A Study & Comparative Analysis of HUL and ITC

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Abstract:- In India FMCG is the fourth largest sector and provides employment to around three million people accounting for approximately five per cent of the total factory employment in the country. India's market for fast moving consumer goods (FMCG) is expected to more than double to $104 billion by 2020 from the present level of $49 billion.

The Ratio analysis which plays a very important role and is an essential part of financial statements of any company, has been used to evaluate various aspects of an FMCG's operating and financial performance such as its efficiency, liquidity, profitability. The present study focuses on comparative analysis of HUL and ITC on various grounds.

Keywords: *FMCG, Liquidity, Efficiency, Profitability*

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Introduction

Hindustan Unilever Limited:

Hindustan Unilever Limited (HUL) is India's largest FMCG Company with the heritage of over 80 years in India. As per Nielsen market research data, two out of three Indians use HUL products. It is owned by the British-Dutch company Unilever which controls 52% majority stake in HUL. Its products include foods, beverages, cleaning agents and personal care products. HUL was formed in 1933 as Lever Brothers India Limited and came into being in 1956 as Hindustan Lever Limited through a merger of Lever Brothers, Hindustan Vanaspati Mfg. Co. Ltd. and United Traders Ltd. Lever Brothers started its actual operations in India in the summer of 1888, when crates full of Sunlight soap bars, embossed with the words "Made in England by Lever Brothers" were shipped to the Kolkata harbor and it began an era of marketing branded Fast Moving Consumer Goods (FMCG) HUL works to create better future every day and helps people feel good, look good and get more out of life with brands and services. With over 35 brands spanning 20 distinct categories such as soap, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, water purifiers, etc. the company is a part of the everyday life of millions of consumers across India. Its portfolio includes leading household brands such as Lux, Lifebuoy, Surf Excel, Rin, Wheel, Fair & Lovely, Pond's, Vaseline, Lakme, Dove, Clinic Plus, Sunsilk, Pepsodent, Close Up, Axe, Brook Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit. The company has over 16000 employees and has an annual turnover of around Rs.19400 corers (financial year 2010-2011). Over the last two years, HUL have added one million new stores, doubling its coverage and taking the HUL products and services to some of the remotest corners. In India, HUL is known for its tight management of working capital and the company has been operating with a negative working capital since 2000. But the management realized that as competition intensifies, there is still scope for improving operational efficiency and cutting working capital needs. Unilever companies in India integrated all aspects of finance, accounting and logistics into one all-embracing commercial function. "Commercial" focused on cutting working capital requirements through innovative supply chain management and use of Information Technology to improve the efficiency of transactions.

<u>Financial Analysis and Interpretation of Hindustan Unilever Ltd.(HUL)</u>

			Mar' 14	Mar' 13	Mar' 12	Mar' 11	Mar' 10
	PER SHARE RATIOS						
	Adjusted E P S (Rs.)		16.83	14.74	11.90	9.72	9.64
	Dividend Per Share		13.00	18.50	7.50	6.50	6.50
	Operating Profit Per Share (Rs.)		20.69	18.51	15.23	12.40	12.82
	Book Value (Incl. Rev Res) Per Share		15.15	12.37	16.25	12.32	11.84

	PROFITABILITY RATIOS						
	Operating Margin (%)		15.97	15.51	14.88	13.57	15.74
	Gross Profit Margin (%)		15.04	14.59	13.89	12.45	14.70
	Net Profit Margin (%)		13.50	14.37	12.01	11.52	12.29
	Return On long Term Funds (%)		147.56	163.59	95.40	102.66	106.78
	LEVERAGE RATIOS						
	Owners fund as % of total Source		100.00	100.00	100.00	100.00	100.00
	Fixed Assets Turnover Ratio		9.42	8.34	7.17	7.53	5.35
	LIQUIDITY RATIOS						
	Current Ratio		0.73	0.75	0.82	0.85	0.83
	Current Ratio (Inc. ST Loans)		0.73	0.75	0.82	0.85	0.83
	Quick Ratio		0.43	0.44	0.46	0.45	0.45
	Inventory Turnover Ratio		10.20	10.21	8.79	7.02	8.99
	PAYOUT RATIOS						
	Dividend payout Ratio (Net Profit)		72.69	105.35	60.22	61.17	75.20
	Dividend payout Ratio (Cash Profit)		68.10	99.18	55.70	55.82	69.40
	Earning Retention Ratio		22.74	-25.45	37.00	32.81	21.25
	Cash Earnings Retention Ratio		27.91	-16.81	41.92	39.20	27.59
	COVERAGE RATIOS						
	Adjusted Cash Flow Time Total Debt		0.00	0.00	0.00	0.00	0.00
	Financial Charges Coverage Ratio		141.45	183.33	2,878.75	12,296.96	421.50
	Fin. Charges Cov. Ratio (Post Tax)		115.57	161.35	2,347.49	10,529.42	342.84
	COMPONENT RATIOS						
	Material Cost Component(% earnings)		52.18	52.82	52.90	53.28	50.67
	Exports as percent of Total Sales		1.95	2.53	2.24	7.23	7.31
	Import Comp. in Raw Mat.		8.07	10.59	12.53	19.13	18.61
	Bonus Component In Equity Capital		60.89	60.89	60.92	60.98	60.36

