IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PROFITABILITY OF NESTLE AND HINDUSTAN UNILIVER Ltd.

Deeksha Chandawat

Research Scholar

IIS University Jaipur Rajasthan

Abstract

Fast-moving consumer goods (FMCG), also called consumer packaged goods (CPG), refer to high-in-demand, fast-selling, and inexpensive products. These products are called "fast-moving," because they are easy to leave a store or supermarket shelves and customers constantly use them. Fast-moving consumer goods (FMCG) market is India's fourth largest industry, accounting for 50% of FMCG sales in India, including household and personal care. Key growth drivers for the sector have been growing awareness, easier access and changing lifestyles. The urban segment is the largest contributor to the overall revenue generated by the FMCG sector in India (accounts for a revenue share of around 55 per cent). The FMCG market has, however, developed at a faster pace in rural India than in urban India in recent years. Semi-urban and rural segments are growing rapidly and FMCG products represent 50 % of total rural spending. FMCG companies play a vital role in our daily lives. From dental paste, soaps, products of everyday use etc. The Indian market is dominated by FMCG firms and is expected to expand further. The FMCG industry has seen some big players but new player disruption has changed the Indian scenario as well. The top FMCG companies in India include names such as HUL, ITC, Nestlé and New Entrant Patanjali.

The main purpose of this research paper is to find out the relationship between capital structure and profitability of Hindustan Uniliver and Nestle. This paper empirically aims to analyses the relationship between capital structure and financial performance. Two sets of variables were used: (i) For Profitability: return on assets, return on net worth, return on capital employed and net profit. (ii) And to indicate Capital structure dividend payout ratio from 2015-2019 were considered. Secondary data were collected from financial statements which were taken from FMCG

online. The data were analyzed by using MS-Excel and SPSS statistical tool. Data has been collected from multiple sources of evidence, in addition to books, journals, websites and newspapers.

Keywords: Capital Structure, profitability, Return on Capital Employed, Return on assets, Return on Net Worth, dividend payout.

Introduction:

India's fourth largest household and personal care market is the fast-moving consumer goods (FMCG) market, accounting for 50 percent of FMCG sales in India. The main growth drivers for the sector have been increasing awareness, easier access and changing lifestyles. The urban segment (approximately 55% revenue share of accounts) is the largest contributor to the overall revenue generated in India by the FMCG sector. From US$ 840 billion in 2017, India's retail market is forecast to cross US$ 1.1 trillion by 2020, with modern trade projected to rise at 20-25 percent per annum, which is likely to raise FMCG companies' revenue. In FY18, FMCG sector revenues reached Rs 3.4 lakh crore (US$ 52.75 billion) and are expected to reach US$ 103.7 billion in 2020. In 2020, the FMCG market is expected to grow by 9-10 per cent. The FMCG market will be powered by increasing rural consumption. It contributes about 36% to the total expenditure of FMCG. The urban FMCG segment saw an 8% growth rate, while the rural segment increased by 5% in the quarter ended September 2019. Usually , customers in rural areas buy goods from neighboring towns and villages. Recently, there has been a change in customer buying behavior towards buying locally, which has contributed to the need for stronger local advertising campaigns in small towns to create brand awareness. As they are inelastic goods that affect every aspect of consumer life, FMCGs play a major role in the economy.

Government Initiatives:

- In the cash and carry segment and in single-brand retail, the Government of India has approved 100 percent FDI along with 51 percent FDI in multi-brand retail.
- A new Consumer Protection Bill has been drafted by the Government, with particular emphasis on the establishment of a comprehensive system to ensure easy, rapid, available, affordable and timely delivery of consumer justice.
- For the FMCG industry, the Goods and Services Tax (GST) is advantageous as many of the FMCG items such as soap, toothpaste and hair oil now fall under the 18% tax band against the previous 23-24% rate. GST was also reduced to 0-5 percent and 12-18 percent , respectively, on food products and hygiene products.
- As all major companies are remodeling their operations into larger logistics and warehousing, GST is expected to turn logistics in the FMCG sector into a modern and productive model.

Capital Structure

The capital structure determines the mix of long-term capital of a corporation, which consists of a mixture of debt and equity. The structure of capital is a permanent form of financing that supports the growth and related assets of a company.

Equity: It is easier to describe the equity part of the debt-equity partnership. Equity in a capital structure consists of the common and preferred stock of a business plus retained earnings. It is called committed capital and appears in the balance sheet portion of the equity of the shareholders. The capital structure includes committed capital plus debt.

Debt: A debt debate is less clear. Investment literature also equates the debt of a corporation with its liabilities; there is, however, a substantial difference between operating liabilities and debt liabilities. Though investment research analysts do not agree on what constitutes a debt liability, it is the latter that forms the debt portion of the capital structure.

