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DUPONT ANALYSIS OF HINDUSTAN UNILEVER LIMITED (HUL)

Dr. Kailash Kumar Choudhary

Assistant Prof., Deptt. of Commerce

R.N. College, Pandaul, Madhubani

Abstract:

Fast moving consumer goods (FMCG) is the 4th largest sector in the Indian economy and Hindustan Unilever Limited is one of the largest FMCG company has played a significant role in the social and economic development of the country. Keeping in view this paper attempts to analysis the financial performance in the larger interest of stakeholders. For this purpose researcher used the DuPont technique of financial analysis for the period 2014-15 to 2018-19. The DuPont analysis is basically based on two tier i.e. profit margin and assets turnover. For DuPont Analysis, the data requirements were collected from secondary sources, like financial statements of the company. The study covers only five years 2014-15 to 2018-19.

Keywords: DuPont, Profit Margin, Assets Turnover, Return on Investment (ROI), Hindustan Unilever Limited(HUL)

1. INTRODUCTION:

Business is an important economic activity in human life, so these activities aim at earning of adequate profits, creating customers, innovations and optimum use of resources. For achieving these objectives of business a financial manager always engaged in profit maximization and wealth maximization. Every stakeholder such as shareholders, lenders, suppliers, customers, Government etc are interested in appraising the financial performance of business enterprise. Financial performance appraisal is a process of identifying the financial strengths and weaknesses of an organization by establishing proper relationship between the items of the balance sheet and the statement of profit & loss. The technique of appraisal is applied to the analysis and study of accounting data with an idea of answering the question like: (a) is investment in the company safe? (b) Does the company earn adequate profit? (c) Is the company properly capitalized? (d) Is the solvency position good?

DuPont Analysis is one of the useful technique of financial analysis uses the inter relationship between various ratios in the form of charts for better managerial attention. It is basically based on two tiers i.e. net profit and capital turnover. It is an important tool for coordination and control of management. It provides a clear financial picture of business in front of management regarding two-tier approach of profit generation. Fast Moving Consumer Goods (FMCG) sector is the 4th largest sector in the Indian economy and Hindustan Unilever Limited is one of the largest FMCG Company with a historical presence in India of over 85 years . Approximately 90 percent Indian households use one or more than one brand of this company. This company has around 18,000 employees, 1,000 suppliers and over 3,500 distributers. Keeping in view our study will attempt to analyze the financial performance of Hindustan Unilever Limited by using DuPont technique of financial analysis for the period2014-15 to2018-19.

2. REVIEW OF LITERATURE :

Khatik & Singh (2006) conducted the two tier analysis of Bharat Heavy Electrical Limited (BHEL) in India for the period 1993 -94 to 2002 -03. They highlighted that the two – tier analysis or DuPont chart is an important tool for internal and external improvement in operations of the business activities. This tier has two tier i.e. assets turnover and profit margin. The authors concluded that return on investment of BHEL satisfactory but there is also slightly need to control an operating cost so that the profit can be increased.

Ramu & Satyanarayana (2009) conducted the Financial Performance Analysis of HDFC using DuPont Analysis for the period 2008-09 to 2017 -18. In this paper they used the DuPont system of financial analysis which is based on analysis of return on equity. The authors were found that the financial performance of HDFC is relatively steady and reflects minimum volatility in the return on equity.

Chandra (2005) in his book titled, Financial Management – Theory and practice, pointed out that the DuPont company of the US pioneered a system of financial analysis which has received widespread recognition and acceptance.

Pandey (2005) in his book titled, Financial Management, highlighted the DuPont Analysis is the important tool of evaluating the firm’s earning power. For knowing the earning power of firm Return on Capital Employed (ROCE) should be computed.

3. OBJECTIVES OF THE STUDY:

This study has the following objectives:

i. To analyze the financial performance of Hindustan Unilever Limited.
ii. To find out whether fixed assets are properly utilized or not by the HUL
iii. To find out whether HUL has been able to increase their sales as comparison to their investment.
iv. To analyze the cost minimization efficiency of HUL, as comparison to total sales.

4. HYPOTHESIS OF THE STUDY:

Null hypothesis (H_0): - There is no significant difference between the mean of profit margin and assets turnover.

