

## **A Study on Analysis of Hindustan Unilever's Financial Position Pre and Post Launch of Lever Ayush Brand**

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### **ABSTRACT**

*Fast moving consumer good (FMCG) is the 4th largest sector in the Indian economy. This sector has grown from US\$ 31.6 billion in 2011 to US\$ 52.75 billion in 2017-18. The sector is further expected to grow at a Compound Annual Growth Rate (CAGR) of 27.86 per cent to reach US\$ 103.7 billion by 2020. Revenue in the Cosmetics and Personal care products market amounts to US\$14,443m in 2018. The market is expected to grow annually by 7.1% (CAGR 2018-2021).*

*The Indian consumer is becoming more inclined towards all things natural, organic and herbal when it comes to skin care, personal care and make up and the year 2016 has been a distinct advantage for this industry.*

*The Indian cosmetics industry encountered numerous herbal brands like Forest Essentials, Biotique, Himalaya Herbals, Blossom Kochhar, VLCC, Dabur, Lotus, Jovees, Kama Ayurveda, Patanjali, Just Herbs, and many more. Many companies have introduced the herbal products in line of existing to beat competition from above mentioned companies. HUL is one of them. This paper studies on impact of introduction of herbal products on its financial position.*

*Keywords: Fast moving consumer goods, Personal Care Products, Herbal Products, Patanjali, Hindustan Unilever Limited*

### **INTRODUCTION**

HUL is India's the largest Fast Moving Consumer Goods Company being over 80 years in Indian market. On any given day, nine out of ten Indian households use HUL's products. Its products include foods, beverages, cleaning agents, personal care products, water purifiers and consumer goods. HUL came into existence in 1933 as Lever Brothers and by merging the other groups in 1956 it was named as Hindustan Lever Limited. From 2007 it is known as "Hindustan Unilever Limited".

HUL has 28 manufacturing facilities across India. Presently it is selling more than 35 brands in skin care, dental care, cosmetics, tea, coffee, packaged foods, ice cream, and water purifiers. The HUL can be found in every household and is part of the everyday life of millions of consumers.

The Company has about 18,000 employees and has sales of INR 37660 crores (financial year 2018-19) and has a market capitalization of over Rs. 4 lakh crore. HUL is a subsidiary of Unilever.

### **The Patanjali Challenge**

Patanjali Ayurved Limited is an consumer goods company. Baba Ramdev got into existence the Patanjali Ayurved Limited in the year 2006. Patanjali produces products in the categories of personal care and food. Until a few years back, Baidyanath and Vicco were the key players in herbal products. However in 2006 a new company entered into a market and in just 10 years it left these companies behind. Yoga guru Baba Ramdev's Patanjali Ayurved products have gotten the wave of demand for herbal and natural products in Indian market.

This wave has also inspired the other companies to add Ayurvedic and herbal products thereby increasing their market share. The reason why some of these companies dealing in Ayurvedic products, like Vicco, Sandu, Amrutanjan were not able to attract Indian to them was their limited portfolio, which never went beyond the traditional products. However, Patanjali sells products ranging from detergents and toothpaste to ghee, atta and noodles in an FMCG market, thereby making Ayurvedic products a big deal in India. In March 2017, Patanjali became the 2nd largest company in the FMCG space which clearly threatens to disrupt the FMCG sector.

<b>The New Pecking Order Of Indian FMCG</b>	
Company	Trailing Four-Qtr Revenues (₹ Cr)
HUL	30782.7
<b>PATANJALI</b>	<b>10561.0</b>
ITC *	10336.9
Nestle India	9159.3
Godrej Consumer Group	9134.2
Britannia Industries	8844.4
Dabur	7691.0
Tata Global Beverages	6963.5
Marico	5918.0
Colgate-Palmolive	4010.0
GSK Consumer Healthcare	3784.9
Emami	2552.9
P&G Hygiene & Healthcare	2388.7
Jyothy Labs	1680.7
Bajaj Corp	791.3

The FMCG sector follows it up with a slew of counter measures to face the rising threat of Patanjali majorly by including their portfolio in herbal and ayurvedic products like Colgate launches Neem Active Salt which contains traditional Indian teeth cleansers neem and salt, to take on Dant Kanti. It also launched Swarna Vedshakti and Cibaca Vedshakti. Dabur launches multiple products such as Pudín Hara Antacid, Dabur Honitus, Agnisandeeepam Churna. It had also relaunched Vatika shampoo range with 7 natural ingredients. HUL, the country’s largest consumer goods company, relaunched "Lever Ayush" extending it to mass segment. HUL also acquired Mosons Group’s flagship brand Indulekha to augment its position in the personal care basket. Launch of the Ayush master brand in the mass segment across categories like toothpaste, face wash, shampoo, conditioner, etc, is envisaged to propel growth. This, coupled with Indulekha’s clinical validation, is likely to boost the company’s natural proposition. This research paper is attempting to analyze in improvement HUL post launch of Ayush.

