

# To Study the Effect of Working Capital on the Liquidity and Profitability of a Company with respect to HUL Company

**Ms. Sonam Singh**

Assistant Professor, Department of Accountancy

R. A. Podar College of Commerce & Economics

Matunga, Mumbai 400019

Mobile: 8082418623 ♦ sonamsingh7890@gmail.com

## Abstract

*Working capital management is a concept that is gaining serious attention all over the current financial crisis and economic problems. Traditionally financial analyst would consider liquidity management of companies playing a vital role to increase profitability and shareholders wealth and also it shows the ability of a company to meet short terms obligations hence it is obligation to maintain liquidity position of the company as without it company cannot survive.*

*There is impact of working capital on the liquidity and profitability of the company, which has been proved in the study.*

*The liquidity of a firm is measured primarily by current ratio and net working capital whereas the profitability is measured by return on assets and return on equity.*

*So profitability of the firm and liquidity of the firm is positively correlated in this study.*

**Keywords:** Net working Capital, Liquidity & Profitability.

**Paper Type:** Empirical Research.

## Introduction

Working Capital Management refers to the management decisions and strategies that are adopted by companies in order to deal with problems relating to the management of working capital, which generally influence the size and effectiveness of the working capital of a firm. In order to meet short-term debt obligations and operating expenses of a company, working capital management ensures companies have sufficient cash flow. To improve the earnings of a company, implementation of effective working capital management system is essential. Lack of efficient working capital management not only reduces profitability of a company, but also has major impact on its financial leverage position, which may lead to business failure as well. However, both excessive and inadequate working capital is harmful for a firm. Since excessive working capital leads to unremunerated use of scarce funds and inadequate working capital management interrupts the normal operation of a firm. The firms that manage working capital properly, have found to be able to make counter cyclical moves to build competitive advantage and they have also performed better in generating fund internally and also face lesser trouble in external financing .

## Backdrop of Study

In the current perspective of the competitive market short-term assets and liabilities are important components of total assets and need to be analysed carefully at the side of long-term assets and liabilities. Management of this short-term assets and liabilities are subject to cautious investigation because working capital management plays a vital function for the firm's profitability and risk as well as its value. In the field of financial management, working capital management is a very sensitive area. Working capital is the life blood and nerve centre of business. Just as circulation of blood is essential in the human body for maintaining life, working capital is very essential to maintain the smooth running of the business. Working capital management is also very important for the firm's success; hence companies are trying to maintain optimal levels of working capital. Companies are adopting methods for managing proper level in various components of working capital i.e., cash receivables, inventory and payables etc.

Proper management of working capital is required to ensure that the firm is able to continue its day-to-day operations and it has the sufficient ability to satisfy its present and upcoming short term expenses. No business can run successfully without an adequate amount of working capital. So there exist a number of implication and gaps for enquiry into working capital management of companies; against this background a study was conducted on the Working Capital position of HUL Limited.

## Company Profile

In 1931, Unilever set up its first Indian subsidiary, Hindustan Vanaspati Manufacturing Company, followed by Lever Brothers India Limited (1933) and United Traders Limited (1935). These three companies merged to form HUL in November 1956; HUL offered 10% of its equity to the Indian public, being the first among the foreign subsidiaries to do so. Unilever now holds 67.25% equity in the company. The rest of the shareholding is distributed among about three lakh individual shareholders and financial institutions.

HUL is a company the builds on its strengths by combining scale and expertise, with understanding consumers in diverse markets.

HUL completed 85 years of corporate existence in India, in 2018.

According to an article published in Businessworld, HUL is a market leader in the FMCG horizon in India. In the financial year 2017-18, HUL's cash from operations was Rs. 8000 crore, an increase of Rs. 1,369 crores over the previous fiscal year.

HUL was recognised and awarded at the Social and Business Enterprise Responsible Awards (SABERA), held in December, 2018.

## Objectives

- To study the various components of working capital.
- To study impact of net working capital on the profitability of the company.
- To study impact of net working capital on the liquidity of the company.
- To study correlation of profitability and liquidity of firm.

## Literature Review

Literature Review Following reviews covers research studies conducted on working capital and its relation with profitability:

**Narware (2004)** examined National Fertilizer Ltd. for the years, 1991-2001 to know the impact of working capital on the profitability of the company. The results showed that there existed both positive and negative associations between working capital variables and profitability. The author also found that the working capital management of the company had low influence over the profitability which was insignificant at 0.05 per cent level of significance and significant at 0.50 per cent level of significance.