5. RESEARCH METHODOLOGY:

In this study of sample company named Hindustan Unilever Limited (HUL) has been taken for DuPont analysis and covers the period 2014 – 15 to 2018 – 19. Present study is based on secondary data which is collected from published annual reports of the company. These financial data is classified, tabulated and edited as per the requirement of the study. The present paper makes assets turnover and profit margin analysis of the magnitude of two tiers over the period of study. The statistical techniques of averages, percentages, coefficient of variation and student t test have been used for getting full result.

6. LIMITATIONS OF THE STUDY:

Following are the limitations of the study:-

I. This study covers only 5 year's period i.e. 2014 – 15 to 2018 – 19.
II. The secondary data used in this study have been taken from published annual reports only.
III. For Du-point analysis profit margin and assets turnover ratio are used.

7. INTRODUCTION OF HUL:

In 1931, Unilever set up its first Indian subsidiary, Hindustan Vanaspati Manufacturing Company, followed by Lever Brothers India Limited (1933) and United Traders Limited (1935).These three companies merged to form Hindustan Unilever Limited (HUL) in November 1956. It is one of the largest FMCG Company in India. Nine out of ten Indian households use one or more brands of Company. With over 40 brands about 12 distinct categories such as fabric wash, Household Care, Purifiers, Personal Wash, Skin Care, Hair Care, Colour Cosmetics, Oral Care, Deodorants, Beverages, Ice Cream & Frozen Desserts and Foods. Its portfolio includes leading household brands such as Lux, Surf Excel, Wheel, Rin, Ponds, Fair & Lovely, Vaseline, Lakme, Pepsodent, Dove, Clinic Plus, Sunsilk, Closeup, Axe, Brooke Bond, BRU, Knorr, Kissan, Kwality wall's and pureit. The company has over 18,000 employees and has an annual turnover of INR 37,660 crores (financial year 2018 -19) and paid up capital Rs. 21647 lakhs.

8. WHAT IS DU-PONT ANALYSIS?

According to "CFO Magazine" a finance executive at E.I. DuPont de Nemours and co of Wilmington, Delaware, created the DuPont system of financial **analysis** in 1919 and firstly it was used by the DuPont Corporation of USA in 1920. DuPont Analysis is also known as DuPont identity, DuPont equation, DuPont model or DuPont method. The DuPont analysis is basically based as two tier i.e., net profits margin and assets turnover.

Net Profit Margin:

The net profit margin ratio is measured by dividing profit before interest tax by revenue from operation (sales). It indicates management efficiency in manufacturing, administrating and selling the products. This ratio is the overall measure of the firm's ability to turn each rupee sales in to net profit. If the net profit margin is inadequate, the firm will fail to achieve satisfactory return on shareholder's funds.

$$\textit{Net profit margin} = \frac{\textbf{PBIT X 100}}{\textbf{Revenue from operation (Sales)}}$$

* PBIT = Net Profit before Interest and Tax

Assets Turnover:

The asset turnover ratio is a measure of how effectively a company converts its assets into sales. It is calculated as follows:

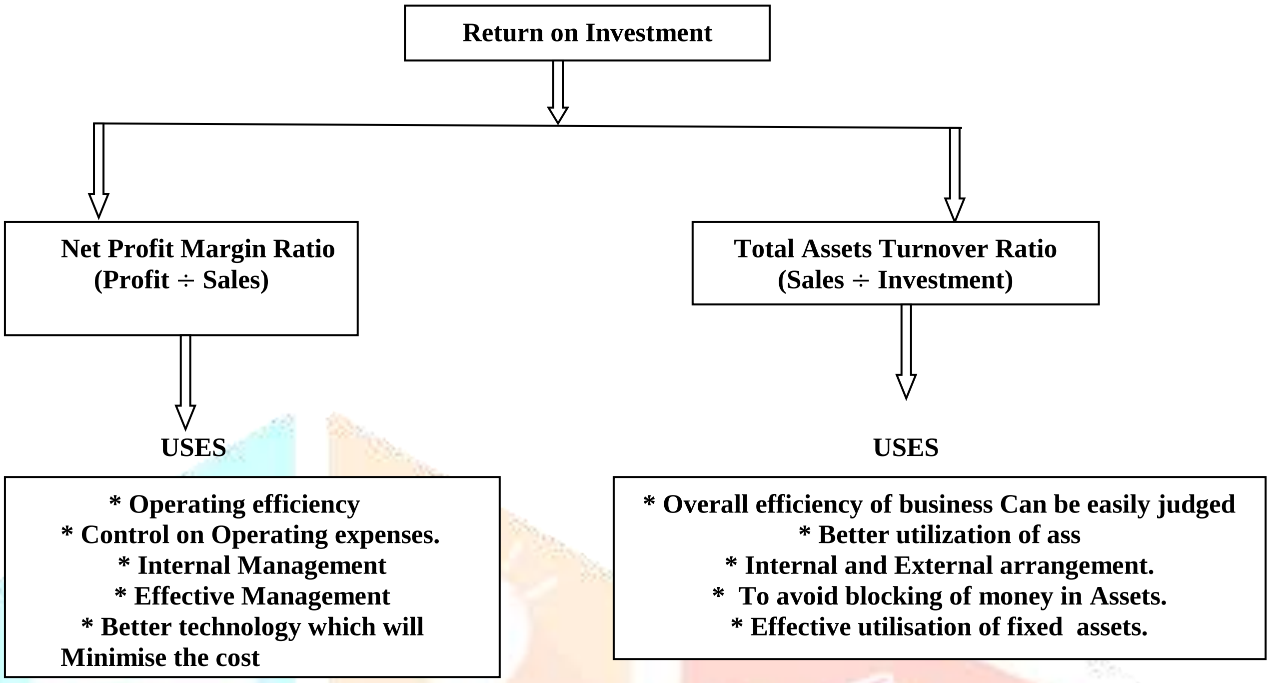
$$\textit{Assets Turnover} = \frac{\textbf{Sales}}{\textbf{Assets or Investment}}$$

