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Profitability Trends in Hindustan Unilever Limited-A Study

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ABSTRACT

Profit is the excess of revenues over associated expenses for an activity over a period of time. Profit is the engine that drives the business enterprise (Lord Keynes). It is the indicator of the improved national income, economic progress, and rising standard of living. Every business should earn adequate amount of profits to survive and grow over a long period of time. Profitability means the ability of a firm to generate such profit. No doubt, profit is the legitimate aim of business enterprises, but it should not be over emphasised. Management should try to maximise the profit of the firm by keeping in mind the welfare of the society. Thus, profit is not just the reward to owners but it is also related with the interest of other stakeholders. Profit is the yardstick for judging not only the economic, but also the managerial efficiency and social objectives. The specific objective of this paper is to analyse the profitability of the Hindustan Unilever Limited. So in order to obtain appropriate result the profitability of the HUL has been deeply analyzed using various profitability ratios.

Key words: Profit, Profitability, Indicators, HUL

1. INTRODUCTION:

The term profitability implies the ability of a firm to generate revenue in excess of expenses incurred in the process if earning those revenues. It acts as a yardstick to measure the operating efficiency of the firm. Profitability analysis is an essential of financial analysis. It is a relative measure of the profit rather than the absolute. The profitability analysis sheds lights on the aspects like- good performance of the business enterprise, what effort it has deployed to achieve this performance or what level of capital the company operates with to achieve this level of profit, etc. Analysis of profitability ratios is a very good way to analyse the profitability of a business enterprise. For analysing the profitability of a firm profitability ratios are divided into two categories, they are – Profitability ratios in relation to sales like- Gross Profit Ratio (GP Ratio), Net Profit Ratio (NP Ratio), Operating Profit Ratio (OP Ratio) etc.;

Profitability ratios in relation to investment like- Return on Capital Employed (ROCE), Return on Owner's Equity (ROE), etc.

A considerable number of studies have been carried out on the analysis of financial performance of Indian Fast Moving Consumer Goods (FMCG) sector in which along with other aspects of financial performance the profitability has been considered. However, the matter connected with profitability specifically of HUL has not yet been addressed. In this backdrop the present paper seeks to make profitability analysis of Hindustan Unilever Limited (HUL), a leading company of the Indian FMCG sector during the period 2002-03 to 2016-17. The remainder of this paper is divided into different sections: Section II deals with the objectives of the study. Section III narrates the methodology adopted in this study. In Section IV a brief company profile of HUL is presented. Section V is concerned with the empirical results and discussions and in Section VI concluding remarks are given.

2. OBJECTIVE OF THE STUDY:

The present study attempts to analyze the profitability of HUL. More specifically the objectives are:

i. To analyze the trend in profitability of the company under study by using some profitability indicators.
ii. To ascertain the status of the company under study in respect of its profitability more precisely applying comprehensive score.
iii. To examine the nature and extent of relationship between the selected profitability indicators of the company and its determinants.
iv. To measure the joint effect of the determinants on the selected profitability indicators of the company under study.

3. METHODOLOGY OF THE STUDY:

The present paper is analytical in nature and completely based on secondary data. The data of Hindustan Unilever Limited for the period 2002-03 to 2016-17 used in the present study were collected from secondary sources i.e. Capitaline Corporate Database of Capital Market Publishers (I) Ltd., Mumbai. For measuring profitability of the company under study, six ratios namely, gross profit ratio (GPR), net profit ratio (NPR), operating profit ratio (OPR), return on capital employed (ROCE), and return on net worth (RONW) were used. ROCE was also taken as a overall profitability measure in the present study. Generally, a firm utilises its fund in two ways: (a) by making investment in fixed assets and (b) by making investment in working capital. So, the profit earning capability of a firm is directly influenced by the efficiency with which its fixed assets as well as working capital are managed. Generally, inventory, debtors and cash are the three most vital components of working capital. The fixed assets turnover ratio (FATR), inventory turnover ratio (ITR), debtors turnover ratio (DTR) and cash turnover ratio are considered as the most reliable measures of efficiency of fixed assets management, efficiency of inventory management, efficiency of debtor's management and efficiency of cash management respectively. Thus, in the present study FATR, ITR, DTR and CTR were taken as the determinants of profitability. While analysing the profitability of HUL simple statistical tools like arithmetic mean (AM), statistical technique like Spearman's rank correlation analysis and statistical tests, namely t test and F test were applied at appropriate places.

