A STUDY ON WORKING CAPITAL MANAGEMENT OF HINDUSTAN UNILEVER LIMITED

Project Report

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Under the guidance of

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ST. TERESA'S COLLEGE (AUTONOMOUS), ERNAKULAM

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ST. TERESA'S COLLEGE, ERNAKULAM (AUTONOMOUS)

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CERTIFICATE

This is to certify that the project titled **"A STUDY ON WORKING CAPITAL MANAGEMENT OF HINDUSTAN UNILEVER LIMITED"** submitted to Mahatma Gandhi University in partial fulfillment of the requirement for the award of Degree of Bachelor in Commerce is a record of the original work done by **Ms. Afrin Shibu Mubarak, Ms. Avanthika Prakash, Ms. Malavika Prakash**, under my supervision and guidance during the academic year 2019-22.

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DECLARATION

We, Afrin Shibu Mubarak, Avanthika Prakash and Malavika Prakash of UG Department of Commerce (SF) , St Teresa's College (Autonomous), Ernakulam do hereby declare that this dissertation titled "A STUDY ON WORKING CAPITAL MANAGEMENT OF HINDUSTAN UNILEVER LIMITED", is a bona fide record of work done under the supervision and guidance of Ms. Reema Dominic, Assistant Professor of Department of Commerce (SF) , St Teresa's College (Autonomous), Ernakulam and the dissertation has not previously formed the basis for the award of any academic qualification, fellowship, or other similar title of any other university or board.

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CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER-1

INTRODUCTION

A STUDY ON WORKING CAPITAL MANAGEMENT OF HINDUSTAN UNILEVER LIMITED

1.1 INTRODUCTION

Working capital management is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to their most effective use. Working capital management involves calculating various ratios, including the profitability ratio, liquidity ratio, and the inventory ratio.

This research project is based on the study of working capital management of Hindustan Unilever Limited (HUL). It is a subsidiary of Unilever Plc, is a manufacturer and marketer of fast-moving consumer goods. The company offers packaged foods and refreshments, beauty and personal care products, and homecare products. HUL markets its products under the Bru, Magnum, Fair and Lovely, Ponds, Lakme, Dove, Pepsodent, Surf Excel, Knorr, Taza, Lipton and Kissan brand names. The company also offers ice creams, staples, health food drinks, culinary products, and frozen desserts. HUL is headquartered in Andheri, Mumbai, Maharashtra, India. The Company has about 21,000 employees and has sales of INR 50,000+ crores (financial year 2021-22).

The study on the impact of sales on working capital is of major importance to internal and external analysis because of its relationship with the current day to day operations of business. In order to maintain flow of revenue from operations, every firm needs certain amount of current assets. The funds required either to pay for expenses or to meet obligations for service received or goods purchased etc. by a firm. These funds are known as working capital. Working capital refers to that part of firm's capital which is required for financing short term requirements or current assets such as cash, marketable securities, debtors and inventories. If the satisfactory level of working capital is not maintained the firm is likely to become insolvent and maybe forced into bankruptcy. To maintain the margin of safety current asset should be larger than current liability. The

term "Gross Working Capital" denotes total current asset and the term "Net Working Capital" denotes the excess of current asset over current liability.

Proper working capital is essential to a company's fundamental financial health and its operational success. A hallmark of good business management is the ability to utilize working capital management to maintain a solid balance between growth, profitability and liquidity. Working capital serves as a metric for how efficiently a company is operating and how financially stable it is in the short-term. The working capital ratio, which divides current assets by current liabilities, indicates whether a company has adequate cash flow to cover short-term debts and expenses.

The primary objective of working capital management is to ensure a smooth operating cycle of the business. Secondary objectives are to optimize the level of working capital and minimize the cost of such funds. The superior objective of financial management is wealth maximization and that can be gained by profit maximization accompanied by sustainable growth and development. For sustainable growth and development, the objectives of all the stakeholders including customers, suppliers, employees, etc should be aligned to the growth of the organization.

Procurement of required amount of working capital and its effective utilization is the important function of working capital management. Working capital management is an important decision-making area of financial management in any undertaking.

1.2 STATEMENT OF THE PROBLEM

The topic for the study is analysis of sales on working capital management in HUL. Management of working capital determines the success of operation of business concern. In this study an attempt has been made to analyze the size and composition of working capital. One of the most important tasks of a financial manager is to select appropriate source of finance for the current asset after determining its requirement. Working capital is the life blood of business. Without sufficient working capital a business organization cannot run smoothly or successfully.

1.3 SIGNIFICANCE OF THE STUDY

The goal of working capital management is to maximize operational efficiency. The aim of the study is to understand past performance of company, present financial condition by analyzing various working capital ratios and to find suggestions for improvement in future profitability. A sincere effort has been made to analyze financial position with the data made available and to suggest all feasible methods to improve the company's profitability for future survivals.

1.4 OBJECTIVES OF THE STUDY

- To find out the liquidity of the concern by using liquidity ratio
- To find out the profitability of the concern by using profitability ratio
- To find out the performance of the concern by using turnover ratios
- To find out the working capital of the current year using regression analysis
- To analyze schedule of changes of working capital.

1.5 RESEARCH METHODOLODY

The methodologies of the study included detailed observation and maintain notes, discussion with concerned persons, workers and managers regarding the various processes involved in the respective functional areas.

The data has been collected through secondary sources. The data collection was done during the period from 2015-16 to 2019-20.

1.5.1 TYPE OF RESEARCH

This study is an analytical type of research. Analytical research is a specific type of research that involves critical thinking skills and the evaluation of facts and information relative to the research being conducted. Analytical research focuses on understanding the cause-effect relationships between two or more variables. It tries to explain the reasons why and how the variables has moved in a specific direction within the given time.

1.5.2 SOURCES OF DATA

- **<u>SECONDARY SOURCES OF DATA</u>**

Secondary data refers to data that is collected by someone other than the primary user. Common sources of secondary data for social science include censuses, information collected by government departments, organizational records and data that was originally collected for other research purposes.

Secondary data was collected from:

- Balance sheet of the company for past 5 years (2017-2018 to 2021-2022).
- Profit and loss account of the company of the past 5 years (2017-2018 to 2021-2022).
- Website of the company and other sites.

1.5.3 DATA ANALYSIS TOOLS AND TECHNIQUES

Various tools are being used to analyze and interpret the financial statements of the company like:

- **<u>Ratio analysis</u>:** Ratio analysis is referred to as the study or analysis of the line items present in the financial statements of the company. It can be used to check various factors of a business such as profitability, liquidity, solvency and efficiency of the company or the business.
- **<u>Schedule of changes in working capital:</u>** Schedule of changes in working capital is prepared to measure the increase or decrease in individual items of current

assets or current liabilities. It also shows the net increase or decrease in working capital during the accounting period.

- **Graphs:** A graph can be defined as a pictorial representation or a diagram that represents data or values in an organized manner.
- **Trend Analysis:** Trend Analysis is a technique used to examine and predict movements of an item based on current and historical data. Trend analysis is used to improve the business using trend data for decision-making.

1.6 SCOPE OF THE STUDY

The scope of the study aims at analyzing the working capital statements of Hindustan Unilever through various techniques like ratio analysis, cash flow statement, schedule of changes in working capital, etc. The study aims at assessing the working capital position and liquidity position of the company. For conducting the study the financial statements for the past 5 years are used.

1.7 LIMITATIONS

- The project is confined to data of five years only.
- Duration of the project is short.
- Only quantitative data can be analyzed.
- Certain ratios have multiple formulas. It was difficult to figure out which one was to be used to arrive at the most suitable answer.

1.8 CHAPTERIZATION

CHAPTER 1	INTRODUCTION
CHAPTER 2	REVIEW OF LITERATURE
CHAPTER 3	THEORETICAL FRAMEWORK
CHAPTER 4	COMPANY PROFILE
CHAPTER 5	DATA ANALYSIS AND INTERPRETATION
CHAPTER 6	FINDINGS, SUGGESTIONS AND CONCLUSIONS

CHAPTER-2

REVIEW OF LITERATURE

REVIEW OF LITERATURE

Rao Govinda D. (1999) had attempted to find out the causes of the changes in the size of working capital in the sample companies during the period under study. He found several causes of changes in working capital, mainly (a) sources of funds and (b) applications of funds. In the end, the changes in working capital were analyzed with the help of the changes in working capital and funds flow statement. He believed that the changes in quantum of working capital were to be ascertained and analyzed.

Ganesan Vedavinayagam (2007) studies the impact of working capital management on profitability through ANOVA test where the financial statements of 349 telecom units or enterprises are analyzed. In the study the relationship between working capital management efficiency and profitability and the impact of working capital management on the same has been tested. At the end of the study the author has minutely observed that the working capital management efficiency in telecommunication industry is poor.

Dinesh M. (2008) in his study explicates the concepts of working capital, the different challenges being faced by the business firms in managing working capital and the strategies to be adopted for its prudent management. The author concluded with the view that most of the businesses failed not for want of profit but for lack of cash.

Arunkumar O. N. and Jayakumar S. (2010) in their study explained how working capital is considered to be the lifeblood and controlling nerve centre of the business. Profitability and solvency are two vital aspects of working capital management. In the study the authors have concentrated on the analysis of liquidity and solvency position of the major Public Sector Electrical Industries in Kerala such as Kerala Electrical and Allied Engineering Company Ltd (KEL) and Transformers and Electrical Kerala Ltd (TELK) for the financial years 1997-98 to 2007-08 and 1997-98 to 2005-06 respectively.

Chandra Bihas, Chouhan Vineet and Goswami Shubham Chandra Bihas, (2012) conducted a study on the trends, profitability and working capital of some selected Information Technology organizations in India. It was concluded that the increased requirement of working capital in IT companies was significantly established. It was further observed that there exists a positive relationship between working capital and profitability of all the selected companies, with the exception of Patni Computer Systems. The positive direction of relationship indicates that increase in working capital leads to increase in profitability.

Dr Panigrahi Ashok Kumar (2012) studied the relationship between working capital management and profitability of ACC Cement Company, the leading cement manufacturer of the country. The study assessed the impact of working capital management on profitability during the period 1999-2000 to 2009-10. The study was based on secondary data. The main aim of the study was to find whether the working capital management affects the performance of the firm. It was concluded that there is a moderate relationship between the firm's profitability and working capital management.

Chandra H. and Selvaraj A. (2012) analyzed the working capital management of selected Steel Companies in India for the period from 2000-01 to 2009-10. Operating cycle and cash conversion cycle were used to measure the effective utilization of working capital. The Kieschnick model was used to measure the determinants of cash conversion cycle. The study concluded that the size of a company plays a vital role in determining the efficiency of its working capital management. The working capital ratios across the small, medium and large sized steel companies have played a vital role in determining the working capital management of the selected Indian steel companies.

