

A Comparative Analysis of Hindustan Unilever Limited and Colgate-Palmolive (India) Limited in Fast Moving Consumer Goods Sector

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Abstract: *The fast moving consumer goods industry is the fourth largest in the Indian economy and a CAGR of 27.9% is projected for this market to reach \$103.7 billion by 2020 and \$220 billion by 2025. It is the purpose of this study to provide a comparative analysis of Hindustan Unilever Limited and Colgate-Palmolive, assessing their financial statements, strengths, and weaknesses so that appropriate economic decisions can be made for the future and for today. Different accounting tools are used to analyze the company's performance - comparative balance sheet, SWOT analysis, and ratio analysis. Secondary data analysis is used to complete the overall study. It examines the financial position of both companies based on the findings of the study*

Keywords: Financial Statement, Analysis of ratios and FMCG Sector

I. INTRODUCTION

Hindustan Unilever Limited is India's largest fast-moving consumer goods (FMCG) company with a Historical presence in India of over 80 years. It is the largest in the list of top 5 FMCG companies in India and annual revenues in excess of 40,511 Cr. Nine Out of ten Indian households use one or more of HUL Brands. Divisions – Home Care, Beauty & Personal Care and Foods and Refreshment – includes a portfolio of brands that serve consumers across the length and breadth of India.

Colgate-Palmolive is India's largest fast-moving consumer goods (FMCG) company with a Historical presence in India of over 216 years. It is the largest in the list of top 10 FMCG companies in India and annual revenues in excess of US\$17.421 Billion. Colgate-Palmolive (India) Limited is India's leading provider of scientifically proven oral care products. The range includes toothpastes, toothpowder, toothbrushes and mouthwashes under the 'Colgate' brand, as well as specialized range of dental therapies under the banner of Colgate Oral Pharmaceuticals.

STATEMENT OF THE PROBLEM

There is huge competition among existing firms in the fast moving consumer goods sector, with giants like HUL and Colgate-Palmolive taking the lead. These companies can easily reach a global audience through online sales, but new competitors have become a problem in this growing market because consumers now have a variety of brands to choose from, which harms FMCG companies. In this study, we analyse past period statements to see how these threats affect the financial performance of the companies

OBJECTIVES OF THE STUDY

- To examine the financial performance of the two successful FMCG companies HUL and Colgate-Palmolive by using Comparative Balance sheet.
- To Examine the marketing strategies of selected companies using SWOT analysis.
- In order to evaluate the liquidity position of a firm through the analysis of ratios.

II. LITERATURE REVIEW

Deloof (2003), investigated the impact of working capital management on firm profitability. It found that big companies invest a lot in working capital. As a result, it is very important for the company to manage its working capital as it will have an impact on its financial performance. A correlation analysis and regression analysis were used in his study. Among the companies, gross operating income was found to be negatively correlated with bills receivable, bills payable, and inventories.

Paul (2011), an analysis of NBFCs' financial performance was conducted. In his study of NBFCs, he compared them. As a result of his analysis, he found the selected companies to be in good financial health for the particular time period.

A.Serma Saravana Pandian, M.Prabu, et.al (2013). In order to develop a strategic plan for the dairy sector in Tamil Nadu, we examined its strengths and weaknesses. During the SWOT analysis, suggestions for improvement were made. In addition to implementing programs for this sector over the years, the central government and the states have also taken steps to improve it.

Habiba Abbasi (2014), in order to find out, we investigated a comparative analysis was made between HUL and ITC. As one of the most important aspects of financial statements, ratio analysis has been used to evaluate many aspects of the operating and financial performance of FMCG companies, including efficiency, liquidity, and profitability. A comparison of HUL and ITC is conducted in the present study. As a result of the overall comparison between HUL and ITC, HUL remains the country's largest FMCG company. There are a variety of businesses at ITC, but cigarettes are its most important segment. In comparison to HUL, ITC has earned the most in cash with its cash-generating cigarettes business.

Patjoshi (2016). The study looks at the financial performance of two major aluminium companies based in India, namely HINDALCO and NALCO. A ten-year period from 2005-06 to 2014-15 is used to analyze financial performance of HINDALCO and NALCO. The financial performance of HINDALCO and NALCO was examined using multiple financial ratios and t-tests.

SCOPE OF THE STUDY

It has been found that FMCG companies contribute the most to the Indian economy, so studying these patterns, as well as financial tools such as Ratio Analysis, SWOT Analysis, Product Life Cycle, etc, has developed an objective for the industry. A critical analysis of the sector is presented in this study, along with future prospects.

