan Ganga Institute of Technology & Sciences, Jabalpur, Madhya Pradesh, India
[2]Associate Professor, Department of MBA, Gyan Ganga Institute of Technology & Sciences, Jabalpur, Madhya Pradesh, India

Received Date: March 01, 2023
Accepted Date: March 16, 2023
Published Date: March 31, 2023

Citation: Prachi Rajput, Meghna Jain. A Study of Ratio Analysis of Hindustan Unilever Limited (HUL). NOLEGEIN Journal of Performance Management & Retention Strategies. 2022; 5(2): 7–16p.

OBJECTIVES OF THE STUDY

1. To know the financial position of Hindustan Unilever Ltd.
2. To know the liquidity and profitable position of the Hindustan Unilever Ltd.
3. To know the financial strength and weakness of Hindustan Unilever Ltd.

RESEARCH DESIGN

The data has been collected in this study through a secondary source. Data pertaining to the behaviour of liquidity solvency and profitability position were collected from the balance sheet, and profit and loss account of Hindustan Unilever Ltd. for the period has been considered for comparing performance.

- 2017–2018
- 2018–2019
- 2019–2020
- 2020–2021
- 2021–2022

The necessary data was obtained from Money Control and Screener.

Sample

Hindustan Unilever Ltd. has been selected.

Period of Study

Five-year data has been collected for the ratio analysis, i.e., from financial year 2017–2018 to 2021–2022.

Tools for Presentation

- Table
- Bar chart
- Charts

Sources of Data

The data used for this study is from secondary sources. The balance sheet and the income statement for the last five years provided in the annual reports by Hindustan Unilever and the other relevant data from websites and research papers are used.

Tools Used for Data Analysis

- Ratio analysis

RATIO ANALYSIS

Ratio analysis is the study or we say analysis of the line items present in the financial statements of any company. There are different ratios which are used by companies to evaluate the efficiency, liquidity, profitability, and solvency of a company [2].

Data Analysis and Interpretation

Liquidity Ratio

Current Ratio

The current ratio measures the capability of a business to meet its short-term obligations that are due within a year.

Current ratio = Current assets/Current liabilities

Table 1 Interpretation: An ideal current ratio ranges between 1.5 and 2 (company's ability to pay short-term obligations or those due within one year**)**. It is shown that the company have a stable current ratio throughout last 5 years from 2018–2022 but during the 2020–2021, it went down to 1.26 due to pandemic (Figure 1).

Quick Ratio

This ratio represents the capacity of a company to face their short-term obligations.

Quick ratio: Liquid assets (current assets–inventory)/current liabilities

Table 2 Interpretation: The ideal quick ratio is 1:1. A higher quick ratio is better. As shown in the graph that in the year 2018, it was 1.02 which is less than ideal ratio, then in the year 2019, it was 1.07 which is close to ideal ratio [3]. After this, there was again a downfall in 2 consecutive years, i.e., in 2020, it was 1.02 and in the year 2021, it was 0.95; then it slightly increased a bit to 0.98 in the year 2022 (Figure 2).

Table 1. Current ratio for the years 2017–2022 (Cr.).

Years	2017–18	2018–19	2019–20	2020–21	2021–22
Current assets					
Current investments	2871	2714	1253	2707	3519
Inventories	2513	2574	2767	3579	4096
Trade receivables	1310	1816	1149	1758	2236
Cash and cash equivalents	3485	3757	5113	4471	3846
Short-term loans and advances	4	4	0	0	35
Other current assets	1477	1049	2039	1702	1790
Total current assets	*11660*	*11914*	*12321*	*14217*	*15522*
Current liabilities					
Short-term borrowings	0	99	0	0	0
Trade payables	7170	7206	7535	8802	9068
Other current liabilities	102	839	1360	1794	1866
Short-term provisions	688	523	422	507	346
Total current liabilities	*8887*	*8667*	*9317*	*11103*	*11280*
Current ratio	*1.29*	*1.36*	*1.31*	*1.26*	*1.34*

