



ORIGINAL RESEARCH PAPER

Commerce

A STUDY ON WORKING CAPITAL MANAGEMENT OF HINDUSTAN UNILEVER LIMITED (HUL)

KEY WORDS: Hindustan Unilever Limited (HUL), Working capital, Ratio Analysis, Working capital management.

Dr. V. Bhuvaneshwari

Assistant Professor of Commerce, Dr. G. R. Damodaran College of Science, Avanashi Road, Coimbatore 641 014. Tamil Nadu

ABSTRACT

Working capital is the lifeblood of all business organizations. Working capital is very important for the smooth running of the business. Working capital is essential for day to day expenses. Inadequate working capital affects the successful running of the business. The working capital refers to part of firm's capital which is required for investment in short term assets like cash, bank, receivables, all type of Inventories, etc. In other words working capital is the amount of funds necessary to cover the cost of operating the enterprise. Working capital is the difference between current assets and current liabilities. If the current assets of the company is more than the current liabilities, the position of the company from the working capital point of view is sound and satisfactory.

INTRODUCTION ABOUT WORKING CAPITAL

Capital requirements of a business organization can be divided into two categories i.e. fixed capital and working capital. Fixed capital is that part of the capital that is required for purchasing assets like Plant and Machinery, Land and Buildings furniture and fixtures etc., working capital is that part of capital which is invested in current assets like cash, bank, stock, receivables, etc.

DEFINITION OF WORKING CAPITAL

According to Shubin, "working capital is the funds necessary to cover the cost of operating the enterprise".

CONCEPT OF WORKING CAPITAL

There are two concepts of working capital i.e. Gross Working capital and Net Working capital. Gross working capital refers to the total investment in the company's current assets. Net Working capital refers to the excess of currents over current liabilities.

INTRODUCTION OF THE STUDY ABOUT THE COMPANY

Hindustan Unilever Limited is India's largest fast-moving consumer goods company based in Mumbai, Maharashtra. It is owned by the British-Dutch company Unilever. Its products include foods, beverages, cleaning agents, and personal care products.

In 1931, Unilever set up its first Indian subsidiary, Hindustan Manufacturing Company, followed by Lever Brothers India Limited (1933) and United Traders Limited (1935). These three companies merged and formed Hindustan Unilever Limited in the year 1956. Unilever now holds 67.25% equity in the company. Hindustan Unilever offered 10% of its equity to the public.

With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skincare, toothpaste, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, the Company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakme, Dove, Clinic Plus, Sun silk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Walls and Pureit.

OBJECTIVES OF THE STUDY

- (i) To study the working capital performance of Hindustan Unilever Limited
- (ii) To identify the liquidity position of Hindustan Unilever Limited
- (iii) To know the sources of financing working capital
- (iv) To suggest suitable suggestions to overcome the hurdles in Hindustan Unilever Limited.

RESEARCH METHODOLOGY

A research methodology is the framework for the study. It guides the collection and analysis of data. The financial statements and annual reports were used for the study.

DATA SOURCES

There are two major sources of data that are useful for research. They are Primary data and Secondary data. Primary data is defined as first-hand data. This research is based on secondary data. Secondary data is collected from various secondary sources like financial statements, magazines, books, annual reports, and websites.

ANALYSIS

- 1. Ratio analysis
- 2. Statement of changes in working capital

PERIOD OF THE STUDY

This study covers a period of 5 years from 2016 to 2020.

LIMITATIONS OF THE STUDY

- 1. The reliability of the information limited to a time factor.
- 2. The study is conducted only for period of five years.
- 3. The past information is not a hundred percent correct for the future.
- 4. No standard norm for many ratios so the comparison is not possible for all ratios.

