A STUDY OF FINANCIAL APPRAISAL OF HINDUSTAN UNILEVER LIMITED IN INDIA

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Introduction of Hindustan Unilever Limited:-

Hindustan Unilever Limited of HUL is the one of the leading fast moving consumable goods (FMCG) company. The company was incorporated in 1933 but its product has been sold in India since 1988 in its journey of over 100 year the company has always operated with the singular belief that what is good for India is good for HUL. Their headquarters is in Mumbai with the four national sales offices in metro cities, more than 35 manufacturing units' locations across the country. They are engaged with the production and marketing of soaps, detergents, household care, personal products Hindustan lever limited is a part of the 40 billion Unilever group. The group has more than 400 brands spanning in categories of home, personal care and food products. It has presence in over 100 countries and employees more than 1,74,000 people worldwide. Their gross sales increased from Rs. 10,918 to Rs. 21,650 Crore in the last one decade (2005-2009).

Similarly their EBIT also increases from Rs. 1410 Crore to Rs. 2440 Crore during the one decade. Till 2009 their investment is Rs. 2484 Crore with the return on investment on 107.5%. Their market capilisation has reach upto Rs. 51,770 Crore with the EVA of Rs. 2097 Crore till the end of the march 2009. They are the winner of various prestigious award such as C11 HR excellence awards 2008, CNBC AWAAZ consumer awards 2008 for most preferred personal care company and most preferred have care company. HUL list in both the stock exchange in India (BSE as well as NSE).

- **OBJECTIVES OF THE STUDY**

  The Research study fulfils the following objectives:

1) To find out whether fixed assets are properly utilized or not by the HUL.
2) To find out whether HUL has been abide to increase their sales as caparison to their investment.
3) To analyze the cost minimization efficiency of HUL, as comparison to total sales.

- **HYPOTHESIS OF THE STUDY**

  The Following hypothesis were framed for this research study:

1) There is significant relation between the EBIT and Capital employed.
2) Growth of EBIT fully depends upon the sales in HUL.

- **METHDOLOGY:**

The study is micro nature case study which is related to one of the major FMCG Company HUL and we have covered the period from 2005-09. The main service of secondary date used in the study; are annual reports, budget HUL, bulletin, statistical report etc. The paper makes assets turnover and profit on sales or profit margin have been worked out. The statistical techniques of averages, percentages, growth rate, co-efficient of variation and t-student test have been employed at appropriate places to analyze the data and deride meaningful result.

- **LIMITATION OF THE STUDY**

1. The study is based on analysis of financial statements for to financial year i.e. 199-2000 to 2008-09 of HUL.
2. Two-tier analysis is based on secondary date, which are received from annual report and annual account.
3. The Analysis of DU-Pont chart, which are related to profit margin and assets turnover anr used.

- **DATE ANALYSIS AND FINDINGS**

This analysis highlights operating profit, operating expenses and its sales and it deals that how to increase the operating efficiency as well as profit margin. The second segment is assets turnover, this segment main by highlights that assets are properly utilized or not in their business or a company have finds as per their requirements, besides this is also judge the overall efficiency of the business in a company. So that the company do better internal and external arrangements and that the fixed assets can be more efficiently utilized by the company to increases the profit.

- **INVESTMENT TURNOVER RATIO:-** Table 1 Indicate the sales and investment for the first 5 years of HUL. Sales for the period continually increases from Rs. 10,888 Crore to Rs. 17,320 Crore from the year 2005 to 2009 with average of 12407.3 Crore during the last are half decade growth in the sales is 58.64% which indicate strong demand for the product as well higher market share in the EMCG market. Similarly during this period their investment has decreased from 3564 to 2484 Crore till 2009. Growth overall average during the decade 2830.3 Croce with a growth of

8.90% investment turnover ratio increases from 3.06 to 4.82 with the growth rate of 45.5%

Table I

Statement of Investment turnover (Assets turnover) of HUL

Year	Sales	Investment	Ratio
2005	10888	3564	3.06
2006	11976	2363	5.07
2007	13035	2796	4.66
2008	14715	1528	9.63
2009	17320	2484	6.97
X	12407.3	2830.3	4.82
Growth	58.64%	8.90%	45.51%

Source: Calculated and Compiled from the annual reports of HUL form 2005-2007

<u>Profit Margin Ratio:-</u> Profit Margin is a ratio which indicates the profitability position of the firm as compared to sales. To find art this ratio there are two components such as EBIT and Sales.

Table No. – 2

Year	EBIT	Sales	Profit Margin (%)
2005	1635	10888	15.01
2006	1624	11976	13.56
2007	1873	13035	14.37
2008	2172	14715	14.76
2009	2440	17320	14.09
X	1930.10	12407.3	15.70
Growth	73.05%	58.64%	–

Scarce: Calculated and compared from the annual reports of HUL from 2005-2009

The above table No. 2 shows that EBIT regularly increases from 1635 crore to 2440 crore between 2005 to 2009 with average growth of 73.05%. Similarly sales of the company is also increasing from 10888 crore to 1240% .03 crore between 2005 to 2009 with the growth rate of 58.60%. Despite the heavy competition with the other similar companies profit margin ratio also goes into same direction from 15.01% to 15.70% between the 2005 to 2009. It indicate that as compared to sales, EBIT is lower due to increases of operating expenses. Overall average for the fast one half decade is 15.70 which is satisfactory as compared to similar industry.