4. A BRIEF PROFILE OF HUL:

Hindustan Unilever Limited (HUL), the market leader in Indian consumer product, was established in 1933. It is a subsidiary company of Unilever, a British- Dutch company, one of the world's leading fast moving consumer goods suppliers. HUL's products include personal care products, home care foods, beverages, cleaning agents and water purifiers, etc. It has more than 35 brands spanning 20 different categories, such as skin care, detergent, soaps, toothpaste, etc. About 700 million Indian consumers use its product. It has employee strength of over 16500 employees and contributes to indirect employment of over 65,000 people. HUL commands market capitalization of Rs 347212.06 crore with annual sales of Rs. 36,622 crore and net profit of Rs. 5,216 crore (as per Financial Express in the year 2017-2018). Due to its innovative and outstanding performance it has been considered as “The World’s Most Innovative” Company and has also captured the top most position in the Forbes list.

5. EMPIRICAL RESULTS AND DISCUSSION:

- **In Table I,** an attempt was made to analyze the profitability of Hindustan Unilever Ltd. (HUL) by using some selected profitability indicators. In this table the average values of the selected profitability indicators were ascertained by applying arithmetic mean. For identifying the nature of trend in each of the profitability indicators during the period under study, linear trend equation was fitted and in order to test whether the slopes of the trend lines were statistically significant or not, t-test was conducted.

Table 1
Hindustan Unilever Limited
Ratios relating to Profitability

	GPR	NPR	OPR	ROCE	RONW
2002-2003	23.36	17.78	22.11	64.31	52.82
2003-2004	22.68	17.53	22.11	59.13	61.14
2004-2005	16.17	12.06	16.26	43.62	56.61
2005-2006	15.78	12.71	14.83	55.46	64.05
2006-2007	19.19	15.37	18.20	71.32	61.46
2007-2008	18.08	14.12	17.25	97.55	82.61
2008-2009	15.82	12.36	14.98	120.74	114.14
2009-2010	17.16	12.58	16.15	111.59	94.84
2010-2011	16.00	11.68	14.88	95.91	87.99
2011-2012	16.67	12.17	15.69	86.21	87.23
2012-2013	20.12	14.71	19.31	100.09	103.11
2013-2014	18.88	13.80	18.07	121.52	130.01
2014-2015	21.02	14.01	20.14	112.39	104.12
2015-2016	20.18	13.32	19.19	98.38	82.71
2016-2017	21.30	14.08	20.13	86.63	70.33
Average	**18.83**	**13.88**	**17.95**	**88.32**	**83.54**
Maximum	**23.36**	**17.78**	**22.11**	**121.52**	**130.01**
Minimum	**15.78**	**11.68**	**14.83**	**43.62**	**52.82**
Slope of the Trend line	**0.026**	**-0.156**	**0.004**	**3.709**	**3.007**
t-value	**0.167**	**-1.458**	**0.025**	**3.297****	**2.729***

***Significant at 5 percent level**
****Significant at 1 percent level**

Source: Compiled And Computed From Capitaline Corporate Database Of Capital Market Publishers (I). Ltd Mumbai

For analyzing profitability of the Hindustan Unilever Limited the following ratios were analysed in Table 1:

Gross Profit Ratio (GPR): This ratio expresses the relation of gross profit to net sales in terms of percentage. It is used as a measure of the efficiency of basic business. A higher GPR is a sign of effective management of basic business operation. In contrast a relatively low ratio reveals inefficiency in managing the business and warrants a detailed analysis of the factors responsible for it. Table 1 discloses that the GPR of HUL ranged between 15.78 per cent and 23.36 per cent and on an average it was 18.83 per cent during the period under study. The linier trend line fitted to the GPR series showed a positive slope indicating an upward trend in the gross profit earning capability of HUL during the period under study but it was not found to be statistically significant.

Net Profit Ratio (NPR): This ratio shows the earnings left for both equity and preference shareholders as a percentage of net sales. It measures the overall efficiency of production, administration, selling and distribution, pricing, financing, etc. A higher NPR is desirable as it usually ensures a higher return to the owners. On the other hand relatively a lower NPR is danger signal for the firm. Table 1 reveals that on an average, HUL maintained NPR at 13.88 per cent with a range of 11.68 to 17.78 per cent during the period under study. But the straight line fitted to the NPR series for the entire period failed to identify any significant upward or downward trend in the net earning capability of the company during the study period.

Operating Profit Ratio (OPR): This ratio explains the relationship between operating profit and net sales and discloses the pure profit arising out of only the main activities of the business enterprises, prior to subtracting taxes and interest charges. A high operating profit ratio is the indicator of high operating profitability as well as managerial efficiency. Table 1 demonstrates that the OPR of HUL varied between 14.83 per cent and 22.11 per cent and on an average it was 17.95 per cent. The linear trend equation fitted to the OPR series indicated an upward trend relating the tendency towards improving the operating profit earning capability of the company but it was not found to be statistically significant during the period under study.