Joshi Lalitkumar and Ghosh Sudipta (2012) conducted a study on the performance of working capital of Cipla Ltd during the period 2004-05 to 2008-09. Financial ratios were used to measure the working capital performance. Econometric and statistical techniques were also used. The study concluded that the ratios selected showed a satisfactory performance. A significant negative relationship between liquidity and profitability was also found to exist.

Manjhi Rakesh Kumar and Kulkarni S. R. (2012) carried out a study of the working capital structure and liquidity analysis of Gujarat Textiles Manufacturing Industry. The study aimed to analyze working capital structure of Gujarat Textiles Manufacturing Industry and the liquidity position of the industry. It also aimed to analyze the working capital turnover position of the industry. It was concluded that the variation between current assets turnover and working capital turnover was quite high across the industry. It was observed that Arvind Ltd. and Shri Dinesh mills Ltd. achieved lower sales over their working capital and current assets as compared to the other companies. However, the sample companies had good current ratio, which also implies their sound liquidity position.

Ramadu Janaki P. and Parasuraman N. R. (2012) in their study revealed that the growth rate in profits was disproportional to the sales and working capital components like inventory and debtors. The study focus on the growth and sales compared with the changes in profitability and in working capital of Indian Pharmaceutical Industries.

Ray Sarbapriya (2012) conducted a study on the relationship between liquidity and profitability in the manufacturing industry. A sample of 311 manufacturing firms for a period of 14 years were taken. The writer studied the effect of different variables of working capital management. The study observed a strong adverse relationship between measures of working capital management and corporate profitability. An insignificant negative relationship between firm size and its net operating profit ratio was detected in the end.

Akoto Richard K., Vitor Dadson A. and Angmor Peter L. (2013) closely studied the relationship between working capital management policies and profitability of the thirteen listed manufacturing firms in Ghana. A significantly negative relationship between profitability and accounts receivable days is found to exist at the end of the study.

Gurumurthy N. and Reddy Jayachandra K. (2014) had conducted a study on the working capital management of four pharmaceutical companies APSPDCL, APEPDCL, APNPDCL and APCPDCL and concluded that the existing system of working capital management was inefficient and not up to the mark.

Joseph Jisha (2014) closely examined the study of working capital management in Ashok Leyland and pointed out that the liquidity and profitability position of the company was not satisfactory, and needed to be strengthened in order to be able to meet its obligations in time.

Madhavi K. (2014) made an empirical study of the co-relation between liquidity position and profitability of the paper mills in Andhra Pradesh. It was observed that inefficient working capital management had a negative impact on the profitability and liquidity position of the paper mills in Andhra Pradesh.

CHAPTER- 3

THEORETICAL FRAMEWORK

3.1 WORKING CAPITAL-MEANING

Working capital means the funds available and used for day to day operations of an enterprise. It consists broadly of that portion of assets of a business which are used in or related to its current operations. Working capital is also represented by a company's net investment in current assts necessary to support its everyday business. Working capital is formally arrived at by subtracting current liabilities from current assets of a company.

3.2 DEFINITION OF WORKING CAPITAL

According to Gerstenberg, "Circulating Capital means current assets of a company that are changed in the ordinary course of business from one form into another."

The term working capital is also defined as "Excess of current assets over current liabilities."

Working capital and working capital ratio provide a way to evaluate whether or not a business can pay off its short-term debts.

Working capital basically means as the financing source needed by the business entities on a regular basis so that needs will be met.

3.3 CHARECTERISTICS OF WORKING CAPITAL

- <u>Fluctuation</u>: Working still fluctuates every now and then even it is something permanent.
- <u>Liquidity</u>: It is very liquid for it can be converted as cash any time without losing anything.
- <u>Less Risky</u>: Investments in current assets such as working capital comes with less risk for it is just for short term.

- Needs that are Short Term: Working capital is being utilized in acquiring current assets which will be converted to cash for a short period only.
- Circular Movement: Working capital is being converted to cash constantly which will just be turned as a working capital all over again.
- Permanency: Although it is just a kind of short-term capital, working capital is needed by a business forever and always.
- No Need for Special Accounting System: Since working capital is a short-term asset that will last for a year only, there will be no need for adoption of a special accounting system.

3.4 SOURCES OF WORKING CAPITAL

- Physical fixed assets sales
- Intangible fixed assets sales
- Financing for longer term
- Borrowings that are long term
- Issuance of preference and equity shares
- Operational funds
- Sales of assets that are non-current
- Long term investment sales

3.5 SIGNIFICANCE OF WORKING CAPITAL

1. It creates a feeling of security and confidence.
2. It is a must for maintaining solvency and continuous production.
3. It improves efficiency of workers.
4. It enables availability of cash discount.
5. It helps borrowing at favorable rates of interests.
6. It facilitates easy availability of bank loan.
7. It helps the organization to overcome periods of depression.
8. It ensures regular and assured production because of efficient and steady operations.

3.6 TYPES OF WORKING CAPITAL

i. **Permanent Working Capital**

Permanent working capital means the part of working capital which is permanently locked up in the current assets to carry out the business smoothly. The minimum amount of current assets which is required to conduct the business smoothly during the year is called permanent working capital.

ii. **Variable Working Capital**

Variable working capital can be defined as the capital invested for a temporary period in the business. Variable working capital is also called fluctuating working capital.

iii. **Reserve Margin Working Capital**

Reserve Margin Working Capital is the amount of capital kept aside apart from the regular working capital. These pools of funds are kept separately for unforeseen circumstances such as strikes, natural calamities etc.

iv. **Seasonal Variable Working Capital**

This refers to the increased amount of working capital a business needs during the peak season of the year. A business may even have to borrow funds to meet its working capital needs. Such a working capital specifically meets the demands of business having a seasonal nature.

v. **Regular Working Capital**

Regular working capital is the amount of funds businesses require to fund its day to day operations. For example, cash needed for making payment of wages.

vi. **Special Variable Working Capital**

Special variable working capital is the temporary rise in the working capital due to any unforeseen or occurrence of a special event.

vii. **Gross Working Capital**

The term “gross working capital” refers to the total value of a business’s current assets, Cash, accounts receivable, inventories, short-term investments, and marketable securities all constitute gross working capital.

viii. **Net Working Capital**

The amount by which a firm’s total assets exceed its current obligations is referred to as net working capital. In simple terms, this is the difference between the current assets and current liabilities.

3.7 IMPORTANCE OF ADEQUACY OF WORKING CAPITAL

- Adequate working capital ensure the liquidity position of the firm, as well as Indicates the short-term solvency position of the firm.
- A sufficient amount of working capital ensures regular and timely payment to creditors and other short-term lenders which increases the goodwill of the firm.
- Timely payment to creditors or bankers enables the firm to get regular supply of goods and availability of short-term loans, as it also increases creditworthiness of the firms in the records of banking institutions.
- Availability of cash and early payments to creditors gives opportunity to a firm to avail cash discounts.
- Making payment of wages to labour on time is also crucial for turnover of raw material into sales, thus, increase in overall productivity of the firm. It is possible if firm has adequate source of funds.

3.8 RISK OF INADEQUACY OF WORKING CAPITAL

A deficit is equally bad as having excessive working capital. The key risks or disadvantages of lower working capital are:

- Lower working capital is an indication of decrease in liquidity position of the firm.
- An inadequate amount of working capital stagnates the growth prospects of an organization.
- The rate of return will also fall down due to shortage of working capital.
- Firms with inadequate working capital find it difficult to meet business targets due to a lack of funds.
- Businesses may fail to meet the day-to-day needs when they have an inadequate amount of working capital. This may lead to operating inefficiency.

3.9 DANGERS OF EXCESSIVE WORKING CAPITAL

- Excessive working capital is a curse for a firm. With excessive working capital, too much of inventories are accumulated. With growing inventories, mishandling the inventories may become rapid. This leads to mismanagement of the inventories.
- Excessive investment in working capital means keeping funds idle for a period.
- The long-term funds which otherwise could have been used in allocating long-term assets or investments are put on hold, thus carrying an implied cost on the profitability of the business. This is an indication of managerial inefficiencies.
- The immediate effects may be low inventory, high cost of inventory storage, higher bad debt and losses.
- Use of excessive working capital symbolizes weak working capital management, lower profitability and results into decline in share price of the firm.

3.10 FACTORS DETERMINING REQUIREMENT OF WORKING CAPITAL:

The requirement of working capital is based on many factors. In the initial stage of business more working capital is required as compared to the requirement when production is out, sales and collection are started.

However, the requirement of working capital depends upon various factors, they are follows:

1. **Nature or type of business:**

   Firms engaged in manufacturing essential products of daily consumption would need relatively less working capital as there would be constant and sufficient cash inflow in the firm to take care of liabilities. Likewise, public utility concerns have to maintain small working capital because of continuous flow of cash from their customers.

2. **Size of the business:**

   The size of business also affects the requirement of working capital. A firm with large scale operations will require more working capital.

3. **Terms of purchases and sales:**

   If the firm does not get a credit facility for purchases but adopts a liberal credit policy for its sales, then it requires more working capital. On the other hand, if credit terms of purchases are favorable and terms of credits sales are less liberal, then a requirement of cash will be less. Thus, working capital requirements will be reduced.

4. **Rapidity of turnover:**

   Rate of stock turnover refers to the speed at which the raw materials, work in progress and finished goods converted into cash form. Therefore, if the rate of stock turnover is high, the need of working capital amount is low and vice versa.

5. **Business Cycle:**

Business cycle means periods of prosperity, recession, depression and recovery. Whenever the demand for the product is high, prices of the products are also high during the period of prosperity. Therefore, the company requires more amount of working capital.

6. **Expansion:**

The working capital requirement of a firm will increase with the growth of the firm. A growing company needs funds continuously to support large-scale operations.

7. **Credit Period Allowed by the Suppliers:**

The credit period allowed by the suppliers may be either short or long. If the credit period is short, there is a need of more amount of working capital and vice versa.

8. **Seasonal variations:**

Some raw materials are available only in season. But, the need of raw material is throughout the year. Hence, the company is forced to buy the raw materials in bulk and store them for one year. If so, more amount of working capital is required.

9. **Management ability, attitude and efficiency:**

The requirement of working capital is reduced if there is proper coordination between production and distribution of goods. A firm stocking on heavy inventory calls for higher level for working capital.

10. **Operating efficiency:**

This relates to the optimum utilization of resources at a minimum cost. If a company is effectively operated, there is a possibility of controlling of operating costs.

