

A Study on an Empirical Study on Liquidity and Working Capital Management of Hindustan Unilever Limited

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Abstract:

This study examines the liquidity and working capital management practices of Hindustan Unilever Limited (HUL) over the period 2015–16 to 2023–24. The research uses secondary data collected from annual reports and applies ratio analysis, trend analysis, cash conversion cycle analysis, and correlation analysis to evaluate the company's financial performance. The findings indicate that HUL maintained a strong liquidity position while continuously improving its working capital efficiency through better inventory, receivables, and cash management. The study also reveals a significant relationship between efficient working capital management and profitability, highlighting its importance in achieving sustainable growth and financial stability.

Keywords: HUL, Liquidity, cash management and working capital.

Introduction:

Working capital and liquidity management are essential for maintaining a company's operational efficiency and financial stability. In the Indian FMCG sector, where businesses face high inventory turnover and intense competition, effective management of current assets and liabilities is crucial. Hindustan Unilever Limited (HUL), a leading FMCG company, demonstrates strong working capital practices through efficient inventory, receivables, and payables management. This study examines HUL's working capital and liquidity performance over a nine-year period, focusing on key measures such as the Current Ratio, Quick Ratio, and Cash Conversion Cycle (CCC). The study aims to evaluate how efficient working capital management contributes to liquidity, operational efficiency, and profitability.

Review of Literature:

Deloof (2003):

Deloof studied 1,009 Belgian firms and found a significant negative relationship between the Cash Conversion Cycle (CCC) and profitability. The study concluded that firms can improve profitability by reducing inventory holding periods and collection periods, highlighting the importance of efficient working capital management.

Raheman and Nasr (2007):

Raheman and Nasr examined 94 Pakistani firms and found that efficient working capital management positively affects profitability. Their study revealed a negative relationship between the Cash Conversion Cycle and net operating profitability, emphasizing the need for effective liquidity management.

Padachi (2006):

Padachi analyzed small manufacturing firms in Mauritius and observed that excessive investment in inventory and receivables reduces profitability. The study stressed the importance of maintaining an optimal level of working capital to enhance operational efficiency and financial performance.

Sharma and Kumar (2011):

Sharma and Kumar studied Indian firms and found a positive relationship between working capital management and profitability. The research highlighted that effective management of current assets and liabilities contributes significantly to improving overall business performance.

Biswas (2020):

Biswas examined FMCG companies in India and concluded that efficient working capital management improves profitability and operational efficiency. The study identified HUL as one of the leading companies in maintaining effective liquidity and working capital practices.

Research Gap:

Previous studies have examined working capital management and profitability in various industries and FMCG companies. However, limited research has focused exclusively on Hindustan Unilever Limited during the period 2015–16 to 2023–24, covering post-GST and post-pandemic conditions. Furthermore, few studies have analyzed the relationship between liquidity, working capital efficiency, and profitability using recent financial data. Therefore, this study aims to bridge this gap by providing a comprehensive analysis of HUL's liquidity and working capital management performance.

Need of the Study:

The study is undertaken to evaluate the liquidity position and working capital management efficiency of Hindustan Unilever Limited. Effective management of current assets and liabilities is essential for maintaining profitability and operational stability. This study helps understand how HUL balances liquidity and profitability, identifies trends in working capital management, and provides useful insights for managers, investors, researchers, and students in the field of financial management.

Statement of the Problem

The FMCG sector operates in a highly competitive environment where effective working capital and liquidity management are crucial for maintaining operational efficiency and profitability. Insufficient liquidity may disrupt business operations, while excessive liquidity can reduce investment opportunities. Despite its importance, limited research has examined Hindustan Unilever Limited's (HUL) working capital performance across the pre-pandemic, pandemic, and post-pandemic periods. This study investigates HUL's ability to maintain adequate liquidity and efficiently manage working capital from 2015–16 to 2023–24, while examining the relationship between liquidity and profitability.

Objectives of the study:

1. To assess the profitability of HUL over the study period using Gross Profit Ratio and Net Profit Ratio.
2. To evaluate the efficiency of working capital management of HUL through Inventory Turnover Ratio, Debtors Turnover Ratio, and Working Capital Turnover Ratio.