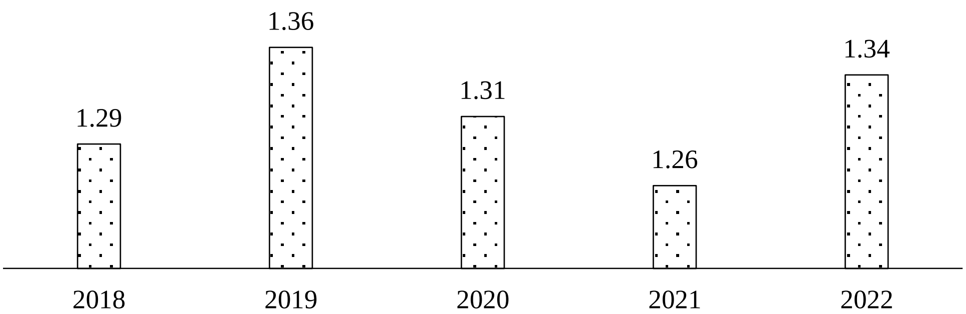

Figure 1. Graphical representation of current ratios for the years 2018–2022.

Table 2. Quick ratio for the years 2017–2022 (Cr.).

Years	2017–18	2018–19	2019–20	2020–21	2021–22
Liquid assets	9065	9274	9503	10548	11054
Current liabilities	8887	8667	9317	11103	11280
Ratios	1.02	1.07	1.02	0.95	0.98

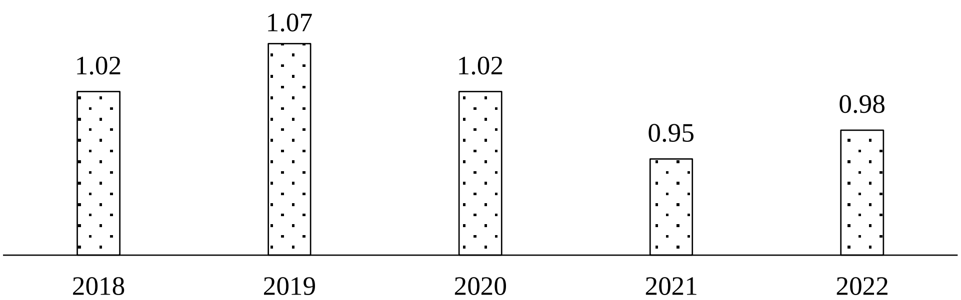

Figure 2. Graphical representation of quick ratios or acid turnover ratios for the years 2018–2022.

Profitability Ratios

Profit Ratios Related to Sales

Gross Profit Margin: Gross profit margin is a profitability ratio that measures how much profit the company makes from the sale of goods after deducting direct costs.

$$\text{Gross profit ratio} = \frac{\text{Gross profit} \times 100}{\text{sales}}$$

Table 3 interpretation: Gross profit margin ratio between 50 to 70% is considered as healthy. As shown in the graph that during the years 2018, 2019, and 2020, there is growth in the ratios, i.e., in 2018, it is 22.17; in 2019, it is 23.98; in the year 2020, it is 26.37, which is highest among all the 5 years. After 2020, in the year 2021, there is a downfall in ratio to 25.59, and 25.00 in 2022 shows stability in both years (Figure 3) [4].

Operating Profit Margin: It is a ratio that measures performance or profitability of a company.

Operating profit margin: (Operating profit/sales × 100)

Table 4 interpretation: As it is seen in a graph that the company has a good operating profit margin, in the year 2018, it is 21.09; it increases to 22.59 in 2019, and then in 2020, it goes up at 24.77 in 2020, which is highest among 5 years and goes slightly down to 24.72 in the year 2021, and it is 24.51 in the year 2022 (Figure 4).

Table 3. Gross profit ratio for the years 2017–2022 (Cr.).

Years	2017–18	2018–19	2019–20	2020–21	2021–22
Gross profit	7880	9426	10490	12034	13112
Sales	35545	39310	39783	47028	52446
Ratio	22.17	23.98	26.37	25.59	25.00

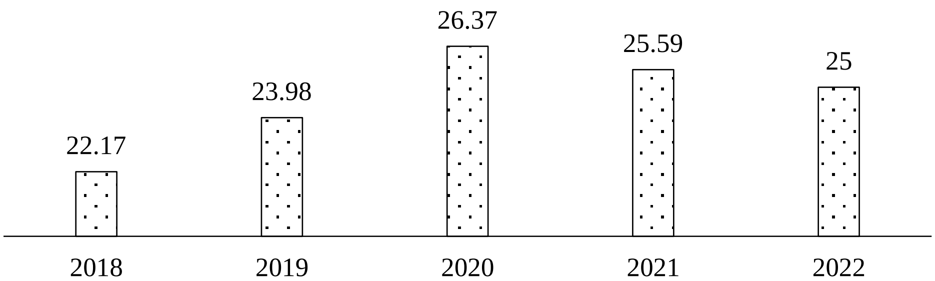

Figure 3. Graphical representation of gross profit margin for the years 2018–2022.

