RETURN EFFICIENCY LEVEL APPROACH THROUGH DUPONT ANALYSIS IN PERSONAL CARE SECTOR

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ABSTRACT

DuPont analysis is a technique used to analyze the return on equity in an effective manner. This Analysis blends the items from both Income statement and Balance Sheet. As investors are keen to know about the performance of the company in which they want to invest, this analysis helps them in understanding the return equity in well structured form. This paper evaluates the performance of five selected companies from Personal care sector in India. Companies have been selected based on its market capitalisation. Result shows that HUL has better ROE compared to other companies in personal care sectors. And Investors can take this output as one of their input while investing in stocks.

Key Words: *Return On Equity, Personal Care Sector, DuPont, Net Profit and Average Assets.*

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Introduction

Financial ratios are widely used technique to evaluate the financial position and Performance of companies. Financial Ratios means it establishes the relationship between two financial items. Financial ratios can be classified into Balance Sheet Ratio, Income Statement Ratios and Combined Ratios. Balance Sheet ratios take two items from Balance sheet and logically establish the relationship. One of the interesting and important models in financial analysis is DuPont analysis. The DuPont Model, developed in 1914 by F. Donaldson Brown of chemical company DuPont de Nemours & Co, is a set of financial ratios and key figures relating to the Return on Investment (ROI). It is a technique that can be used to analyze the profitability of a company using traditional performance figures. This considers Net profit Margin, Total Asset Turn Over and Return on Assets, because these factors have greater influence on profitability position of a company. The benefit of the method id that it provides an understanding of how the company generates its return.

The Downside of ROE

- The Companies do raise additional money and it comes in the kind of debt or equity.
- Debt causes an increase in interest payments which lowers net income.
- Both debt and equity dilution reduces shareholders equity which in turn causes ROE to become higher.
- Money through selling more shares (equity dilution) lowers earnings per share since the number of shares outstanding has increased.

Personal Care Sector in India

India's personal care industry is composed of hair care, bath products, skin care and cosmetics, and oral care. This industry accounts for 22% of the country's fast-moving consumer goods (FMCG), which is the term for Consumer Packaged Goods in India.

Hair care is a main category of this industry. A study by Nielsen, a market research firm, determined that shampoo is the most popular FMCG product in India. The $818 million shampoo segment is dominated by Hindustan Unilever Ltd., owned by U.K.-based Unilever. Its most popular brands are Sunsilk, Clear, and Clinic Plus. Hair oil is another important product, valued at $1.3 billion annually. India-based Marico's Parachute and Dabur are leaders in the production of branded coconut hair oil.

Within the cosmetics category, India's most prevalent products are skin creams, lotions, whitening creams, and makeup. Hindustan Unilever has three brands that are popular among Indian women—Fair & Lovely, Lakmé, and Ponds. Fair & Lovely was the world's first skin lightening cream and is the company's leading skin care brand. Colgate Palmolive's Charmis moisturizer is also prominent. The majority of the demand for cosmetics comes from working men and women. L'Oreal Paris develops both skin care and cosmetic products for India. New York-based Revlon expanded further to smaller cities in India, generating $40 million in revenues in 2014.

The organic skin care category grows at over 20 percent annually and is expected to total $157 million in 2020, according to Azafran Innovacion, an organic skincare group. Large Indian organic skin care companies include Himalaya Herbals and Biotique. Both specialize in Ayurveda-based products.

The oral care category is the smallest category; less than half of Indian consumers utilize western-style products such as toothpaste. Colgate Palmolive dominates more than half of this industry and was named India's most trusted brand four years in a row by a brand equity survey. Hindustan Unilever is another significant player with toothpaste brands Pepsodent and Close Up.

Objectives of the Study

- To know the company who has created more shareholder value during the study period.
- To give an overview of the financial performance of companies in Personal Care Sector

Scope of the Study

This paper analyses the financial performance of top five companies from the personal care sectors in India. Secondary data for the period of 2010 to 2015 have been analysed to prove the objectives.

Data Analysis

Data is analysed by employing the DuPont model by considering Net Profit Margin, Asset Turnover and Equity Multiplier.

ROE = (Net Profit Margin x (Asset Turnover) x (Equity Multiplier)

The best way to make use of ROE is by comparing against competitors in the same industry

- Net profit margin shows operating efficiency
- Asset turnover shows asset utilization efficiency
- Equity multiplier shows financial leverage

ROE = (Net Income/Sales) * (Sales/Total Assets) * (Total Assets/Shareholders' Equity)

HUL

	2015	2014	2013	2012	2011
Net Profit Margin	13.2%	13.1%	13.9%	12.2%	11.2%
Asset Turnover	9.35	9.94	8.82	7.17	7.53
Equity Multiplier	1.00	1.00	1.00	1.00	1.00
Return on Equity	**123.3%**	**130.0%**	**122.8%**	**87.2%**	**88.5%**

Table-1 Showing Return on Equity Position of HUL

Above table shows the ROE of Hindustan Unilever ltd for the past five years. Its average Profit Margin percentage is 12.72% and it is par with the sector. One of the greatest strength of HUL is reflected in Asset Turnover ratio. Average rate of Asset Turn Over ratio is 8.5 times. This made HUL to enjoy the Highest Return on Equity. Equity multiplier is 1, which means assets of the company are acquired completely with the help of Equity capital.

