

A Study on Financial Performance Analysis of Hindustan Unilever Limited

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Abstract: *The financial performance of the company is measured by analyzing the financial statement. These help to predict the future, and show weaknesses, and strengths. The ratios usually are compared to other companies within the industry average to see where the company stands. The analysis is done by using various ratios of ratio analysis and analyzing the comparative income statement of the company. Financial performance analysis is the process of reviewing and analyzing a company's financial statements to make better economic decisions. The study is based on the three years of financial performance (2020-2021 to 2022-2023) of Hindustan Unilever Limited. The tools used for the study are Profitability ratios(Annual sales, operating profit margins, net profit margin, earning per share, and return on asset).*

Keywords: financial performance.

I. INTRODUCTION

Hindustan Unilever Limited (HUL) is a British-owned Indian consumer goods company headquartered in Mumbai. It is a subsidiary of the British company Unilever. Its products include foods, beverages, cleaning agents, personal care products, water purifiers, and other fast-moving consumer goods (FMCGs).

HUL was established in 1931 as Hindustan Vanaspati Manufacturing Co. Following a merger of constituent groups in 1956, it was renamed Hindustan Lever Limited. The company was renamed again in June 2007 as Hindustan Unilever Limited.

As of 2019, Hindustan Unilever's portfolio had more than 50 product brands in 14 categories. The company has 21,000 employees and recorded sales of ₹34,619 crores in FY2017–18.

In December 2018, HUL announced its acquisition of GlaxoSmithKline India's consumer business for US\$3.8 billion in an all-equity merger deal with a 1:4.39 ratio. However, the integration of GSK's 3,800 employees remained uncertain as HUL stated there was no clause for the retention of employees in the deal. In April 2020, HUL completed its merger with GlaxoSmithKline Consumer Healthcare (GSKCH India) after completing all legal procedures. In December 2022, HUL's market cap was Rs. 638548.42 crore.

Hindustan Unilever Limited (HUL) is one of India's largest and most prominent consumer goods companies. Founded in 1933, it is a subsidiary of the multinational consumer goods company Unilever. HUL is headquartered in Mumbai, India, and is renowned for its diverse portfolio of products that cater to the everyday needs of millions of Indian consumers.

OBJECTIVES OF STUDY

To study the profitability ratios of Hindustan Unilever for the period 2020-21 to 2022-23.

II. REVIEW OF LITERATURE

SHARMILA.P (2019) has made "A Study on Financial Performance Analysis of Hindustan Unilever Limited". It focused on the short-term and long-term financial position, profitability and trend analysis of the company. The researcher has used secondary data for her study. The tools used are Ratio analysis and trend analysis (liquidity, solvency and profitability ratio). The study shows that the ratio is decreasing with some fluctuations. The researcher has concluded that the company has considerable rise in sales and profit besides some downfall and has a bright FMCG market.

Andrew and Schmidgall (1993) in their study classified financial ratios into five categories “liquidity ratios, solvency ratios, activity ratios, profitability ratios, and operating ratios”. They indicated that financial ratios themselves do not provide valuable information about a firm’s performance, Andrew (1993) in his study conducted on automobile industry investigated the leverage ratio of companies and suggested that a value maximizing capital structure.

III. DATA ANALYSIS

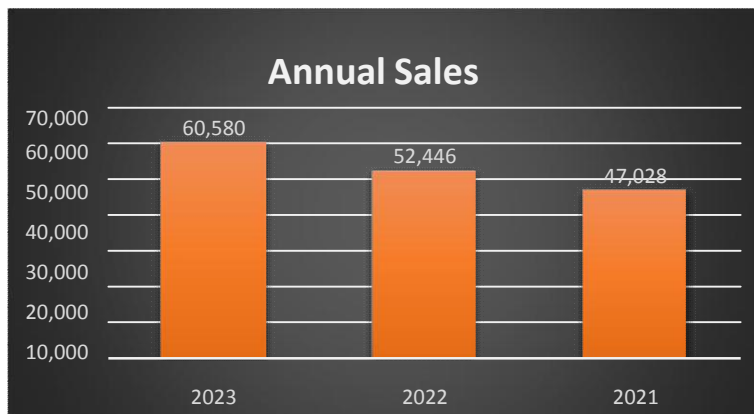


Figure 1 – Annual sales of Hindustan Unilever Limited (Rs in Crores)

Annual sales of Hindustan Unilever Limited in 2021 is 47,028 cr. and in 2022 sales are 52,446 cr. i.e. increased by 5,418 cr. compared to 2021 and in 2023 sales are 60,580 cr. which is higher than in previous years. Hindustan Unilever has had consistent growth in its annual sales for three years.



