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LIQUIDITY MANAGEMENT IN INDIAN FMCG SECTOR: A CASE STUDY OF HINDUSTAN UNILEVER LTD

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ABSTRACT

The success of a business firm is largely dependent on the efficiency of its liquidity management. A strong liquidity base may be identified as the vital force of any concern for sustaining its day-to-day operations. The sound liquidity position enables the concern in maintaining a favourable credit term with its suppliers. With the transformation in the business environment in India, the income as well as the consumption patterns of the people of India have marked notable changes in the post-liberalization period. As a result, the companies belonging to the FMCG sector have also changed their business policies to face the different challenges emanated from the liberalization measures taken by the Government of India. It leads to considerable changes in the liquidity management practices in Indian FMCG companies. In this backdrop, the present study attempts to make an analysis of the liquidity management of Hindustan Unilever Ltd., a very well-known company in the Indian FMCG industry during the period 1994-95 to 2015-16. The issue addressed in this paper has been tackled using relevant statistical tools and techniques.

KEY WORDS: *Liquidity management, Working capital, Working capital management, FMCG sector.*

I. INTRODUCTION

Presently in corporate sector problem in connection with liquidity being the most common among the majority of the industries, maintenance of adequate liquidity is the prime concern of the managerial people. The need for efficient liquidity management cannot be over-emphasized in such a situation. A strong liquidity base may be identified as the vital force of any concern for sustaining its day-to-day operations. Besides, the sound liquidity position enables the concern in maintaining a favourable credit term with its suppliers. So, to dominate over the operating cycle odds, not only the corporate giants but almost all the business enterprises, irrespective of their sizes, have been concentrating much on the management of liquidity. A firm in the consumer goods industry may have relatively a higher percentage of the total investment in current assets as compared to the investment in fixed assets. From that point of view liquidity management may assume a greater importance in FMCG industry.

FMCG sector in India has been playing a vital role in developing its economy not only by providing a large number of consumer goods necessary for carrying on day-to-day activities of the general people but also by generating a considerable amount of employment in India. The income as well as the consumption patterns of the people of India have marked notable changes in the post-liberalization period. As a result, the companies belonging to the FMCG sector have also changed their business policies to face the different challenges emanated from the liberalization measures taken by the Government of India. It leads to considerable changes in the liquidity management practices in Indian FMCG companies. It is, therefore, high time to analyse the liquidity of the companies belonging to the FMCG sector in India during the post-liberalization period. In this backdrop, the present study attempts to make an analysis of the liquidity management of Hindustan Unilever Ltd. (HUL), a very well-known company in the Indian FMCG industry during the period 1994-95 to 2015-16.

The remainder of this paper is structured as follows: Section II deals with the objectives of the study. Section III narrates the methodology adopted in this study. In section IV, a brief profile of the selected company is presented. Section V is concerned with the discussion on the empirical results obtained from the study. In section VI, concluding observations are given.

II. OBJECTIVES OF THE STUDY

The present study has the following objectives:

- To analyse the liquidity of the selected company using some selected ratios.
- To ascertain the liquidity status of the company under study using comprehensive rank test.
- To examine whether there was any uniformity among the selected aspects relating to the liquidity management of the company under study.
- To assess the nature and degree of relationship between liquidity and profitability of the selected company.
- To identify the aspects relating to the liquidity management of the company among the selected ones which made significant contribution towards the company's profitability.

III. METHODOLOGY OF THE STUDY

The data of HUL for the period 1994-95 to 2015-16 used in this study were collected from the Capitaline Corporate Database, published by Capitaline Publishers (India) Ltd., Mumbai. For analysing the data, the technique of ratio analysis, simple statistical tools like mean, statistical techniques like analysis of trend movement, analysis of Pearson's simple correlation, Spearman's rank correlation analysis, Kendall's correlation analysis, analysis of Kendall's coefficient of concordance etc. were used. The t-test and chi-square test were applied at appropriate places.