Table 4. Operating profit margin for the years 2017–2022 (Cr.).

Years	2017–18	2018–19	2019–20	2020–21	2021–22
Operating profit	7499	8880	9853	11626	12857
Sales	35545	39310	39783	47028	52446
Ratio	21.09	22.59	24.77	24.72	24.51

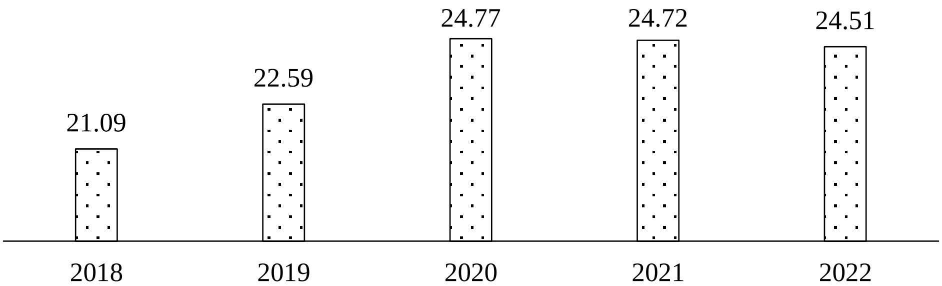

Figure 4. Graphical representation of operating profit margin for the years 2018–2022.

ISSN: 2581-5067

Net Profit Margin: This ratio helps in establishing relation between sales and net profit (NP).

Net profit margin: (Net profit/sales × 100)

Table 5 interpretation: It is good for a company if it has a high profit margin and every company should aim to consider it to be high. As shown in graph that a company growing its NP Margin at decent rate before 2020, during pandemic and after company well-maintained its NP Margin from the year (2020–2022) (Figure 5) [5].

Profitability Ratios Related to Overall Return on Assets/Investments

Return on Assets: It measures net profit per rupee of average total assets/average tangible assets/ average fixed assets.

$$\mathrm{ROA} = \frac{\text{Net profit after taxes}}{\text{Average total assets}}\, or \,\frac{\text{Net profit after taxes}}{\text{Average tangible assets}}\, or \,\frac{\text{Net profit after taxes}}{\text{Average fixed assets}}$$

Table 6 interpretation: ROA of 5% or better is typically considered good, while 20% or better is considered great. As shown in the graph that in the year 2018–2020 [6], return on assets is growing, that means company is getting good return from their assets; in 2018, it is 29.19, in 2019 it is 32.49, and in 2020, it is 33.48. In the year 2021, there is a huge downfall due to pandemic affect with the ratio of 11.62 in 2021, and rises a bit in 2022 with 12.59 (Figure 6).

Table 5. Net profit margin for the years 2017–2022 (Cr.).

Years	2017–18	2018–19	2019–20	2020–21	2021–22
Net profit	5227	6060	6756	7999	8892
Sales	35545	39310	39783	47028	52446
Net profit margin	14.70	15.41	16.98	17.00	16.95

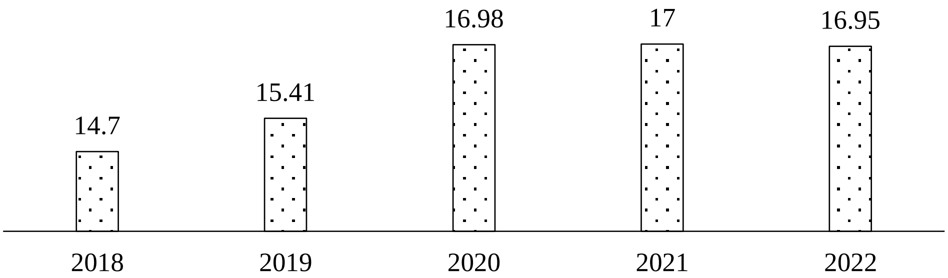

Figure 5. Graphical representation of net profit margin for the years 2018–2022.