PER SHARE RATIOS:

1. Adjusted E P S has increased from 9.64% TO 16.83% during 2010-14.
2. Dividend per share has increased from 10.48% to 18.03% during 2010-2014.
3. Operating profit per share has increased from 6.50% to 13% during 2010-14.
4. Book value (Incl. Rev Res) per share has increased from 11.84% to 15.15%during 2010-14.

PROFITABILITY RATIOS:

1. Operating margin has increased from 15.74% to 15.97% during 2010-14.
2. Gross profit margin has increased from 14.70% to 15.04% during 2010-14.
3. Net profit margin has increased from 12.29% to 13.50% during 2010-14.
4. Return on long term funds has increased from 106.78% to 147.56% during 2010-14.

ISSN: 2321-8169
407 – 417

LIQUIDITY RATIOS:

1. Current ratio has decreased from 0.83% to 0.73% during 2010-14.
2. Current ratio (inc. ST loans) has decreased from 0.83% to 0.73% during 2010-14.
3. Quick ratio has decreased from 0.45% to 0.43% during 2010-14.
4. Inventory turnover ratio has increased from 8.99% to 10.20% during 2010-14.

ITC Limited:

ITC Limited or **ITC** is an Indian conglomerate which has its headquarters in the city of Kolkata, West Bengal. The business of ITC Limited is divided into five major segments: Fast-Moving Consumer Goods (FMCG), Hotels, Paperboards & Packaging, and Agri Business & Information Technology. ITC was formed on 24th August 1910 with the name-Imperial Tobacco Company of India Limited, and the company went public on 27th October 1954. In the 1970s, it engaged into non-tobacco businesses. In 1975, the company acquired a hotel in Chennai, which was renamed the ITC-Welcome Group Hotel Chola (now known as MyFortune, Chennai). In 1985, ITC started the Surya Tobacco Co. in Nepal as an Indo-Nepali and British joint venture, with the shares divided between ITC, British American Tobacco and various independent domestic shareholders in Nepal. In 2002, Surya Tobacco became a subsidiary of ITC and its name was changed to Surya Nepal Private Limited. In 2000, ITC launched the Expressions range of greeting cards, the Wills Sport range of casual wear, and a wholly owned information technology subsidiary, ITC InfoTech India Limited. In 2001, ITC introduced the Kitchens of India brand of ready-to-eat gourmet Indian recipes, which are produced and sold internationally firstly in cans and then, in retort packages, online and also at festivals. In 2002, ITC entered the confectionery and staples segments and acquired the Bhadrachalam Paperboards Division and the safety matches company WIMCO Limited. ITC entered the incense sticks or agarbattis business in 2003, selling its products under the Mangaldeep brand. ITC diversified into body care products in 2005. In 2010, ITC launched its hand rolled cigar - Armenteros - in the Indian market. The company emerged with online sales in 2014.

Major Businesses of ITC Ltd.:

- ***Cigarettes:*** ITC Ltd sells 81 percent of the cigarettes in India, where 275 million people use tobacco products and the total cigarette market is worth close to $6 billion (around Rs.65,000 crore). ITC's major cigarette brands include Wills Navy Cut, Marlboro Advance Black Gold Flake Kings, Gold Flake Premium lights, Gold Flake Super Star, Insignia, India Kings, Classic (Verve, Menthol, Menthol Rush, Regular, Citric Twist, Mild & Ultra Mild), 555, Silk Cut, Scissors, Capstan, Berkeley, Bristol, Lucky Strike, Players, Flake and Duke & Royal.
- ***Foods:*** ITC's major food brands include Kitchens of India; Aashirvaad, Mint-o, gum-o, B natural, Sunfeast, Candyman, Bingo! And Yippee!. ITC is India's largest seller of branded foods with sales of over Rs. 4,600 crore in 2012-13. It is present across 5 categories in the Foods business namely Staples, Snack Foods, Ready-To-Eat Foods, Juices and Confectionery.
- ***Lifestyle Apparel:*** ITC has products under the brands of Wills Lifestyle and John Players. Wills Lifestyle was accorded the ‘Super brand’ status and John Players was included in the top 10 ‘Most Trusted Apparel Brands 2012’ by The Economic Times.
- ***Personal Care:*** Personal care products include perfumes, hair-care and skincare categories. Major brands are Fiama Di Wills, Vivel, Essenza Di Wills, Superia and Engage.
- ***Stationery:*** Brands include Classmate, PaperKraft and Colour Crew. Launched in 2003, Classmate went on to become India's largest notebook brand in 2007.
- ***Safety Matches and Agarbattis:*** Aim brands of safety matches and the Mangaldeep brand of agarbattis (Incense Sticks).
- ***Hotels:*** ITC's Hotels division (under brands including Welcome Hotel) is India's second largest hotel chain with over 90 hotels throughout India. ITC is also the exclusive franchisee in India of two brands owned by Sheraton International Inc. Brands in the hospitality sector owned and operated by its subsidiaries include Fortune Park Hotels and Welcome Heritage Hotels.
- ***Paperboard:*** Products such as specialty paper, graphic and other paper are sold under the ITC brand by the ITC Paperboards and Specialty Papers Division like Classmate product of ITC well known for their quality.
- ***Packaging and Printing:*** ITC's Packaging and Printing division operates manufacturing facilities at Haridwar and Chennai and services domestic and export markets.