IV. A BRIEF PROFILE OF THE COMPANY UNDER STUDY

Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods Company with a heritage of over 83 years in India and touches the lives of two out of three Indians. With over 35 brands spanning 20 distinct categories such as soaps, detergents, shampoos, skin care, toothpastes, deodorants, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers, 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, Lakmé, Dove, Clinic Plus, Sunsilk, Pepsodent, Closeup, Axe, Brooke Bond, Bru, Knorr, Kissan, Kwality Wall's and Pureit. The Company has over 18,000 employees and has an annual turnover of INR 31,425 crores (financial year 2015 – 16). HUL is a subsidiary of Unilever, one of the world's leading suppliers of fast moving consumer goods with strong local roots in more than 100 countries across the globe with annual sales of €53.3 billion in 2015. Unilever has 67.2% shareholding in HUL.

V.EMPIRICAL RESULTS AND DISCUSSION

A. In Table I, an attempt was made to analyse the liquidity of HUL, by using some selected ratios, namely Working Capital Ratio (WCR), Acid Test Ratio (ATR), Inventory Turnover Ratio (ITR), Debtors Turnover Ratio (DTR) and Cash Turnover Ratio (CTR). In this table, for identifying the nature of the trend in each of the selected ratios during the period under study liner trend equation was fitted and in order to examine whether the slopes of the trend lines were statistically significant or not t-test was used. The following paragraphs provide the results obtained from the analysis of the selected measures of liquidity management of HUL.

- WCR: This ratio expresses the relation of the amount of current assets to the amount of current liabilities. It indicates the ability of a business firm to meet its maturing current obligations. The higher the WCR, the larger is the amount of rupees available per rupee of current liability, and, accordingly, the greater is the feeling of security. Table I depicts that, the WCR of HUL fluctuated between 0.64 in 2007-08 and 1.52 in 1995-96. On an average, it was 0.93. The linear trend fitted to the WCR series showed a declining trend which was founded to be statistically significant at 10 per cent level. It indicates that there was a significant downward trend in the company's ability to meet current obligations during the study period.
- ATR: This ratio is concerned with the relationship between quick assets and quick liabilities to supplement the information given by the WCR. It is a more rigorous

test of liquidity than the WCR and gives a better picture of the firm's ability to meet its short-term liabilities out of short-term assets. Table I shows that the ATR of HUL varied between 0.26 in 2007-08 and 0.75 in 1994-95. On an average, the ATR of HUL was 0.52. The straight line trend fitted to the ATR series indicated a decreasing trend which was found to be statistically significant at 10 per cent level. It reveals that a notable declining trend in the instant capacity of the company to meet its quick liabilities during the period under study was noticed.

- ITR: It shows the relationship between the cost of goods sold and the average level of inventory of a firm. It measures the efficiency of the company's inventory management. In general, a high ITR is good from the liquidity point of view and implies sound inventory management whereas a low ratio signifies excessive inventory levels and indicates poor liquidity as well as inefficiency in the inventory management. So a low ITR hurts the overall profitability while a high ITR results in higher profitability of the concern. Table I shows that, on an average, ITR of HUL was 6.85 and it ranged between 4.31 in 1995-96 and 10.2 in 2015-16. The liner trend equation fitted to the ITR series showed an upward trend which was found to be statistically significant at 10 per cent level. It reveals that the efficiency of the company in managing its inventory increased notably during the study period. It had a favourable effect on the company's overall liquidity.
- DTR: It shows the relationship between the net credit sales and the average level of receivables of the company. It indicates how well receivables are turning into cash. It reflects the efficiency of the credit and collection policies adopted by the firm. The higher the ratio, the shorter is the average collection period, the greater is the degree of efficiency in credit management and the better is the liquidity of debtors. Table I depicts that, the DTR of HUL fluctuated between 20.3 in 2004-05 and 53.59 in 1997-98. On an average, it was 32.21. The linear trend fitted to the DTR series showed a declining trend which was not statistically significant even at 10 per cent level. It implies that no strong evidence of downward trend in the efficiency of the company's credit management was noticed during the study period.
- CTR: This ratio is used to see if there is adequacy of cash and whether or not cash has been effectively utilized in making sales. A higher ratio implies by and large a more efficient use of cash. Table I shows that, on an average, CTR of HUL was 21.67 and it ranged between 9.25 in 2009-10 and 69.89 in 1994-95. The liner trend equation fitted to the CTR series showed a downward trend which was found to be statistically significant at 10 per cent level. It reveals that a significant declining trend in the company's efficiency in respect of maintaining its cash balance was observed during the period under study.