**LITERATURE REVIEW**

**India’s toothpaste wars are getting spicy**

By Suneera Tandon, January 3, 2018

The Indian toothpaste makers Colgate and Hindustan Unilever (HUL) are adding more products with traditional flavours to counter the competition by Patanjali. They are wooing consumers bringing herbal products with charcoal, salt, cardamom, mint, and even turmeric.

And firms selling herbal or natural toothpaste are winning in India’s Rs10,000 crore (\$1.57 billion) oral-care market, suggests a report by HDFC Securities released last month. “The oral care category has witnessed significant disruption owing to the success of Patanjali’s Dant Kanti,” the report says.

As a result, Ayurveda or herbal-based products now constitute about 20% of the total oral care market, as compared to zero even 10 years ago, HDFC Securities report said, citing market data. And even though established players like Colgate and HUL have adapted to changing tastes, Patanjali and Dabur still sell four out of five herbal and Ayurvedic products in the oral care market. Changing tastes aside, pricing may be a crucial factor in a nearly-saturated oral care market in urban India, where over 90% of houses use either a toothpaste or a tooth powder.

Patanjali’s hit toothpaste brand, Dant Kanti, costs Rs40 for a 100 gram tube, while similar products from Colgate and HUL cost anywhere between Rs55 and Rs100. While Colgate is still a market leader by many miles, its market share has dropped to 53% from 57.4% in 2015.

**Asiya Faisal Khan, Mohd Faisal Khan (2013)** focused on an effort to determine consumer buying behavior through the awareness of product ingredients in skin care products by Women users living in Madhya Pradesh. Questionnaires were distributed and self-administered to 250 respondents. Chi-square was used in the study. The sample includes women skin care users both working & non-working. The findings of the study indicated women buyers have an awareness regarding the presence of product ingredients in skin care products. Women skincare users are conscious about the Product quality of the skin care products. The

research is on consumer behavior, certain degree of subjectivity can be found among sample respondents was the limitation of the study. It suggests that Companies should strive hard to explore new natural ingredients which are safe and effective in usage.

**Acharya Balkrishna (2008)** : Author has given an insight into secrets of Indian Herbs in his book 'Secrets of Indian Herbs for Good Health' . based on research and experience-based traditional knowledge of herbs and their medicinal usage, shall prove to be a significant contribution towards the well-being of the humanity at large. It is a major work making knowledge of rare herbs easily accessible to all. The book has 424 pages and contains details for 125 herbal plants. It gives step by step instructions for using them, which should be followed depending on the nature of the disease and in consultation with a knowledgeable Ayurveda practitioner. The book gives the names of the herbs in different languages along with Ayurvedic description, chemical composition, properties, medicinal uses and their coloured photographs. To help the reader identify these parts, pictures of the specific parts of the plant are also given. In India the knowledge of medicinal plants has been continuously passed on through generation's right from the Vedic period.

## RESEARCH METHODOLOGY

### OBJECTIVE OF THE STUDY

Conducting Financial Analysis on HUL's financials pre and post introduction of Lever Ayush brand as a counter measure against Patanjali's ayurvedic products.

### SCOPE OF THE STUDY

HUL launched the Ayush brand at the end of FY 2015 - 2016. So, financial analysis will be done for a 5 year period i.e. from FY 2014 - 2015 to FY 2018 - 2019 where FY 14 - 15 and 15 - 16 form part of pre - launch of Ayush brand and the rest years as post launch.

