Delhi Technological University

Delhi School of Management

Financial Management & Policy

Faculty - Dr. Archana Singh

Semester Project

Topic – FMCG Industry

Team –

Sagar Kataria (2K21/DMBA/107)-ITC Ltd.
Shubham garg (2K21/DMBA/120)-Dabur India Ltd.
Vishal Singh (2K21/DMBA/141)-Nestle India Ltd.
Nitik Nijhawan (2K21/DMBA/80)-Hindustan Unilever Ltd.

FMCG Industry

Mid Sem Project: Financial management and policy

Make a group of 6 students select a sector and each student should select one company in that sector.

1) Choose a company that you want to work at, understand, or own, rather than one that you think will be easy to analyze or widely followed. **Collect information, both financial and nonfinancial, about your company and the sector that it operates in**. Establish your **prior views of this company.** Put differently, given what you know now about the company (which may be based on limited information or even hearsay), evaluate whether you think that this company is a **well-managed, good company or a poorly managed mess.**

2) **Sector information**: Try to get basic operating metrics for the peer group (competitors) for your company. For the moment, focus on **revenues and profitability at these companies.** You will be returning to look for more information on these companies, later in your analysis. Find out more about the overall market that all of your companies are trying to access. (Thus, if you are looking at online advertising companies, you would like to see how big the market is, how fast it is growing, and what parts of the world are growing the most)

3) **Company narrative**: This will be entirely subjective, but based on what you know about the company you have picked (as this choice is usually not random), what do you think about this company's products, its operations, its management, and its business model?

Companies
1. Hindusta Unilever
2. Nestle India
3. Dabur India
4. Godrej consumer
5. Britannia Inds.
6. Marico
7. P&G Hygiene
8. Varun Beverages
9. Colgate-Palmolive
10. Emami
11. Hatsun Agro
12. Gillete India
13. Galaxy Surfact.

INTRODUCTION

Fast moving consumer goods (FMCG) form one of the largest industries worldwide. From our morning showers with a jojoba shampoo to our oats and fruit breakfast, or office outings at a local pub or snacks at a street vendor – our worlds spin around consumer goods.

The industry today is constantly being disrupted by ever-changing consumer preferences and new technologies. Customers demand innovative products, which means producing a wider range of goods at higher volumes quickly. In developing markets, consumers are also spending more, which raises the call for an expanded supply chain.

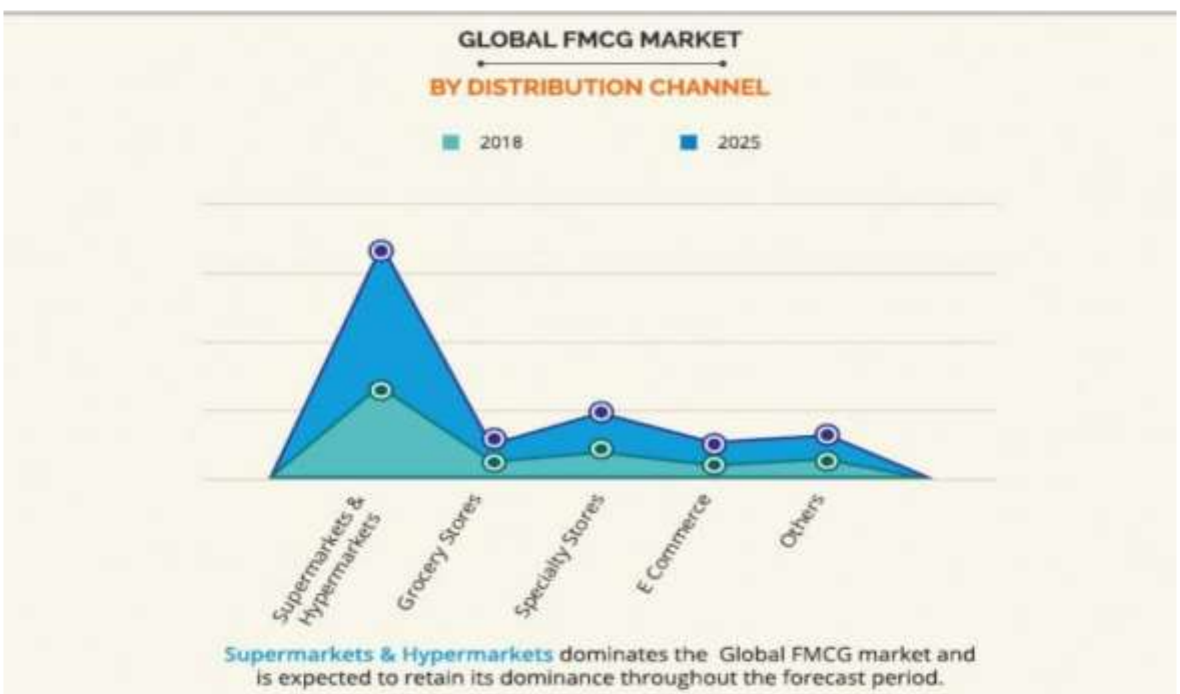
According to Allied Market Research, the global FMCG market is predicted to reach $15,361.8 billion by 2025, growing at an incredible 5.4% in the next five years. New avenues providing greater business opportunities. Research from Statista also shows that eCommerce is growing faster than traditional brick and mortar stores every year.