SIGNIFICANCE OF THE STUDY

Hindustan Unilever (India) Limited and Colgate (India) Limited are two of the most prominent companies in the rapidly expanding consumer goods sector. A comparative analysis of these two companies is essential in order to gain an understanding of the competitive landscape of the industry. This study can provide investors, market analysts and business strategists with essential information to make informed decisions regarding investment opportunities, market developments and growth prospects. Furthermore, it can help these companies to refine their strategies, product offers and market positioning in order to remain competitive and meet consumer requirements. This research is a valuable source of insight into the dynamics of the fast-growing consumer goods sector in India, allowing for evidence-based decisions and promoting innovation and growth for these prominent companies.

HYPOTHESIS OF THE STUDY

H₀: There is no significant linear relationship between any of the independent variables (CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER) and the dependent variable (Return on Capital).

H₁: There is significant linear relationship between any of the independent variables (CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER) and the dependent variable (Return on Capital).

III. RESEARCH METHODOLOGY

Hindustan Unilever Limited and Colgate-Palmolive (India) Limited financial statements are used for the analysis. Hindustan Unilever Limited and Colgate-Palmolive (India) Limited provided the secondary data used in this paper, derived from their official websites (www.hul.co.in and www.colgatepalmolive.com). As a result of the study, Hindustan Unilever Limited and Colgate-Palmolive (India) Limited are investigated for a period of 5 years, that is, from April 2017 to March 2022. Companies use ratio analysis to determine their efficiency and solvency status. A comparative statement is used to analyze financial performance.

TOOLS

- An analysis of the comparative balance sheet.
- The ratio analysis and Analysis of Linear Regression.

LIMITATIONS OF THE STUDY

- In order to generate secondary data, a small sample was used.
- As a result, the situation changes and the validity of the findings is affected.
- A secondary research takes longer than a primary research.

IV. ANALYSIS AND INTERPRETATION

COMPARATIVE BALANCE SHEET OF HINDUSTAN UNILEVER LIMITED

PARTICULARS	ABSOLUTE CHANGE (In Crores)					PERCENTAGE CHANGE (In Crores)				
	2017-18	2018-19	2019-20	2020-21	2021-22	2017-18	2018-19	2019-20	2020-21	2021-22
EQUITY AND LIABILITIES										
Shareholders fund	7075.00	7659.00	8031.00	47734.00	48760.00	9.01	18.01	23.74	630.88	651.31
Non-Current Liabilities	1438.00	1853.00	2467.00	9841.00	10033.00	35.79	74.98	132.96	829.27	847.40
Current Liabilities	8636.00	8353.00	9104.00	10841.00	10944.00	9.91	19.91	26.41	50.53	51.96
TOTAL	17149.0	17865.0	19602.0	68116.00	69737.0	16.26	21.11	32.89	361.77	372.76
ASSETS										
Current Assets	11139.0	11374.0	11908.0	13640.00	14647.0	18.94	21.46	27.15	45.65	56.40
Non-Current Assets	6010.00	6491.00	7694.00	54747.0	55090.0	11.59	20.52	42.85	911.44	922.84
TOTAL	17149.0	17865.0	19602.0	68116.00	69737.0	16.26	21.11	32.89	361.77	372.76

COMPARATIVE BALANCE SHEET OF COLGATE-PALMOLIVE (INDIA) LIMITED

PARTICULARS	ABSOLUTE CHANGE (In Crores)					PERCENTAGE CHANGE (In Crores)				
	2017-18	2018-19	2019-20	2020-21	2021-22	2017-18	2018-19	2019-20	2020-21	2021-22
EQUITY AND LIABILITIES										
Shareholders fund	1524.61	1446.75	1594.16	1165.86	1734.68	19.69	13.58	25.17	-8.47	36.18
Non-Current Liabilities	56.46	128.63	139.51	110.20	84.68	3.98	136.89	156.92	102.95	55.95
Current Liabilities	982.79	1051.10	870.30	1617.95	1082.47	0.02	6.98	-11.42	64.67	10.17
TOTAL	2563.86	2626.48	2603.97	2894.01	2901.83	10.96	13.67	12.69	25.25	25.59
ASSETS										
Current Assets	1060.72	1010.16	1012.03	1372.58	1482.86	23.97	18.06	18.28	60.42	73.31

Non-Current Assets	1503.14	1616.32	1591.94	1521.43	1418.97	3.31	11.08	9.41	4.56	-2.48
TOTAL	2563.86	2626.48	2603.97	2894.01	2901.83	10.96	13.66	12.69	25.25	25.59