Table 6. Net profit after taxes for the years 2017–2022 (Cr.).

Years	2017–18	2018–19	2019–20	2020–21	2021–22
Net income	5227	6060	6756	7999	8892
Assets	17862	18629	20153	68757	70517
Ratio %	29.19	32.49	33.48	11.62	12.59

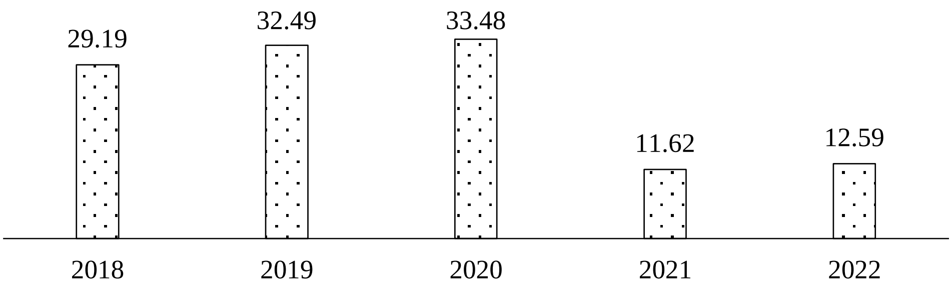

Figure 6. Graphical representation of return on assets for the years 2018–2022.

Return on Equity: A high ROE is always considered better for the company.

ROE = (Net income/Shareholder's equity × 100)

Table 7 interpretation: A return on equity ratio of 15% to 20% is usually considered good. At 5%, the ratio would be considered low [7]. As shown in the graph that return on equity of the year 2018 is 71.61, it increases to 76.95 in 2019, and it is highest in the year 2020, i.e., 82.00; it goes down to 16.77 in 2021 and has increased a bit later in 2022, i.e., 18.12 (Figure 7).

Return on Capital Employed: This ratio helps in finding out whether the company is efficiently able to use their capital for generating profit.

ROCE= (EBIT/Capital employed × 100)

Where; Capital employed = Total assets–Current liabilities

Table 8 interpretation: As shown in the graph, the company is getting high ROCE during the years 2018 to 2020, but in 2021, the company invested in assets that increased the capital employed in a business, and in return, there was not much of an increase in the EBIT which overall resulted in a huge downfall in the years 2021 and 2022, i.e., 18.6 and 20.22 (Figure 8).

Table 7. Return on equity for the years 2017–2022 (Cr.).

Years	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
Net income	5227	6060	6756	7999	8892
Shareholder's equity	7281	7867	8229	47674	49061
Ratio %	71.61	76.95	82.00	16.77	18.12

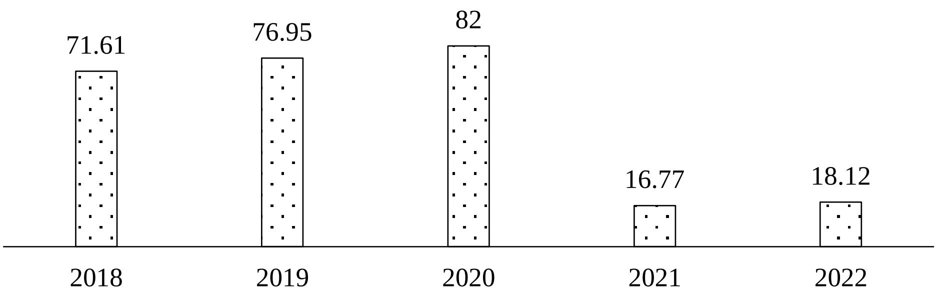

Figure 7. Graphical representation of return on equity for the years 2018–2022.

Table 8. Return on capital employed for the years 2017–2022 (Cr.).