- ***Information Technology:*** ITC operates through its fully owned subsidiary ITC InfoTech India Limited, which is a SEI CMM Level 5 company.

Financial Analysis and Interpretation of ITC Limited

	Mar' 14	Mar' 13	Mar' 12	Mar' 11	Mar' 10
PER SHARE RATIOS					
Adjusted E P S (Rs.)	11.05	9.39	7.69	6.24	10.38
Dividend Per Share	6.00	5.25	4.50	4.45	10.00
Operating Profit Per Share (Rs.)	15.66	13.45	11.41	9.30	16.06
Book Value (Incl Re Res) Per Share					
(Rs.)	33.02	28.21	24.04	20.62	36.84
PROFITABILITY RATIOS					
Operating Margin (%)	37.47	35.54	35.55	34.08	33.02
Gross Profit Margin (%)	34.76	32.88	32.77	30.97	29.74
Net Profit Margin (%)	25.57	24.05	23.97	22.91	21.30
Return On long Term Funds (%)	48.12	48.18	46.95	44.95	42.64
LEVERAGE RATIOS					
Owners fund as % of total Source	99.80	99.70	99.57	99.37	99.23
Fixed Assets Turnover Ratio	1.37	1.45	1.44	1.40	1.58
LIQUIDITY RATIOS					
Current Ratio	1.25	1.22	1.08	1.08	0.92
Current Ratio (Inc. ST Loans)	1.25	1.22	1.08	1.08	0.92
Quick Ratio	0.67	0.65	0.50	0.50	0.39
Inventory Turnover Ratio	4.52	4.53	6.53	6.05	6.04
PAYOUT RATIOS					
Dividend payout Ratio Profit	54.31	55.92	57.09	69.04	109.63
Earning Retention Ratio	45.69	44.08	41.48	28.64	-12.31
Cash Earnings Retention Ratio	50.73	49.50	47.57	37.18	2.64
COVERAGE RATIOS					
Adjusted Cash Flow	0.01	0.01	0.01	0.01	0.02
Financial Charges Coverage	4,597.28	133.76	109.56	100.46	73.42
Fin. Charges Cov. Ratio)	3,284.09	95.99	79.84	73.25	52.72
COMPONENT RATIOS					
Material Cost					
Component(%earnings)	40.68	41.90	39.59	40.72	38.45
Import Comp. in	12.17	11.99	13.03	13.34	12.03
Bonus Component In Equity	89.33	89.91	90.87	91.81	85.85

 ISSN: 2321-8169
407 – 417

PER SHARE RATIOS:

1. Adjusted E P S has increased from 10.35% to 11.05% during 2010-14.
2. Dividend per share has decreased from 10% to 6% during 2010-2014.
3. Operating profit per share has decreased from 16.06% to 15.66% during 2010-14.
4. Book value (Incl Rev Res) per share has decreased from 36.84% to 33.02% during 2010-14.

PROFITABILITY RATIOS:

1. Operating margin has increased from 33.02% to 37.47% during 2010-14.
2. Gross profit margin has increased from 29.74% to 34.76% during 2010-14.
3. Net profit margin has increased from 21.30% to 25.57% during 2010-14.
4. Return on long term funds has increased from 42.64% to 48.12% during 2010-14.

LIQUIDITY RATIOS:

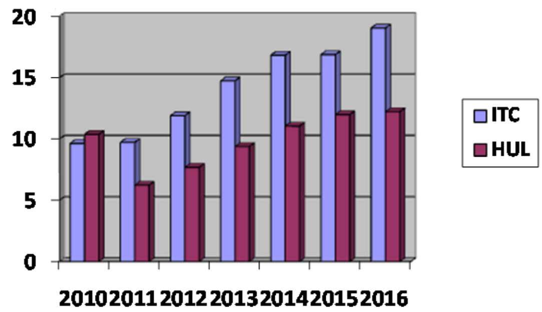
1. Current ratio has increased from 0.92% to 1.25% during 2010-14.
2. Current ratio (inc. ST loans) has increased from 0.92% to 1.25% during 2010-14.
3. Quick ratio has increased from 0.39% to 0.67% during 2010-14.
4. Inventory turnover ratio has decreased from 6.04% to 4.52% during 2010-14.