B. In Table II, in order to evaluate the liquidity status of HUL during the period under study more precisely, a comprehensive rank test was used. In this test while assigning comprehensive ranks to the years under study five liquidity ratios, namely WCR, ATR, ITR, DTR and CTR were taken into consideration. In case of WCR, ATR, ITR, DTR and CTR, a high value indicates more favourable liquidity position and ranking was done in that order. Ultimately liquidity ranking was done on the basis of the principle that the lower the sum of individual ranks the more favourable is the liquidity position and vice-versa. For measuring the degree of uniformity among the five sets of ranking, Kendall's coefficient of concordance (W) was used. In order to examine whether the computed value of W was statistically significant or not, Chi-square (χ^2) test was applied. Table II shows that the computed value of W, which was 32.671 was found to be statistically significant at 5 per cent level. It indicates that there was a close as well as significant association among the selected indicators of liquidity performance of the company under study during the study period. This table discloses that the liquidity of the company was the highest in the year 1998-99 and it was followed by the years 1996-97, 2008-09, 1997-98, 2000-01, 1999-2000, 1994-95, 1995-96, 2001-02, 2012-13, 2014-15, 2015-16, 2011-12, 2013-14, 2002-03, 2003-04, 2006-07, 2004-05, 2005-06, 2007-08, 2009-10, 2010-11 respectively in that order. However, in respect of liquidity, the company stood on the same point in 2012-13 and 2014-15, in 2011-12 and 2013-14 and also in 2004-05, 2005-06 and 2007-08.

C. In Table III it was attempted to measure the extent of relationship between liquidity and profitability of HUL by using Spearman's rank correlation coefficient (RLP). To test whether the computed value of RLP was significant or not t-test was used. In this regard the composite ranks of liquidity (as ascertained in Table II) and the ranks of profitability (based on return on capital employed) were applied. This table shows that, on an average, return on capital employed (ROCE) of HUL was 77.60 and it ranged between 42.69 in 1995-96 and 121.52 in 2013-14. The linear trend equation fitted to the ROCE series showed an upward trend which was found to be statistically significant at 10 per cent level. This table also shows that the computed value of RLP was 0.087

which was not found to be statistically significant at 5 per cent level. It implies that although there was a positive association between the liquidity and profitability of the company, the association was not at all notable. The liquidity of the company did not make any significant contribution towards enhancing its earning capability during the study period.

D. In Table IV for identifying the factors making significant contribution towards the profitability of the company an effort was made to ascertain the closeness of association between the liquidity and the overall profitability of HUL through correlation coefficients between the selected liquidity and profitability measures taking into consideration their magnitudes (i.e. by Pearson's simple correlation coefficient), ranking of their magnitudes (i.e. by Spearman's rank correlation coefficient) and the nature of their associated changes (i.e. by Kendall's correlation coefficient). These correlation coefficients were tested using t-test. This table shows that all the correlation coefficients between WCR and ROCE were negative which were found to be statistically significant at 1 per cent level. Similarly there was also a notable association between ATR and ROCE as all the correlation coefficients were negative and found to be statistically significant at 5 per cent level. Theoretically, there should be a negative relationship between liquidity and profitability. The results obtained from the analysis of correlation between WCR and ROCE and that between ATR and ROCE conform to the theoretical argument. The correlation coefficients of ITR and ROCE were positive which were found to be statistically significant at 1 per cent level. It conform to the theoretical argument that the higher the efficiency of inventory management the higher is the profitability. The correlation coefficients of DTR and ROCE were positive but not found to be statistically significant at 5 per cent level. So, no strong evidence of positive relationship between the efficiency of debtors management of the company and profitability was noticed during the study period. All the three correlation coefficients between CTR and ROCE were negative, out of which two were found to be statistically significant at 5 per cent level. It mismatches with the theoretical argument that the higher the efficiency of cash management the higher is the profitability.