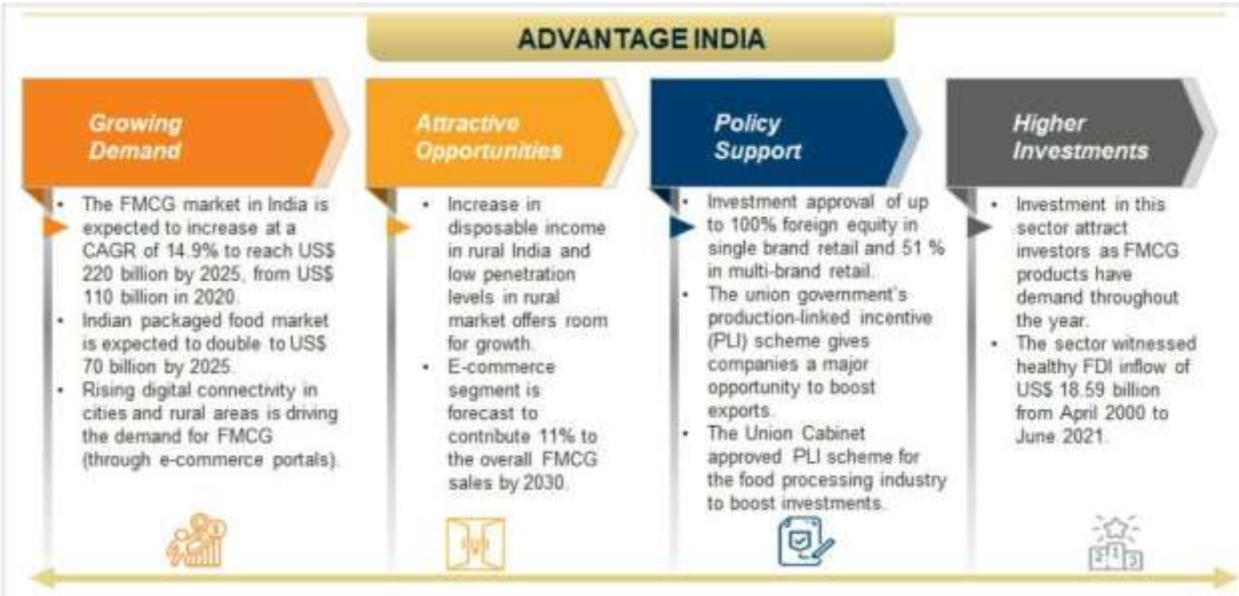
The impact of coronavirus on trade has caused an immediate and long-lasting change in consumer spending for FMCG companies. This shift is due to an increase in demand for specific fast-moving consumer goods, changes in consumption trends and stock needs. Businesses are now relying on an agile and innovative supply chain.

