



A study on working capital management of Hindustan Unilever Ltd

R Nandhini¹, G Karthika²

¹ VLB Janakiammal College of arts and Science, Coimbatore, Tamil Nadu, India

² Assistant Professor, Department of Commerce, VLB Janakiammal College of Arts and Science, Coimbatore, Tamil Nadu, India

Abstract

The management of working capital, which is essential to a business's survival, is a crucial component of an organization's short-term financing. It makes sure that the resources of the business are used for daily operations, such as the purchase of raw materials, spending on advertising, etc. An optimistic cash flow outlook for the company is made possible by efficient working capital. Here, it's an attempt to study the overall operational activities by using financial parameters of Hindustan Unilever Ltd., which is India's largest FMCG company and may provide household and personal products to customers.

Keywords: Working capital, finance, cash flow, Hindustan Unilever

Introduction

Finance is the lifeblood of every company. It encompasses the management of money at the personal, corporate, and investment levels. Finance is dynamic in nature, which means the level of money used in a business may change day by day based on the utilization of resources. It includes all the long-term and short-term aspects of finance. Here, we focused on the short-term finances of the company, i.e., working capital. The most important component of every corporate concern is working capital management. It may consist of both internal and external elements that influence the business. The working capital may alter depending on how resources are used or how well the business is keeping its assets. Hence, the article analyzes the working capital management of Hindustan Unilever Ltd.

According to J.M. Mill, the sum of the current assets is the working capital of the business.

Company profile

Hindustan Unilever Limited was established in 1931 as Hindustan Vanaspati Manufacturing Co., and the company was renamed again in June 2007 as Hindustan Unilever Limited. It is an Indian consumer goods company that is owned by the British and headquartered in Mumbai. Its products include foods, beverages, personal care products, and other FMCGs. Hindustan Unilever Ltd. is one of the biggest FMCG companies, with a turnover of 58154 crore in the previous financial year.

Table 1

Name of the company	Hindustan Unilever Limited
Headquarter	Mumbai, Maharashtra
Founded	1933
Chairman	Mr. Sanjiv Mehtra
Traded as	BSE: 500696 NSE: HINDUNILVR BSE SENSEX NSE NIFTY
Type	Public limited
Industry	Consumer goods
No. of employees	21000
Parent	Unilever plc
Products	Foods, skin care, personal care, cleaning agents & water purifiers

Objectives of the study

- To analyze the effectiveness and efficiency of the working capital of Hindustan Unilever Ltd.
- To evaluate the level of utilization of resources by using financial statements.
- To analyze the sales growth by using trend analysis.
- To study the financial performance by using ratio analysis.

Statement of the problem

Analyzing financials is an important action to evaluate the level of effective and efficient position of every company, which makes better utilization of resources by using strategic techniques to making much profit. Working capital is one of the most important components that is used to meet the daily requirements of the organization. Therefore, this study tries to evaluate the working capital management of Hindustan Unilever Ltd.

Limitations of the study

- The primary issue is that the study was only conducted over five years, which is a small-time frame.
- The data is collected from the company's annual report, respective journal, etc.
- It is based on current activity; working capital's nature is always changing. Therefore, while calculating working capital, the financial facts could alter.

Scope of the study

- The primary scope is to evaluate the level of utilization of working capital in the company.
- This study contributes to the company's continued optimism over its level of working capital.
- This working capital study may help with the expansion of the business through proper management of cash.
- The scope of this study is to become accustomed to working capital upkeep and utilization.

Review of literature

- Dr. C. Ganesan and Dr. M. Nirmal Dev (2019) ^[5] have highlighted the working capital management of Tata Steel Limited for the period of 5 years from 2010–11 to

2014–15. The researchers have studied to improve overall performance and also find ways to improve the present conditions. They have used some ratio analysis to find out the position of the company in terms of profitability, liquidity, and solvency. Their conclusion about this study was that the management may choose to utilize cash and bank balances effectively in good-looking investments or to pay back short-term liabilities.

- Dr. A. Ravi Kumar's (2018) [6] study is about ratio analysis in Philips Electronic India. It is examined the software that is used in Philips to find out its shortcomings. This study may help investors make decisions. He concluded that the overall position of the company was good during the period 2009–10 due to the increase in profit from the previous year.

Research methodology

This study is entirely based in the analysis of secondary data, all the information which is needed for this study is taken by the company's annual report, which includes the balance sheet and profit and loss account. The sample size of this study is from 2019 to 2023.