Years	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
EBIT	7330	8637	9291	10723	11980
Assets–CL = Capital employed	17862–8887 = 8975	18629–8667 = 9962	20153–9317 = 10836	68757–11103 = 57654	70517–11280 = 59237
Ratio %	81.67	86.70	85.74	18.60	20.22

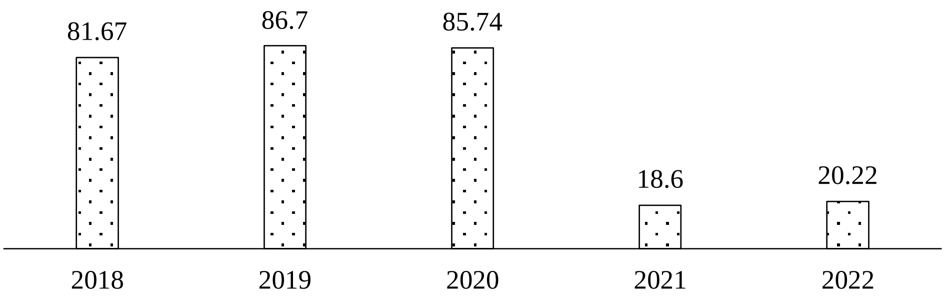

Figure 8. Graphical representation of return on capital employed for the years 2018–2022.

Profit Before Interest and Tax: This ratio helps in understanding whether the company can be considered to be profitable in comparison to their sales.

PBIT margin = (Profit before interest and tax/Revenue × 100)

Table 9 interpretation: As shown in the graph, PBIT margin is growing during 2018 to 2020 (In 2018, it is 20.62; in 2019 it is 23.80; in 2020, it is 22.84) but in the years 2021 and 2022, it is slightly down, i.e., 22.80 in 2021 and 22.84 in 2022 [8] because company was getting good revenue in last 2 years but PBIT would not increase as it has to be (Figure 9).

Profit Before Tax Margin: This ratio indicates the percent of sales which has turned into profit.
PBT margin = (Profit before tax/Revenue × 100)

Table 10 interpretation: As shown in the graph that, during the years 2018, 2019, and 2020, PBT margin is growing (In 2018, it was 20.55; in 2019, it was 21.88, and in 2020, it was 23.05, which is highest in overall 5 years) but in the year 2021, there was a slight downfall in the ratio/margin, i.e., in 2021, it was 22.55 and then it is almost stable in the year 2022 with 22.64 (Figure 10).

Table 9. Profit before interest and tax for the years 2017–2022 (Cr.).

Years	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
Profit before Interest and tax	7330	8637	9291	10723	11980
Revenue	35545	39310	39783	47028	52446
PBIT margin	20.62	21.97	23.35	22.80	22.84

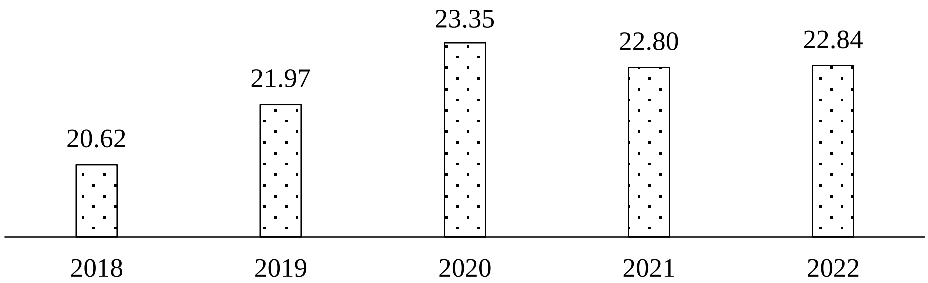

Figure 9. Graphical representation of profit before interest and tax (PBIT) margin for the years 2018–2022.

Table 10. Profit before tax margin for the years 2017–2022 (Cr.).

Years	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
Profit before tax	7306	8604	9165	10605	11879
Revenue	35545	39310	39783	47028	52446
PBT margin	20.55	21.88	23.05	22.55	22.64

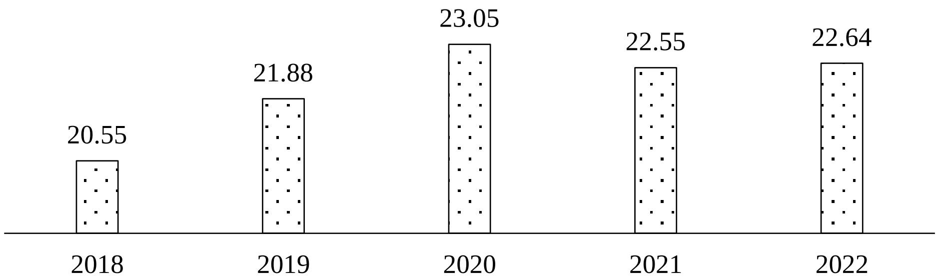

Figure 10. Graphical representation of profit before tax (PBT) margin for the years 2018–2022.

