



LIQUIDITY MANAGEMENT IN HINDUSTAN UNILEVER LIMITED (HUL): A CASE STUDY

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ABSTRACT

It is unanimously accepted that liquidity management is a very crucial aspect of financial management of a business firm. An effective liquidity management of the firm can only ensure smooth running of its business wheel. In today's highly deregulated and globalised economy almost all companies are facing fierce challenges due to intensified competition at market place. So, an effective liquidity management has become the key to the survival of a firm. It ensures the availability of enough liquid cash at the right time which helps in smooth conduct of the business as well as provides competitive edge to the parties associated with it. In the present paper an attempt was made to analyze the liquidity of the Hindustan Unilever Ltd. (HUL) with the help of some selected liquidity indicators, to ascertain its status in managing liquidity by using comprehensive score, to assess the extent of relationship between its liquidity and profitability and to identify the aspect relating to liquidity management of the company among the selected ones which has made significant contribution in changing profitability of the company during the period 2002-03 to 2016-17. The study revealed that the improvement of liquidity status of HUL was notable during the study period. The results obtained from the study also indicate that among the selected liquidity indicators, efficiency of inventory management and efficiency of debtors' management have made noticeable contribution in improving overall profitability of the HUL with passage of time during the period under study.

KEYWORDS: Liquidity, Liquidity Management, Hindustan Unilever, profitability, Efficiency of Inventory Management, Efficiency of Debtors' Management.

I. INTRODUCTION:

In an era where business houses are becoming more global and diversified, it has become an essential task of the business enterprises to provide a clear visibility into their global cash and liquidity position to their stakeholders. In today's challenging and competitive business environment matters like minimization of liquidity risk, reduction of costs and maximization of financial flexibility have become increasingly important. In today's highly regulated and globalised economy an effective liquidity management has become the key to the survival of a firm. It helps in managing liquidity risk and providing competitive edge to their stakeholders. Global financial crises in the last decade have forced companies to examine the system that allow immediate access to information regarding foreign exchange, cash balances, as this helps them with better working capital management, cash flow, and cash centralization. These are key elements of Liquidity Management today. An efficient utilization of liquidity can help companies to grow in a controlled and sustainable fashion. In such a scenario the companies should be in a position to offer designs regarding best liquidity management strategies for their stakeholders so that it can meet the requirements of today's increasingly complex and globalised world. The companies should pay



their attention towards their existing capabilities and adapt to the new and fundamentally different liquidity management landscape. Thus, a significant change in the liquidity management of HUL is also inevitable to meet the emerging challenges. In fact, most of the leading companies in India have been trying their best to adapt themselves with this changing scenario by adopting suitable changes in their business policies to overcome the different challenges emanated from global from stiff competition.

Several studies have been made for making the analysis of issues relating to the liquidity of the corporate sector in India and abroad during the last few decades. Some of them have been made emphasizing the effect of post- liberalization and a study on the same issue has also been made in FMCG sector. However, the matter connected with the liquidity specifically of Hindustan Unilever Limited (HUL) has not yet been addressed. In fact, no significant study has so far been made to make an in depth analysis of HUL in respect of liquidity. Against this backdrop, the present study attempts to examine the liquidity management of HUL, the largest FMCG Company in India during the period 2002-03 to 2016-17.

The remainder of this paper is structured as follows: 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.

II. OBJECTIVE OF THE STUDY:

1. To analyze the liquidity of the company under study using some selected ratios.
2. To ascertain the status of the company under study in respect of their liquidity management more precisely applying comprehensive score.
3. To examine whether there is any uniformity among the selected liquidity indicators of the company under study.
4. To measure the extent of relationship between liquidity and profitability of the selected company.
5. To identify the liquidity indicators among the selected ones which make notable contribution in changing the profitability of the company.