Figure 2 – Percentage Operating Margin of Hindustan Unilever Limited (in percentage)

The percentage Operating Profit Margin of HUL in 2021 is 24.61% and in 2022 it is 24.42% i.e. it decreased slightly and in 2023 it is 23.04%. The company’s operating margin has been declining over three years, which indicates that the company’s operating expenses have been increasing.



Figure 3 – Net Profit Margin of Hindustan Unilever (in percentage)

The Net Profit Margin of HUL in 2021 is 17.29% and in 2022 is 17.22% which is slightly decreased and in 2023 is 16.84%. The net profit margin of HUL has been declining over three years. It indicates that the company’s expenses have been increasing.



Figure 4 – Earning Per Share of Hindustan Unilever (in Rs)

The Earning Per Share of HUL is Rs 33.85 in 2021 and in 2022 EPS Rs 37.53 which is increased and in 2023Rs 42.4 which is increased. It shows that the EPS of the company has increased over three years.



Figure 5 – Return on Asset of Hindustan Unilever (in percentage)

The Return on Assets of HUL in 2021 is 11.67% and in 2022 return on assets 12.64% and in 2023 is 13.86%. This indicates that HUL has been generating profits from assets over three years and this reflects better utilization and financial performance

IV. FINDING AND SUGGESTIONS

Findings

1. Sales Growth: Hindustan Unilever Limited (HUL) has experienced consistent growth in annual sales over the three years from 2020-21 to 2022-23. Sales increased by Rs 5,418 crores from 2021 to 2022 and continued to rise to Rs 60,580 crores in 2023, indicating a strong performance in terms of revenue generation.
2. Operating Profit Margin: The percentage operating profit margin of HUL has shown a slight decline over the three years. In 2021, it was 24.61%, which decreased to 24.42% in 2022 and further declined to 23.04% in 2023. This suggests that the company's operating expenses have been increasing, impacting its profitability.
3. Net Profit Margin: The net profit margin of HUL has also seen a decline over the three years. It was 17.29% in 2021, 17.22% in 2022, and 16.84% in 2023. This indicates that the company's expenses have been on the rise, affecting its bottom-line profitability.
4. Earnings Per Share (EPS): HUL has witnessed an increase in its EPS over the three years. The EPS was Rs 33.85 in 2021, which increased to Rs 37.53 in 2022 and further to Rs 42.4 in 2023. This suggests that the company's profitability on a per-share basis has been improving, possibly due to better management of outstanding shares or higher net income.
5. Return on Assets (ROA): ROA measures the company's ability to generate profits from its assets. The return on assets of HUL for the three years has not been provided in the data analysis. Including this ratio would provide a more comprehensive view of the company's financial performance.

Suggestions

1. Cost Management: To address the decline in operating and net profit margins, HUL should focus on efficient cost management. Analyzing and optimizing its operational expenses can help improve profitability.
2. Revenue Diversification: While sales have been growing, HUL should consider diversifying its product portfolio or expanding into new markets to reduce its reliance on specific product categories or regions. This can help mitigate risks associated with market fluctuations.
3. Investor Communication: The increase in EPS is a positive sign. HUL should continue to communicate its financial performance effectively to investors, highlighting the growth in per-share profitability, which can attract more investors.
4. Competitive Analysis: HUL should conduct a thorough competitive analysis to understand how other FMCG companies are managing their expenses and maintaining or improving profit margins. This can provide valuable insights and strategies for HUL's cost management efforts.

V. CONCLUSION

Hindustan Unilever Limited has shown robust sales growth over the past three years, demonstrating its strong presence in the Indian FMCG market. However, there are concerns regarding declining operating and net profit margins, indicating rising operating expenses. The increase in EPS is a positive indicator, but the company should continue to focus on cost management and diversification to sustain its growth.

To gain a more comprehensive understanding of HUL's financial performance, it is essential to include the return on assets (ROA) in the analysis. Implementing the suggested strategies can help HUL maintain its position as one of India's largest consumer goods companies and improve its profitability in the long run.

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