Activity Ratios

Total Asset Turnover Ratio

This ratio indicates the way the company measures their efficiency with which the firm uses its total assets.

$$\text{Total asset turnover ratio} = \frac{\text{Sales/Cost of goods sold}}{\text{Total assets}}$$

Table 11 Interpretation: It is good for a company to have their asset turnover ratio between 0.25 and 0.5. As shown in the graph, during the years 2018 to 2020, company had a ratio of 1.98 in 2018, 2.11 in 2019, and 1.97 in 2020. While in the year 2021, company faces a downfall with a ratio of 0.68 due to huge investments on assets and it slightly increased to 0.74 in the year 2022 (Figure 11).

Working Capital Turnover Ratio

Working capital turnover ratio is an efficiency ratio that measures the efficiency with which a company is using its working capital in order to support the sales and help in the growth of the business.

WCTR: (Sales/Working capital)

Table 12 Interpretation: As shown in the graph that in the year 2018, the company has 12.80 working capital turnover ratio; then in the year 2019, it slightly decreased to 12.11, then it increased to 13.24. In the year 2021, it was 15.1 (highest among all the 5 years) as there is huge increase in sales; then there is slight downfall of 12.36 in the year 2022 (Figure 12).

Table 11. Total asset turnover ratio for the years 2017–2022) (Cr.).

Years	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
Sales	35545	39310	39783	47028	52446
Total assets	17862	18629	20153	68757	70517
Ratio	1.98	2.11	1.97	0.68	0.74

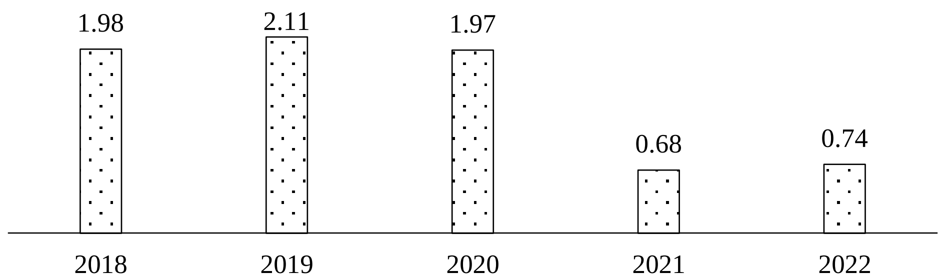

Figure 11. Graphical representation of total assets turnover ratio for the years 2018–2022.

Table 12. Working capital turnover ratio for the years 2017–2022 (Cr.).

Years	**2017–18**	**2018–19**	**2019–20**	**2020–21**	**2021–22**
Sales	35545	39310	39783	47028	52446
Working capital	2773	3247	3004	3114	4242
Ratio	12.8	12.11	13.24	15.10	12.36

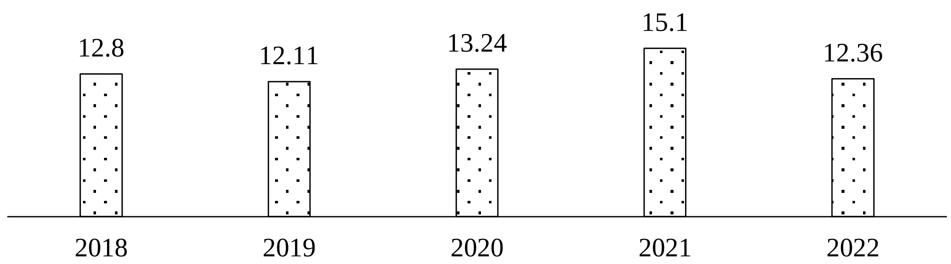

Figure 12. Graphical representation of working capital turnover ratio for the years 2018–2022.