Comparative Study of ITC & HUL

1. PER SHARE RATIOS:

(a)Adjusted EPS:

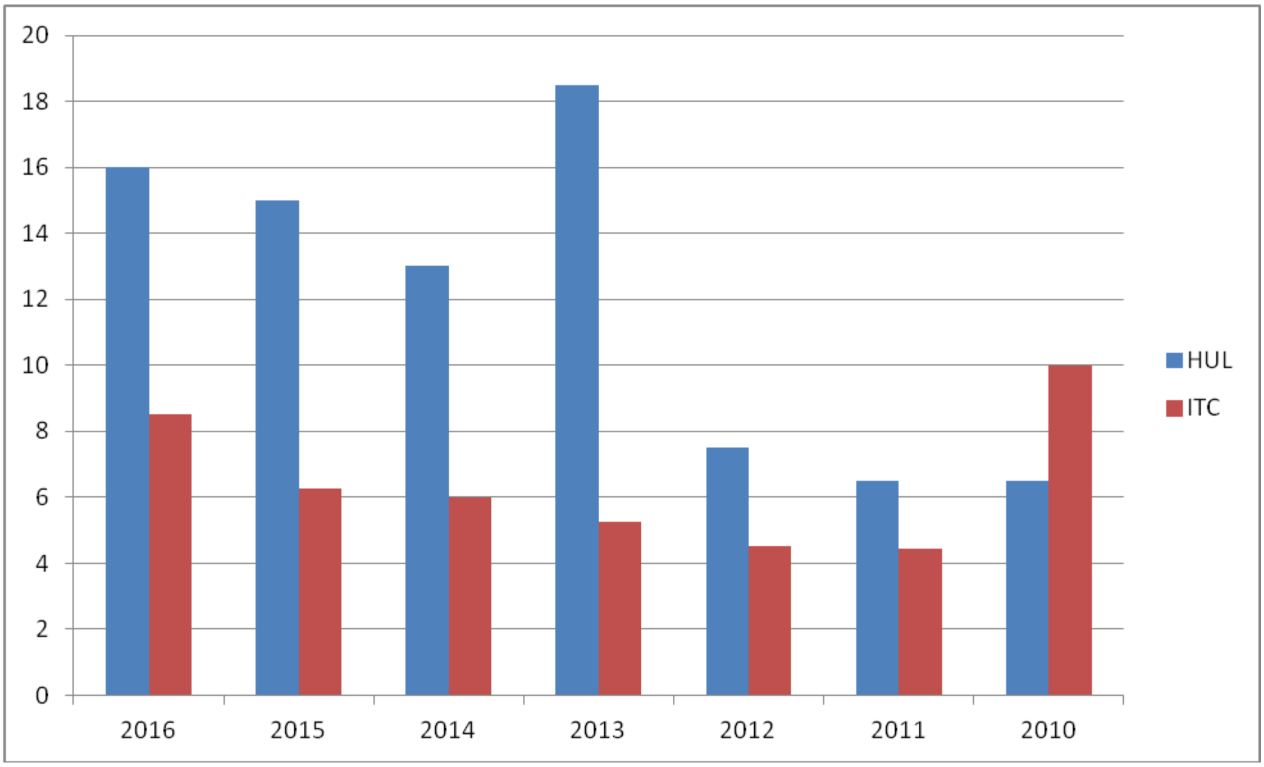
	2010	2011	2012	2013	2014	2015	2016
ITC	9.64	9.72	11.90	14.74	16.83	16.88	19.05
HUL	10.38	6.24	7.69	9.39	11.05	11.99	12.23



Observation: Adjusted EPS of ITC has increased from 9.64% to 19.05% during 2010-16 while that of HUL has increased from 10.38% to 12.23% during 2010-16. ITC has shown much faster as well as higher growth in Adjusted EPS as compared to HUL.