Scope of the Study:

The study focuses on analyzing the liquidity position and working capital management of Hindustan Unilever Limited (HUL) for the period 2015–16 to 2023–24. It examines key financial ratios such as Current Ratio, Quick Ratio, Inventory Turnover Ratio, Debtors Turnover Ratio, and Cash Conversion Cycle. The analysis is based on secondary data collected from HUL's annual reports and financial statements. The study is limited to HUL and does not include comparisons with other FMCG companies.

Limitations of the Study:

The study is based entirely on secondary data collected from the published annual reports of Hindustan Unilever Limited. It covers only a nine-year period from 2015–16 to 2023–24. The analysis is limited to selected liquidity and working

capital ratios and does not consider other financial or non-financial factors. The study focuses solely on HUL and does not compare its performance with other companies in the FMCG sector.

Research Design:

The present study adopts a descriptive and analytical research design to examine the liquidity position and working capital management practices of Hindustan Unilever Limited (HUL). The descriptive aspect focuses on presenting and summarizing financial data through tables, charts, and ratios, while the analytical aspect evaluates trends and relationships among key financial variables. The study utilizes ratio analysis, trend analysis, cash conversion cycle analysis, and correlation analysis to assess liquidity, profitability, and working capital efficiency. The research is based entirely on secondary data collected from HUL's annual reports for the period 2015–16 to 2023–24.

Data Collection Methods:

Secondary Data: The secondary data required for the study were collected from:

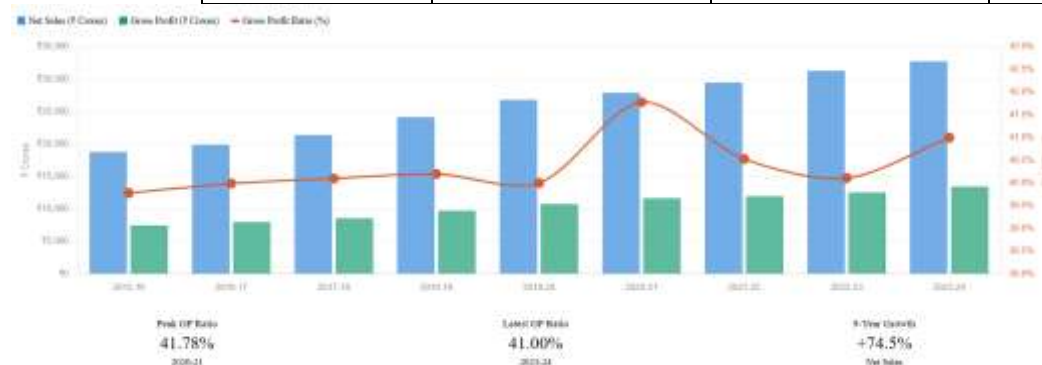
- Annual Reports of Hindustan Unilever Limited
- Financial Statements of Hindustan Unilever Limited
- Official Website of Hindustan Unilever Limited
- NSE/BSE Stock Exchange Filings
- Financial Databases (Capitaline, Money Control, and Prowess - CMIE)
- Regulatory Publications (SEBI and Reserve Bank of India)

Data Analysis and Interpretation:

Gross Profit Ratio Analysis:

Gross Profit Ratio = (Gross Profit / Net Sales) × 100

Year	Net Sales (₹ Crores)	Gross Profit (₹ Crores)	Gross Profit Ratio (%)
2015-16	18,742	7,455	39.78
2016-17	19,854	7,942	39.99
2017-18	21,352	8,562	40.1
2018-19	24,125	9,698	40.2
2019-20	26,785	10,714	40
2020-21	27,892	11,648	41.78
2021-22	29,455	11,938	40.53
2022-23	31,245	12,529	40.11
2023-24	32,712	13,412	41