FINDINGS

- The current ratio of all the 5 years was below to ideal ratio, which says company is not fully capable to meet its short-term debts as there is a fluctuation in all the years.
- The quick ratio of starting 3 years was close to ideal ratio which indicates that company is having enough liquid assets to pay off the current liabilities. In the last 2 years, it falls due to increase in current liabilities.
- Gross profit margin was fluctuating all over the 5 years, highest in 2020, and lowest in 2018 due to increase in sales as compared to gross profit.
- The operating profit margin was growing during the first 3 years and then it was stable in the last 3 years.
- The net profit margin was growing margin at decent rate before 2020, during pandemic, and after company well-maintained its NP margin from the years (2020–2022).
- The return on assets was increasing in the first 3 years with a great return; then on the last 2 years, there was a downfall due to huge investment in assets.
- The return on equity of the first three years was considered to be great as it is growing. Due to increase in the shareholder’s equity, it falls down in the last 2 years.
- Company was having good return on capital employed in the first 3 years, but in the last 2 years, there was a downfall due to increase in assets of the company.
- The profit before interest and tax margin was growing in first 3 years and was highest in the year 2020; then it was stable with a slight fall due to increase in revenue as compared to PBIT.
- Profit before tax margin was growing in the first 3 years, and showed stability thereafter.
- The total assets’ turnover ratio in the first 3 years was higher than its ideal ratio, which shows that the company was getting good return; that means, they effectively use their assets, but in the last 2 years, there was a downfall due to increase in assets.
- The working capital turnover ratio was stable during all the 5 years with the highest in the year 2021, and lowest in the year 2018.

CONCLUSIONS

The study was conducted with the main objective of analyzing the overall financial performance of Hindustan Unilever. The study analyzed the financial performance of the company in terms of liquidity and profitability. The study was carried out with the help of the published annual report of the company during 2018–2022. Gross profit margin was fluctuating all over the 5 years, with the highest in 2020 and the lowest in 2018 due to an increase in sales as compared to gross profit. The operating profit margin was growing during the first 3 years, and then it was stable in the last 3 years. The net profit margin was growing at a decent rate before 2020, during the pandemic, and after the company well-maintained its NP margin from the years 2020–2022. The return on assets was increasing in the first 3 years with a great return, but in the last 2 years, there was a downfall due to huge investment in assets. The return on equity of the first three years was considered great because it was growing. Due to an increase in the shareholder’s equity, it fell down in the last 2 years.

SUGGESTIONS

After analysing the given data, the following recommendations were made to the company for the expansion and growth of the company.

- The current ratio of company is below to the ideal ratio, so the company should maintain its current assets to pay off short-term debts easily in future if any.
- The quick ratio of last two years is not enough to pay off the current liabilities, which says company have to keep adequate cash or any liquid assets.
- Return on assets of the company is low in the last two years; company should use their assets more effectively.
- Company should formulate the strategy to use the fixed assets more effectively to generate more revenue.

- Company issued shares in the year 2020–2021; therefore, it is important for the company to maintain its return on assets.
- Company should effectively use their profits that help in the overall growth of the company.

REFERENCES

1. Moneycontrol.com. (2023). Home. Online Available from: https://www.moneycontrol.com/financials/hindustanunilever/ratiosVI/HU.
2. Mittal. (2019). Hindustan Unilever Ltd financial results and price chart-Screener. Online Available from: https://www.screener.in/company/HINDUNILVR/consolidated/.
3. Bhavani G. A comparison of financial performance based on ratio analysis (With Special Reference to ITC Limited and HUL Limited). IOSR Journal of Humanities and Social Science. April 2018; 23(4): 59–63.
4. Home. 2023). The Economic Times. Online Available from: https://economictimes.indiatimes.com/hindustan-unilever-ltd/balancesheet/companyid-13616.cms
5. Patjoshi PK, Nandini G. Comparative study on financial performance of Hindustan Unilever and Nestle India. Journal of Xidian University. 2019; 14(4): 3075–3080.
6. Panigrahi AK, Vachhani K, Financial analysis by return on equity (ROE) and return on asset (ROA)-A comparative study of HUL and ITC. J Manag Res Anal. 2021 Oct 11;8(3):131-8.
7. Beg K. Impact of accounting information system on the financial performance of selected FMCG companies. Asian Journal of Applied Science and Technology. 2018; 2(3): 08–17.
8. Vishwanath SR, Singh K. Hindustan Unilever Ltd. Asian Case Research Journal. Dec 2012; 16(02): 269–287.