(b)Dividend per Share:

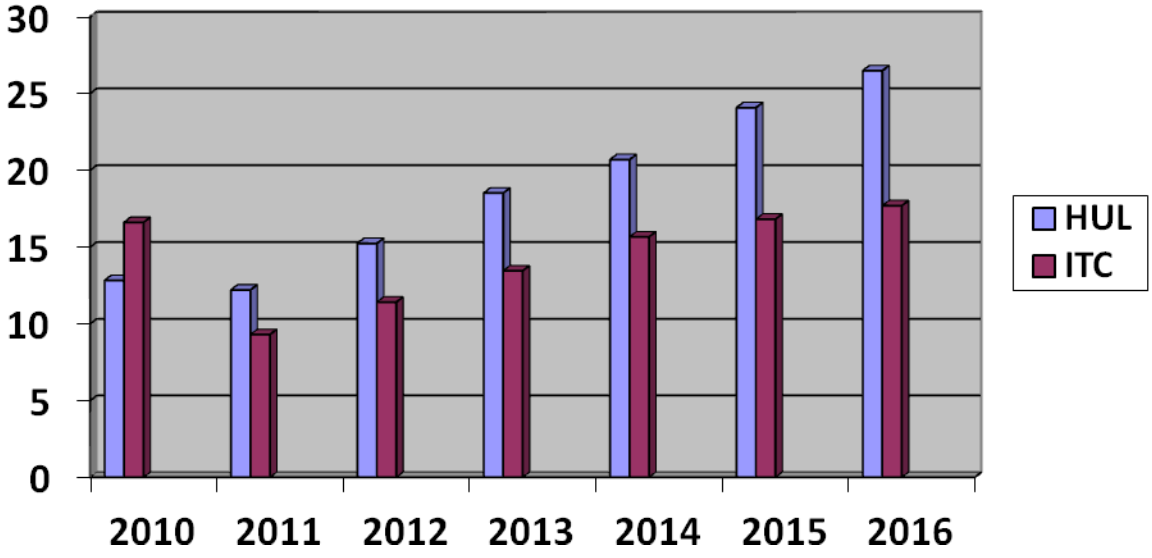
	2016	2015	2014	2013	2012	2011	2010
HUL	16.00	15.00	13.00	18.50	7.50	6.50	6.50
ITC	8.50	6.25	6.00	5.25	4.50	4.45	10.00



Observation: Dividend per share of ITC has decreased from 10% to 8.5% during 2010-2016. While that of HUL has increased from 10.48% to 16.00% during 2010-2016. The shareholders of HUL have earned much better dividend over the years as compared to ITC.

(c) Operating Profit per Share:

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
HUL	12.82	12.40	15.23	18.51	2069	24.07	26.48
ITC	16.06	9.30	11.41	13.45	15.66	16.81	17.69

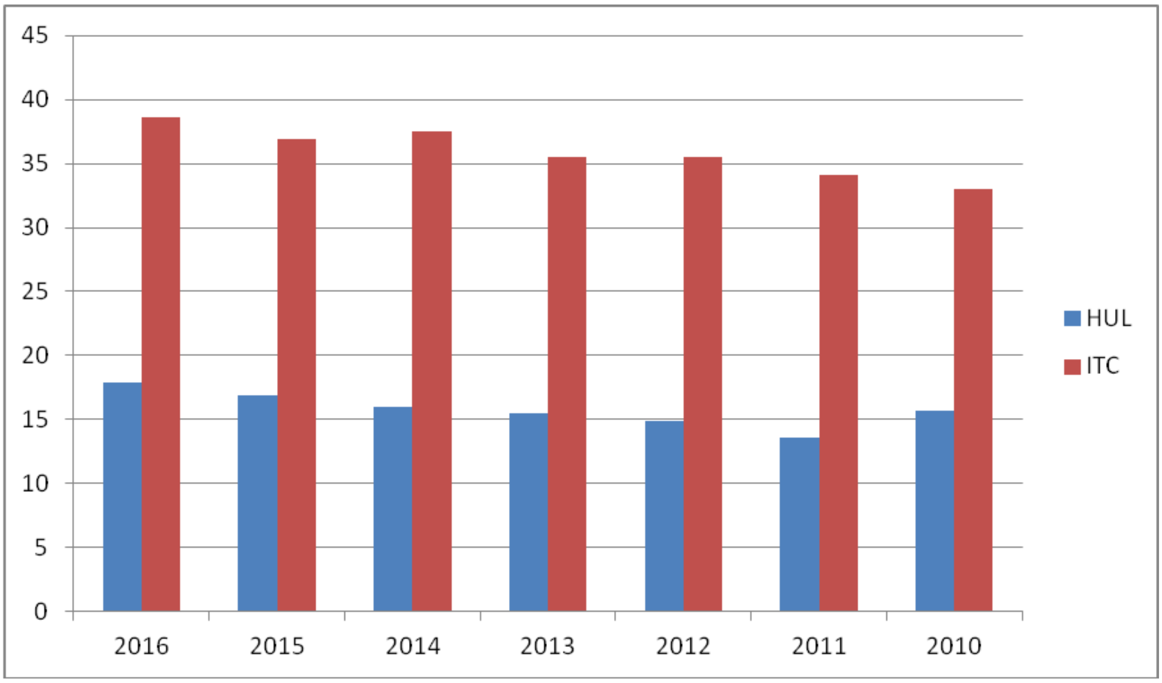


Observation: Operating profit per share of ITC has increased from 16.06% to 17.69% during 2010-16. While that of HUL has increased from 6.50% to 26.48 during 2010-16. HUL has shown a much sharper increase.