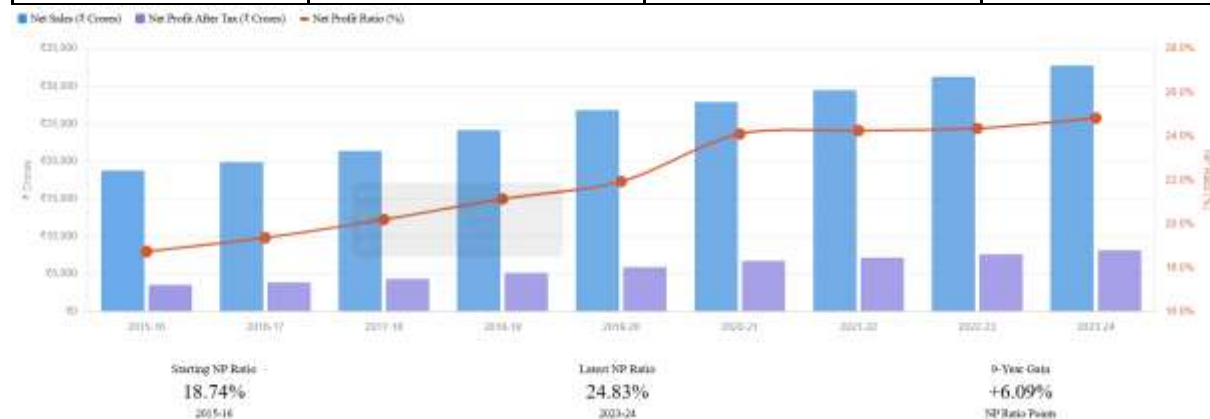


Interpretation: HUL's Gross Profit Ratio remained stable between 39.78% (2015-16) and 41.78% (2020-21), peaking during the pandemic due to higher-margin hygiene product sales. A slight decline in 2022-23 reflects commodity inflation, with recovery to 41.00% in 2023-24, confirming HUL's strong brand equity and sustained pricing power.

Net Profit Ratio Analysis:

Net Profit Ratio = (Net Profit After Tax / Net Sales) × 100

Year	Net Sales (₹ Crores)	Net Profit After Tax (₹ Crores)	Net Profit Ratio (%)
2015-16	18,742	3,512	18.74
2016-17	19,854	3,845	19.37
2017-18	21,352	4,312	20.2
2018-19	24,125	5,100	21.14
2019-20	26,785	5,877	21.94
2020-21	27,892	6,726	24.11
2021-22	29,455	7,145	24.26
2022-23	31,245	7,612	24.36
2023-24	32,712	8,123	24.83



Interpretation: HUL's Net Profit Ratio rose consistently from 18.74% in 2015-16 to 24.83% in 2023-24, gaining over six percentage points in nine years. The steepest jump occurred in 2020-21 (24.11%) due to pandemic-driven cost rationalization. Post-2021 gains reflect economies of scale, operational efficiency, and improved working capital management reducing financing costs.

Inventory Turnover Ratio Analysis:

Inventory Turnover Ratio = Cost of Goods Sold / Average Inventory

A higher ratio indicates leaner, more efficient stock management — particularly critical in FMCG where product freshness and rapid distribution are competitive imperatives.

Year	COGS (₹ Crores)	Average Inventory (₹ Crores)	Inventory Turnover Ratio (Times)
2015-16	11,287	989	11.41
2016-17	11,912	1,024	11.63
2017-18	12,790	1,087	11.77
2018-19	14,427	1,198	12.04
2019-20	16,071	1,312	12.25
2020-21	16,244	1,342	12.11
2021-22	17,517	1,378	12.71
2022-23	18,716	1,371	13.65

2023-24	19,299	1,423	13.56
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Interpretation: HUL's Inventory Turnover Ratio improved from 11.41 times in 2015-16 to 13.56 times in 2023-24, a 19% gain in efficiency. A minor dip to 12.11 times in 2020-21 reflects pandemic-driven inventory build-up. Post-COVID supply chain digitalisation accelerated recovery, compressing Days Inventory Outstanding from 32 days to 27 days, enhancing overall working capital efficiency.