**Toby (2008)** had different findings based on the study conducted on Nigerian manufacturing companies during 1990-2002. The study showed that with a 1 per cent increase in the liquidity, the profitability also showed a tremendous increase. It was concluded that there was a statistically positive and significant influence of liquidity ratios on the profitability.

**Panigrahi (2012)** based on the case study on the cement company in India, i.e. ACC Ltd. during 1900-00 to 2009-10 found that there existed a moderate relationship between working capital management and profitability as few working capital variables had a positive impact on profitability while the others had negative. It was concluded that even though there was some influence of working capital management on the profitability, it was highly insignificant.

## Hypothesis

H0 : There is no correlation between net working capital & liquidity & profitability.

H1 : There is correlation between net working capital & liquidity & profitability.

## The Scope & Limitation of Study

The following are the scope of the study:

- The study covers HUL companies financial report of 10 years.
- The profitability, liquidity, current ratio, return on capital employed ratio, is calculated in this study.
- Mean, standard deviation and spearman's rank correlation is calculated for getting proper interpretation.

The following are the limitation of the study:

- The secondary data used in this study have been taken from published annual report.
- As requirement and a necessity some data has been grouped and sub-grouped.
- For making the analysis of working capital position of HUL Ltd, some ratio analysis techniques of financial management have been used.

## Research Design & Methodology

In this study the sample company named HUL has been taken for analysis of working capital position. Present study is based on secondary data i.e. published annual reports of the company. These financial

data are edited, classified and tabulated as per the requirement of the study. This study has covered 10 years data's from 2008-09 to 2017-18 for analysing working capital position of HUL Ltd.

The liquidity and profitability position has been calculated to analyse the working capital position of HUL. The collected data has been analysed by various ratio for finding liquidity and profitability. For assessing the behaviours of above ratios. Arithmetic mean, standard deviation, Spearman's Rank correlation has been used.

## Methodology

In this study scientific approach is followed to design the research methodology for investigation. For this study researcher has used secondary data as a source of information.

The following tools and techniques have been classified in the study:

### Accounting Technique

- Ratio analysis.

### Statistical Technique

- Arithmetic mean.
- The standard deviation.
- Spearman rank correlation.

## Data analysis of working capital management, liquidity & profitability of HUL Ltd.

### Working Capital Position

Gross working capital and net working capital. The former means the firm's investment in current assets over the current liabilities. The excess of current assets over the current liabilities. The excess of current assets over the current liabilities provides measures of safety margin available against uncertainty in realization of current assets and flow of funds.

**Statement Showing Net Working Capital**

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	NWC (Rs. Crore)
2008-09	5600.96	6205.75	-604.79
2009-10	5367.76	6733.21	-1365.45
2010-11	6974.25	6620.07	354.18
2011-12	7798.62	6448.7	1349.92
2012-13	7569.99	7655.86	-85.87
2013-14	8852.47	8603.84	248.63
2014-15	9263.55	8782.82	480.73
2015-16	9530	6652	2878
2016-17	9365	7202	2163
2017-18	11139	8636	2503
Mean	8146.16	7354.025	792.135
Standard deviation	1829.65656	995.3367768	1391.639

Source: Compiled by Researcher

## Inferences

Above table shows the working capital position of the concern. During the period of study working capital showed fluctuating tendency. The highest net working capital is in the year 2015-16 with the value of Rs. 2878 crores and least in the year 2012-13 is Rs. -85.87 crores.

During the final year 2017-2018 working capital was positive with the value of Rs.2503 crores respectively. The gross working capital has mean value of 8146.16 crore. The year 2017-18 has highest working capital of 11,139 crores and least in the year 2009-10 536.76 crore.

The current liability of the firm was highest in 2014-15 and in the year 2008-2009.

**Statement Showing Current Ratio (Rs.crore)**

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO (times)
2008-09	5600.96	6205.75	0.9
2009-10	5367.76	6733.21	0.8
2010-11	6974.25	6620.07	1.05
2011-12	7798.62	6448.7	1.21
2012-13	7569.99	7655.86	0.99
2013-14	8852.47	8603.84	1.02
2014-15	9263.55	8782.82	1.05
2015-16	9530	6652	1.43
2016-17	9365	7202	1.3
2017-18	11139	8636	1.29
MEAN	8146.16	7354.025	1.104
STANDARD DEVIATION	1829.65656	995.3367768	0.197326576

Source: Compiled by Researcher

## Inferences

Above table shows the current ratio as a measure of liquidity position. During the period of study it was observed that the current ratio is below 1 in first two years. The highest ratio of 1.43 was observed in the year 2014-15.