VI. CONCLUDING OBSERVATIONS

A significant declining trend in the short-term debt paying capability as well as the immediate debt paying capability of HUL was noticed during the study period. Moreover, the efficiency in cash management of the company stepped down notably with the passage of time during the period of study. All these negative attributes had definitely an adverse impact on the overall liquidity status of the company. However, a noticeable improvement in the efficiency of inventory management of the company was observed during the study period. The liquidity analysis based on composite ranks reveals that in the first half of the study period the liquidity of the company was better as compared to that in the second half. It implies that there was a declining trend in the overall liquidity of the company during the study period. No strong evidence of positive or negative relationship between overall liquidity and profitability was noticed during the period under study.

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TABLES

Table - I
Hindustan Unilever Ltd.
Selected ratios relating to liquidity management

Year	WCR	ATR	ITR	DTR	CTR
1994-1995	1.43	0.75	4.6	21.03	69.89
1995-1996	1.52	0.74	4.31	21.25	37.69
1996-1997	1.22	0.61	6.57	45.86	32.37
1997-1998	1.06	0.56	6.6	53.59	13.57
1998-1999	1.09	0.61	7.22	49.04	14.34
1999-2000	1.07	0.6	6.58	43.35	12.5
2000-2001	0.88	0.5	7.43	40.01	20.27
2001-2002	0.96	0.62	6.87	25.03	11.64
2002-2003	0.93	0.59	5.96	27.05	10.56
2003-2004	0.9	0.54	5.57	21.47	12.53
2004-2005	0.89	0.49	5.63	20.3	14.23
2005-2006	0.67	0.35	7.06	21.19	31.21
2006-2007	0.7	0.36	6.3	27.42	28.96
2007-2008	0.64	0.26	5.72	30.77	67.91
2008-2009	0.97	0.53	8.41	47.04	14.21
2009-2010	0.8	0.47	6.65	26.06	9.25
2010-2011	0.88	0.46	5.9	20.92	12.12
2011-2012	0.86	0.47	7.32	32.57	12.09
2012-2013	0.76	0.43	8.16	30.97	15.11
2013-2014	0.75	0.43	8.27	34.32	12.62
2014-2015	0.76	0.46	9.35	39.35	12.14
2015-2016	0.78	0.5	10.2	30.05	11.59
Average	0.93	0.52	6.85	32.21	21.67
Maximum	1.52	0.75	10.2	53.59	69.89
Minimum	0.64	0.26	4.31	20.3	9.25
Slope of the Trend Line	-0.027	-0.013	0.15	-0.224	-1.007
t-value	-5.587	-4.248	4.197	-0.63	-1.831

* Significant at 5% level, ** Significant at 1% level, *** Significant at 10% level

Source: Compiled and computed from Capitaline Corporate Database, Capital Market Publishers (India) Ltd., Mumbai

Table - II

Hindustan Unilever Ltd.

Statement of ranking in order of liqudity and analysis of Kendall's Coefficient of Concordance among selected liquidity indicators