Profitability

Profitability is a company's ability to use its resources to produce income that covers its costs. In other words, this is the capacity of a company to produce income from its activities. One of four building blocks for analyzing financial statements and company performance as a whole is profitability. Effectiveness, solvency, and business opportunities are the other three. These key principles are used by investors, creditors, and managers to assess how well a business is performing and the future potential it might have if operations were better handled. Revenues and expenditures are the two main factors of profitability. Business income is revenue. This is the amount of money collected from buyers through the sale of goods or the provision of services. However, producing income is not easy. In order to manufacture these goods and offer these services, companies have to use their money.

If you are documenting profitability for the previous period or forecasting profitability for the coming period, the most critical indicator of the company's performance is calculating profitability. A company that isn't successful can't thrive. Conversely, a highly profitable company has the capacity to reward its investors with a substantial return on their investment.

Review of Literature

- **D. heydarnasab1, F. Rezaei (Ph.D)** The results of the first sub-hypothesis test for disclosure quality variable showed that the variables of Quick Ratio, operating margin, earnings per share, fixed asset turnover ratio and size of the company, have a significant and positive relationship with the quality variable of disclosure. Based on the results can be stated that companies with high quick ratio, operating margin and earnings per share and large size, provide their reports to the Securities and Exchange Organization timely and more reliable and they comply with the disclosure requirements.
- **Prof (Dr.) T.Velnampy & J. Aloy Niresh.** The results stated that bank that is able to make their financing decisions prudently would have a competitive advantage in the industry and thus make superior profits. It is essential to recognize that this decision can only be taken if bank know how debt policy influences their profitability.

Research Objectives:

- ➢ To compare the capital structure of Nestle and Hindustan Uniliver ltd.
- ➢ To find out the Relation between capital structure and profitability.

Research Methodology

Hypothesis of study

- ➢ H_{01}: There is negative significant relationship between Capital Structure and Profitability of Companies under study.
- ➢ H_{a1}: There is positive significant relationship between Capital Structure and Profitability of Companies under study.

Data Collection

The present study used secondary data for the analysis. The financial statements which are made up of income statements and balance sheets of the sample banks were the main sources of data under study. Furtherly, scholarly articles from academic journals relevant text books on the subject and internet search engines were also used. Specially the financial statements of the nestle and Hindustan Unilever Ltd. Were collected for the period of 2015-2019.

Mode of Analysis

The quantitative research approach is employed to find out the findings of research study. Since numerical and secondary data were used so quantitative approach is considered to be suitable for the study. The upper level of statistical significance for hypothesis testing was set at 5%. All statistical test results were computed at 2 tailed level of significance. Statistical analysis involves both descriptive and inferential statistics.

Descriptive statistics are used to describe and summarize the behavior of the variable in a study. Inferential statistics are used to draw conclusion about reliability and generalizability of the findings.

Research model

Correlation Analysis was carried out to identify the relationship between capital structure and profitability. Here, capital structure is independent variable and profitability is a dependent variable. From those dependent and independent variable, the following relationship is formulated.

P= f(CS)

Profitability is measured with the help of four ratio Net Profit, Return on Assets, Return on Capital Employed, Return on Net worth while Capital Structure is measured with Dividend payout ratio.

Results and Analysis

a. Descriptive Analysis

Table 1.1

Descriptive Statistics of Nestle					
	N	Minimum	Maximum	Mean	Std. Deviation
ROW	5	19.98	101.77	46.4080	32.12597
NP	5	6.88	15.89	11.8560	3.53959
ROI	5	46.47	140.61	72.1840	39.17620
ROA	5	9.26	27.86	17.4460	7.01167
DP	5	65.55	83.07	70.1920	7.25446
Valid N (listwise)	5				

Table 1.2

Descriptive Statistics of Hindustan Uniliver					
	N	Minimum	Maximum	Mean	Std. Deviation
ROW	5	.02	4.61	1.0300	2.00436
NP	5	5.54	27.44	14.3660	9.27485
ROI	5	.04	8.55	1.8400	3.75285
ROA	5	29.71	33.78	31.2200	1.59050
DP	5	74.39	81.07	77.1000	2.99266
Valid N (listwise)	5				

The descriptive statistics table 1.1 and table 1.2 shows that over the period under the study, the profitability ratio measured by net profit, return on capital employed, return on net worth, return on assets of nestle averaged 46.40, 72.18, 17.44, 11.85 respectively. The capital structure ratio measured by dividend payout ratio stood at 70.19. This is an indication that the companies showed good performance in the analyzed period. While, the profitability ratio of Hindustan Uniliver Ltd averaged 1.03, 14.36, 1.84, 31.22 respectively and capital structure measured at 77.10. This is the indication that total fund of Hindustan Uniliver Ltd is lower than the dividend payout ratio which means company is paying out more in dividend to its earnings which is unsuitable for the business.

