ANALYTICAL STUDY ON FINANCIAL PERFORMANCE OF HINDUSTAN UNILEVER LIMITED

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ABSTRACT

The financial performance of the company is measured by analyzing the financial statement. The financial analysis shows and relationships. These also help predict the future, show weakness, strengths. The ratios usually are compared to other companies within the industry average to see where the company stands. The analysis is done by using various ratios of ratio analysis and analyzing the comparative income statement of the company.

INTRODUCTION

Financial statements are intended to be understandable by readers who have reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently. This accomplished by examining trends in key financial data, comparing financial data across companies, and analyzing key financial ratios.

Hindustan unilever limited (HUL) is the India’s largest fast moving Consumer Goods Company with a heritage of over 80 years in India and touches the lives of two of three Indians.

With over 35 brands spanning 20 distinct categories such as soaps, 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.

REVIEW OF LITERATURE

Ho and Zhu (2004) have reported that the evaluation of a company's performance has been focusing the operational effectiveness and efficiency, which might influence the company's survival directly.

Furthermore, Gopinathan (2009) has presented that the financial ratios analysis can spot better investment options for investors as the ratio analysis measures various aspects of the performance and analyzes fundamentals of a company or an institution.

Andrew and Schmidgall (1993) in their study classified financial ratios into five categories "liquidity ratios, solvency ratios, activity ratios, profitability ratios, and operating ratios". They indicated that financial ratios themselves do not provide valuable information about a firm's performance, Andrew (1993) in his study conducted on automobile industry investigated the leverage ratio of companies and suggested that a value-maximizing capital structure.

Hitchings (1999), in his study realized that ratio analysis is a sensitive and valuable tool in credit assessment which is to forecast the ability of a borrower to meet its debt obligations.

Zopounidis (2000) in his study proposed methodological framework based on financial ratio analyses for estimating small and medium size enterprises performance, Hsieh and Wang (2001) in their study examined and stressed the need of selecting relevant financial ratios for the purpose of analysis. They proposed new approach for finding useful financial ratio and also emphasized that industry differs in product, in size and have its own unique business practices and internal and external environment thus financial ratio analysis should be according to industry which suit it the most.

Dr. Sugan C.Jain (2002) in his study examined the performance of automobile industry. He used composite index approach to analyze the operational efficiency and profitability and suggested to strengthening the soundness, profitability improvisation, working capital and in the performance of fixed assets.

NEED FOR THE STUDY

- Financial performance analysis is an important tool for measuring the financial performance of the company.
- The main aspect of financial management is working capital management and it should be done on day-to-day basis.
- This study helps to review the financial performance of the company.
- To understand the meaning, significance and limitation of financial statement analysis.
- To calculate liquidity, solvency, profitability and activity ratios of the organization.

OBJECTIVES

- To assess profitability, liquidity, solvency.
- To analyze the financial performance of the company.
- To provide useful suggestion to improve the financial performance of the companies.

SCOPE OF THE STUDY

- This study "Financial Performance Analysis of Hindustan unilever limited" is vital because just earning profit is not enough, a business should earn sufficient profit to cover its cost of capital and create surplus to grow. So finding the surplus profit is made essential.
- Study aim to analyze the liquidity, profitability, solvency position of the firm and efficiency which it converts its resources into service.

RESEARCH METHODOLOGY

- Secondary data.
- Ratio analysis.

RATIO ANALYSIS

The term “ratio analysis” refers to the analysis of the financial statements in conjunction with the interpretations of financial results of a particular period of operations, derived with the help of 'ratio'. Ratio analysis is used to determine the financial soundness of a business concern. In this blog post, we will introduce ratio analysis, what it is used for, what are the advantages and disadvantages of it and its limitations.

A ratio is only comparison of the numerator with the denominator .The term ratio refers to the numerical or quantitative relationship between two figures. Thus, ratio is the relationship between two figures and obtained by dividing a former by the latter. Ratios are designed show how one number is related to another.

The data given in the financial statements are in absolute form and are dumb and are unable to communicate anything. Ratios are relative form of financial data and are very useful technique to check upon the efficiency of a firm. Some ratios indicate the trend or progress or downfall of the firm.

In the view of the requirements of the various users of ratio, it is divided in to the following important categories.

1. Liquidity ratios
2. Activity ratios
3. Profitability ratios
4. Turnover ratio

1. PROFITABILITY RATIOS

Profitability ratios compare income statement accounts and categories to show a company's ability to generate profits from its operations. Profitability ratios focus on a company's return on investment in inventory and other assets.

a. NET PROFIT

Net income, also called net profit, is a calculation that measures the amount of total revenues that exceed total expenses.

b. GROSS PROFIT RATIO

The profit margin ratio, also called the return on sales ratio or gross profit ratio, is a profitability ratio that measures the amount of net income earned with each dollar of sales generated by comparing the net income and net sales of a company.

c. CASH RATIO

The cash ratio or cash coverage ratio is a liquidity ratio that measures a firm's ability to pay off its current liabilities with only cash and cash equivalents.

2. ACTIVITY RATIOS

Efficiency ratios also called activity ratios measure how well companies utilize their assets to generate income.

a. Debtor turnover ratio

Accounts receivable turnover is an efficiency_ratio or activity ratio that measures how many times a business can turn its accounts receivable into cash during a period.

b. Fixed assets turnover ratio

The fixed asset turnover ratio is an efficiency ratio that measures a company's return on their investment in property, plant, and equipment by comparing net sales with fixed assets.

3. LIQUIDITY RATIO

a. Current ratio

The current ratio is a liquidity and efficiency_ratio that measures a firm's ability to pay off its short-term liabilities with its current assets.

b. Quick ratio

The quick ratio or acid test ratio is a liquidity_ratio that measures the ability of a company to pay its current liabilities when they come due with only quick assets.

DATA ANALYSIS

profitability ratio

	2016	2015	2014	2013	2012
gross profit	16.91	15.97	15.04	14.59	13.89

net profit	12.76	14	13.8	14.7	12.16
operating profit	17.91	16.9	15.97	15.51	14.88
return on net worth	110.73	115.87	118.04	142.01	76.62
return on long term funds	160.3	148.75	145.59	163.63	95.42
cash profit	13.67	12.53	13.61	12.96	12.46

LIQUIDITY RATIO

current ratio	0.75	0.75	0.74	0.76	0.83
quick ratio	0.49	0.47	0.44	0.45	0.46

TURNOVER RATIO

debtor's turnover ratio	18.06	38.52	33.96	34.13	27.27
inventory turnover ratio	13.61	12.57	10.76	10.8	9.21
investments turnover ratio	13.61	12.57	10.76	10.8	9.21
fixed assets turnover ratio	6.31	6.99	6.77	6.73	6.26

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CONCLUSION

Thus, analysis of financial statements refers to the treatment of information contained in the financial statement in a way so as to afford a full diagnosis of the profitability and financial position of the firm concerned. The process of analysing financial statements involves the rearranging, comparing and measuring the significance of financial and operating data. Such a step helps to reveal the relative significance and effect of items of the data in relation to the time period and/or between two organizations.

Balance sheet is the main document to access the financial sound ability of the concern.

The asset details in the balance sheet shall help the investor to decide the investment ideas.

The ratio analysis is the necessary tools to the investors to necessarily select and built an effective portfolio. The data helps the investor in developing the strategy for effective investment management

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