The current assets and current liabilities showed an increasing trend throughout the study.

The current ratio showed an increasing trend with an average ratio of 1.10 but the standard deviation is low i.e. 0.1973 times.

**Statement of Liquid Assets to Current Liabilities (Rs.crore)**

YEAR	LIQUID ASSETS	CURRENT LIABILITIES	LIQUID RATIO (TIMES)
2008-09	2314.24	6205.75	0.37
2009-10	2574.17	6733.21	0.38
2010-11	3747.13	6620.07	0.57
2011-12	4796.18	6448.7	0.74
2012-13	4394.74	7655.86	0.57
2013-14	5567.26	8603.84	0.64
2014-15	6003.6	8782.82	0.68
2015-16	7002	6652	1.05
2016-17	7003	7202	0.97
2017-18	8780	8636	1.01
MEAN	5218.232	7354.025	0.698
STANDARD DEVIATION	2061.193863	995.3367768	0.245438383

Source: Compiled by Researcher

## Inferences

The above table shows the liquidity ratio of the firm during the period of study. The ideal ratio is 1:1. The company had the highest value of 1.05 times in the year 2015-16.

During the period of study this ratio also observed a fluctuating tendency.

The liquid assets of the firm were highest in 2017-18 and lowest in 2008-09. The liquidity ratio had an average value of 0.698 times and mean deviation is lowest at 0.2454 times.

### Statement Showing Working Capital Turnover Ratio

YEAR	COGS	WORKING CAPITAL	WORKING CAPITAL TURNOVER RATIO (%)
2008-09	20504.28	-604.76	-33.9
2009-10	17769.12	-1365.45	13.01
2010-11	19381.01	354.18	54.72
2011-12	21735.6	1349.92	16.1
2012-13	25206.38	-85.87	-293.54
2013-14	27408.29	248.63	110.23
2014-15	30170.5	480.73	62.76
2015-16	30499	2872	10.6
2016-17	31298	2163	14.67
2017-18	33926	2503	13.55
<b>MEAN</b>	<b>25789.818</b>	<b>791.538</b>	<b>-3.18</b>
<b>STANDARD DEVIATION</b>	<b>5682.743467</b>	<b>1390.63717</b>	<b>109.1569757</b>

Source: Compiled by Researcher

## Inferences

The above table shows the sales generated per amount of working capital of the firm. This ratio also showed a fluctuating tendency during the period of study. The ratio had an average value of -3.18 times. Net working capital turnover ratio observed the highest value of 110.23 crore in the year 2013-14. The highest turnover was in the year 2017-18 with 33,926 crore.

The ratio had a high standard deviation of 109.156.

### Statement Showing Calculation of ROCE

YEAR	NPBIT	PF	RCE (%)
2008-09	2957.98	2061.51	149.49
2009-10	2532.69	2583.52	98.03
2010-11	2937.03	2659.52	110.43
2011-12	3469.03	3512.93	98.75
2012-13	4957.88	2674.02	185.4
2013-14	5028.39	3277.05	153.44
2014-15	6187.42	3724.78	166.11
2015-16	5946	6279	94.69
2016-17	6396	6490	98.55
2017-18	7285	7075	102.97
<b>Mean</b>	<b>4769.742</b>	<b>4033.733</b>	<b>125.786</b>
<b>Standard Deviation</b>	<b>1693.270818</b>	<b>1855.71476</b>	<b>34.11248654</b>

Source: Compiled by Researcher

## Inferences

Above table shows that company has highest ROCE I the year 2014-15 of 166.11% and least in the year 2015-16 by 94.96%. The company net profit before interest and tax is increasing from the year 2013-14. The mean average of ROCE is 125.786 crore and standard deviation is 34.112 degree.