11. **Repayment Ability:**

Enterprise's repayment ability determines the level of its working capital.

12. <u>Liquidity and Profitability:</u>

If the firm is interested in maintaining the liquidity and wants to improve the liquidity more working capital is required. If a firm desires to take a greater risk for bigger gains and losses, it reduces the size of its working capital in relation to sales. A firm, therefore should choose between its liquidity and profitability and decide about its working capital requirement accordingly.

3.11 COMPONENTS OF WORKING CAPITAL

Four distinct components are needed to calculate your company's current financial health.

The four main working capital components are:

I. **Cash and cash equivalents**

Cash and cash equivalents are the most liquid current assets found on a business's balance sheet.

II. **Accounts receivable (AR)**

Trade Receivables form a significant part of the current asset and, therefore, working capital. It also includes the amount due to the bills of exchange receivable. These are the amounts in which the business is owned by its customers.

III. **Inventory**

Inventory is another significant part of current assets. Inventory or stock refers to the goods and materials that a business holds for the ultimate goal of resale, production or utilization.

IV. **Accounts payable (AP)**

Trade Payables forms a significant part of current liabilities. It also includes the amount due to the bills of exchange payables. These are the amounts the business has to pay for credit purchases made by it.

A) CURRENT ASSETS :

Current assets are those which can be converted into cash within short span of time (generally within one year) without undergoing diminution of value and without distributing the organization.

The current assets are as follows:

1. Cash in hand
2. Cash at bank
3. Bills receivable
4. Sundry debtors
5. Treasury bills
6. Prepaid expenses
7. Advances on material purchases
8. Inventories - Raw material. Work in progress. Finished goods

B) CURRENT LIABILITIES:

Current liabilities are those which are expected to be paid in the ordinary course of operating cycle within a short time (normally within a year) out of the current assets or income of the business.

The current liabilities are as follows:

1. Sundry creditors.
2. Bills payable
3. Bank overdraft
4. Dividend Payable
5. Accrued or outstanding expenses (Accrued Taxes, Accrued Salaries and Accrued Interest)
6. Short term loans, advances and deposits
7. Liability reserve for income tax payable

3.12 INTRODUCTION TO WORKING CAPITAL MANAGEMENT

Working capital management represents the relationship between a firm's short-term assets and its short-term liabilities. It aims to ensure that a company can afford its day-to-day operating expenses while also investing the company's assets in the most successful direction possible.

Working Capital is that part of total capital which is required for daily working of the business. It is the capital with which the business is worked over. The term working capital means the capital consumed during the fiscal period in creating current income.

3.13 RATIO ANALYSIS OF WORKING CAPITAL:

This is used as a means of understanding the efficiency of working capital. Behavior of ratios over a period of years determines the trends. These trends indicate the rise, decline or stability of working capital.

The following ratios have relevance to the working capital.

I) Liquidity ratios.
II) Turn over ratios.
III) Working capital ratios.

I) LIQUIDITY RATIO :

1) CURRENT RATIO :

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current liabilities}}$$

This ratio is used to find out whether the current assets expected to the realized during the operational cycle, are able to cover the current liabilities which are to be met in the short term. (Usually one year.)

Standard current ratio is considered to be 2:1.

2) ACID TEST RATIO OR QUICK RATIO :

$$\text{Acid Test Ratio or Quick Ratio} = \frac{\text{Quick Assets}}{\text{Quick liabilities}}$$

It is a type of liquidity ratio, which measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities immediately. These assets are known as "quick" assets since they can quickly be converted into cash. This gives a better picture of a firm's ability to meet its short terms debts out of short term assets. Standard Quick Ratio is considered to be 1:1.

II) <u>TURNOVER RATIO</u> :

1) <u>INVENTORY TURNOVER RATIO</u> :

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of goods Sold (Cost of Revenue from Operations)}}{\text{Average Inventory}}$$

This ratio indicates the efficiency of inventory management. It is employed to measure how quickly stock is converted into sales.

A high ratio is desirable showing efficient management of inventories.

2) <u>TRADE RECEIVABLES TURNOVER RATIO</u> :

$$\text{Trade Receivables Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Trade Receivables}}$$

This ratio matches net credit sales of a firm to receivables and indicates the rate at which cash is generated by turn-over of receivables.

A high ratio is desirable and it denotes the necessity of less working capital.

3) AVERAGE DEBT COLLECTION PERIOD :

$$\text{Average Collection Period} = \frac{\text{No. of days in a year}}{\text{Trade Receivables Turnover Ratio}}$$

This ratio indicates the quality of debtors by measuring the rapidity or slowness in the collection process. Shorter collection period implies quick payment of debtors.
A low collection period is a desirable one.

III) WORKING CAPITAL RATIOS :

1) WORKING CAPITAL RATIO :

$$\text{Working Capital Ratio} = \frac{\text{Gross Working Capital}}{\text{Average Inventory}}$$

It depicts the position of inventory in the working capital. Since inventory is the least liquid assets this ratio vividly states how much of gross working capital is occupied by the inventory.
A ratio of 2:1 is desirable, but one has to take into account the nature of the business, restrictions imposed by the government, etc.

3.14 TRADE ANALYSIS

Trend analysis evaluates an organization's financial information over a period of time. It is used to calculate and analyze the amount change and percent change from one period to the next. Trend analysis is often used to evaluate each line item on the income statement and balance sheet.

$$\frac{\text{Amount of item of current year}}{\text{Amount of item of base year}} \times 100$$

OBJECTIVES OR ADVANTAGES OF TREND ANALYSIS

- It helps to understand the trend or direction of movement of various items
- It helps in intra-firm comparison of financial statements for two or more years.
- It is a simple method to make large data into a precise one.
- It helps in forecasting various items with the help of trend.

GUIDELINES FOR PREPARATION OF TRENDS

(1) The first year or earliest year is taken as the base year.

(2) The amount of base year is assumed to be equal to 100.

(3) Trend percentages are calculated in relation to base year.

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CHAPTER-4

COMPANY’S PROFILE

4.1 ABOUT

Hindustan Unilever Limited (HUL) is an Indian consumer goods company headquartered in Andheri, Mumbai. HUL was established in 1931 as Hindustan Vanaspati Manufacturing Co. Following a merger of constituent groups in 1956, it was renamed Hindustan Lever Limited. The company was renamed again in June 2007 as Hindustan Unilever Limited. Its various products include foods, beverages, cleaning agents, personal care products, water purifiers and other fast-moving consumer goods (FMCGs). HUL is a subsidiary of the British company Unilever. Unilever, one of the world's leading suppliers of Food, Home Care, Personal Care and Refreshment products with sales in over 190 countries.

With 50+ brands spanning categories such as fabric solutions, home and hygiene, life essentials, skin cleansing, skincare, hair care, colour cosmetics, oral care, deodorants, tea, coffee, ice cream & frozen desserts, foods and health food drinks, the Company is a part of the everyday life of millions of consumers across India. The Company has about 21,000 employees and has sales of INR 50,000+ crores (financial year 2021-22).
Forbes rated HUL as the most innovative company in India and #8 globally. Aon Hewitt recognized HUL as one of the best companies to work for and we continue to be the 'Employer of Choice' across industries.

4.2 PURPOSE

Hindustan Unilever Limited is driven by the purpose: to make sustainable living commonplace.

With nearly 90 years of heritage in India, Hindustan Unilever Limited (HUL) is India’s largest fast-moving consumer goods company. On any given day, nine out of ten Indian households use one or more of their brands, giving them a unique opportunity to build a brighter future

4.3 HISTORY

In the year 1888, visitors to the Kolkata harbour noticed crates full of Sunlight soap bars, embossed with the words "Made in England by Lever Brothers". With it, began an era of marketing branded Fast Moving Consumer Goods (FMCG).

Lifebuoy was launched in 1895 and other brands like Pears, Lux and Vim, Vanaspati was launched in 1918 and the popular Dalda brand came to the market in 1937.

In the year 1931, , Hindustan Vanaspati Manufacturing Company, first Indian subsidiary set up, followed by Lever Brothers India Limited in 1933 and United Traders Limited in 1935. These three companies merged to form HUL in November 1956; and HUL offered 10% of its equity to the Indian public, being the first among the foreign subsidiaries to do so.

The erstwhile Brooke Bond's presence in India dates back to 1900. By 1903, the company had launched Red Label tea in the country. In 1912, Brooke Bond & Co. India Limited was formed. Brooke Bond joined the Unilever fold in 1984 through an international acquisition. The erstwhile Lipton's links with India were forged in 1898. Unilever acquired Lipton in 1972, and in 1977 Lipton Tea (India) Limited was incorporated.

Pond's (India) Limited had been present in India since 1947. It joined the Unilever fold through an international acquisition of Chesebrough Pond's USA in 1986.

Since the very early years, HUL has vigorously responded to the stimulus of economic growth. The growth process has been accompanied by judicious diversification, always in line with Indian opinions and aspirations.

The liberalization of the Indian economy, started in 1991, clearly marked an inflexion in HUL's and the Group's growth curve. Removal of the regulatory framework allowed the company to explore every single product and opportunity segment, without any constraints on production capacity.

Simultaneously, deregulation permitted alliances, acquisitions and mergers. In one of the most visible and talked about events of India's corporate history, the erstwhile Tata Oil Mills Company (TOMCO) merged with HUL, effective from April 1, 1993. In 1996, HUL and yet another Tata company, Lakmé Limited, formed a 50:50 joint venture, Lakmé Unilever Limited, to market Lakmé's market-leading cosmetics and other appropriate products of both the companies. Subsequently in 1998, Lakmé Limited sold its brands to HUL and divested its 50% stake in the joint venture to the company.

HUL had formed a 50:50 joint venture with the US-based Kimberly Clark Corporation in 1994, Kimberly-Clark Lever Ltd, which markets Huggies Diapers and Kotex Sanitary Pads.

HUL also set up a subsidiary in Nepal, Unilever Nepal Limited (UNL), and its factory represents the largest manufacturing investment in the Himalayan kingdom. The UNL factory manufactures HUL's products like Soaps, Detergents and Personal Products both for the domestic market and exports to India.

The 1990s also witnessed a string of crucial mergers, acquisitions and alliances on the Foods and Beverages front. In 1992, the erstwhile Brooke Bond acquired Kothari General Foods, with significant interests in Instant Coffee. In 1993, it acquired the Kissan business from the UB Group and the Dollops Icecream business from Cadbury India.