Following financial analysis will be done:-

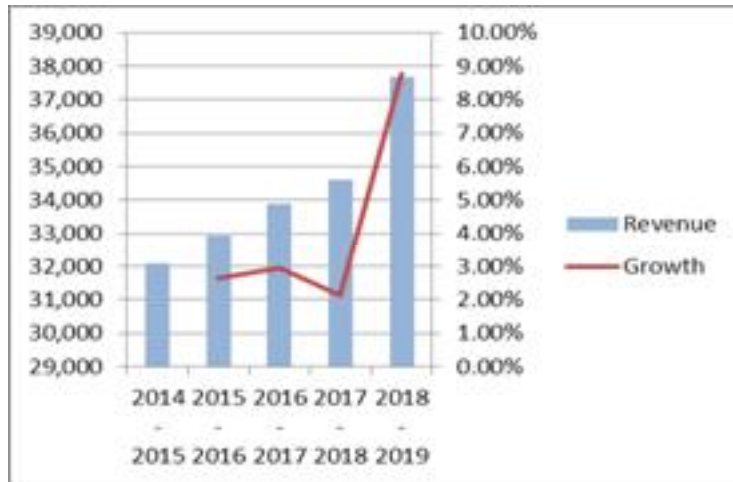
- Sales Trend
- Gross Profit Ratio
- Net Profit Ratio
- Economic Value Added
- Return on Capital Employed
- Return on Net Worth
- Market Capitalization

### SIGNIFICANCE OF THE STUDY

The study is important in order to understand whether measures taken by HUL were sufficient enough to defend its top-line and returns and progress in times of turmoil for the FMCG sector because of the entry of Patanjali. Simultaneously, we can understand various tools used to analyze financials and its interpretation.

In this section of study we will be conducting financial analysis of financial statements of HUL by majorly using ratio analysis. Ratio analysis is the one of the most powerful tool of financial analysis. It aims at making use of quantitative information for decision making.

**TREND ON SALES**



**Interpretation**

It can be seen from the above table and from the above chart that the trend on sales shows increasing trends when compared to the base year 2014 - 2015.

**OPERATING PROFIT RATIO**

Operating Profit Margin is profitability or performance ratio used to calculate the percentage of profit a Company produces from its operations

$$\text{Operating Profit Ratio} = \frac{\text{Operating Profit}}{\text{Total Operating Income}} * 100$$

Operating Profit Margin differs from Net Profit Margin as a measure of a company’s ability to be profitable. The difference is that the former is based solely on its operations by excluding the financing cost of interest payments and taxes.

The following chart shows the ratio of operating income and operating profit ratio



**Interpretation**

It is clearly evident from the table and the charts that operating profit is not only rising in absolute terms but also the operating profit margin has been increasing. This clearly shows that HUL has effectively managed to increase the revenue without disproportionately increasing the operating cost as operating profit is growing at a faster rate than the growth in sales.

**NET PROFIT RATIO**

This ratio is also called as the net profit to sale or net profit margin ratio

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Total Operating Income}} * 100$$

The ratio is used to measure the average profitability and hence it is very useful to profitability of the business. Higher the ratio better is the operational efficiency of the concern.

The net profit and sales can be expressed in the chart:-

The following chart shows the ratio of net profit and sales:



### Interpretation

HUL has improved its net profit in absolute terms as well as a percentage to total operating profit in the post lever ayush introduction period. The net profit has risen about 45% by considering FY 2015 - 2016 as base year. This is a phenomenal rise over a period of 3 years for a company which already had a mammoth size.

### Economic Value Added

Market capitalization, Earnings Capitalization and Present value of estimated future cash flows are the old methods of finding out shareholders' wealth but now a measure called 'Economic Value Added' (EVA) is increasingly being applied to understand and evaluate financial performance.

$EVA = \text{Net Operating Profit after Taxes (NOPAT)} - \text{Cost of Capital Employed (COCE)}$

NOPAT = Profits after depreciation and taxes but before interest costs. NOPAT thus represents the total pool of profits available on an ungeared basis to provide a return to lenders and shareholders

$COCE = \text{Weighted Average Cost of Capital (WACC)} \times \text{Average Capital Employed}$

Calculation of WACC for FY 2018-2019

Cost of debt is taken at the effective rate of interest applicable to an "AAA" rated Company like HUL for a short term debt, net of taxes. We have considered a pre tax rate of 8.87% for 2018-19 (7.97% for 2017-18)

Cost of Equity is the return expected by the investors to compensate them for the variability in returns caused by fluctuating earnings and share prices.

$\text{Cost of Equity} = \text{Risk free return equivalent to yield on long-term Government Bonds (taken at 7.47\% for 2018-19)} + \text{Market risk premium (taken at 6.29\%)} \times \text{Beta variant for the Company, (taken at 0.694)}$  where Beta is a relative measure of risk associated with the Company's shares as against the market as a whole.