**Statement Showing Operating Profit Ratio**

YEAR	OPERATING PROFIT	SALES	OPERATING PROFIT RATIO (%)
2008-09	2957.98	20504.28	14.43
2009-10	2532.69	17769.12	14.25
2010-11	2730.2	19381.01	14.08
2011-12	3350.16	21735.6	15.41
2012-13	4349.48	25206.68	17.26
2013-14	4799.71	27408.29	17.51
2014-15	5523.12	30170.5	18.3
2015-16	5977	30499	19.6
2016-17	6155	31298	19.68
2017-18	7347	33926	21.66
<b>MEAN</b>	<b>4572.234</b>	<b>25789.848</b>	<b>17.218</b>
<b>S.D.</b>	<b>1661.174309</b>	<b>5682.74005</b>	<b>2.63359408</b>

Source: Compiled by Researcher

## Inferences

It indicates the percentage of return in the business. A high return on investment shows the company is having a higher profit as percentage of capital employed. The above table shows that company operating ratio is increasing during the period of study. The average mean value is 17.218 crore with low degree of standard deviation of 2.633.

**Statement Showing Profit Margin Ratio**

YEAR	NET PROFIT	NET SALES	PROFIT MARGIN (%)
2008-09	2496.45	20504.28	12.18
2009-10	2202.03	17769.12	12.39
2010-11	2305.99	19381	11.9
2011-12	2691.4	21735.6	12.38
2012-13	3796.67	25206.38	15.06
2013-14	3867.49	27408	14.11
2014-15	4315.26	30170	14.3
2015-16	4137	30499	13.56
2016-17	4490	31298	14.34
2017-18	5237	33926	15.43
<b>MEAN</b>	<b>3553.929</b>	<b>25789.738</b>	<b>13.565</b>
<b>STANDARD DEVIATION</b>	<b>1055.830271</b>	<b>5682.692719</b>	<b>1.27481807</b>

Source: Compiled by Researcher

## Inferences

The net profit margin of HUL company has continue increase in net profit with increase in sales. During a period of study.

In year 2017-18 shows highest sales of 33,926 crore and has low degree of standard deviation of 1.278.

## Testing of Hypothesis

### Statement Showing Calculation of Rank Core-Relation Between Current Ratio & Operating Profit

YEAR	CURRENT RATIO	R1	OPERATING PROFIT	R2	D=(R1-R2)	D <sup>2</sup>
2008-09	0.9	9	14.43	8	1	1
2009-10	0.8	9	14.25	8	1	1
2010-11	1.05	5.5	14.08	8	-2.5	6.25
2011-12	1.21	4	15.41	7	-3	9
2012-13	0.99	6	17.26	6	0	0
2013-14	1.02	5	17.51	5	0	0
2014-15	1.05	4	18.3	4	0	0
2015-16	1.43	1	19.6	3	-2	4
2016-17	1.3	1	19.68	2	-1	1
2017-18	1.29	1	21.66	1	0	0
<b>TOTAL</b>					<b>-6.5</b>	<b>22.25</b>
<b>SRC</b>						<b>0.86515</b>

Source: Compiled by Researcher

## Inferences

The above table shows rank correlation between current ratio and operating profit. Since operating profit is increasing over a period of study and same is with operating profit. Over here current ratio is independent variable and operating profit is an independent variable and the correlation between them is more towards 1 it means there is positive and strongly relation between this two above variables.

### Statement Showing Calculation of Rank Correlation Between Liquid Ratio & Operating Profit

YEAR	LIQUID RATIO	R1	OPERATING PROFIT	R2	D=R1-R2	D <sup>2</sup>
2008-09	0.37	10	14.43	8	2	4
2009-10	0.38	9	14.25	8	1	1
2010-11	0.57	7.5	14.08	8	-0.5	0.25
2011-12	0.74	4	15.41	7	-3	9
2012-13	0.57	6	17.26	6	0	0
2013-14	0.64	5	17.51	5	0	0
2014-15	0.68	4	18.3	4	0	0
2015-16	1.05	1	19.6	3	-2	4
2016-17	0.97	2	19.68	2	0	0
2017-18	1.01	1	21.66	1	0	0
<b>Sum</b>					<b>-2.5</b>	<b>6.25</b>
<b>Rank</b>						<b>0.962121</b>

Source: Compiled by Researcher



## Inferences

The above table shows rank correlation between liquidity and operating ratio. They have strong correlation between them it is because the rank correlation is towards 1.