Data analysis and interpretation

Tools used

- Working capital statement
- Trend analysis
- Ratio analysis

Working capital statement

Table 2

Years	Current assets (In crores)	Current liabilities (In crores)	Working capital (In crores)
2018-2019	11914	8667	3247
2019-2020	12321	9317	3004
2020-2021	14217	11103	3114
2021-2022	15522	11280	4242
2022-2023	16988	12028	4960

Interpretation

From the above table shows the working capital of the Hindustan unilever ltd, in the year 2018-2019, working capital of the company was 3247 crores, whereas it has been decreased to 3004 crores in the year 2019-2020 due to the increase in current liabilities, in the year 2020-2021 it has been increased to 3114 crores, and again it has shown the continuous increase in working capital.

2. Trend analysis

Table 3

Years	Sales	Percentage (%)
2018-19	38224	100
2019-20	38785	102
2020-21	45996	120
2021-22	51193	134
2022-23	59144	155

Interpretation

From the above table sales growth was 100% in the year 2018-2019, whereas in the year 2019-2020 the sales growth

has been increased by 102% and again it was increased 120% in the year of 2020-2021, in the year 2021-2022 the sales trend has been increased to 134% due to the increasing of sales volume and the year 2022-2023 it has been increased to 155%.

3. Ratio analysis

A. Liquidity ratio

Table 4

Years	Current ratio	Quick ratio
2018-19	1.37	1.08
2019-20	1.32	1.03
2020-21	1.28	0.96
2021-22	1.38	1.01
2022-23	1.41	1.06

Interpretation

From the above table of liquidity ratio shows that the current ratio & quick ratio. current ratio was slightly fluctuating, whereas the liquidity ratio was very low in the period of 2020-2021 i.e., 0.96:1 due to investing the capital in inventories, and it has been continuous increased in the next two years.

B. Profitability ratio

Table 4

Years	GPR	NPR	OPR
2018-19	23.32%	15.78%	23.40%
2019-20	25.55%	17.32%	25.85%
2020-21	24.83%	17.38%	25.08%
2021-22	24.73%	16.99%	24.93%
2022-23	23.90%	16.78%	24.09%

Interpretation

From the above table shows the profitability ratio, in the year 2018-2019 the gross profit ratio was 23.32%, and it has been increased to 25.55% in the year 2019-2020, it has been continuously decreased in the remaining years, Net profit ratio has been continuously increased from 2018-2019 to 2020-2021 and it has been decreased in the remaining years, the net profit ratio was very low in the year of 2022-2023 i.e., 16.78%, Operating profit ratio has been increased in the first two years and it was continuously decreased from the year of 2020-2021 to 2022-2023.

C. Solvency ratio

Table 5

Years	Proprietor ratio	Debt equity ratio
2018-19	0.42	0.01
2019-20	0.41	0.00
2020-21	0.69	0.00
2021-22	0.69	0.00
2022-23	0.68	0.00

Interpretation

From the above table of solvency ratio shows the proprietor ratio & debt equity ratio. In the year 2018-2019 the Proprietor ratio was 0.42:1, it was slightly decreased to 0.41:1 in the year 2019-2020 due to decreasing of shareholders fund and it has been shows the same ratios i.e.,

0.69:1 in the years 2020-2021 & 2021-2022 due to increasing of both shareholders fund and total assets and again it was slightly decreased to 0.68:1 in 2022-2023. whereas, in the year 2018-2019 the debt equity ratio was 0.01:1 and the remaining years it has shown the zero.

Findings

- From the analysis, the current ratio was highly increasing (1.41:1) occur in 2022-2023.
- From the analysis, the quick ratio was highly increasing (1.08:1) in the year 2018-2019.
- From the analysis, the gross profit ratio has been excessive increasing (25.55%) in the year 2019-2020.
- From the analysis, the net profit ratio was increasing (17.32% to 17.38%) in the year 2019-20 to 2020-21.
- From the analysis, the operating profit ratio was excessive (25.85%) in the year 2019-20
- From the analysis, the proprietor ratio observed same (0.69:1) in the year 2020-2021 & 2021-2022.

Suggestions

- The management could raise the value of their current assets by utilizing EOQ approaches.
- The management may improve their sales output in order to boost gross profit.
- To enhance operating profit, the company could raise sales volume.
- continuing to have the same amount of debt equity.
- To compensate its shareholders, the company should expand its overall assets.

Conclusion

This study has examined "A study on working capital management of Hindustan Unilever Ltd. From this study, it may be concluded that working capital management is important for every business to meet its daily requirements and is also a significant part of the company's expansion. The finance manager should be needed to maintain optimal working capital in the company. The inventories are maintained by using some techniques to generate effective and efficient utilization in the business. Therefore, the short-term investment of the company should be maintained very strongly for conducting business in a competitive world.

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