III. METHODOLOGY OF THE STUDY:

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 liquidity of the company under study, four ratios namely Current Ratio (CR), Acid Test Ratio (ATR), Inventory Turnover Ratio (ITR), Debtors Turnover Ratio (DTR) and Cash Turnover Ratio (CTR) were used. CR is the basic measure of liquidity. It shows the ability of a company to pay off its short term obligations while ATR is the refinement of the CR. This is useful to verify the trend indicated by CR. A high ATR along with the high CR indicates a good short term debt paying capacity of the firm. ITR measures the efficiency of inventory management, DTR reflects the efficiency of debtors' management and CTR is the measure of efficiency of cash management of the company. All these efficiency indicators like, ITR, DTR and CTR have positive influence on liquidity of the company. So, the higher the value of ITR, DTR or CTR the higher is the short term debt paying capability of the company. It is a well accepted argument that overall profitability of the company is influenced by its liquidity. In this study at the time of analyzing relationship between liquidity and profitability, return on capital employed (ROCE) was used as overall profitability indicator of the company under study. In this study simple statistical tool like, arithmetic mean (AM), statistical techniques, such as analysis of trend movement, analysis of Pearson's simple correlation, Spearman's rank correlation analysis, Kendall's correlation analysis, Kendall's coefficient of concordance; and statistical tests like t- test and Chi- square test were applied at appropriate places

IV. 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 Rs. 36,622 crore and net profit 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 captured the top most position in the Forbes list.

V. EMPIRICAL RESULTS AND DISCUSSION:

1. In Table I, an attempt was made to analyze the liquidity of Hindustan Unilever Ltd. (HUL) by using some selected liquidity indicators. In this table the average value of the selected liquidity indicator was calculated by applying arithmetic mean. For identifying the nature of trend in each of the liquidity 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 I					
Hindustan Unilever Limited					
Selected Ratios Relating to Liquidity Management					
YEAR	CR	ATR	ITR	DTR	CTR
2002-2003	1.02	0.59	8.68	27.57	10.56
2003-2004	0.94	0.54	8.27	26.43	12.53
2004-2005	0.9	0.49	7.54	22.65	14.23
2005-2006	0.82	0.35	8.54	23.64	31.21
2006-2007	0.74	0.36	9.08	27.04	28.96
2007-2008	0.71	0.26	8.4	33.26	67.91
2008-2009	0.83	0.53	7.72	35.28	11.37
2009-2010	0.89	0.47	7.73	30.12	9.25
2010-2011	0.88	0.46	8.27	25.56	12.12
2011-2012	0.91	0.47	8.7	28.58	12.09
2012-2013	0.84	0.43	10.82	36.08	15.11
2013-2014	0.78	0.43	11.21	35.83	12.62
2014-2015	0.78	0.46	12.23	40.92	12.14
2015-2016	0.92	0.69	13.06	36.27	11.26
2016-2017	0.96	0.49	14.11	34.63	19.08
Average	0.86	0.47	9.62	30.92	18.70
Maximum	1.02	0.69	14.11	40.92	67.91
Minimum	0.71	0.26	7.54	22.65	9.25
Slope of the Trend line	-0.002	0.003	0.383	0.916	-0.662
t Value	-0.370	0.145	4.981**	4.064**	-0.721
*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 assessing the liquidity of the HUL, the following ratios were analyzed in Table I:

- a) **CURRENT RATIO (CR):** It is the basic measure of short term debt paying capability of the firm. It helps in assessing whether the current assets of the company are sufficient to meet its current liabilities or not. The higher the CR, the larger is the amount available for meeting short term obligations and accordingly, the greater is the margin of safety of the investment made by short term creditors. Table I discloses that the CR of HUL fluctuated between 0.71 and 1.02. On an average, it was 0.86. The linear trend line fitted to CR series showed a declining slope indicating the downward trend which indicates the downward trend in the company's ability to meet short term obligations during the period under study which was not found to be statistically significant.
 - b) **Acid Test Ratio (ATR):** It is the ratio between quick assets and quick liabilities. It is the refinement of current ratio. It is useful to verify the trend indicated by current ratio. Because of exclusion of non liquid assets it is considered a better measure of liquidity in comparison to the current ratio. Table I exhibits that the ATR of the company varied between 0.26 and 0.69. The mean ATR of the company was 0.47 during the period under study. But the straight line fitted to the ATR series for the entire period failed to identify any significant upward or downward trend. It implies that any significant change in the efficiency of company's debtors' management with the passage of time was not found during the study period.
 - c) **Inventory Turnover Ratio (ITR):** This ratio determines the number of times inventory is converted into revenue from the operations during the period under consideration. It is used in measuring the short term solvency and overall activity of the company. It also reflects the inventory policy pursued by the company and reasonableness of the same. A high ITR implies low inventory level and quick conversion of inventory into sales revenue and also favorable from the liquidity point of view while a low ITR indicates high level of inventory and slow rotation of the same in the operating cycle process. It is observed from Table I that the ITR of HUL ranged between 7.54 and 14.11. On an average it was 9.62 during the period under study. The linear trend equation fitted to the ITR series indicated an upward trend which was found to be statistically significant at 1 per cent level of significance. So, a significant positive trend in the efficiency of inventory management of the company, resulting in noticeable improvement in its liquidity, was observed during the period under study.
 - d) **Debtors' turnover Ratio (DTR):** It measures the efficiency of credit and collection policy pursued by the company. It also reflects whether debtors are slow paying or quick paying. The liquidity position of the company depends upon the speed with which trade receivables are realized. So, a high DTR indicates quick collection from debtors and accordingly, it indicates the better liquidity position of the company. Table I depicts that the DTR of HUL was the highest in 2014-15 which was 40.92 and was least in 2004-05 which was 22.65. On an average, the ratio was 30.92. However, the linear trend fitted to the DTR series for the entire period indicated an upward trend which was significant at 1 percent level of significance. It makes an indication towards the improvement in efficiency of debtors' management and ultimately towards the improvement in the liquidity position over the period.
 - e) **Cash Turnover Ratio (CTR):** This ratio measures how efficiently cash is managed. It is used to see whether or not cash has been effectively utilized in making sales and also shows whether there is adequate cash is available in the company or not. A high CTR indicates high degree of efficiency in cash management. Table I demonstrates that CTR of HUL ranged from 9.25 in 2009-10 to 67.1 in 2007-08 and its mean value was 18.70. The CTR series of the company followed a downward trend during the study period but the same was not found to be statistically significant. It implies that any notable change in the efficiency of the company's cash management with the passage of time was observed during the period under study.
- 2) In Table II for the purpose of ascertaining the liquidity 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, CR, ATR, ITR, DTR and CTR, was made. For the purpose of ascertaining degree of uniformity among the five sets of ranking, Kendall's coefficient of concordance (W) was used and in order to in order to examine the statistical significance of the computed value of W, Chi- square test was applied. In case of the five

criteria mentioned above, a high value implies a more favorable liquidity position and ranking was done in that order. In case of ultimate rank, the lower the point scored the more favorable is the liquidity position.

Table II												
Hindustan Unilever Limited												
Statement of ranking in order of Liquidity and analysis of Kendall's Coefficient of Concordance among selected liquidity indicators												
YEAR	CR(A)	ATR(B)	ITR(C)	DTR(D)	CTR(E)	Liquidity Ranks					Sum of Ranks (A _R + B _R +.... + E _R)	Ultimate Rank
						AR	BR	CR	DR	ER		
2002-03	1.02	0.59	8.68	27.57	10.56	1	2	8	10	14	51.16	4.5
2003-04	0.94	0.54	8.27	26.43	12.53	3	3	11.5	12	8	49.47	6
2004-05	0.9	0.49	7.54	22.65	14.23	6	5.5	15	15	6	50.14	11
2005-06	0.82	0.35	8.54	23.64	31.21	11	14	9	14	2	45.99	13
2006-07	0.74	0.36	9.08	27.04	28.96	14	13	6	11	3	50.4	10
2007-08	0.71	0.26	8.4	33.26	67.91	15	15	10	7	1	59.52	12
2008-09	0.83	0.53	7.72	35.28	11.37	10	4	14	5	12	71.81	9
2009-10	0.89	0.47	7.73	30.12	9.25	7	7.5	13	8	15	65.59	14
2010-11	0.88	0.46	8.27	25.56	12.12	8	9.5	11.5	13	10	55.52	15
2011-12	0.91	0.47	8.7	28.58	12.09	5	7.5	7	9	11	52.05	8
2012-13	0.84	0.43	10.82	36.08	15.11	9	11.5	5	3	5	55.51	3
2013-14	0.78	0.43	11.21	35.83	12.62	12.5	11.5	4	4	7	59.76	7
2014-15	0.78	0.46	12.23	40.92	12.14	12.5	9.5	3	1	9	65.88	4.5
2015-16	0.92	0.69	13.06	36.27	11.26	4	1	2	2	13	55.96	2
2016-17	0.96	0.49	14.11	34.63	19.08	2	5.5	1	6	4	42.12	1

Kendall's Coefficient of Concordance among five sets of liquidity performance ranks (W) is 0.1328 and Chi- square (χ^2) value of W is 9.296 being statistically not significant.