b. Correlation Analysis

Table 2.1

Correlations of Nestle						
		ROW	ROI	ROA	NP	DP
ROW	Pearson Correlation	1	.994**	.949*	.820	-.449
	Sig. (2-tailed)		.000	.014	.089	.448
	N	5	5	5	5	5
ROI	Pearson Correlation	.994**	1	.923*	.776	-.355
	Sig. (2-tailed)	.000		.025	.123	.558
	N	5	5	5	5	5
ROA	Pearson Correlation	.949*	.923*	1	.958*	-.619
	Sig. (2-tailed)	.014	.025		.010	.266
	N	5	5	5	5	5
NP	Pearson Correlation	.820	.776	.958*	1	-.737
	Sig. (2-tailed)	.089	.123	.010		.155
	N	5	5	5	5	5
DP	Pearson Correlation	-.449	-.355	-.619	-.737	1
	Sig. (2-tailed)	.448	.558	.266	.155	
	N	5	5	5	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

The above mentioned table 2.1, indicates the relationship between dependent and independent variables used in the study. From this table it is clear that relationship between variable is mostly positive. The independent variable is negatively correlated with the dependent variable and found to be significant at 0.05 and 0.01 level of significance. The dividend payout ratio determines how much company is returning to shareholders and how much company is keeping on hand reinvesting in growth, paying off debt. It is clearly evident that return on assets, return on net worth, return on capital employed is negatively correlated with Dividend payout ratio which means company is not able to return dividend to their shareholders.

Table 2.2

Correlations of Hindustan Uniliver

		NP	ROW	ROA	ROI	DP
NP	Pearson Correlation	1	-.055	.262	-.079	-.205
	Sig. (2-tailed)		.930	.670	.899	.741
	N	5	5	5	5	5
ROW	Pearson Correlation	-.055	1	.918*	1.000**	-.343
	Sig. (2-tailed)	.930		.028	.000	.572
	N	5	5	5	5	5
ROA	Pearson Correlation	.262	.918*	1	.909*	-.601
	Sig. (2-tailed)	.670	.028		.032	.284
	N	5	5	5	5	5
ROI	Pearson Correlation	-.079	1.000**	.909*	1	-.338
	Sig. (2-tailed)	.899	.000	.032		.578
	N	5	5	5	5	5
DP	Pearson Correlation	-.205	-.343	-.601	-.338	1
	Sig. (2-tailed)	.741	.572	.284	.578	
	N	5	5	5	5	5

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The above table 2.2, indicates relationship between dependent and independent variable used in the study. From this table it is clearly visible that there is a positive relation between variable but negatively correlated with the dependent variable at 0.05 and 0.01 level of significance. . It is clearly evident that return on assets, return on net worth, return on capital employed is negatively correlated with Dividend payout ratio which means company is not able to return dividend to their shareholders.

Conclusions:

This study examine the relationship between capital structure and profitability of nestle and Hindustan uniliver Ltd. The mean value of dividend payout ratio is 77.10 and 70.19 respectively which means company is paying more in dividend to payout its debt which is not suitable for the company. The R value were found to be significant and positive relation between variable in Nestle but R value were found to be significant and negative relationship between variable in Hindustan uniliver ltd. R value NP to ROW, and NP to ROI were 0.55 and 0.79 respectively. This reveals that increase in payment of dividend and interest thus result is decline in profitability. Therefore, null hypothesis is accepted as there is negative significant relationship between capital and profitability of nestle and Hindustan uniliver ltd.

Limitation and Scope of Future Research

The current research is restricted only to nestle and Hindustan uniliver ltd. Furthermore, this research is mainly conducted based on secondary data collection. The other data collection method has not been considered. As this may not be 100% accurate. In addition to these data representing the period of 2015-2019 were used under study. The research has compiled a small database of listed companies. For more research that can inform understanding of how capital is structured, there is clearly enormous scope and how it links to profitability and what aspect of capital structure makes a difference.

References:

- Kavita Chavali, Dhofar University Shireen Rosario, Dhofar University, "Relationship Between capital structure and Profitability: A study of Non Banking finance companies in India" *Academy of Accounting and Financial Studies Journal , issue 22 volume 1, 2018*
- Prof(Dr) T. Velnamy & J. Aloy Niresh, jaffina university Srilanka, "Relationship between capital structure and profitability" *Global Journal of Management and Business Research, Vloume 12 issue 13, 2012*
- Song.H, (2005), "capital structure determinants: an empirical study of Swedish companies", *The Royal institute of technology centre of excellence of science and innovation studies.*
- Kothari CR (2011) *Research methodology*
- Pandey IM(2009*) financial management capital structure planning and policy*.
- http://neste.annulreports
- http://hindustanuniliverLtdannualreport