RATIO ANALYSIS OF HINDUSTAN UNILEVER LIMITED

	CURRENT RATIO	LIQUID RATIO	OPERATING RATIO	GROSS PROFIT	NET PROFIT	ASSET TURNOVER	RETURN ON CAPITAL
2017	0.96	0.99	19.76	18.04	13.02	8.70	94.42
2018	0.92	1.02	22.10	19.69	14.87	7.06	102.53
2019	1.03	1.07	23.74	21.22	15.79	6.81	113.29
2020	1.14	1.02	26.13	22.33	17.37	5.82	114.67
2021	0.85	0.95	25.24	22.41	17.29	1.49	38.36
2022	0.66	0.98	25.12	22.42	17.23	0.94	22.66

RATIO ANALYSIS OF COLGATE-PALMOLIVE (INDIA) LIMITED

	CURRENT RATIO	LIQUID RATIO	OPERATING RATIO	GROSS PROFIT	NET PROFIT	ASSET TURNOVER	RETURN ON CAPITAL
2017	0.83	0.57	22.87	15.1	14.50	3.66	72.42
2018	0.94	0.85	24.91	13.2	16.07	2.99	69.08
2019	0.99	0.72	27.47	12.1	17.37	2.71	73.98
2020	1.03	0.82	27.64	24.56	18.04	2.51	63.89
2021	0.96	0.64	31.81	32.89	21.38	2.52	89.42
2022	1.06	1.04	31.22	32.97	21.14	2.33	90.60

From the above table, it appears that Marico's current ratio is highest at 2.454 times in 2018 and lowest at 1.90 times in 2016. For Britannia, the current ratio is highest with 2.80 times in the year 2020, and lowest with 1.05 times in the year 2016-2017. Marico's liquid ratio is highest with 1.29 times in the year 2020 and lowest with 0.9 times in 2015-2016. According to Britannia, the liquid ratio is highest in the year 2018-2019 and lowest in the year 2016-2017. It is shown in the above table that Marico's operating profit ratio was the highest (21.77%) in the year 2020 and the lowest (19.02%) in the year 2016. In Britannia, the operating profit ratio is highest with 19.16% in the year 2020 and lowest with 13.95% in the year 2015-2016. As shown in the above table, Marico's gross profit ratio was highest in the year 2015-2016 with 57.24% and lowest in the year 2018 with 37.52. For Britannia, the gross profit ratio is highest in the year 2019 at 54.83% and lowest in the year 2017 at 51.87%. According to the above table, Marico's turn on capital employed is the highest with 49.51% for 2019-2020 and lowest with 44.86% for 2019. According to Britannia, its return on capital employed is highest in 2014-2015 at 79.4% and lowest in 2020 at 41.80%. As shown in the above table, Britannia has the highest asset turnover with 2.81 for the year 2015-2016 and the lowest with 1.48 for the year 2012. For Marico, the asset turnover is highest in 2014-2015 with 1.77 and lowest in 2020 with 1.52. According to this table, Marico has the highest net profit ratio of 15.22 for the year 2019 and the lowest net profit ratio of 12.49 for the year 2015. According to Britannia, the highest net profit ratio is 11.72% for the year 2020 and the lowest is 8.66% for the year 2015.

Analysis of Linear regression

Null Hypothesis (H0): There is no significant linear relationship between any of the independent variables (CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER) and the dependent variable (Return on Capital).

Result of a linear regression analysis. Model Fit Measures:

Overall Model Test: This section provides information about the overall fit of the regression model.

R (Multiple Correlation Coefficient): This indicates the strength of the linear relationship between the dependent variable (Return on Capital) and the independent variables (CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER). An R-value of 0.96 suggests a strong positive relationship.

R² (Coefficient of Determination): This represents the proportion of variance in the dependent variable that can be explained by the independent variables. An R² of 0.921 indicates that approximately 92.1% of the variance in Return on Capital is explained by the independent variables.

F (F-statistic): This is a test statistic used to determine whether the overall regression model is statistically significant. In this case, the F-value is 31.3, and the associated p-value is less than 0.001, indicating that the model is statistically significant.

Model Coefficients - Return on Capital:

This section provides information about the coefficients of the independent variables in the regression model.

Intercept: The intercept represents the estimated value of the dependent variable (Return on Capital) when all independent variables are set to zero. In this case, it is -125.62. It is statistically significant ($p = 0.004$).

CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER: These are the coefficients associated with the respective independent variables. They represent the change in the dependent variable for a one-unit change in the independent variable. For example, a one-unit increase in CURRENT RATIO is associated with an estimated increase of 48.16 in Return on Capital. OPERATING RATIO and ASSET TURNOVER also have statistically significant coefficients.

Data Summary - Cook's Distance:

Cook's Distance is a measure of the influence of each data point on the regression model. It helps identify potential outliers.

The range of Cook's Distance values is from 0.0361 to 0.141, suggesting that there are data points with varying degrees of influence on the model.