As a measure of backward integration, Tea Estates and Doom Dooma, two plantation companies of Unilever, were merged with Brooke Bond. Then in 1994, Brooke Bond India and Lipton India merged to form Brooke Bond Lipton India Limited (BBLIL), enabling greater focus and ensuring synergy in the traditional Beverages business. 1994 witnessed BBLIL launching the Wall's range of Frozen Desserts. By the end of the year, the company entered into a strategic alliance with the Kwality Icecream

Group families and in 1995 the Milkfood 100% Icecream marketing and distribution rights too were acquired.
Finally, BBLIL merged with HUL, with effect from January 1, 1996. The internal restructuring culminated in the merger of Pond's (India) Limited (PIL) with HUL in 1998. The two companies had significant overlaps in Personal Products, Speciality Chemicals and Exports businesses, besides a common distribution system since 1993 for Personal Products. The two also had a common management pool and a technology base. The amalgamation was done to ensure for the Group, benefits from scale economies both in domestic and export markets and enable it to fund investments required for aggressively building new categories.

In January 2000, in a historic step, the government decided to award 74 per cent equity in Modern Foods to HUL, thereby beginning the divestment of government equity in public sector undertakings (PSU) to private sector partners. HUL's entry into Bread is a strategic extension of the company's wheat business. In 2002, HUL acquired the government's remaining stake in Modern Foods.

HUL launched a slew of new business initiatives in the early part of 2000's. Project Shakti was started in 2001. It is a rural initiative that targets small villages populated by less than 5000 individuals. It is a unique win-win initiative that catalyses rural affluence even as it benefits business.

Hindustan Unilever Network, Direct to home business was launched in 2003 and this was followed by the launch of 'Pureit' water purifier in 2004.

In 2007, the Company name was formally changed to Hindustan Unilever Limited after receiving the approval of shareholders during the 74th AGM on 18 May 2007. Brooke Bond and Surf excel breached the Rs 1,000 crore sales mark the same year followed by Wheel which crossed the Rs.2,000 crore sales milestone in 2008.

On 17th October 2008 , HUL completed 75 years of corporate existence in India. In January 2010, the HUL head office shifted from the landmark Lever House, at Backbay Reclamation, Mumbai to the new campus in Andheri (E), Mumbai.

On 15th November, 2010, the Unilever Sustainable Living Plan was officially launched in India at New Delhi.

In March, 2012 HUL's state of the art Learning Centre was inaugurated at the Hindustan Unilever campus at Andheri, Mumbai.

In April, 2012, the Customer Insight & Innovation Centre (CiiC) was inaugurated at the Hindustan Unilever campus at Andheri, Mumbai

HUL completed 80 years of corporate existence in India on October 17th, 2013.

In 2013, HUL launched 'Prabhat' (Dawn) - a Unilever Sustainable Living Plan (USLP) linked program to engage with and contribute to the development of local communities around its manufacturing sites. Also, Unilever's first aerosol plant in Asia was inaugurated in Khamgaon, Maharashtra in 2013.

In 2014, The 'Winning in Many Indias' operating framework, piloted in 2013, launched nationally. Sales offices expanded from four to seven with the launch of offices in Lucknow, Indore and Bangalore in addition to the existing sales offices in Delhi, Kolkata, Mumbai and Chennai.

In 2015, HUL acquired Indulekha, a premium hair oil brand with strong credentials around Ayurveda.

HUL announced signing of an agreement for the sale and transfer of its bread and bakery business under the brand “Modern” to Nimman Foods Private Limited.

In 2016, HUL unveiled ‘Suvidha’ a first-of-its-kind urban water, hygiene and sanitation community centre in Azad Nagar, Ghatkopar, one of the largest slums in Mumbai.

A new state-of-the-art manufacturing facility was commissioned in Doom Dooma Industrial Estate, Assam on 11th March 2017.

In 2018, HUL signed an agreement with Vijaykant Dairy and Food Products Limited (VDFPL) and its group company to acquire its ice cream and frozen desserts business consisting of its flagship brand ‘Adityaa Milk’ and front-end distribution network across geographies.

In 2020, HUL announced acquisition of VWash, the market leader in female intimate hygiene category to enter the currently underpenetrated and rapidly growing market segment.

In 2020, with the Merger of GSK Consumer Healthcare with Hindustan Unilever Limited, Iconic health food drink brands – Horlicks and Boost enter the foods & refreshment portfolio of HUL, making it the largest F&R business in India.

In 2022, HUL's turnover crossed the INR 50,000 Crore mark

In July 2022, Unilever India Limited's new Home Care factory and an automated distribution centre were inaugurated in Sumerpur, Uttar Pradesh. The factory is a zero-carbon factory and Unilever South Asia's first gender-balanced factory.

4.4 PRODUCTS OFFERED BY DIFFERENT BRANDS UNDER HINDUSTAN UNILEVER LIMITED:

As of 2019, Hindustan Unilever's portfolio had 50+ product brands in 14 categories.

Food :

- Annapurna salt and Atta (formerly known as Kissan Annapurna)
- Bru coffee
- Brooke Bond (3 Roses, Taj Mahal, Taaza, Red Label) tea
- Kissan squashes, ketchups, juices and jams
- Lipton ice tea
- Knorr soups & meal makers and soupy noodles
- Kwality Wall's frozen dessert
- Hellmann's mayonnaise

- Magnum (ice cream)
- Cornetto Ice cream cone

- Horlicks (Health Drink)

Homecare :

- Active Wheel detergent
- Cif Cream Cleaner
- Comfort fabric softeners
- Domex disinfectant/toilet cleaner
- Nature Protect disinfectant surface cleaner
- Rin detergents and bleach
- Sunlight detergent and colour care
- Surf Excel detergent and gentle wash
- vim dishwashing
- Magic – Water Saver

Personal care :

- Aviance Beauty Solutions
- Axe deodorant, aftershave lotion and soap
- LEVER Ayush Therapy ayurvedic health care and personal care products
- International breeze
- Brylcreem hair cream and hair gel
- Clear anti-dandruff hair products
- Clinic Plus shampoo and oil
- Close Up toothpaste
- Dove skin cleansing & hair care range: bar, lotions, creams and anti-perspirant deodorants
- Denim shaving products
- Glow and Lovely, skin lightening cream

- Indulekha
- Lakmé beauty products and salons
- Lifebuoy soaps and handwash range
- Liril 2000 soap
- Lux soap, body wash and deodorant
- Pears soap, body wash
- Pepsodent toothpaste
- Pond's talcs and creams
- rexona
- Sunsilk shampoo
- Sure anti-perspirant
- Vaseline petroleum jelly, skincare lotions
- TRESemmé
- COME

Water purifier :

- Pureit

4.5 BOARD OF DIRECTORS

NAME	DESIGNATION
1.NITHIN PARANJPE	NON-EXECUTIVE CHAIRMAN
2.SANJIV MEHTA	CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR
3.RITESH TIWARI	EXECUTIVE DIRECTOR, FINANCE & IT AND CHIEF FINANACIAL OFFICER
4.DEV BAJPAI	EXECUTIVE DIRECTOR, LEGAL & CORPORATE AFFAIRS AND COMPANY SECRETARY
5.O.P.BHATT	INDEPENDENT DIRECTOR
6.SANJIV MISRA	INDEPENDENT DIRECTOR
7.KALPANA MORPARIA	INDEPENDENT DIRECTOR
8.LEO PURI	INDEPENDENT DIRECTOR
9.ASHISH GUPTA	INDEPENDENT DIRECTOR
10.ASHU SUYASH	INDEPENDENT DIRECTOR

4.6 MANAGEMENT COMMITTEE

NAME	DESIGNATION
1.SANJIV MEHTA	CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR
2.RITESH TIWARI	EXECUTIVE DIRECTOR, FINANCE & IT AND CHIEF FINANACIAL OFFICER
3.DEV BAJPAI	EXECUTIVE DIRECTOR, LEGAL & CORPORATE AFFAIRS AND COMPANY SECRETARY

4.ANURADHA RAZDAN	EXECUTIVE DIRECTOR, HUMAN RESOURCE
5.SRINANDAN SUNDARAM	EXECUTIVE DIRECTOR, FOOD AND REFRESHMENT
6.VIBHAV R SANZGIRI	EXECUTIVE DIRECTOR, R&D
7.KEDAR LELE	EXECUTIVE DIRECTOR, CUSTOMER DEVELOPMENT
8.MADHUSUNDHAN RAO	EXECUTIVE DIRECTOR, BEAUTY AND PERSONAL CARE
9.DEEPAK SUBRAMANIAN	EXECUTIVE DIRECTOR, HOME CARE
10.YOGESH KUMAR MISHRA	EXECUTIVE DIRECTOR, SUPPLY CHAIN

4.7 AUDIT COMMITTEE

NAME	DESIGNATION
1.O.P.BHATT	INDEPENDENT DIRECTOR
2.SANJIV MISRA	INDEPENDENT DIRECTOR
3.KALPANA MORPARIA	INDEPENDENT DIRECTOR
4.ASHISH GUPTA	INDEPENDENT DIRECTOR
5.ASHU SUYASH	INDEPENDENT DIRECTOR

CHAPTER-5

DATA AND ANALYSIS

5.1 SCHEDULE OF CHANGES IN WORKING CAPITAL

In the following statements or schedules of working capital the information relating to the changes in current natured accounts between two periods of time are presented.
It is prepared to measure the increase or decrease in the individual items of current assets and current liabilities.
It also shows the net increase or decrease in the working capital during the accounting period.

SCHEDULE OF CHANGES IN WORKING CAPITAL OF HINDUSTAN UNILEVER LIMITED

5.1.1 SCHEDULE OF CHANGES IN WORKING CAPITAL (2017 and 2018)

PARTICULARS	2017	2018	INCREASE	DECREASE
A. CURRENT ASSETS				
Current Investments				
Inventories	2362	2359		3
Investments	3519	2855		664
Trade Receivables	928	1147	219	
Cash and Cash Equivalents	572	573	1	
Bank Balance Other than Cash and Cash Equivalents	1099	2800	1701	
Other Financial Assets	306	829	523	
Other Current Assets	507	560	53	
Assets held for Sale	72	16		56

TOTAL (A)	**9365**	**11139**		
B. CURRENT LIABILITIES				
Trade Payables				
Dues to Micro and Small Enterprises	-	-		
Dues to Others	6006	7013		1007
Other Financial Liabilities	181	203		22
Other Current Liabilities	628	769		141
Provisions	387	651		264
TOTAL (B)	**7202**	**8636**		
NET WORKING CAPITAL (A-B)	2163	2503		
NET INCREASE IN WORKING CAPITAL	340			340
TOTAL	**2503**	**2503**	**2497**	**2497**

INTERPRETATION

The working capital of 2017 was 2163cr and for 2018 was 2503cr.The working capital has increased by 340cr from 2017 to 2018. In the year 2017-18, there is increase in Trade receivables by Rs.219cr, other financial assets by Rs.523cr, other current assets by Rs.53cr and decrease in current assets such as inventories by Rs.3cr, investments by Rs.664cr and assets held for sale by Rs.56cr.