REVIEW OF LITERATURE

Akash B. Selkari, Omdeo Ghyar conducted a "Study on Working capital of Mahindra and Mahindra Ltd". The study was conducted for a period of 3 years from 2015 to 2018. They used secondary data method for collecting information for their study. The ratio analysis technique was used to study the working capital of the company. They concluded that the working capital of the company was satisfactory because of maintaining proper inventory levels, cash, bank, and other current assets and a decrease in the current liabilities and provisions.

Prof. Y.P Mahajan conducted a "Study of Working capital Management of TATA Motors Ltd". The study was conducted for period of 3 years between 2003 and 2006. The Ratio Analysis technique was used for the study and collect information through the secondary data method. He found that the working capital of the company was negative in the initial years and they maintained a minimum in the latter years.

A study conducted by R. Vannamadevi on "Working capital management in Sugar Mills of Tamil Nadu" The study was conducted for a period of 10 years from 1973 to 1983. Ratio analysis techniques were used in the study. Six groups of industries were taken for study. It was found that different

groups were following different working capital policies. The industries were not managing their current assets effectively.

DATA ANALYSIS AND INTERPRETATION

RATIO ANALYSIS

Ratio analysis is one of the powerful tools of financial statement analysis. A ratio is defined as “the relationship between two or more things.”

TABLE SHOWING RATIOS OF HINDUSTAN UNILEVER LIMITED

Year	Current Ratio	Quick Ratio	Debtors Turnover Ratio	Net Profit Ratio	Inventory Turnover Ratio
2016	1.43	1.05	33.64	13.31	13.25
2017	1.30	0.97	32.02	14.07	14.60
2018	1.29	1.02	33.28	15.16	14.93
2019	1.36	1.07	27.11	15.79	15.78
2020	1.31	1.02	28.53	17.37	14.78

Source: Money control.com

From the table above, we can see that the Current Ratio (CR) of Hindustan Unilever Limited has moved in between 1.29 to 1.43, during the period of study. This is much below the ideal current ratio of 2:1. The Quick ratio has moved in between 0.97 to 1.07, during the period of study. The Company's Quick ratio for four years is more than the ideal ratio of 1:1. The Quick ratio for the year 2017 is less than the ideal ratio. Debtors' turnover ratio is satisfactory. The Debtors' turnover ratio has moved in between 27.11 to 33.64. It shows a decreasing trend. The net profit ratio of the company is satisfactory. It ranges from 13.31 to 17.37 and also it shows an increasing trend. Inventory turnover ratio or Stock turnover ratio indicates the highest trend for the last 5 years.

STATEMENT OF CHANGES IN WORKING CAPITAL

The statement of changes in working capital is prepared to ascertain the increase or decrease in the working capital between two financial periods.

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2017

Particulars	2016 Rs. in Crs	2017 Rs. in Crs	Increase Rs. in Crs	Decrease Rs. in Crs
Current assets:				
Current Investments	2,461	3,519	1,058	
Inventories	2,528	2,362		166
Trade Receivables	1,064	928		136
Cash and Cash equivalents	2,759	1,671		1088
Other current assets	740	885	145	
Total Current Assets (A)	9,552	9,365		
Current Liabilities:				
Trade payables	5,498	6,006		508
Other Current Liabilities	864	809	55	
Short term Provisions	290	387		97
Total Current Liabilities (B)	6,652	7,202	1,258	1995
Net Working Capital C = (A-B)	2,900	2,163		
Net decrease in working capital		737	737	
	2,900	2,900	1,995	1,995

Source: Annual Report of Hindustan Unilever Limited

The current assets of the year 2017 have been decreasing while comparing with 2016 and current liabilities for the year 2017 increased from 6,652 to 7,202. It results in a decrease in net working capital for the year 2017 (737 Crs)