Thus HUL's cost of equity =  $7.47\% + 6.29\% \times 0.694 = 11.84\%$

$WACC = \frac{[(\text{Cost of Equity} \times \text{Amount of Equity}) + (\text{Cost of Debt} \times \text{Amount of Debt})]}{[\text{Total Amount of Debt} + \text{Equity}]}$

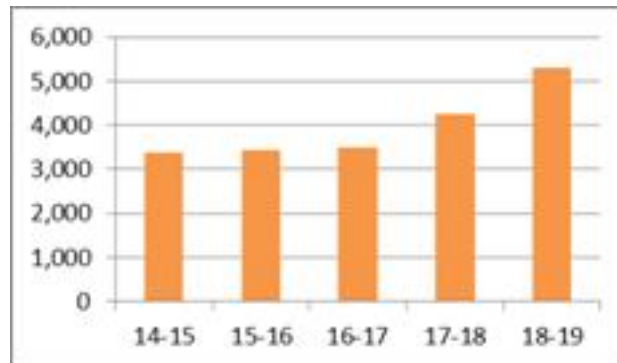
**In HUL's case, amount of debt is zero, therefore, the WACC = Cost of Equity.**

### What does EVA show?

EVA is residual income after charging the Company for the cost of capital provided by lenders and shareholders. It represents the value added to the shareholders by generating operating profits in excess of the cost of capital employed in the business.

Chart showing growth in Economic Value Added over a 5 year period:-

(Rs. in Crores)



**Interpretation**

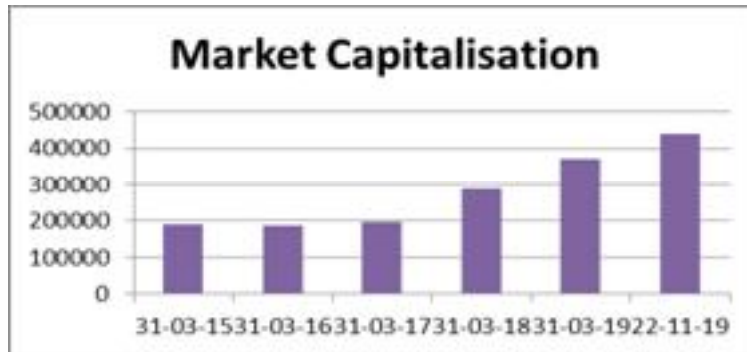
This basically shows how efficiently the company is using all the funds at its disposal. And quick glance over the table and chart will show that HUL is not only increasing the net operating profit but also is self financed which has helped it reduced cost of funds which it uses.

**Market Capitalization**

Market capitalization is the aggregate valuation of the company based on its current share price and the total number of outstanding stocks.

It is calculated by multiplying the current market price of the company's share with the total outstanding shares of the company.

The market capitalization is expressed in form of chart



**Interpretation**

The market capitalization took a minor hit as on 31st March, 2016 when it went down from Rs. 1,88,849 Crores to Rs. 1,88,154. But post introduction of Lever Ayush products the market capitalization has had a bull run and has now more than doubled in a brief period of 3 years.

This further shows the continued faith of investors in such rough time for the FMCG sector.

Reasons for growth are consumer demand environment, pace of rural growth, competitive intensity especially in detergents, and performance of Lever Ayush. But company's capitalization of growing trend of natural products and introducing Ayush has contributed more to it. Naturals portfolio is growing at more than 2.5 times of overall HUL average while growth of Indulekha has exceeded our acquisition business case. Kerala based hair-care brand Indulekha which was bought by HUL for Rs 330 crore two years ago has seen sales grow five times.

From articles it could be seen company's inclusion of natural products have been key factors in its growth.

**CONCLUSION**

As per the financial analysis on financials of HUL was conducted pre and post launch of Lever Ayush brand as a response to growing influence of Patanjali in the FMCG Sector.

A general trend has been observed from the analysis that the company has been growing at a rapid rate instead of shedding or decelerating and has still maintained its premier position in the FMCG industry with more solidarity. Consumers are more and more moving towards herbal and ayurvedic products and majority have shifted from Patanjali's products. From increasing trend of sales and its operating profits it seems to be consumers aware of the products of HUL and also have used it, soap being the leading product followed by shampoo. Whereas, Patanjali's growth in sale terms has dipped as it could not continue with its stealthy growth rate.

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