Return on Capital Employed (ROCE): This ratio shows the interrelationship between earnings before interest and tax (EBIT) and total long term fund invested in the business and expressed as a percentage. It measures overall profitability of the company. The higher is the ratio, the more efficient is the use of long term fund invested in the business. Table1 shows that the ROCE of HUL ranged between 43.62 per cent and 121.52 per cent. On an average it was 88.32 per cent during the study period. However, the linear trend fitted to the ROCE series for the entire period revealed an upward trend which was found to be statistically significant at 1 per cent level. It makes an indication towards an improvement in the efficient utilisation of long term fund invested in the business and ultimately towards an achievement of the overall profitability of HUL over the study period.

Return on Net worth (RONW): This ratio explains the relationship between profit after tax and fund invested by the owners in the business. It indicates how profitably the owners' funds have been utilised by the company. A higher RONW ratio is a sign of efficient utilisation of the owner's fund whereas a low ratio has an opposite implication. In table 1 it varied from 52.82 per cent to 130.01 per cent and on an average it was 83.54 per cent during the period under study. The RONW series of the company followed an upward trend which was found to be statistically significant at 5 per cent level during the period under study. It reflects that there was a notable improvement in the profitability of the company from the view point of its owners during the period under study.

- **In Table II,** for the purpose of ascertaining the profitability status of HUL more precisely, a composite rank test based on the sum of the scores of the separate individual ranking under five criteria, viz, GPR, NPR, OPR, ROCE and RONW was made. Under this a too high value implies a more favorable profitability position and ranking was done in that order. While ascertaining the ultimate rank, the principle that the lower the point scored the more favorable is the profitability position was adopted.

Table II

Hindustan Unilever Limited

Statement of ranking in order of Profitability

Year	GPR (A)	NPR (B)	OPR (C)	ROCE (D)	RONW (E)	Profitability Rank					Sum of Ranks Ri = (AR + BR +…. + ER)	Ultimate Rank
						AR	BR	CR	DR	ER		
2002-2003	23.36	17.78	22.11	64.31	52.82	1	1	1.5	12	15	31	4.5
2003-2004	22.68	17.53	22.11	59.13	61.14	2	2	1.5	13	12	31	4.5
2004-2005	16.17	12.06	16.26	43.62	56.61	12	14	10	15	14	65	14.5
2005-2006	15.78	12.71	14.83	55.46	64.05	15	10	15	14	11	65	14.5
2006-2007	19.19	15.37	18.20	71.32	61.46	7	3	7	11	13	41	9.5
2007-2008	18.08	14.12	17.25	97.55	82.61	9	5	9	7	9	39	8
2008-2009	15.82	12.36	14.98	120.74	114.14	14	12	13	2	2	43	11
2009-2010	17.16	12.58	16.15	111.59	94.84	10	11	11	4	5	41	9.5
2010-2011	16.00	11.68	14.88	95.91	87.99	13	15	14	8	6	56	13
2011-2012	16.67	12.17	15.69	86.21	87.23	11	13	12	10	7	53	12
2012-2013	20.12	14.71	19.31	100.09	103.11	6	4	5	5	4	24	2
2013-2014	18.88	13.80	18.07	121.52	130.01	8	8	8	1	1	26	3
2014-2015	21.02	14.01	20.14	112.39	104.12	4	7	3	3	3	20	1
2015-2016	20.18	13.32	19.19	98.38	82.71	5	9	6	6	8	34	7
2016-2017	21.30	14.08	20.13	86.63	70.33	3	6	4	9	10	32	6

Source: Compiled And Computed From Capitaline Corporate Database Of Capital Market Publishers (I). Ltd Mumbai

Table II reveals that in the year 2014-2015 the best position in respect of profitability of the company of the company was registered and it was followed by 2012-2013,2013-2014, 2002-2003, 2003-2004, 2016-2017, 2015-2016, 2007-2008, 2006-2007, 2009-2010, 2008-2009,2011-2012, 2010-2011, 2004-2005, and 2005-2006 respectively in that order. It reflects that the overall profitability of the company in the second half of the study period was better as compared to that in the first half.

- **In Table III,** it was attempted to ascertain the nature and extent of relationship between the earning capability of HUL and its determinants for the entire study period through Spearman's correlation coefficient between ROCE and each of the selected measures relating to assets management efficiency taking into account the ranking of their magnitude. These correlation coefficients were tested by t test.