Dabur

	2015	2014	2013	2012	2011
Net Profit Margin	14.0%	13.8%	13.6%	12.3%	14.4%
Asset Turnover	2.46	2.57	2.55	2.57	2.97
Equity Multiplier	1.04	1.08	1.18	1.22	1.19
Return on Equity	**36.0%**	**38.4%**	**40.8%**	**38.5%**	**50.9%**

Table-2 Showing Return on Equity Position of Dabur

This table shows the data of Dabur India ltd. Net profit Margin is high in the year 2011 (14.4%) but the same was decreased in next four years, interestingly this is above the HUL figures. There is a decrease in the asset turnover ratio from 2.97 to 2.46 times. Even same trend was carried in equity multiplayer as well as figure reduced from 1.19 to 1.04 times. Due to these changes even there is steep fall in the Return on Equity as well.

Godrej

	2015	2014	2013	2012	2011
Net Profit Margin	14.8%	13.8%	14.3%	20.3%	17.6%
Asset Turnover	1.38	1.35	1.24	1.37	2.02
Equity Multiplier	1.00	1.05	1.09	1.08	1.03
Return on Equity	**20.4%**	**19.5%**	**19.3%**	**29.8%**	**36.8%**

Table-3 Showing Return on Equity Position of Godrej

Return on investment was high (36.8%) in the year 2011 because of high asset turnover (2.02 times). In the year 2012 though profit margin was high because of less asset turnover return on equity was fell to 29.8%. Next three years there were a little fluctuation in the profit margin and increased trend in asset turnover ratio. But still Return on Equity could not get back to its base year range. Compared other company Godrej has less return on equity.

Colgate

	2015	2014	2013	2012	2011
Net Profit Margin	14.0%	15.1%	15.7%	16.6%	17.6%
Asset Turnover	5.81	6.57	6.84	6.57	6.40
Equity Multiplier	1.00	1.00	1.00	1.00	1.01
Return on Equity	**81.6%**	**99.1%**	**107.4%**	**109.0%**	**113.4%**

Table-4 Showing Return on Equity Position of Colgate

Colgate Company enjoys the highest return equity in the year 2011 (113.4%) compared to all the companies because it has high asset turnover ratio. Return on Equity of the company is excellent in the first three years because of good and consistent in asset turnover ratio but due to reduction in profit margin return on equity also showing the downward direction.

P and G

	2015	2014	2013	2012	2011
Net Profit Margin	14.8%	14.7%	12.0%	14.0%	15.0%
Asset Turnover	2.09	2.27	2.25	2.00	1.77
Equity Multiplier	1.00	1.00	1.00	1.00	1.00
Return on Equity	**31.0%**	**33.4%**	**27.1%**	**27.9%**	**26.6%**

Table-5 Showing Return on Equity Position of P and G

Equity Multiplayer is 1.00 which shows that company has acquired its assets completely with the help of equity. Return on equity is increased from year to year because of improvement both in profit margin and asset turnover ratio.

Average Return on Equity in Personal Care Sector

	HUL	**Dabur**	**Godrej**	**Colgate**	**P & G**
Net Profit Margin	12.72%	13.62%	16.16%	15.80%	14.10%
Asset Turnover	8.56	2.62	1.47	6.44	2.08
Equity Multiplier	1.00	1.14	1.05	1.00	1.00
Return on Equity	110.36%	40.92%	25.16%	102.01%	29.2%

Table-6 Showing Average Return on Equity Position of Personal Care Sector

Above table shows an average return on equity of top five companies from personal care sector in India. HUL occupies the top one position in this sector by having 110.36%. The Greatest advantage enjoys by HUL is its asset turnover. It has maximum (8.56 times) asset turnover in the sector. Colgate's Net Profit margin is high compared with HUL, since it has less asset turnover compared to HUL it occupies the second position in the sector. Other companies Dabur, P&G, Godrej follow the order. Above table clearly shows that all companies have got better Net profit margin but due to the changes in their asset turnover ratio there is variation in their return equity figures.

Conclusion

Return on Equity can be measured either through traditional method or through DuPont analysis. DuPont analysis helps in calculating the ROE in an effective way by considering operating efficiency, asset usage efficiency and leverage. Study concludes that HUL has better and consistent ROE in personal care sector and investor can consider this as one of the criteria to make an investment. But this is not the only criteria. Study can be extended to other sectors as well. And also five steps DuPont analysis can be implemented.