Market Size

The retail market in India is estimated to reach US$ 1.1 trillion by 2020 from US$ 840 billion in 2017, with modern trade expected to grow at 20 25% per annum, which is likely to boost revenue of FMCG companies. The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US$ 220 billion by 2025, from US$ 110 billion in 2020. According to Nielsen, the Indian FMCG industry grew 9.4% in the January-March quarter of 2021, supported by consumption-led growth and value expansion from higher product prices, particularly for staples. The rural market registered an increase of 14.6% in the same quarter and metro markets recorded positive growth after two quarters. Final consumption expenditure increased at a CAGR of 5.2% during 2015-20.

In 2018, the supermarkets and hypermarkets distribution channel segment dominated the FMCG market. The growth of this segment is driven by rise in disposable income and increase in demand for a one-stop solution for all shopping needs. Moreover, the augmented experience provided by these retail formats increases its attractiveness to customers. This in turn drives the growth of the supermarkets and hypermarkets distribution channel segment of the FMCG market.





Government Initiatives

Some of the major initiatives taken by the Government to promote the FMCG sector in India are as follows:
In November 2021, Flipkart signed an MoU with the Ministry of Rural Development of the Government of India (MoRD) for their ambitious Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM) programme to empower local businesses and self-help groups (SHGs) by bringing them into the e-commerce fold.

On November 11, 2020, Union Cabinet approved the production-linked incentive (PLI) scheme in 10 key sectors (including electronics and white goods) to boost India's manufacturing capabilities, exports and promote the 'Atmanirbhar Bharat' initiative.

Developments in the packaged food sector will contribute to increased prices for farmer and reduce the high levels of waste. In order to provide support through the PLI scheme, unique product lines—with high-growth potential and capabilities to generate medium- to large-scale jobs—have been established

Investments

The Government has allowed 100% Foreign Direct Investment (FDI) in food processing and single-brand retail and 51% in multi-brand retail. This would bolster employment, supply chain and high visibility for FMCG brands across organised retail markets thereby bolstering consumer spending and encouraging more product launches. The sector witnessed healthy FDI inflows of US$ 18.59 billion from April 2000 to June 2021

HINDUSTAN UNILEVER LTD

BY – Nitik Nijhawan

2K21/DMBA/80

SEC B ,MBA (2021-23)

STAGE 2

1. What is the risk profile of your company?

Ans Following are the risks faced by the company:-

Brand preference- HUL success depends on the value and relevance of their brands to their consumers and on our ability to innovate and remain competitive. Consumer tastes, preferences and behaviours are changing more rapidly than ever before. We see a growing trend for consumers preferring brands which both meet their functional needs and have an explicit social purpose. Under indexation of product portfolio in segments where substantial market is moving to, may lead to loss of market share and long-term competitive disadvantage. their ability to create innovative products that continue meeting the needs of consumers and deploy the right communication, both in terms of messaging content and medium is critical to the continued strength of our brands. The Covid-19 pandemic has driven significant changes in consumer habits and demands which requires rapid evolution of portfolio and continued innovations to remain relevant and competitive.

Business Transformation - Successful execution of business transformation projects is key to delivering their intended business benefits and avoiding disruption to other business activities. HUL is continually engaged in major change projects, including acquisitions, disposals, and organisational transformation including digital, to drive continuous improvement in our business and to strengthen our portfolio and capabilities. They have an extensive programme of transformation projects. Ineffective execution of strategic business transformation projects could result in under-delivery of the expected benefits/synergies, inability to unlock growth opportunities and a significant negative impact on the value of the business.

Supply chain - HUL business depends on purchasing materials, efficient manufacturing and the timely distribution of products to our customers. Its supply chain network is exposed to potentially adverse events such as physical disruptions, environmental and industrial accidents, labour unrest, trade restrictions or disruptions at a key supplier, which could impact our ability to deliver orders to our customers. Covid-19 has challenged and continues to challenge the resilience and continuity of our supply chain. Rapidly changing global landscape and local regulations with enhanced health and safety requirements have called for reconfiguration of supply chains entailing significant management. Maintaining manufacturing and logistics operations will continue to require ongoing focus and flexibility. The cost of our products can be significantly affected by the cost of the underlying commodities and materials from which they are made. Fluctuations in these costs may negatively impact business especially if such movements are not effectively managed.