To find out the relation between EBIT and sales coefficient of correlation technique is being used. The correlation co-efficient between degree of correlation during the study period. EBIT and sales student – T test is used to know the whether relationship between EBIT and sales is significant or not.

NULL HYPOTHESIS (HO): There is no significance relation between the EBIT and sales.
ALTERNATIVE HYPOTHESIS (H1): There is significant relation between the EBIT and sales.

T-test applied to know the validity of the relationship.
T – test applied to know the validity of the relationship.
T = r/

The critical value of t .05 is 2.10

Calculated value of t at 5% level of significance is less than the critical value 2.10. Hence the null hypothesis is accepted. That means in case of HUL there is no significant relation between EBIT and sales of sales it is affected by same other internal or external factors such as brand value distribution not work or control of operating cost.

<u>Return on capital employed</u>

Return on capital employed is one of the measure of over all profitability of the firm related with investment not with sales. Because investment is the factor which directly influenced the profitability.

Table No. – 3

Statement of Profit Margin and Assets Turnover HOL

Year	Profit Margin (%)	Assets turnover (times)	ROCE (%)
2005	15.01	3.06	45.93
2006	13.56	5.07	68.75
2007	14.37	4.66	66.96
2008	14.76	9.63	142.14
2009	14.09	6.97	98.21
X	15.70	4.82	73.05

Source: Calculating and compiled from the annual reports of HUL from 2005 to 2009

Table 3 indicates profit margin and assets turnover of 5 years. If increases from 2005 to 2008 from 45.93 to 98.21 that is very higher and comfortable for a FMCG industry. Overall average for the last one decade is 73.05 important observation is that during the last five years profit margin is average but due to higher assets turnover ratio ROCE is always higher which is very important for shareholders point of view to enhance their value creation.

STATEMENT OF RETURN ON INVESTMENT

Table No. 4

Statement of Return as investment (in crores)

Year	Sales	Investment (capital) F.A.+W.C	Return as investment
2005	10888	3564	45.93
2006	11976	2363	68.75
2007	13035	2796	66.96
2008	14715	1528	142.14
2009	17320	2484	98.21
X	12407.3	2830.3	73.05
Growth Rate	58.64%	8.90	58.68

Source: Calculated and compiled from the annual reports of HUL from 2005 to 2009.

Table 4 indicate various components of return as investment. Sales are continuously increased from 10,888 to 17,320 crore.

Similarly during this period their investment is decreasing from 2005 to 2009 due to better management. As far as return as investment is concerned it is mixed found during the year.

Analysis of Sales Operating Cost Operating Profit

Table 5 indicates the comparative statement of sales, operating cost and operating profit of the HUL.

Table No. 5

Year	Sales	Operating Cost	(in Crores) Operating Profit before Int. of tax
2005	10888 (100)	9253 (84.99)	1635 (15.01)
2006	11976 (100)	10352 (86.44)	1624 (13.56)
2007	13035 (100)	11162 (85.63)	1873 (14.37)
2008	14715 (100)	12543 (85.63)	2172 (14.76)
2009	17320 (100)	14880 (85.91)	2440 (14.09)
X	12407.3	10603.4	1930.10
Growth	58.64	38.04%	73.05%

Source: calculated and compiled from the annual report of HUL from 2005 to 2009

- Figures in brackets shows percentage with the sales for the respective years.

FINDING: After the analysis of the relevant data's for the last one decade the followings are the major finding of the study:

1. Investment turnover ratio is positive during the year in the last five years (4.82 times) which indicate proper utilization of assets by the company and enhancement of sales.
2. Profit margin ratio is also in a good position (15.70) as compared to sales in the last five years. Sales as well as profits both are increasing in the same directions which leads the maximization of profit for the shareholders.
3. ROCE is very good position in the HUL, it is on average 73.05% which indicates that company ijs utilizing asset in an efficient manner. It is very important for the shareholders points of view.
4. As compared to sales, investment by the company is contant because growth sale is 58.64 but growth in the investment is 8.90%, which indicates that company is utilizing assets and resources in such a manner to maximize the sales.
5. In the last five years as compared to sales the operating cost increases year by year this directly affect the EBIT. In future they have to control their operating cost.

CONSLUSION:

After the analysis of whole study it is concluded that return on investment of HUL is satisfactors and especially in the last five years and they are controlling their operating cost. As for as utilization of assets is concerned they are utilizing assets in positive manner therefore investment turnover ratio is more then four times which is good as compared to similar companies. Management should have effective control over internal management to avoid wastage of assets. In case of HUL apart from many tangible assets there are many intangible assets which are equally important for enhancement of EBIT and ROCE such as brand value, their employees and their capabilities and talent through which they are utilizing the tangible assets. Along with the management and effective utilization of tangible assets they have to concentrate on intangible assets so that they can maximize the value of the shareholders, which is ultimate goals of financial management.

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