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2018

Particulars	2017 Rs. in Crs	2018 Rs. in Crs	Increase Rs. in Crs	Decrease Rs. in Crs
Current assets:				
Current Investments	3,519	2,855		664
Inventories	2,362	2,359		3
Trade Receivables	928	1,147	219	
Cash and Cash equivalents	1,671	3,373	1,702	
Other current assets	885	1,405	520	
Total Current Assets (A)	9,365	11,139		
Current Liabilities:				
Trade payables	6,006	7,013		1007
Other Current Liabilities	809	972		163
Short term Provisions	387	651		264
Total Current Liabilities (B)	7,202	8,636	2,441	2,101
Net Working capital C = (A-B)	2,163	2503		
Net increase in working capital		340		340
	2,503	2,503	2,441	2,441

Source: Annual Report of Hindustan Unilever Limited

From the above we know that the current assets of the year 2018 have been increased high while comparing with 2017 and current liabilities for the year 2018 increased from 7,202 to 8,636. It results in an increase in Net Working capital for the year 2018 (340 Crs)

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2019

Particulars	2018 Rs. in Crs	2019 Rs. in Crs	Increase Rs. in Crs	Decrease Rs. in Crs
Current assets:				
Current Investments	2,855	2,693		162
Inventories	2,359	2,422	63	
Trade Receivables	1,147	1,673	526	
Cash and Cash equivalents	3,373	3,688	315	
Other current assets	1,405	898		
Total Current Assets (A)	11,139	11,374		507
Current Liabilities:				
Trade payables	7,013	7,070		57
Other Current Liabilities	972	782	190	
Short term Provisions	651	501	150	
Total Current Liabilities (B)	8,636	8,353	1,244	726
Net Working capital C = (A-B)	2,503	3,021		
Increase in working capital		518		518
	3,021	3,021	1,244	1,244

Source: Annual Report of Hindustan Unilever Limited

There is an increase in current assets of the year 2019 while comparing with 2018 and current liabilities met by the company is less than the previous year. Therefore, the Net Working capital of the year has been increased to 518 Crs.

STATEMENT SHOWING CHANGES IN WORKING CAPITAL FOR THE YEAR 2020

Particulars	2019 Rs. in Crs	2020 Rs. in Crs	Increase Rs. in Crs	Decrease Rs. in Crs
Current assets:				
Current Investments	2,693	1,248		1,445

Particulars	2019 Rs. in Crs	2020 Rs. in Crs	Increase Rs. in Crs	Decrease Rs. in Crs
Inventories	2,422	2,636	214	
Trade Receivables	1,673	1,046		627
Cash and Cash equivalents	3,688	5,017	1329	
Other Current assets	898	1,961	1,603	
Total Current Assets (A)	11,374	11,908		
Current Liabilities:				
Trade payables	7,070	7,399		329
Other Current Liabilities	782	1,287		505
Short term Provisions	501	418	83	
Total Current Liabilities (B)	8,353	9,104	3229	2,906
Net Working Capital C= (A-B)	3,021	2,804		
Net decrease in working capital		217		217
	3,021	3,021	3,229	3,229

Source: Annual Report of Hindustan Unilever Limited

The current assets of the year 2020 have been increasing while comparing with 2019 and current liabilities of the year 2020 is 9,104. It results in a decrease in net working capital for the year 2020 (217 Crs)

SUGGESTIONS

The company Hindustan Unilever Limited may improve its liquidity position by investing more in current assets. To bring the current ratio close to the ideal ratio of 2:1. The company has to maintain an adequate amount of working capital to keep a good amount of liquidity throughout the years. The company should exercise control over the variable cost and must find out the ways to reduce its cost of production. This will increase the profitability of the company.

CONCLUSION

The present study entitled “A study on working capital management of Hindustan Unilever Limited” was undertaken with the main objective of studying working capital management and liquidity position through Ratio analysis and Statement of changes in working capital. This study provides an idea of working capital management of Hindustan Unilever Limited. The company maintaining good profitability over the years.

Based on the analysis of the financial statement of Hindustan Unilever Limited, conclude that the overall working stability and soundness have improved over the years and improve the overall financial performance in the forthcoming years.

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