### Statement Showing Rank Correlation Between Liquid Ratio & ROCE

YEAR	LIQUID RATIO	R1	ROCE	R2	D=R1-R2	d <sup>2</sup>
2008-09	0.37	10	149.49	4	6	36
2009-10	0.38	9	98.03	8	1	1
2010-11	0.57	7.5	110.43	4	3.5	12.25
2011-12	0.74	4	98.75	5	-1	1
2012-13	0.57	6	185.4	1	5	25
2013-14	0.64	5	153.44	2	3	9
2014-15	0.68	4	166.11	1	3	9
2015-16	1.05	1	94.69	3	-2	4
2016-17	0.97	2	98.55	2	0	0
2017-18	1.01	1	102.97	1	0	0
<b>Sum</b>					<b>3.5</b>	<b>12.25</b>
<b>Rank</b>						<b>0.925758</b>

Source: Compiled by Researcher

## Inferences

From above calculation liquid ratio and ROCE has a strong correlation by 0.925.

### Statement Showing Calculation of Rank Correlation Between Current Ratio & Net Profit

YEAR	CURRENT RATIO	R1	NET PROFIT (%)	R2	D=R1-R2	d <sup>2</sup>
2008-09	0.9	9	12.18	9	0	0
2009-10	0.8	9	12.39	7	2	4
2010-11	1.05	5.5	11.9	8	-2.5	6.25
2011-12	1.21	4	12.38	7	-3	9
2012-13	0.99	6	15.06	2	4	16
2013-14	1.02	5	14.11	4	1	1
2014-15	1.05	4	14.3	3	1	1
2015-16	1.43	1	13.56	3	-2	4
2016-17	1.3	1	14.34	2	-1	1
2017-18	1.29	1	15.43	1	0	0
<b>SUM</b>					<b>-0.5</b>	<b>0.25</b>
<b>RANK</b>						<b>0.998485</b>

Source: Compiled by Researcher

## Inferences

The current ratio and net profit has strong correlation between them by 0.998 its towards 1.

### Statement Showing Calculation of Rank Correlation Between Liquid Ratio & Net Profit

YEAR	LIQUID RATIO	R1	NET PROFIT (%)	R2	D=R1-R2	d <sup>2</sup>
2008-09	0.37	10	12.18	9	1	1
2009-10	0.38	9	12.39	7	2	4
2010-11	0.57	7.5	11.9	8	-0.5	0.25
2011-12	0.74	4	12.38	7	-3	9
2012-13	0.57	6	15.06	2	4	16
2013-14	0.64	5	14.11	4	1	1
2014-15	0.68	4	14.3	3	1	1
2015-16	1.05	1	13.56	3	-2	4
2016-17	0.97	2	14.34	2	0	0
2017-18	1.01	1	15.43	1	0	0
<b>SUM</b>					<b>3.5</b>	<b>12.25</b>
<b>RANK</b>						<b>0.925758</b>

Source: Compiled by Researcher

### Inferences

The liquidity ratio and net profit has a strong correlation between them because it is towards 1.

**From the above tables of spearman rank correlation it can be observed that null hypotheses (H<sub>0</sub>) is rejected. So there is a strong correlation between liquidity and profitability.**

### Findings

- The net working capital of HUL during the period was not satisfactory for first three years. But later on net working capital of HUL started increasing. It shows that HUL started keeping regular check on its current liabilities which is not exceeding the gross working capital of the firm.
- Liquidity position of the firm is not so adequate because the average value of this current ratio is 1.10 times which is well below the ideal ratio of 2:1 times. Which indicates that even though it is in a position to meet it's short term obligations with the existing current assets but it is in the verge of break even.
- The liquidity ratio of the firm was also not up to level due to a lower amount of liquid assets during the period of the study. The arithmetic mean of the liquid ratio of 0.69 times which is well below the ideal value of 1:1 times.
- Working capital turnover ratio of the firm was not satisfactory as it is was able to generate on an average -3.18 times the amount of working capital deployed.
- The profitability position of the firm is very satisfactory because its average operating profitability position is 17.21%.

### Conclusion

From the above study we can say that HUL company should give due consideration to it's working capital management policies. Since H<sub>1</sub> the alternate hypothesis has been proved that there is a strong

correlation between liquidity and profitability of the company. That means if there is a downfall in liquidity position of company it will surely affect profitability of the company.

- The company must keep an optimum balance between liquidity and profitability for efficient use of its working capital. At the same it should not stop formulating certain policies to keep a well monitored working capital for better profitability, stability reliability, growth and consistency. So the firm should increase the portion of the liquid assets to stabilize the short solvency position.

## References

Titto Varghese (2014). Impact of working capital on FMCG profitability.

International journal of financial management.

P.CHANDRA. Financial management book.

Annual report of HUL Ltd ( 2008-2017)

## Website

[www.investopedia.com](http://www.investopedia.com)

[www.HULportal.com](http://www.HULportal.com)