2. Profitability Ratios:

(a) Operating Margin:

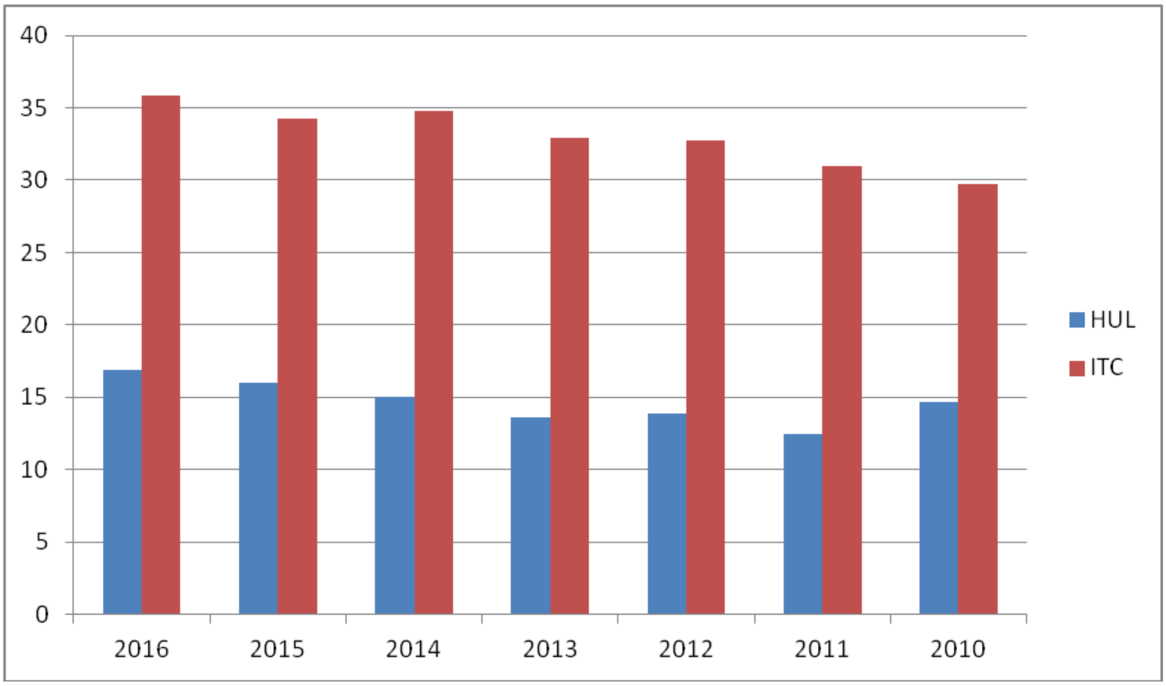
	2016	2015	2014	2013	2012	2011	2010
HUL	17.91	16.90	15.97	15.51	14.88	13.57	15.74
ITC	38.65	36.90	37.47	35.54	35.55	34.08	33.02



Observation: Operating margin of ITC has increased from 33.02% to 38.65% during 2010-16. While that of HUL has increased from 15.74% to 17.91% during 2010-16. ITC has a better picture to offer.

(b) Gross Profit Margin:

	2016	2015	2014	2013	2012	2011	2010
HUL	16.91	15.97	15.04	14.59	13.89	12.45	14.70
ITC	35.84	34.27	34.76	32.88	32.77	30.97	29.74



Observation: Gross profit margin of ITC has increased from 29.74% to 35.84% during 2010-16. While that of HUL has increased from 14.70% to 16.91% during 2010-16. ITC appears to be in a much better position.

(c) Net Profit Margin:

	2016	2015	2014	2013	2012	2011	2010
HUL	12.76	14.00	13.50	14.37	12.01	11.52	12.29
ITC	26.72	26.31	25.57	24.05	23.97	22.91	21.30