Plastic Packaging - HUL use a significant amount of plastic to package our products. A reduction in the amount of single use plastic, the use of recycled plastic and an increase in the recyclability of our packaging are critical to our future success. Consumer and customer responses to environmental impact of plastic waste and emerging regulations by Government to restrict the use of certain plastics, requires us to find solutions to reduce the amount of plastic we use; increase recycling post-consumer use; and to source recycled plastic for use in their packaging. Not only is there a risk around finding appropriate replacement materials, due to high demand, the cost of recycled plastic or other alternative packaging materials could significantly increase in the foreseeable future and this could impact our profitability. They could also be exposed to higher costs as a result of taxes or fines if they are unable to comply with plastic regulations which would again impact their profitability and reputation.

Legal and regulatory - Compliance with laws and regulations is an integral part of HUL's business operations. Proliferation and instability in regulatory policies and regime in areas such as direct/indirect taxes, data privacy, corporate laws, listing & disclosure, food quality compliance, labour laws, consumer related regulations, imports among others, frequently leading to diverse compliances on the same subject may lead to avoidable regulatory actions, adverse impact on growth and profitability and increased exposure to civil and/or criminal actions.

Systems and information - Company's operations are increasingly dependent on IT systems and the management of information. The cyber-attack threat of unauthorised access and misuse of sensitive information or disruption to operations continues to increase. Such an attack could inhibit their business operations in a number of ways, including disruption to sales, production and cash flows, ultimately impacting our results. In addition, increasing digital interactions with customers, suppliers and consumers place ever greater emphasis on the need for secure and reliable IT systems and infrastructure including back-up plans and careful management of the information that is in our possession to ensure data privacy. Given the changes in ways of working of all of our employees as well as our customers and suppliers as a result of Covid-19 there has been an increased reliance on certain elements of our IT infrastructure. We are particularly reliant on third party experts in this space and thus the impact of Covid-19 on their operations also poses a risk for us. Accelerated pace of digitisation of our operations also gives rise to the need to detect and mitigate risks arising from technological advancements such as deployment of AI, Robotics Process Automation, Machine Learning

Quality and safety - The quality and safety of HUL products are of paramount importance for their brands and their reputation. The risk that raw materials are accidentally or maliciously contaminated throughout the supply chain or that other product defects occur due to human error, equipment failure or other factors cannot be excluded. Labelling errors can have potentially serious consequences for both consumer safety and brand reputation. Therefore on-pack labelling needs to provide clear and accurate ingredient information in order that consumers can make informed decisions regarding the products they buy

People: Safety, Wellbeing and Talent - Ensuring employee safety and wellbeing is a key priority forHUL. A skilled workforce and agile ways of working are essential for the continued success of our business. The safety and wellbeing of their employees is vital to the success of our business. Covid-19 has had a significant impact on people's lives, therefore helping our employees manage this impact and their ability to work effectively require continued focus. With the rapidly changing nature of work and skills, there is a risk that our workforce is not equipped with the skills required for the new environment. Our ability to attract, develop and retain a diverse range of skilled people is critical if we are to compete and grow effectively. The loss of management or other key personnel or the inability to identify, attract and retain qualified personnel could make it difficult to manage the business and could adversely affect operations and financial result.

Ethics - HUL's brands and reputation are valuable assets and the way in which we operate, contribute to society and engage with the world around us is always under scrutiny. Acting in an ethical manner, consistent with the expectations of customers, consumers and other stakeholders, is essential for the protection of the reputation of HUL and its brands. Any significant breach to our Code of Business Principles by employees or extended enterprises would lead to damage to HUL's corporate reputation and business result

Macro- Economic Instability - Global and local macro-economic factors, further accentuated by the on-going pandemic, may result in reduction in disposable income of consumers, adversely impact consumer confidence and cause a slowdown in FMCG markets. This may impact our growth and profitability adversely.