Assumption Checks:

These are tests to check if the assumptions of linear regression are met.

Normality Tests:

These tests assess whether the residuals (the differences between observed and predicted values) are normally distributed.

Shapiro-Wilk, Kolmogorov-Smirnov, and Anderson-Darling tests show p-values greater than 0.05, suggesting that the residuals follow a normal distribution. This is a positive sign for the normality assumption.

Heteroskedasticity Tests:

These tests check for the presence of heteroskedasticity, which means that the variance of the residuals is not constant across all values of the independent variables.

The Breusch-Pagan, Goldfeld-Quandt, and Harrison-McCabe tests have p-values greater than 0.05, indicating that heteroskedasticity is not a significant concern.

Durbin-Watson Test for Autocorrelation:

This test checks for autocorrelation, which is the correlation of the residuals at different time intervals.

The Durbin-Watson statistic is 1.71, and the associated p-value is 0.22, suggesting no significant autocorrelation.

Collinearity Statistics:

These statistics assess multicollinearity, which is the extent to which independent variables are correlated with each other.

The Variance Inflation Factor (VIF) values for CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER are provided. VIF values below 5 are generally considered acceptable, indicating that multicollinearity is not a significant concern in this model.

In summary, the regression model appears to be a good fit for the data, with strong explanatory power ($R^2 = 0.921$) and no major violations of regression assumptions. The coefficients of the independent variables are statistically significant, suggesting that CURRENT RATIO, OPERATING RATIO, and ASSET TURNOVER have a significant impact on Return on Capital.

Linear Regression						
Model Fit Measures						
			Overall Model Test			
Model	R	R ²	F	df1	df2	p
1	0.96	0.921	31.3	3	8	< .001

Model Coefficients - Return on Capital				
Predictor	Estimate	SE	t	p
Intercept	-125.62	31.19	-4.03	0.004
CURRENT RATIO	48.16	38.89	1.24	0.251
OPERATING RATIO	4.39	1.67	2.63	0.03
ASSET TURNOVER	11.65	2.45	4.76	0.001

Data Summary				
Cook's Distance				
			Range	
Mean	Median	SD	Min	Max
0.141	0.0361	0.259	1.78E-05	0.919

Assumption Checks		
Normality Tests		
	Statistic	p
Shapiro-Wilk	0.97	0.91
Kolmogorov-Smirnov	0.158	0.881
Anderson-Darling	0.248	0.686
<i>Note. Additional results provided by moretests</i>		
Heteroskedasticity Tests		
	Statistic	p
Breusch-Pagan	4.05	0.256
Goldfeld-Quandt	0.515	0.66
Harrison-McCabe	0.459	0.416
<i>Note. Additional results provided by moretests</i>		
Durbin-Watson Test for Autocorrelation		
Autocorrelation	DW Statistic	p
-0.0023	1.71	0.22
Collinearity Statistics		
	VIF	Tolerance
CURRENT RATIO	3.05	0.328
OPERATING RATIO	4.44	0.225

SWOT ANALYSIS FOR HUL STRENGTHS:

- A brand most preferred by consumers
- Chain of distribution
- Leading market player
- An extensive line of brands is available

WEAKNESS:

- Declining Market Share
- No Ayurvedic Products
- Controversial Products
- Like Skincare

OPPORTUNITY:

- Market Expansion
- Ayurvedic Products
- Mergers & Acquisitions
- Rural Market

THREATS:

- FDI in Retail Market
- Competitors
- Changing Norms Over Quality of Products

SWOT ANALYSIS FOR COLGATE STRENGTHS:

- Strong financial performance
- Focus on innovation and new product launches
- Colgate business planning initiative

Weakness:

- Highly leveraged
- Product research

Opportunities:

- Emerging markets growth
- Deploying advance technologies
- Growing Hispanic population in the US

Threats:

- Competitive landscape from other Private label growth
- Increasing commodity prices
- Falling consumer confidence in the US

V. SUGGESTIONS

Britannia Industries Limited has earned more revenue than Marico Limited based on the efficiency of its resources to earn revenue. The current ratio should be brought closer to the ideal ratio of 2:1. It is important to maintain adequate working capital throughout the years in order to maintain good liquidity. To reduce the company's production costs, the company needs to manage its variable costs and control them. In this way, the company will be able to increase its profitability.

VI. CONCLUSION

Britannia Industries Limited has earned more revenue compared to Marico Limited as a result of its efficiency in using its resources to earn revenue. In comparison to Marico Limited, Britannia Industries Limited has a better solvency position. To generate more revenue, Marico Limited needs to improve their operational level. If Marico Limited wants to increase its share capital, they must reduce their outside liabilities. It is not a good capital structure to have more outside liabilities than share capital.

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