There was an increase in current liabilities such as other financial liabilities by Rs.22cr, other current liabilities by Rs.141cr and provisions by Rs.264cr.

5.1.2 SCHEDULE OF CHANGES IN WORKING CAPITAL (2018 and 2019)

PARTICULARS	2018	2019	INCREASE	DECREASE
A. CURRENT ASSETS				
Current Investments				
Inventories	2359	2422	63	
Investments	2855	2693		162
Trade Receivables	1147	1673	526	
Cash and Cash Equivalents	573	574	1	
Bank Balance Other than Cash and Cash Equivalents	2800	3113	313	
Other Financial Assets	829	542		287
Other Current Assets	560	352		208
Assets held for Sale	16	4		12
TOTAL (A)	**11139**	**11373**		
B.CURRENT LIABILITIES				
Trade Payables				
Total Outstanding dues of Micro and Small Enterprises	-			
Total Outstanding Dues of Creditors other than micro	7013	7070		57

enterprises and small enterprises				
Other Financial Liabilities	203	276		73
Other Current Liabilities	769	506	263	
Provisions	651	501	150	
TOTAL (B)	**8636**	**8353**		
NET WORKING CAPITAL (A-B)	2503	3020		
NET INCREASE IN WORKING CAPITAL	517			517
TOTAL	**2503**		**1316**	**1316**

INTERPRETATION

The working capital of 2018 was Rs.2503cr and for 2019 was Rs.3020cr. The working capital has increased by Rs.517cr from 2018 to 2019. In the year 2018-19, there is increase in Trade receivables by Rs.526cr, inventories by Rs.63cr, bank balance other than cash and cash equivalents by Rs.313cr and decrease in current assets such as investments by Rs.162cr, other financial assets by Rs.287cr, other current assets by Rs.208cr and assets held for sale by Rs.12cr.

There was an increase in current liabilities such as other financial liabilities by Rs.73cr and decrease in other current liabilities by Rs.263cr and provisions by Rs.150cr.

5.1.3 SCHEDULE OF CHANGES IN WORKING CAPITAL (2019 and 2020)

PARTICULARS	2019	2020	INCREASE	DECREASE
A. CURRENT ASSETS				
Current Investments				
Inventories	2422	2636	214	
Investments	2693	1248		1445
Trade Receivables	1673	1046		627
Cash and Cash Equivalents	574	3130	2556	
Bank Balance Other than Cash and Cash Equivalents	3113	1887		1226
Other Financial Assets	542	1410	868	
Other Current Assets	352	533	181	
Assets held for Sale	4	18	14	
TOTAL (A)	**11373**	**11908**		
B.CURRENT LIABILITIES				
Trade Payables				
Total Outstanding dues of Micro and Small Enterprises	-	-		
Total Outstanding Dues of Creditors other than micro enterprises and small enterprises	7070	7399		329
Other Financial Liabilities	276	869		593

Other Current Liabilities	506	418	88	
Provisions	501	418	83	
TOTAL (B)	**8353**	**9104**		
NET WORKING CAPITAL (A-B)	3020	2804		
NET DECREASE IN WORKING CAPITAL		216	216	
TOTAL	**3020**	**3020**	**4220**	**4220**

INTERPRETATION

The working capital of 2019 was Rs.3020cr and for 2020 was Rs.2804 cr. The working capital has decreased by Rs.216cr from 2019 to 2020. In the year 2019-20, there is decrease in Trade receivables by Rs.627cr, increase in other financial assets by Rs.868cr, increase in other current assets by Rs.181cr and increase in inventories by Rs.214cr, decrease in investments by Rs.1445cr and increase in assets held for sale by Rs.14 cr.
There was an increase in current liabilities such as other financial liabilities by Rs.593cr, decrease in other current liabilities by Rs.88cr and provisions by Rs.83cr.

5.1.4 SCHEDULE OF CHANGES IN WORKING CAPITAL (2020 and 2021)

PARTICULARS	2020	2021	INCREASE	DECREASE
B. CURRENT ASSETS				
Current Investments				
Inventories	2636	3383	747	
Investments	1248	2683	1435	
Loans	-	34	34	
Trade receivables	1046	1648	602	
Cash and Cash Equivalents	3130	1740		1390
Bank Balance Other than Cash and Cash Equivalents	1887	2581	694	
Other Financial Assets	1410	1116		294
Other Current Assets	533	438		95
Assets held for Sale	18	17		1
TOTAL (A)	**11908**	**13640**		
B. CURRENT LIABILITIES				
Lease liabilities		264		264
Trade Payables				
Total Outstanding dues of Micro and Small Enterprises		64		64
Total Outstanding Dues of Creditors other than micro enterprises and small enterprises	7399	8563		1164
Other Financial Liabilities	869	892		23

Other Current Liabilities	418	567		149
Provisions	418	491		73
TOTAL (B)	**9104**	**10841**		
NET WORKING CAPITAL (A-B)	2804	2799		
NET DECREASE IN WORKING CAPITAL		5	5	
TOTAL	**2804**	**2804**	**3517**	**3517**

INTERPRETATION

The working capital of 2020 was Rs.2804cr and for 2021 was Rs.2799cr. The working capital has decreased by Rs.5cr from 2020 to 2021. In the year 2020-21, there is increase in Trade receivables by Rs.602cr, inventories by Rs.747cr, bank balance other than cash cash and equivalents by Rs.694cr and investments by Rs.1435cr, and decrease in current assets such as cash and cash equivalents by Rs.1390cr, other financial assets by Rs.294cr, other current assets by Rs.95cr and assets held for sale by Rs.1cr.

There was an increase in current liabilities such as other financial liabilities by Rs.23cr, other current liabilities by Rs.149cr and provisions by Rs.73cr.

5.1.5 SCHEDULE OF CHANGES IN WORKING CAPITAL (2021 and 2022)

PARTICULARS	2021	2022	INCREASE	DECREASE
A . CURRENT ASSETS				
Current Investments				
Inventories	3383	3890	507	
Investments	2683	3510	827	
Loans	34	34		
Trade Receivables	1648	1932	284	
Cash and Cash Equivalents	1740	988		752
Bank Balance Other than Cash and Cash Equivalents	2581	2630	49	
Other Financial Assets	1116	1070		46
Other Current Assets	438	580	142	
Assets held for Sale	17	13		4
TOTAL (A)	13640	14647		
B. CURRENT LIABILITIES				
Lease liabilities	264	285		21
Trade Payables				
Total Outstanding dues of Micro and Small Enterprises	64	56	8	
Total Outstanding Dues of Creditors other than micro enterprises and small enterprises	8563	8808		245

Other Financial Liabilities	892	823	69	
Other Current Liabilities	567	638		71
Provisions	491	334	157	
TOTAL (B)	10841	10944		
NET WORKING CAPITAL (A-B)	2799	3703		
NET INCREASE IN WORKING CAPITAL	904			904
TOTAL	3703	3703	2043	2043

INTERPRETATION

The working capital of 2021 was Rs.2799cr and for 2022 was Rs.3703cr. The working capital has increased by Rs.904cr from 2021 to 2022. In the year 2021-22, there is increase in Trade receivables by Rs.284cr, inventories by Rs.507cr, bank balance other than cash and cash equivalents by Rs.49cr, investments by Rs.827cr and other financial assets decreased by Rs.46cr. Other current assets increased by Rs142cr and assets held for sale decreased by Rs.4cr.

There was a decrease in current liabilities such as other financial liabilities by Rs.69cr, increase in other current liabilities by Rs.71cr and decrease in provisions by Rs.157cr.

5.2 RATIOS

Working capital efficiency can be measured by certain ratios.

The following ratios have relevance to the working capital.

I) Liquidity ratios.
II) Turn over ratios.
III) Working capital ratios.

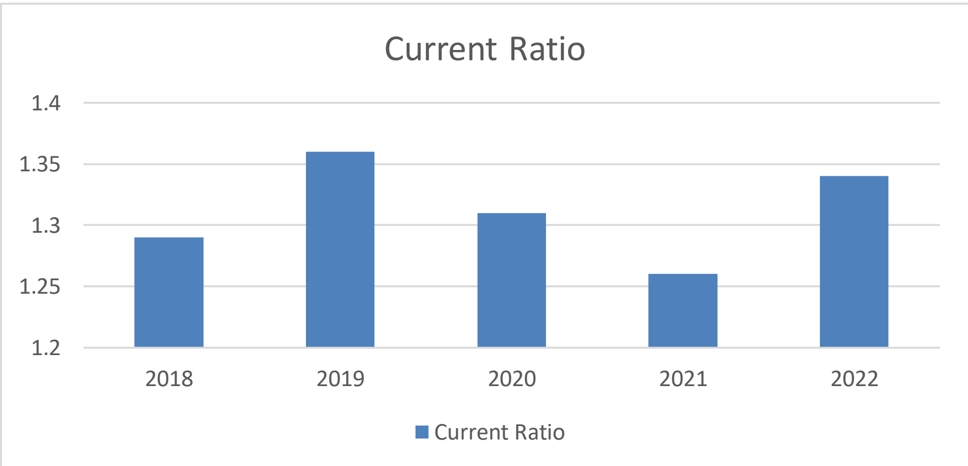
I. LIQUIDITY RATIOS

5.2.1 CURRENT RATIOS

5.2.1 TABLE CURRENT RATIOS

YEAR	CURRENT ASSET	CURRENT LIABILITY	CURRENT RATIO
2018	11139	8636	1.29
2019	11373	8353	1.36
2020	11908	9104	1.31
2021	13640	10841	1.26
2022	14647	10944	1.34