Climate Change -Climate change and governmental actions to reduce s uch changes may disrupt their operations and/or reduce consumer demand for our products. Climate change may impact their business in various ways leading to reduced growth and profitability. It could lead to water shortages which would reduce demand for those of our products that require a significant amount of water during consumer use or decrease in sales on account of reduced product efficacy due to water shortage. Uncertainty in timing and severity of summer, winter and monsoon may impact the seasonal swings that we get on our mixes. Our inability to reduce our carbon footprint and meet conscious consumption agenda across consumer segments may be detrimental to our reputation and growth in the long-term

2. How much overall risk is there in the firm? Where is the risk coming from?

Ans Volatility(BETA) shows that the price of the security can change drastically over a short period of time in either direction. Volatility refers to the amount of risk or uncertainity about the size of changes in a security's value. A higher volatility means that a securities value can potentially be spread out over a large range of values. A lower volatility means that a security's value doesn't fluctuate dramatically, but changes in value at a steady pace over a period of time.

A company's beta is a measure of the volatility, or systematic risk, of a security, as it compares to the broader market. The beta of a company measures how the company's equity market value changes with changes in the overall market.

If a stock moves less than the market, the stock's beta is less than 1. A stock that swings more than market over time has a beta above 1. High beta stocks are supposed to be riskier but provide a potential for higher returns, low-beta stocks pose less risk but also lower returns.

Volatility of HUL

TERM	term period	BETA
one month	1-03-2018 to 31-03-2018	1.13
three month	1-03-2018 to 31-03-2018	8.69
six month	1-10-2017 to 31-03-2018	4.06
long-term	1-01-2010 to 31-12-2017	5.38

one month volatility of HUL is 1.13, three- month volatility is 8.69, six- month volatility is 4.06, long-term volatility of HUL is 5.38. This shows HUL had moderate risk based on long-term volatility.

The Risk Score is a relevant measure for the assessment of a stock attractiveness. Hindustan Unilever Limited shows a Risk Score of 7.00.0 corresponds to a very high risk and 10 corresponds to a very low risk.The Risk Score for Hindustan Unilever Limited is significantly higher than its peer group's. This means that Hindustan Unilever Limited is significantly less risky than its peer group.

The risk is due to the increase competition in FMCG sector.

HUL major competitors in FMCG sector are- :

- L'Oréal.
- Nirma Ltd.
- ITC Limited.
- Colgate-Palmolive.
- Dabur India

Marico

Recently, shares of FMCG major Hindustan Unilever Ltd (HUL) approached their 52-week low. High inflation is affecting volume growth. Down trading is being witnessed towards lower unit packs (LUPs) but not yet toward lower-end brands. The mix is deteriorating both YoY and QoQ in a quarter where relatively higher mobility should have brought back demand of high margin beauty products. Instead, the customer is tightening their purse strings on premium purchases.

Supply chain challenges, inflation, among others are some of the major risks and challenges faced by FMCG sector in India. Companies have been forced to hike prices in recent months to offset the pressure arising from higher input costs. This has led to consumer demand getting impacted especially in urban areas. consumers have also been cautious and have cut down on discretionary spends. Rapidly changing consumer trends is also a challenge.

Following are the risks faced by the company:-

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Q3 **How is the risk profile changing?**

Ans .Risk management is integral to HUL's strategy and to the achievement of HUL's long-term goals. HUL's success as an organisation depends on their ability to identify and exploit the opportunities generated by their business and the markets we operate in. In doing this HUL take an embedded approach to risk management which puts risk and opportunity assessment at the core of the Boards agenda, which is where they believe it should be. HULs appetite for risk is driven by the factors i.e., growth should be consistent, competitive, profitable, and responsible, actions on issues such as plastic and climate change must reflect their urgency, and not be constrained by the uncertainty of potential impacts, behaviours must be in line with our Code of Business Principles and Code Policies, ambition to continuously improve our operational efficiency and effectiveness.

HUL approach to risk management is designed to provide reasonable, but not absolute, assurance that their assets are safeguarded, the risks facing the business are being assessed and mitigated and all information that may be required to be disclosed is reported to HUL's senior management including, where appropriate, the Managing Director and Chief Financial Officer and the Audit Committee and the Board.

For each of principal risks, they have a risk management framework detailing the controls they have in place and who is responsible for managing both the overall risk and the individual controls mitigating that risk.Their assessment of risk considers both short and long-term risks, including how these risks are changing, together with emerging risk areas. These are reviewed on an ongoing basis, and formally by Risk Management Committee and the Board at least once a year.