Table III				
Hindustan Unilever Limited				
Analysis of correlation between Selected Profitability Measure and its Determinants of HUL				
Between / Correlation Measure	ROCE and FATR	ROCE and ITR	ROCE and DTR	ROCE and CTR
Spearman	**0.739****	**0.263**	**0.825****	**-0.296**
*Significant at 5 percent level **Significant at 1 percent level				
Source: Compiled And Computed From Capitaline Corporate Database Of Capital Market Publishers (I). Ltd Mumbai				

Table III depicts that the Spearman correlation coefficients between ROCE and FATR and between ROCE and DTR were positive and found to be statistically significant at 1 per cent level of significance during the study period. It implies that fixed assets management and debtors' management of HUL made a noticeable contribution towards enhancing its profitability during the period under study. The Spearman's correlation coefficient between ROCE and ITR was positive but was not found to be statistically significant even at 5 per cent level. It indicates that the inventory management of HUL failed to make any notable contribution towards enhancing its profitability during the study period. The Spearman's correlation coefficient between ROCE and CTR was negative but was not found to be statistically significant. It implies that the negative association of the profitability of HUL with the efficiency of its cash management was not at all considerable during the study period.

- **In Table IV** for identifying the factors making significant contribution towards changing the profitability of HUL during the study period, multiple regression analysis was made. While adopting this technique it was assumed that ROCE = f (FATR, ITR, DTR, CTR). The regression equation was fitted in this study is: $ROCE = \alpha + \beta_1.FATR + \beta_2.ITR + .DTR + \beta_4.CTR + e$ where α is the intercept term, β_1, β_2, β_3 and β_4 are the partial regression coefficients and e denotes the error term. The joint effect of FATR, ITR, DTR and CTR of the company on its ROCE was also measured using the analysis of multiple correlation coefficients (R). The partial regression coefficients were tested by t test while F test was applied to examine whether the multiple correlation was significant or not. Enough care was also taken in selecting the independent variables (FATR, ITR, DTR and CTR) to estimate the dependent variable (ROCE) so as to ensure that multicollinearity was reduced to the minimum.

Table IV

Hindustan Unilever Limited

Analysis of Multiple Correlation and Multiple Regression of Selected Profitability Measure on its Determinants

Regression Equation: ROCE = $\alpha + \beta_1$.FATR+ β_2.ITR+ β_3.DTR+ β_4.CTR+e	
α	-19.889
β_1	11.978
β_2	-10.209*
β_3	4.329***
β_4	-0.116
R	0.884
R^2	0.695***

* Significant at 10 per cent level
**Significant at 5 per cent level
***Significant at 1 per cent level

Source: Compiled And Computed From Capitaline Corporate Database Of Capital Market Publishers (I). Ltd Mumbai.

Table IV shows that for one unit increase in FATR, the ROCE of the HUL stepped up by 11.978 units which was not found to be statistically significant even at 10 per cent level. For one unit increase in ITR the ROCE of the company decreased by 10.209 units which was found to be statistically significant at 10 per cent level. It implies that the performance of inventory management of the company was alarming during the period under study. When DTR increased by one unit, the ROCE of the company stepped up by 4.329 units which was found to be statistically significant at 1 per cent level. It reflects that the debtors' management of HUL made notable contribution towards enhancing its overall profitability during the study period. For one unit increase in CTR, the ROCE of the company stepped down by 0.116 units, which was not found to be statistically significant. However, the multiple correlation coefficient of ROCE on FATR, ITR, DTR and CTR during the study period was 0.884 which was found to be statistically significant at 1 per cent level. It implies that the joint influence of efficiency in management of fixed assets, inventory, debtors and cash of the company on its profit earning capability was noticeable during the period under study. The coefficient of multiple determination (R^2) as shown in Table IV indicates that 69.5 per cent variation in the overall profitability of HUL during the study period was contributed by efficiency of managing fixed assets, inventory, debtors and cash.

6. CONCLUDING REMARKS:

A significant increasing trend in ROCE and RONW of HUL was observed during the study period. As out of the five profitability indicators used in the study, four indicators namely GPR, OPR, ROCE and RONW showed upward trend during the period under study. It can be concluded that the profitability status of the company improved with the passage of time during the study period. This is also reflected in the net outcome derived from the comprehensive rank test which indicates that there was a noticeable improvement in the overall profitability status of the company during the second half of the study period. The study also reveals that the efficiency in efficiency in debtors' management made a significant contribution towards improving the overall profitability of the HUL during the period under study. While the inventory management of the company showed a negative influence on its overall earning capability during the same period. Moreover, the fixed assets management and cash management of the company failed to make any notable contribution towards enhancing its profitability during the study period. Suitable measures should, therefore, be adopted by the company management to eradicate such inefficiencies.

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