5.2.1 FIGURE CURRENT RATIO



INTERPRETATION

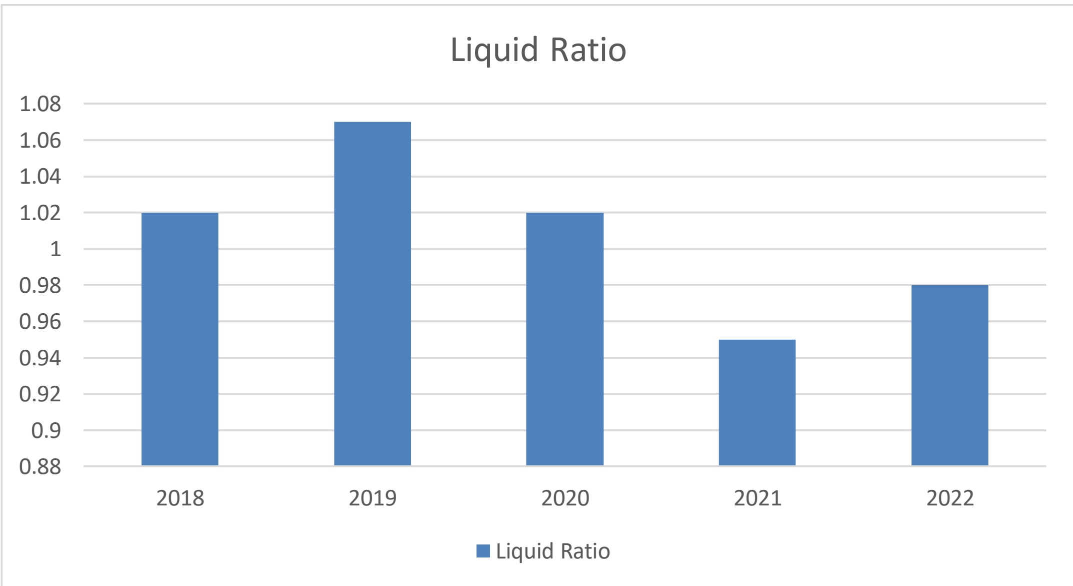
In the year 2018, the current ratio was 1.29 which increased to 1.36 in 2019.In 2020 the ratio decreased slightly to 1.31. It further decreased to 1.26 in 2021.In 2022 the ratio showed a rise to 1.34.The ideal current ratio is 2:1. Since the current ratio is below the ideal ratio in all the years, it indicates that the company doesn’t have enough current assets to cover its short term liabilities.

5.2.2 LIQUID RATIO

5.2.2 TABLE LIQUID RATIO

YEAR	LIQUID ASSETS	CURRENT LIABILITY	QUICK RATIO/LIQUID RATIO
2018	8780	8636	1.02
2019	8952	8353	1.07
2020	9272	9104	1.02
2021	10257	10841	0.95
2022	10757	10944	0.98

5.2.2 FIGURE LIQUID RATIOS



INTERPRETATION

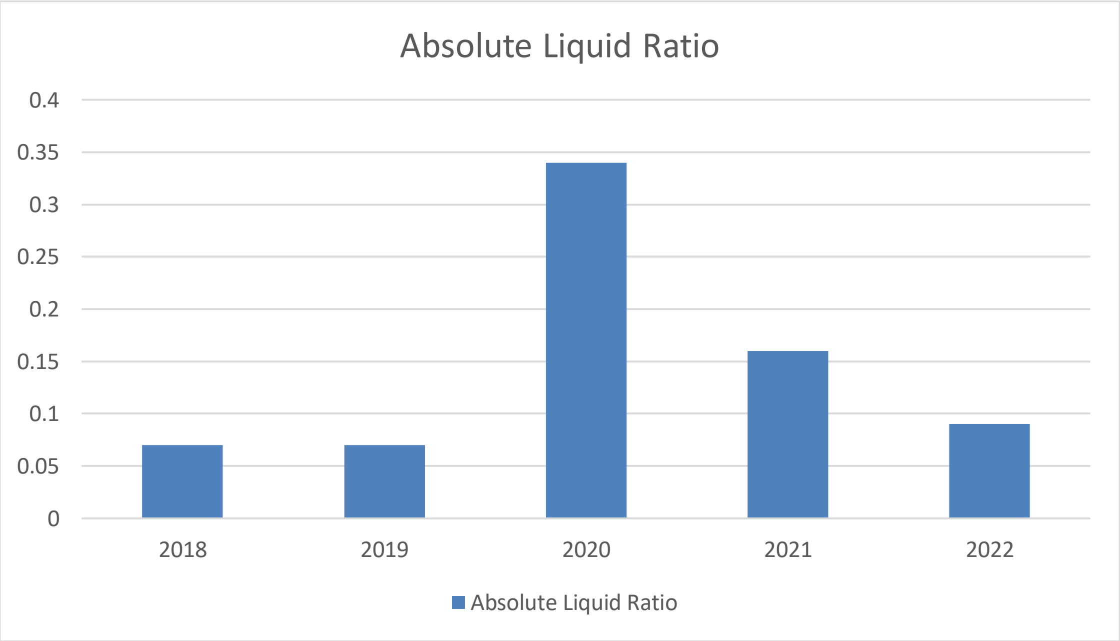
The ideal liquid ratio is 1:1. The liquid ratio of HUL is satisfactory for all the years except for the years 2021 and 2022. Liquid ratio of 0.95 and 0.98 indicates the poor liquidity position of the company. Higher liquid ratio indicates that the company is able to pay its current liabilities with quick assets.

5.2.3 ABSOLUTE LIQUID RATIO

5.2.3 TABLE ABSOLUTE LIQUID RATIOS

YEAR	ABSOLUTE LIQUI ASSETS	CURRENT LIABILITY	ABSOLUTE LIQUID RATIO
2018	573	8636	0.07
2019	575	8353	0.07
2020	3130	9104	0.34
2021	1740	10841	0.16
2022	988	10944	0.09

5.2.3 FIGURE ABSOLUTE LIQUID RATIO



INTERPRETATION

The ideal absolute liquid ratio is 1:2 or 0.5:1. A business with an absolute liquidity ratio of 0.5 or over 0.5 indicates that it is thriving. All the ratios of HUL are below the standard of the ideal ratio.

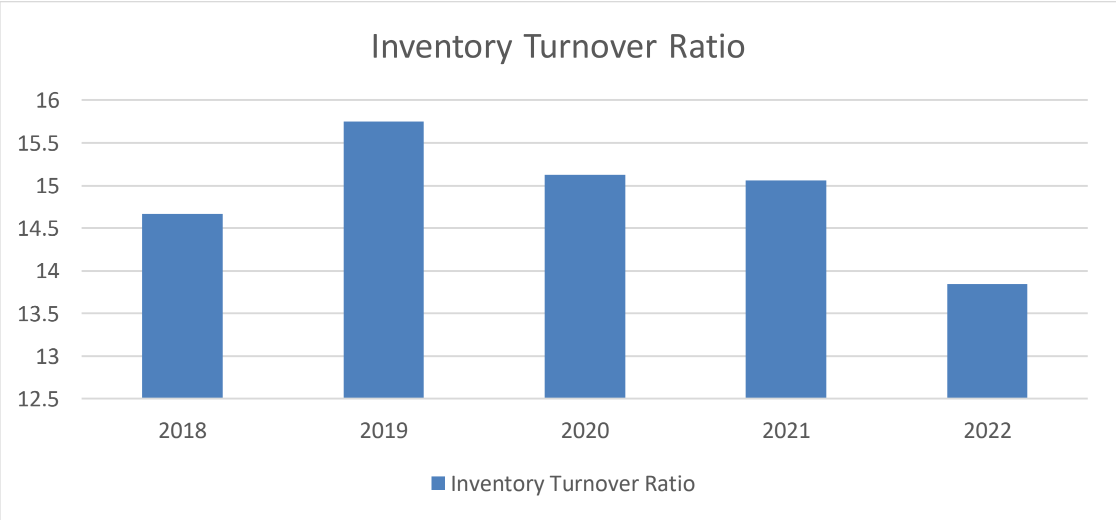
II. TURNOVER RATIOS

A. INVENTORY TURNOVER RATIO

5.2.4 TABLE INVENTORY TURNOVER RATIO

YEAR	COST OF REVENUE FROM OPERATIONS	AVERAGE INVENTORY	INVENTORY TURNOVER RATIO
2018	34619	2360.5	14.67
2019	37660	2390.5	15.75
2020	38273	2529	15.13
2021	45311	3009.5	15.06
2022	50336	3636.5	13.84

5.2.4 FIGURE INVENTORY TURNOVER RATIO



INTERPRETATION

The table shows that the inventory turnover ratio of HUL was highest in the financial year 2018-2019 which was 15.75 and lowest in the financial year 2021-2022 which was 13.84. The inventory turnover ratio was 14.67 in the financial year 2017-2018 and then slightly increased to 15.13 in the year 2019-2020 and decreased to 15.06 in the year 2020-2021.

B. TRADE RECIEVABLES TURNOVER RATIO

5.2.5 TABLE TRADE RECIEVABLES TURNOVER RATIOS

YEAR	**NET CREDIT REVENUE FROM OPERATIONS**	**AVERAGE TRADE RECEIVABLES**	**TRADE RECIEVABLES TURNOVER RATIO**
2018	35218	1037.5	33.95
2019	38224	1410	27.11
2020	38785	1359.5	28.53
2021	45996	1347	34.15
2022	51193	1790	28.59

5.2.5 FIGURE TRADE RECIEVABLES TURNOVER RATIOS

INTERPRETATION

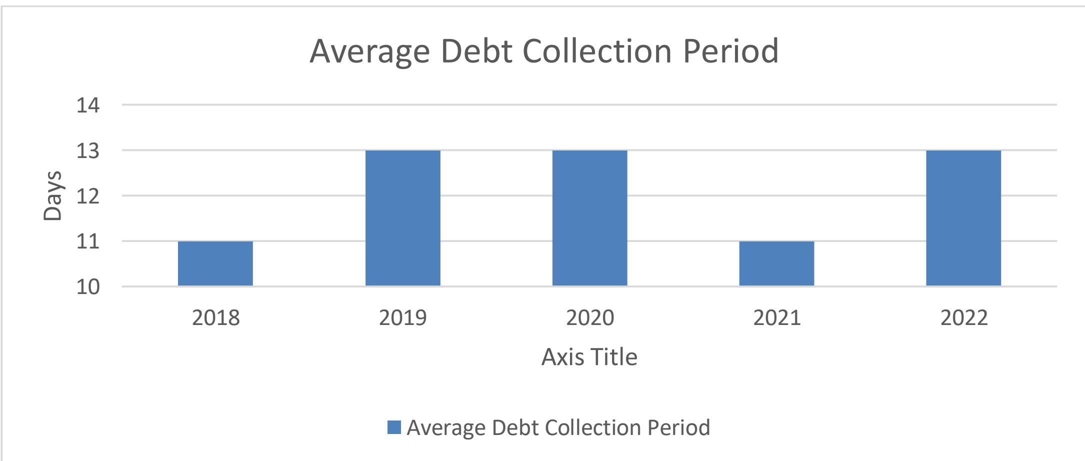
The trade receivables turnover ratio of HUL was highest in the year 2020-21. It was lowest in the year 2018-19. A high receivables turnover ratio indicates that the company's collection on accounts receivable is efficient and that the business has a high proportion of customers who make their payments quickly in order to write off the debts.