The net profit of company will show the efficiency with which assets of the business have been used. There are two alternatives available to improve efficiencies (a) either by a better relationship between sales and cost or (b) through more effective use of available capital. DuPont analysis divided into two tier assets or investment turnover and profit margin. Return on Investment (ROI) is the result of multiplication of investment or assets the turnover and net profit margin. This ratio is used by firm to evaluate how effectively assets are used.

$$ROI = \frac{\text{PBIT}}{\text{Sales}} \quad X \quad \frac{\text{Sales}}{\text{Total Assets}} \quad = \quad \frac{\text{PBIT}}{\text{Total Assets}}$$

These two sequences when multiplied then end product will be profit. If there is an improvement in both the sequences, ROI will increase and if there is decrease in both the sequences, ROI will reduce. Apart from that, any changes in one with slit change in other will have its impact on ROI. Assets (Investment) Turnover ratio aims at increasing sales by minimum investment in fixed assets. On other hand, the aims of profit margin in minimisation of efficiency cost through cost control.

DU PONT CHART



9. DUPONT ANALYSIS OF HUL :

Profit margin ratio and Investment (Assets) Turnover ratio are the basis of DuPont analysis. The following Table No.1 clearly presents the summary of the profit margin ratio of Hindustan Unilever Limited for the period 2014 – 15 to 2018 – 19.

Table No. -01

Statement of Profit Margin in HUL

Year	Profit Before Interest & Tax (PBIT) (Rs.)	Sales (Rs.)	Profit Margin (%)
2014-15	5539.94	30805.62	17.98
2015-16	5992	31061	19.29
216-17	6177	31890	19.37
2017-18	7367	34525	21.34
218-19	8777	38224	22.96
Mean	6770.59	33301.12	20.19
Growth	**58.43%**	**24.08%**	**27.70**

Source: - Calculated and compiled from the data collected from Annual Reports of HUL

Table No. 1 shows the profit margin of HUL in 2014-15 was 17.98 %, in 2015 – 16 it was 19.29%, in 2016 -17 it was 19.37%, in 2017 – 18 it was 21.34% and in 2018 – 19 it was 22.96% . This shows that profit margin of HUL showed an increasing trend from 2014 – 15 to 2018 – 19. While analyzing the growth rate of HUL, the growth of profit before interest and tax (PBIT) is 58.43% ,of sales is 24.08% and of profit margin was 27.70% which indicates a very high growth rate and indicates that with passage of time HUL is earning more and more brand value. The following table No. 02 presents the summary of Investment (Assets) Turnover ratio of HUL for the period 2014 – 15 to 2018 – 19.