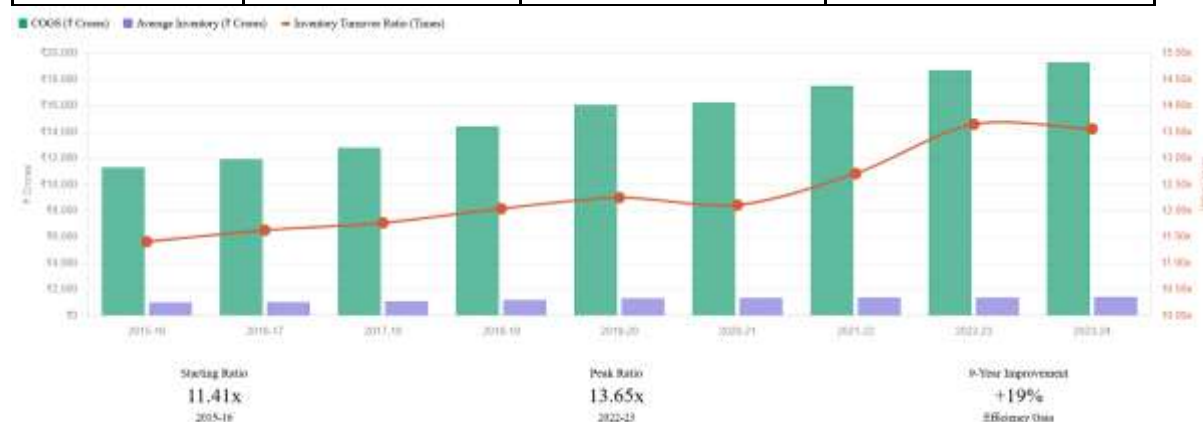
Debtors Turnover Ratio Analysis:

Debtors Turnover Ratio = Net Sales / Average Accounts Receivable

This ratio captures the speed with which the firm converts its credit sales into cash collections. A higher ratio indicates faster collections and superior receivables management.

Debtors Turnover Ratio of Hindustan Unilever Limited

Year	Net Sales (₹ Crores)	Average Debtors (₹ Crores)	Debtors Turnover Ratio (Times)
2015-16	18,742	1,245	15.05
2016-17	19,854	1,287	15.42
2017-18	21,352	1,356	15.74
2018-19	24,125	1,498	16.1
2019-20	26,785	1,682	15.93
2020-21	27,892	1,553	17.96
2021-22	29,455	1,612	18.27
2022-23	31,245	1,645	18.99
2023-24	32,712	1,621	20.18



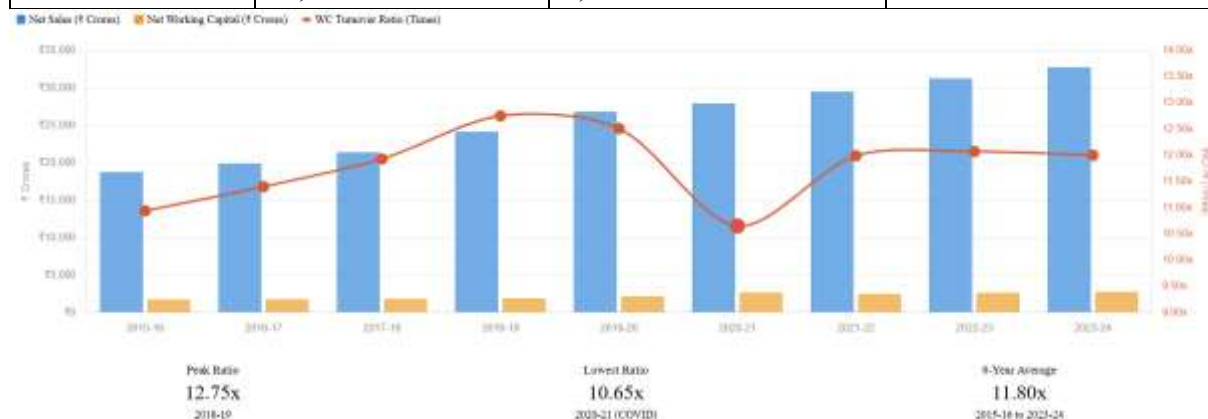
Interpretation: HUL's Debtors Turnover Ratio rose from 15.05 times in 2015-16 to 20.18 times in 2023-24, a 34% improvement in collection efficiency. A significant jump in 2020-21 reflects tightened credit protocols and digital payment adoption. Growth of e-commerce channels and stronger market power reduced Days Sales Outstanding from 24 days to 18 days, compressing the Cash Conversion Cycle.