AVERAGE DEBT COLLECTION PERIOD

TABLE AVERAGE DEBT COLLECTION PERIOD

YEAR	NO OF DAYS	DEBTORS TURNOVER RATIO	AVERAGE DEBT COLLECTION PERIOD
2018	365	33.95	11 days
2019	365	27.11	13 days
2020	365	28.53	13 days
2021	365	34.15	11 days
2022	365	28.59	13 days

FIGURE AVERAGE DEBT COLLECTION PERIOD



INTERPRETATION

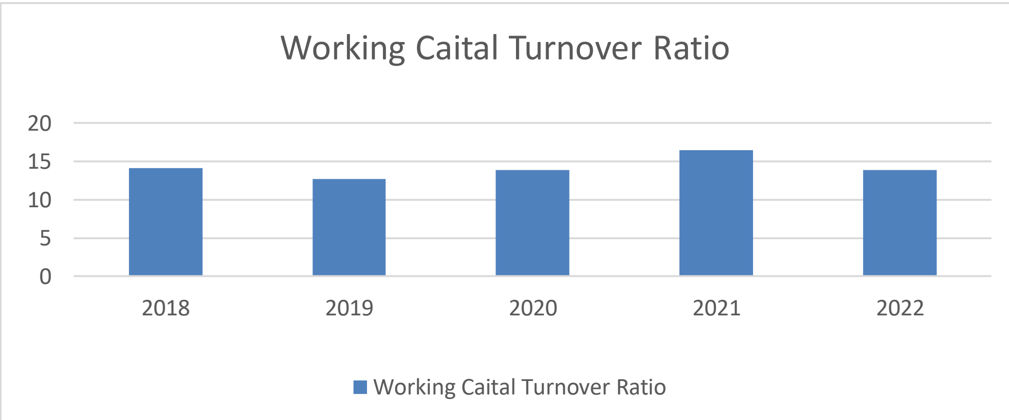
This table indicates the number of days the customers take on an average to pay their invoices for credit sales. A high debt collection period could indicate trouble with cash flows. The average debt collection period of HUL is 13 days in the years2018-2019, 2019-2020 and 2021-2022.

C.WORKING CAPITAL TURNOVER RATIO

5.2.6 TABLE WORKING CAPITAL TURNOVER RATIOS

YEAR	REVENUE FROM OPERATIONS	NET WORKING CAPITAL	WORKING CAPITAL TURNOVER RATIO
2018	35218	2503	14.07
2019	38224	3020	12.65
2020	38785	2804	13.83
2021	45996	2799	16.43
2022	51193	3703	13.82

5.2.6 FIGURE WORKING CAPITAL TURNOVER RATIOS



INTERPRETATION

A high ratio usually implies the efficient utilization of working capital. There hasn't been any drastic changes in the working capital ratio of HUL during the five years. The ratio was the highest in the year 2020-21.

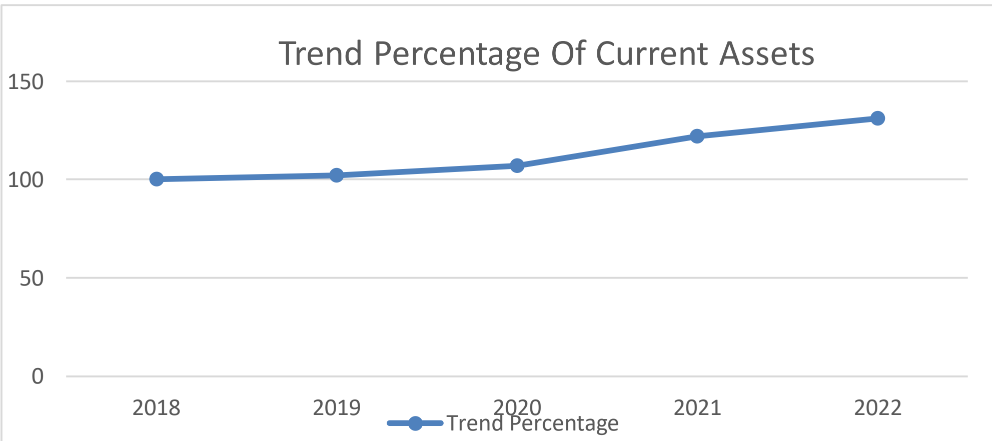
5.3 TREND ANALYSIS

A. TREND ANALYSIS OF CURRENT ASSETS

5.3.1 TABLE TREND PERCENTAGES OF CURRENT ASSETS (BASE YEAR – 2018)

YEAR	CURRENT ASSETS	TREND PERCENTAGE
2018	11139	100
2019	11373	102
2020	11908	107
2021	13640	122
2022	14647	131

5.3.1 FIGURE TREND PERCENTAGE OF CURRENT ASSETS



INTERPRETATION

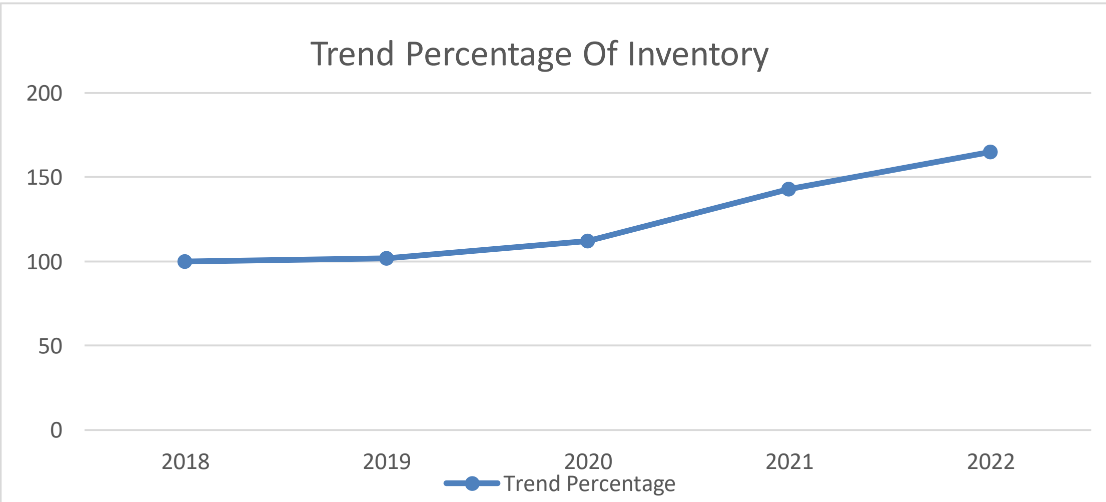
In the above graph we can see that the current assets show an upward trend. It gradually kept increasing from 100 in the year 2017-18 to 107 in the year 2019-20. It was followed by a sharp increase to 122 in the year 2020-21 which again increased to 131 in the year 2021-22.

B. TREND ANALYSIS OF INVENTORY

5.3.2 TABLE TREND PERCENTAGES OF INVENTORY (BASE YEAR – 2018)

YEAR	INVENTORY	TREND PERCENTAGE
2018	2359	100
2019	2422	102
2020	26361	112
2021	3383	143
2022	3890	165

5.3.2 FIGURE TREND PERCENTAGE OF INVENTORY



INTERPRETATION

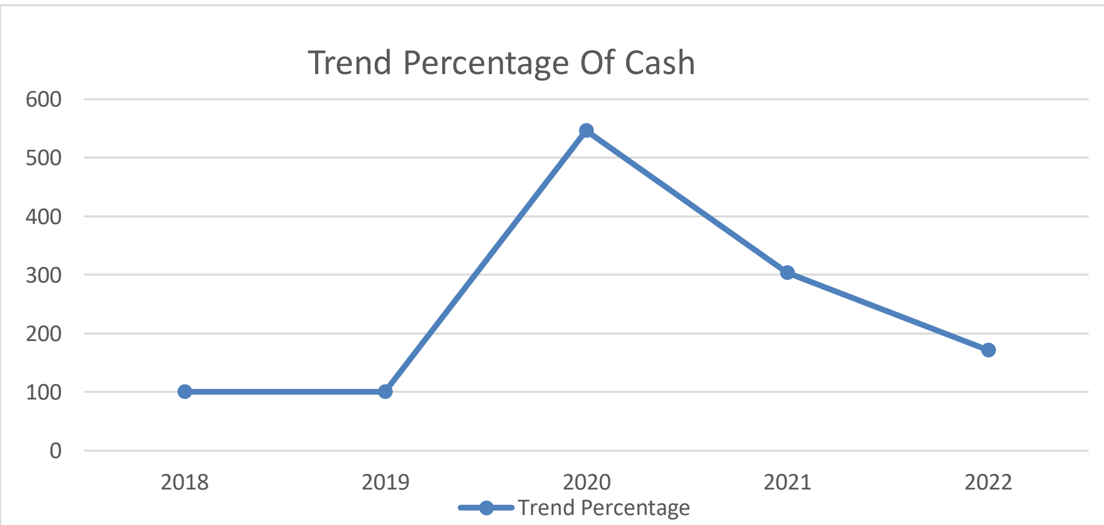
From the graph it can be seen that the inventory hasn't shown drastic fluctuations during the first three years. In the year 2020-21 it showed a sharp increase from 112 to 143 which further increased to 165 in 2021-22.

C. TREND ANALYSIS OF CASH

5.3.3 TABLE TREND PERCENTAGES OF CASH (BASE YEAR – 2018)

YEAR	CASH	TREND PERCENTAGE
2018	573	100
2019	574	100.1
2020	3130	546
2021	1740	304
2022	988	172

5.3.3 FIGURE TREND PERCENTAGE OF CASH



INTERPRETATION

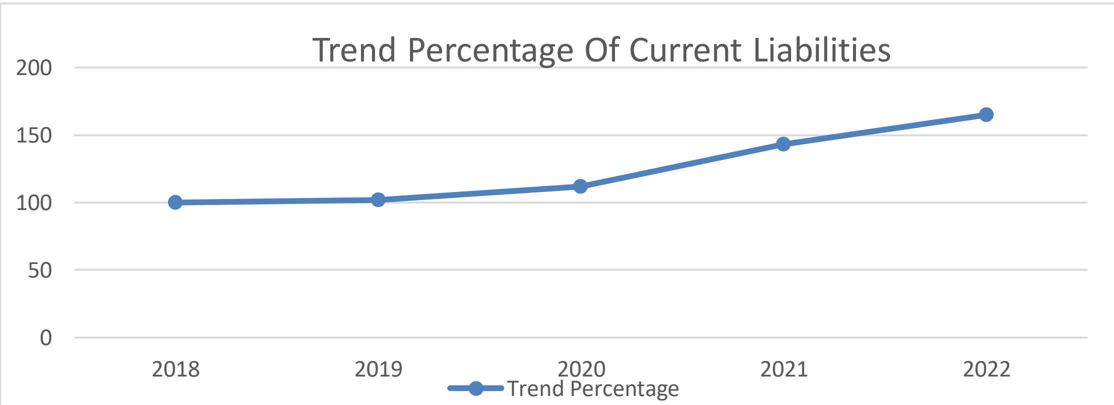
From the graph we can say that the cash has not increased during the first two years after which it drastically increased from 100 % to 546% in the year 2019-20. The cash level declined in the year 2020-21 from 546% to 304% which further declined to 172% in 2021-22.