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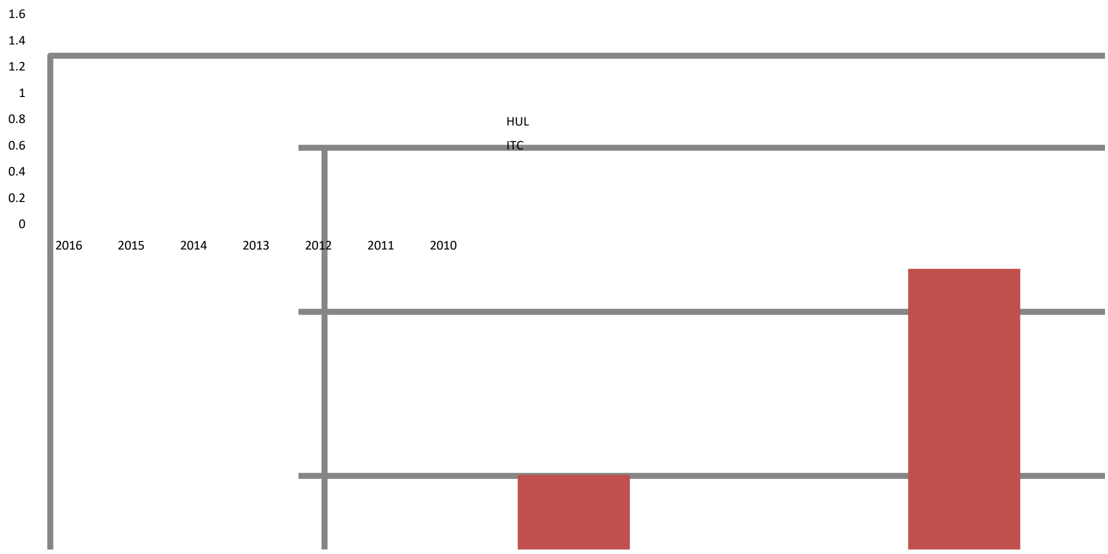
407 – 417

Observation: Net profit margin of ITC has increased from 21.30% to 26.72% during 2010-16.While that of HUL has increased from 12.29% to 12.76% during 2010-16. ITC has a better value to show for profit.

3. LIQUIDITY RATIOS:
(a) Current Ratio:

	2016	2015	2014	2013	2012	2011	2010
HUL	0.75	0.74	0.73	0.75	0.82	0.85	0.83
ITC	1.21	1.45	1.25	1.22	1.08	1.08	0.92



Observation: Current ratio of ITC has increased from 0.92% to 1.21% during 2012-16. While that of HUL has decreased from 0.83% to 0.75% during 2012-16. ITC has more current assets than HUL.

(b) Quick Ratio:

	2016	2015	2014	2013	2012	2011	2010
HUL	0.49	0.46	0.43	0.44	0.46	0.45	0.45
ITC	0.69	0.86	0.67	0.65	0.50	0.50	0.39

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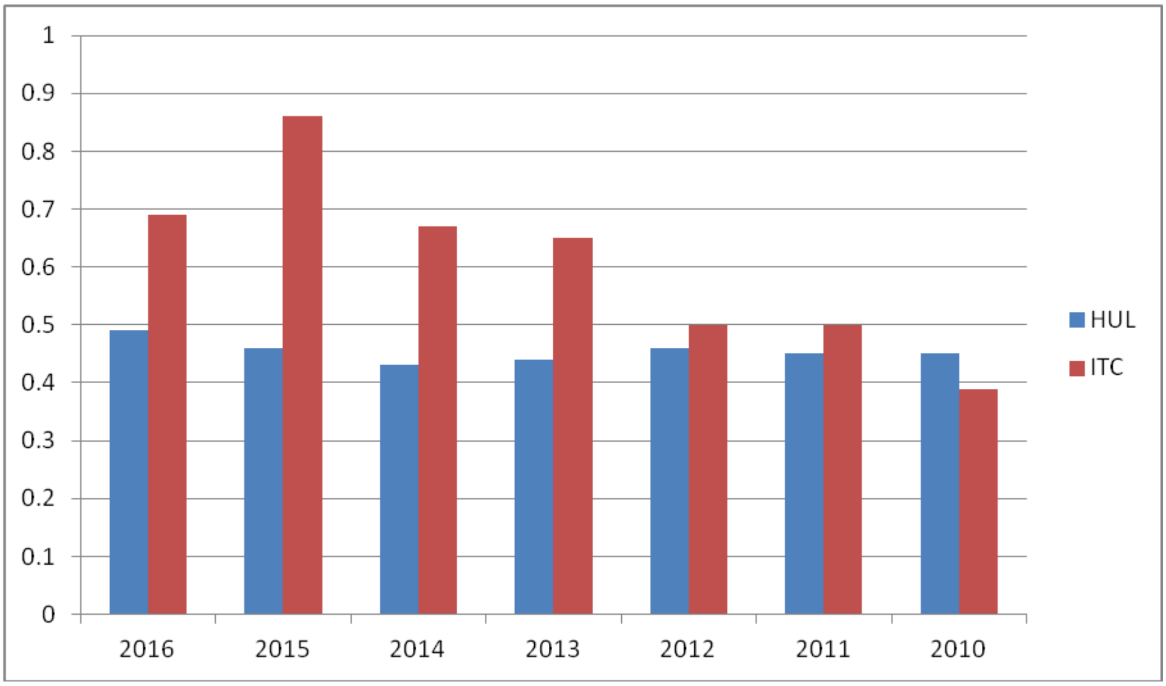
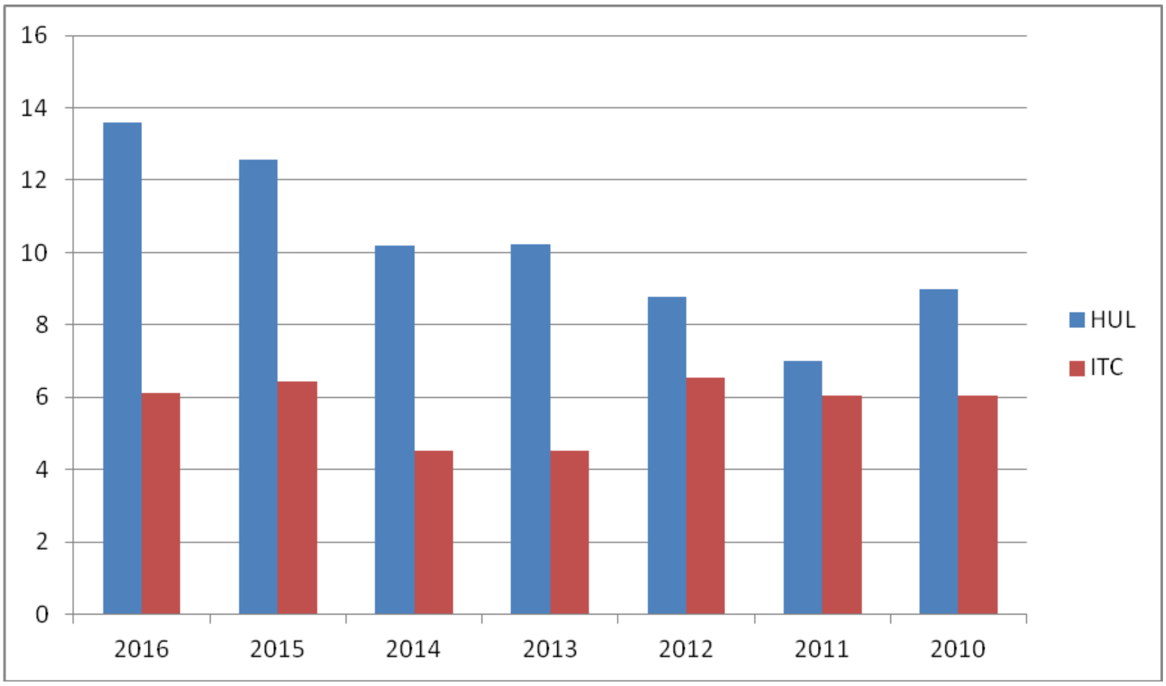
407 – 417



Observation: Quick ratio of ITC has increased from 0.39% to 0.69% during 2010-16. While that of HUL has increased from 0.45% to 0.49% during 2010-16. ITC, thus, remains in a better position.

(c) Inventory Turnover Ratio:

	2016	2015	2014	2013	2012	2011	2010
HUL	13.61	12.57	10.20	10.21	8.79	7.02	8.99
ITC	6.10	6.43	4.52	4.53	6.53	6.05	6.04



Observation: Inventory turnover ratio of ITC has increased from 6.04% to 6.10% during 2010-16. While that of HUL has increased from 8.99% to 13.61% during 2010-16. The stock or inventory seems to be more for HUL than ITC.

Conclusion:

The overall comparison between **ITC** and **HUL** shows that HUL still remains to be the largest FMCG Company in India. ITC has diversified businesses but is highly dependent on its segment of cigarettes. The analysis also shows that ITC has managed to earn the most in cash because of its cash-generative business of cigarettes in comparison to HUL. The changes in ratios show that HUL has still been the same customer-friendly company as usual but ITC has been competitive and managed to remove various debts in the past six years.

ITC has earned a lot of bonus in equity but still HUL has paid a good amount of dividend in comparison to ITC. The inventory of HUL has rose sharply because of more and more new brand launches while it remains stable for ITC because it focuses more on delivering the farm products from the villages to its customers.

HUL has been witnessed a good competition from ITC and this shows that MNCs like HUL are increasingly facing competition from domestic companies which have, in turn, shown an increase in the global reach like ITC. But HUL seems to be handling the competition well. ITC has shown sharp increases positively in most of the ratios and has shown growth.
But increasing clamps on tobacco and tax burden are big threats.

HUL has very smoothly managed its Corporate Social Responsibility (CSR) and has stable ratios and good growth in equity and market. ITC has a bit difficulty in CSR because of its tobacco-dominated business but in other businesses, it has tried its every technique to manage CSR like through stationery, food items, etc.
Both the companies are the true reflections of the overall growing industry and economy in India.

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