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

Table II reveals that the computed value of W, which was 9.296, was not found to be statistically significant. It implies that no notable degree of uniformity among the selected indicators of liquidity management of the selected company was noticed during the period under study. This table also depicts that in the year 2016-17 the most favorable liquidity position of the company was registered and it was followed by 2015-16, 2012-13, 2014-15, 2002-03, 203-04, 2013-14, 2011-12, 2008-09, 2006-07, 2004-05, 2007-08, 2005-06, 2009-10 and 2010-11 respectively in that order. It reflects that the overall liquidity of the second half of the study period was better as compared to that in the first half.

- 3) In Table III an attempt was also made to measure the extent of relationship between liquidity and profitability of the company using Spearman's rank correlation coefficient (R_{LP}). In order to check whether the computed value of R_{LP} was significant or not, t-test was conducted. For this purpose the composite ranks of liquidity (as ascertained in Table II) and the ranks of profitability (based on ROCE) were used.

Table III				
Hindustan Unilever Limited				
Analysis of Spearman's Rank Correlation between Liquidity and Profitability				
Year	Liquidity Rank (as shown in Table II)	ROCE (%)	Profitability Rank (on the basis of ROCE)	Spearman's rank correlation coefficient between liquidity and profitability (RLP) is 0.155.
2002-03	4.5	64.31	12	
2003-04	6	59.13	13	
2004-05	11	43.62	15	
2005-06	13	55.46	14	
2006-07	10	71.32	11	
2007-08	12	97.55	7	
2008-09	9	120.74	2	
2009-10	14	111.59	4	
2010-11	15	95.91	8	
2011-12	8	86.21	10	
2012-13	3	100.09	5	
2013-14	7	121.52	1	
2014-15	4.5	112.39	3	
2015-16	2	98.38	6	
2016-17	1	86.63	9	
*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 shows that the Spearman rank correlation between liquidity and profitability was 0.155 which was not found to be statistically significant. It reveals that no significant relationship between liquidity and profitability of the company was observed during the period under study.

Table IV					
Hindustan Unilever Limited					
Analysis of correlation between ROCE and selected Liquidity Indicators					
Correlation Measures	Correlation between ROCE and selected liquidity indicators				
	CR	ATR	ITR	DTR	CTR
Pearson	-0.358	0.002	0.318	0.799**	-0.102
Spearman	-0.382	-0.102	0.263	0.825**	-0.296
Kendall	-0.287	-0.068	0.191	0.657*	-0.200
*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					

- 4) In Table IV in order to identify the factor making significant contribution towards the profitability of the company, an attempt was made to ascertain the closeness of association between liquidity and overall profitability of HUL through correlation coefficients between the selected liquidity and profitability measures taking into consideration their magnitudes (i.e. Pearson's simple correlation coefficient), ranking of their magnitude (i.e. by Spearman's rank correlation coefficient) and nature of their associates changes (i.e. by Kendall's correlation coefficient). These correlation coefficients were tested using t- test. This table shows that a notable association was found only in between DTR and ROCE. All the correlation coefficients in this case were positive and found to be statistically significant at 1 percent level of significance. It indicates that the DTR made a notable contribution in improving the profitability of the

company with the passage of time over the period under study. However, the correlation coefficients between CTR and ROCE, CR and ROCE and ATR and ROCE (except Pearson's correlation coefficient) were negative while correlation coefficients between ITR and ROCE were positive and none of these correlation coefficients were found to be statistically significant. It indicates that although the influence of cash management and other liquidity management indicators (like- CR and ATR) on the company's overall profitability was negative, the effect of inventory management was positive but these influences were not at all noticeable during the period under study.

VI. CONCLUDING REMARK:

A significant declining trend in efficiency of debtors' management and inventory management in HUL was observed during the study period. Moreover short term debt paying capability and efficiency of cash management of the company stepped down notably with the passage of time and an improvement in the immediate debt paying capability was observed during the period under study. As out of the five liquidity indicators three indicators (ATR, ITR and DTR) showed an upward trend during the period, it can be concluded that liquidity status of the HUL improved with the passage of time. This is also reflected in the net outcome derived from comprehensive rank test which indicates that there was a noticeable improvement in the overall liquidity status of the company during the second half of the study period. The study also reveals that the improvement in the efficiency of inventory management and debtors' management made a significant contribution in improving the overall profitability of the company with the passage of time during the period under study.

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