D.TREND ANALYSIS OF CURRENT LIABILITIES

5.3.4 TABLE TREND PERCENTAGES OF CURRENT LIABILITIES (BASE YEAR – 2018)

YEAR	CURRENT LIABILITIES	TREND PERCENTAGE
2018	8636	100
2019	8353	97
2020	9104	105
2021	10841	126
2022	10944	128

5.3.4 FIGURE TREND PERCENTAGE OF CURRENT LIABILITIES



INTERPRETATION

From a fall in the year 2018-19, the graph the current liabilities show a steady increase in the last three years.

CHAPTER -6

FINDINGS, SUGGESTIONS AND CONCLUSIONS

5.1 FINDINGS

The study was about the working capital management of Hindustan Unilever Limited. The study was undertaken with the objective to analyze and interpret efficiency of the company in the management of its working capital. Ratio analysis and its interpretation, preparation of statement of changes in working capital and trend analysis was done for the purpose of this study. The important findings of this study are stated below:

- The working capital has increased from 2017 to 2018. In the year 2017-18, there is increase in trade receivables, other financial assets, other current assets and decrease in inventories, investments and assets held for sale.
  There was an increase in current liabilities such as other financial liabilities by, other current liabilities and provisions.

- The working capital has increased from 2018 to 2019. In the year 2018-19, there is increase in trade receivables, inventories, bank balance other than cash and cash equivalents and decrease in investments, other financial assets, other current assets and assets held for sale. There was an increase in current liabilities such as other financial liabilities and decrease in other current liabilities and provisions.

- The working capital has decreased from 2019 to 2020. In the year 2019-20, there is decrease in trade receivables, increase in other financial assets, increase in other current assets and increase in inventories, decrease in investments and increase in assets held for sale. There was an increase in current liabilities such as other financial liabilities, decrease in other current liabilities and provisions.

- The working capital has decreased from 2020 to 2021.In the year 2020-21, there is increase in trade receivables, inventories, bank balance other than cash and equivalents and investments, and decrease in cash and cash equivalents, other financial assets, other current assets and assets held for sale. There was an increase in current liabilities such as other financial liabilities, other current liabilities and provisions.

- The working capital has increased from 2021 to 2022. In the year 2021-22, there is increase in trade receivables, inventories, bank balance other than cash and cash equivalents, investments and other financial assets decreased. Other current assets increased and assets held for sale decreased. There was a decrease in current liabilities such as other financial liabilities, increase in other current liabilities and decrease in provisions.

- It was found that the current ratio of HUL in all the years are below the standard of 2:1. Since the current assets are greater than current liabilities
then the ratio is greater than 1:1 which is a desirable situation to be in. Therefore, the position of the company is satisfactory but not safe. 2018-19 showed the highest current ratio which was 1.36.

- The liquid ratio of HUL is satisfactory for all the years except for the years 2020-21 and 2021-22. The liquid ratio of these years indicates the poor liquidity position of the company.

- The ideal absolute liquid ratio is 0.5:1. Since, the absolute liquid ratio of HUL for all the years are below the standard, the position of the company is not safe at all.
- Inventory turnover ratio of HUL was highest in the financial year 2018-19 and lowest in the year 2021-22. Generally, a low ratio indicates bad sales or surplus inventory and higher ratio indicates better sales.
- The trade receivables turnover ratio of HUL was highest in the year 2020-21 and lowest in 2018-19. A higher ratio is more favorable. A low ratio is a sign of bad debt collecting methods.
- The average debt collection period of HUL is 13 days in the years 2018-19, 2019-20, and 2021-22 which was the highest. The lowest is 11 days which was seen in
-

the year 2017-18 and 2020-21. High debt collection period indicates trouble with cash flows.

- There haven't been any drastic changes in the working capital ratio of HUL during the 5 years. It was highest in the year 2021, which implies better utilization of working capital.
- Current assets of HUL shows an upward trend during the five years.
- Inventory of HUL hasn't shown drastic fluctuation during the first three years which later showed a sharp increase in the consequent years.
- Cash has not increased during the first two years after which it drastically increased. Later it declined.
- Current liabilities if HUL showed a steady increase in the last three years.

5.2 SUGGESTIONS

1. The current ratio of the company was below the standard of 2:1 in all the years. In order to maintain the standard, the company has to either increase the current asset or decrease the current liability. For example, by increasing current investments, settling trade payables etc.
2. The liquid ratio of the company attained the ideal ratio in the last two years. But, in the first three years the ratio was not satisfactory. Therefore, the company should either increase its quick assets or decrease its current liabilities.
3. The absolute liquid ratio of HUL is below the standard of 0.5:1 in all the years. Therefore, the company should decrease current assets or improve its cash position.
4. The cash position of the company can be improved by selling off unproductive assets which will lead to better liquidity position.
5. The inventory turnover can be increased through sales forecasting, trying a new marketing strategy, improving the accuracy of demand forecasting etc.
6. Working capital is important for meeting day to day expenses. There is a net increase in working capital in all the years except in the years 2019-20 and 2020-21.

5.3 CONCLUSION

Working capital is the life blood of a company. It is the prime and most essential requirement for carrying out the day-to-day operations of the business. It ensures liquidity in the business.

The study on working capital management conducted in Hindustan Unilever Ltd was to analyze the working capital position of the company. It was undertaken with main objective of studying the working capital management and liquidity position using ratio analysis and statement of working capital changes. The study was undertaken to analyze and interpret the efficiency of the company in working capital management. The working capital position of the company is analyzed by using the financial statements of five years, i.e. from 2017-18 to 2021-22.

After analyzing the financial data, we can conclude that overall financial performance is satisfactory. The liquidity position analyzed through the various liquidity ratios showed that the company has attained the ideal ratio in the last two years and has thus improved. In the year 2021-22 the working capital position is satisfactory. Thus, this study helped as to know more about working capital management of Hindustan Unilever Limited over the last 5 years.

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BOOKS

Management Accounting by Dr. Jayan

APPENDIX

BALANCE SHEET

PARTICULARS	22	21	20	19	18
EQUITY AND LIABILITIES					
Equity					
Equity share capital	235	235	216	216	216
Other equity	48525	47199	7815	7443	6859
TOTAL EQUITY (A)	48760	47434	8031	7659	7075
Liabilities					
Non-current liabilities					
Financial liabilities					
Lease liability	686	679			
Other financial liabilities	329	266	853	360	115
Provisions	1553	1551	1198	1049	772
Deferred tax liabilities(net)	6141	5986			
Non-current tax liabilities(net)	1324	1359	416	444	384
Other non-current liability					167
TOTAL NON CURRENT LIABILITIES(B)	10033	9841	2467	1853	1438
Current liabilities					
Financial liabilities					
Lease liabilities	285	264			
Trade payable					
Total outstanding dues of micro and small enterprises	56	64			
Total outstanding dues of creditors other than micro and small enterprises	8808	8563	7399	7070	7013
Other financial liabilities	823	892	869	456	203
Other current liabilities	638	567	418	326	769
Provisions	334	491	418	501	651

TOTAL CURRENT LIABILITIES	10944	10841	9104	8353	8636
TOTAL EQUITY AND LIABILITY{(A)+(B)+(C)}	69737	68116	19602	17865	17149
ASSETS					
Non-current assets					
Property, plant and equipment	5813	5786	4625	3907	3776
Capital work-in-progress	901	623	513	373	430
Goodwill	17316	17316	36	36	
Other intangible assets	27905	27925	395	400	366
Financial assets					
Investments in subsidiaries, associates and joint venture	610	310	250	254	254
Investments	2	2	2	2	2
Loans	541	385	453	396	404
Other financial assets	720	748	3	11	6
Non-current tax assets (net)	1107	1200	1016	619	439
Other non-current assets	175	181	140	154	78
Deferred tax asset(net)			261	339	255
Total – Non-current assets (A)	55090	55476	7694	6491	6010
Current assets					
Inventories	3890	3383	2636	2422	2359
Financial assets					
Investments	3510	2683	1248	2693	2855
Loans	34	34			
Trade receivables	1932	1648	1046	1673	1147
Cash and cash equivalents	988	1740	3130	575	573
Bank balances other than cash and cash equivalents mentioned above	2630	2581	1887	3113	2800
Other financial assets	1070	1116	1410	542	829
Other current assets	580	438	533	352	560
Assets held for sale	13	17	18	4	16

Total – Current assets (B)	14647	13640	11908	11374	11139
TOTAL ASSETS [(A) + (B)]	69737	68116	19602	17865	17149

STATEMENT OF PROFIT AND LOSS

Particulars	**22**	**21**	**20**	**19**	**18**
INCOME					
Revenue from operations	51193	45996	38785	38224	35218
Other income	393	513	733	664	569
Total Income	51586	46509	39518	38888	35787
EXPENSES					
Cost of materials consumed	15869	14951	11572	13240	12491
Purchases of Stock-in-Trade	9274	7117	6342	4708	3812
Changes in inventory of finished goods (including stock-in-trade) and work-in-progress	(19)	(391)	(121)	12	(71)
Excise Duty					693
Employee benefits expenses	2399	2229	1691	1747	1745
Finance costs	98	108	106	28	20
Depreciation and Amortization expenses	1025	1012	938	524	478
Other expenses	11167	10766	9701	9880	9272
Total Expenses	39813	35792	30229	30139	28440
Profit before exceptional items and tax	11773	10717	9289	8749	7347
Exceptional Items	(34)	(227)	(197)	(227)	(62)
Profit before Tax	11739	10490	9092	8522	7285
Tax expenses					
Current tax	(2778)	(2458)	(2202)	(2565)	(2148)
Deferred tax credit/(charge)	(143)	(78)	(152)	79	100
Profit for the year	8818	7954	6738	6036	5237