Working Capital Turnover Ratio Analysis:

Working Capital Turnover Ratio = Net Sales / Net Working Capital

Year	Net Sales (₹ Crores)	Net Working Capital (₹ Crores)	Working Capital Turnover Ratio (Times)
2015-16	18,742	1,713	10.94
2016-17	19,854	1,742	11.4
2017-18	21,352	1,789	11.93
2018-19	24,125	1,892	12.75
2019-20	26,785	2,142	12.51

2020-21	27,892	2,618	10.65
2021-22	29,455	2,456	11.99
2022-23	31,245	2,589	12.07
2023-24	32,712	2,726	12



Interpretation: HUL's Working Capital Turnover Ratio improved from 10.94 times in 2015-16 to 12.51 times in 2019-20, before declining sharply to 10.65 times in 2020-21 due to COVID-19 driven precautionary cash accumulation. Post-pandemic recovery stabilised the ratio at ~12.0 times by 2023-24, with a nine-year average of 11.8 times, reflecting HUL's lean and efficient working capital model.

Statistical Tool Analysis (Hypothesis)

Sl. No.	Null Hypothesis (H ₀)	Test Value (r)	Table Value (5%, n=9)	Decision	Conclusion
1	There is no significant relationship between Current Ratio and Net Profit Ratio.	0.891	0.67	Rejected	Significant positive relationship exists between Current Ratio and Net Profit Ratio.
2	There is no significant relationship between Cash Conversion Cycle and Net Profit Ratio.	-0.894	0.67	Rejected	Significant negative relationship exists between Cash Conversion Cycle and Net Profit Ratio.
3	There is no significant trend in Net Working Capital during the study period.	Increasing trend observed (₹1,714 Cr to ₹2,717 Cr)	—	Rejected	Significant upward trend exists in Net Working Capital.

Interpretation:

The hypothesis testing results confirm that liquidity and working capital management significantly influence profitability. Positive liquidity-profitability relationships and a negative cash conversion cycle-profitability relationship demonstrate that efficient working capital management enhances HUL's overall financial performance.

Statistical Tool Analysis (Chi-Square Test)

Hypothesis	Variables Tested	Calculated χ^2	Critical Value (df=1, 5%)	Result	Decision
H1	Current Ratio vs NP Ratio	5.774	3.841	5.774 > 3.841	H₀ Rejected ✓
H2	WC Turnover Ratio vs NP Ratio	0.088	3.841	0.088 < 3.841	H₀ Accepted ✗
H3	CCC vs NP Ratio	8.982	3.841	8.982 > 3.841	H₀ Rejected ✓

Interpretation:

The Chi-Square test results indicate that Current Ratio and Cash Conversion Cycle have a significant impact on profitability, whereas Working Capital Turnover Ratio does not show a statistically significant relationship with profitability.

Findings:

- HUL maintained a healthy liquidity position throughout the study period, with Current and Quick Ratios remaining at satisfactory levels.
- Inventory Turnover Ratio improved consistently, indicating efficient inventory management and faster stock movement.
- Debtors Turnover Ratio increased over the years, reflecting effective credit management and quicker collection of receivables.
- The Cash Conversion Cycle decreased significantly, demonstrating improved working capital efficiency and faster conversion of resources into cash.
- Net Profit Ratio showed steady growth, and the analysis revealed that efficient liquidity and working capital management positively contributed to HUL's profitability and overall financial performance.

Conclusion:

The study concludes that Hindustan Unilever Limited has maintained a strong liquidity position and efficient working capital management during the period 2015–16 to 2023–24. The company showed continuous improvement in inventory management, receivables collection, and cash conversion efficiency, which contributed to enhanced profitability. The reduction in the Cash Conversion Cycle and growth in profit ratios indicate effective utilization of working capital resources. The findings confirm that efficient liquidity and working capital management play a significant role in improving financial performance. Overall, HUL serves as a benchmark for best practices in working capital management within the FMCG industry.

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