Table No. 02

Statement of Investment Turnover (Assets Turnover) of HUL

Year	Sales (Rs.)	Investment (Capital Employed) (RS)	Ratio (Times)
2014-15	**30805.62**	**3724.78**	**8.27**
2015-16	31061	6279	4.95
2016-17	31890	6490	4.91
2017-18	34525	7075	4.88
2018-19	38224	7659	4.99
Mean	**33301.12**	**6245.56**	**5.6**
Growth	**24.08%**	**105.63%**	**39.67%**

Source : Calculated and compiled from the data collected from Annual Reports of HUL

From the above Table No. 02 reveal that the investment or Assets turnover ratio of HUL in 2014 – 15 was 8.27 times, 4.95 times was in 2015 – 16, 4.91 times was in 2016 –2017,4.88 was in 2017 -18 and 4.99 times was in 2018 – 19. The average Investment turnover ratio was 5.6 times. The growth rate of sales was 24.08% as compared to the growth rate of investment, which is105.63% and the growth rate of investment turnover ratio was declined by 39.67% which indicates that assets are not effectively utilised by HUL during the period under study. Above table also highlights that the investment turnover ratio is 2014- 15 was satisfactory.

Return on Investment (ROI) is one of the most important profitability metrics of DuPont analysis. It becomes a yard sticks to measure the efficiency of business. Table No. 03 shows the summary of DuPont Analysis for the period 2014 – 15 to 2018 -19.

Table No. – 03

Summary of DuPont Analysis

Year	Profit Margin (%)	Assets turnover (Times)	Return on Capital Employed (Investment)
	A	**B**	**C = A X B**
2014-15	17.98	8.27	148.69
2015-16	19.29	4.95	95.49
2016-17	19.37	4.91	95.11
2017-18	21.34	4.88	104.14
2018-19	22.96	4.99	114.57
Mean	**20.19**	**5.6**	**111.6**
Growth	**27.70**	**(39.67)**	**(22.95)**
S.D	**1.76**	**1.33**	
Variance	**3.10**	**1.77**	

Source: Calculated and compiled from the data collected from Annual

Table no.3 indicates summary of profit margin, assets turnover ratio and return on capital employed of HUL from 2014-2015 to 2018 – 2019. From 2014 -15 to 2016 -17 it showed a decreasing trend and then it started increasing. In 2014 -15 the return on Investment of HUL was 148.69%, in 2015 -16 it was 95.49%, in 2016 -17 it was 95.11%, in 2017 -18 it was 104.14% and in 2018 -19 it was 114.57%. The profit margin showed in increasing trend during the period under study from 2014 -15 to 2018 -19. In 2014 -15 the profit margin was 17.98% and in 2018-19 it was 22.96%. The assets turnover ratio showed in decreasing trend from 2014 – 15 to 2017 -18 and in the year 2018 -19 it was increased. While analysing the growth rate, the growth of profit margin was 27.70% and growth of assets turnover ratio was 39.67%. This table indicate that profit margin when multiplied by investment turnover the resultant is Return on capital employed or investment was -22.95%. This situation highlights that assets are not properly utilised by the company but company can do better by internal management and the fixed assets can be more effectively utilized to increases the return on Investment.

Hypothesis Testing:

Null hypothesis (H_0): There is no difference between mean of profit margin and assets turnover. The level of significance is 5%

$$t.05 = \frac{\overline{X}_1 - \overline{X}_2}{\sqrt{\frac{S1^2}{N1} + \frac{S2^2}{N2}}} = \frac{20.19 - 5.6}{\sqrt{\frac{3.10}{5} + \frac{1.77}{5}}}$$

$$t.05 = \frac{14.59}{\sqrt{\frac{4.87}{5}}} = \frac{14.59}{0.98} = 14.89$$

The critical value of t.05 at 5% significance level is 2.10. Calculated value of t.05 at 5% level is 14.89 which are more than the critical value. Hence, hypothesis is not accepted. Thus, the difference between the mean of profit margin and assets turnover is significant. So, it is clear that the hypothesis is rejected and profit margin and assets turnover, these two tier have separate entity. DuPont analysis makes it clear that the management of HUL needs to proper attention on the effective utilisation of the assets.

10. CONCLUSION AND SUGGESTIONS :

After study of DuPont analysis of HUL, it is concluded that profit margin is satisfactory but return on investment of HUL is not satisfactory because assets are not effectively used by the HUL. On the basis of the study it was revealed that HUL has an increasing trend of PBIT, sales and profit margin but the assets turnover ratio showed decreasing trend. So, Management of HUL should take certain steps to check that the assets of the company are efficiently and effectively utilised and also certain action should be taken for increasing sales and decreasing the operating cost so that profit before interest and tax could be increased.

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