Year	WCR (A)	ATR (B)	ITR (C)	DTR (D)	CTR (E)	Liquidity Ranks AR	BR	CR	DR	ER	Sum of Ranks (AR+BR+CR+DR+ER)	Ultimate Rank
1994-1995	1.43	0.75	4.6	21.03	69.89	2	1	21	20	1	45	7
1995-1996	1.52	0.74	4.31	21.25	37.69	1	2	22	18	3	46	8
1996-1997	1.22	0.61	6.57	45.86	32.37	3	4.5	14	4	4	29.5	2
1997-1998	1.06	0.56	6.6	53.59	13.57	6	8	12	1	12	39	4
1998-1999	1.09	0.61	7.22	49.04	14.34	4	4.5	8	2	9	27.5	1
1999-2000	1.07	0.6	6.58	43.35	12.5	5	6	13	5	15	44	6
2000-2001	0.88	0.5	7.43	40.01	20.27	12.5	11.5	6	6	7	43	5
2001-2002	0.96	0.62	6.87	25.03	11.64	8	3	10	16	19	56	9
2002-2003	0.93	0.59	5.96	27.05	10.56	9	7	16	14	21	67	15
2003-2004	0.9	0.54	5.57	21.47	12.53	10	9	20	17	14	70	16
2004-2005	0.89	0.49	5.63	20.3	14.23	11	13	19	22	10	75	19
2005-2006	0.67	0.35	7.06	21.19	31.21	21	21	9	19	5	75	19
2006-2007	0.7	0.36	6.3	27.42	28.96	20	20	15	13	6	74	17
2007-2008	0.64	0.26	5.72	30.77	67.91	22	22	18	11	2	75	19
2008-2009	0.97	0.53	8.41	47.04	14.21	7	10	3	3	11	34	3
2009-2010	0.8	0.47	6.65	26.06	9.25	15	14.5	11	15	22	77.5	21
2010-2011	0.88	0.46	5.9	20.92	12.12	12.5	16.5	17	21	17	84	22
2011-2012	0.86	0.47	7.32	32.57	12.09	14	14.5	7	9	18	62.5	13.5
2012-2013	0.76	0.43	8.16	30.97	15.11	17.5	18.5	5	10	8	59	10.5
2013-2014	0.75	0.43	8.27	34.32	12.62	19	18.5	4	8	13	62.5	13.5
2014-2015	0.76	0.46	9.35	39.35	12.14	17.5	16.5	2	7	16	59	10.5
2015-2016	0.78	0.5	10.2	30.05	11.59	16	11.5	1	12	20	60.5	12

Kendall's coefficient of concordance among five sets of liquidity performance ranks (W) is 0.2649 and Chi-square (χ^2) value of W is 32.671 being significant at 5% level.

Source: Compiled and computed from Capitaline Corporate Database, Capital Market Publishers (India) Ltd., Mumbai

Table - III
Hindustan Unilever Ltd.
Analysis of Spearman's Rank Correlation between Liquidity and Profitability

Year	Liquidity Rank (as shown in Table 2)	ROCE (%)	Profitability Rank (on the basis of ROCE)	
1994-1995	7	48.74	20	Spearman's rank correlation coefficient between liquidity and profitability (RLP) is 0.087, which is not significant at 5% level
1995-1996	8	42.69	22	
1996-1997	2	54.83	19	
1997-1998	4	62.02	16	
1998-1999	1	65.87	14	
1999-2000	6	66.59	12	
2000-2001	5	68.8	11	
2001-2002	9	68.95	10	
2002-2003	15	64.31	15	
2003-2004	16	59.13	17	
2004-2005	19	43.62	21	
2005-2006	19	55.46	18	
2006-2007	17	71.32	9	
2007-2008	19	97.55	7	
2008-2009	3	120.74	2	
2009-2010	21	111.6	5	
2010-2011	22	65.91	13	
2011-2012	13.5	86.21	8	
2012-2013	10.5	100.09	6	
2013-2014	13.5	121.52	1	
2014-2015	10.5	112.39	4	
2015-2016	12	118.84	3	
Average		77.60		
Maximum		121.52		
Minimum		42.69		
Slope of the Trend Line		3.23		
t-value		5.985***		

*** Significant at 10% level

Source: Compiled and computed from Capitaline Corporate Database, Capital Market Publishers (India) Ltd., Mumbai

Table - IV

Hindustan Unilever Ltd.

Analysis of correlation between ROCE and selected Liquidity Indicators

Correlation measures	Correlation between ROCE and selected liquidity indicators				
	WCR	ATR	ITR	DTR	CTR
Pearson	-0.559**	-0.465*	0.770**	0.251	-0.269
Spearman	-0.573**	-0.503*	0.758**	0.392	-0.429*
Kendall	-0.439**	-0.324*	0.576**	0.273	-0.307*

* Significant at 5% level, ** Significant at 1% level

Source: Compiled and computed from Capitaline Corporate Database, Capital Market Publishers (India) Ltd., Mumbai