Risk and Internal Adequacy

The Board advised by the Risk Management Committee, where appropriate, regularly reviews the significant risks and decisions that could have a material impact on HUL. These reviews consider the level of risk that HUL is prepared to take in pursuit of the business strategy and the effectiveness of the management controls in place to mitigate the risk exposure.

The Companys internal control systems are commensurate with the nature of its business and the size and complexity of its operations. These are routinely tested and certified by Statutory as well as Internal Auditors and cover all offices, factories and key business areas. Significant audit observations and follow up actions thereon are reported to the Audit Committee. The Audit Committee reviews adequacy and effectiveness of the Company's internal controls environment and monitors the implementation of audit recommendations, including those relating to strengthening of the Company's risk management policies and systems.

Processes

HUL engages in a wide range of processes and activities across all its operations covering strategy, planning, execution and performance management . Risk management is integrated into every stage of this business cycle. These procedures are formalised and documented and are increasingly being centralised and automated into transactional and other information technology systems.

Q4 **What return would you have earned investing in this company's stock?**

Ans

CURRENT RETURNS

- 1 Day 1.18%
- 1 Week 0.68%
- 1 Month 3.6%
- 3 Months -8.1%
- 1 Year -11.44%
- 3 Years 25.16%
- 5 Years 138.58%

Q5 Would you have under or outperformed the market?

Ans **Period of return**	**HUL**	**Nifty 50**	**Sensex**
1 year	**- 11.44 %**	**10.24%**	**9.67%**
3 year	**25.16%**	**25.73%**	**19.24%**

since rate of return for 1 year and 3 year is less than that of Nifty 50, so I have underperformed the market. But in case of sensex, I have underperformed in case of 1 year period but overperformed in case of 3 year period.

Q6. **How much of the performance can be attributed to management?**

Ans Despite the pandemic creating significant challenges, the management of HUL ensures that total income for the year ending 31st march, 2021 increases by around Rs 7000 crore as compared to that of previous year. Profit for the year also increases by Rs 1200 crore for the year ending 31st march, 2021 as compared to that of previous year. The cash and cash equivalents for the year ending 31st march, 2021 declined from Rs 3130 crores to Rs 1740 crore as compared to that of previous year which can be attributed to management's decision of spending more cash in investing activities and financing activities

Q7.How risky is this company's equity? What is its cost of equity?

Ans Using CAPM,

beta = 0.61

risk-free rate of return = 6.65%

market rate of return = 28.23%

(latest) cost of equity = Risk-Free Rate of Return + Beta × (Market Rate of Return – Risk-Free Rate of Return)

=6.65% + 0.61 (28.23 – 6.65)= 19.90%

Q8 **.How risky is this company's debt? What is its cost of debt?**

Ans company dont have any debt as on 31st mar 2021

Q9 **What is the company current cost of capital?**

Ans WACC = 7.75%

Metrics	Range	Conclusion
Selected Beta	0.55 - 0.65	0.60
Cost Equity	6.8% - 8.0%	7.4%
Tax Rate	27.0% - 27%	27.0%
Cost Debt After tax	4.0% - 4.4%	4.2%

WACC low = 6.8%

WACC medium = 7.5%

WACC high= 8%

WACC = [weightage of equity x cost of equity] + [weightage of debt x cost of debt x (1- tax rate)]

STAGE 3

Q1. Is there a typical project for this firm?

Ans. Yes, there is a typical project for this firm. It's name is **"Project Prabhat".**

amount spent in financial year 2020-21 : Rs 5.33 crore

Location : PAN India

Project sector : Rural Development

Project Prabhat is a sustainable community development initiative of the Company, It is linked to the Unilever Compass. Project Prabhat has reached out to close to 6 million people across 19 states and two union territories since its inception in 2013. It builds on local community needs at a grassroot level, in line with India's development agenda and UN Sustainable Development Goals (SDGs). By doing so, it's contributing to a fairer and more socially and environmentally inclusive world, while using HUL's scale for good. It ultimately aims to create sustainable communities in and around the Company's sites through focused interventions on Economic Empowerment (skilling, entrepreneurship and value chain), Environmental Sustainability (water conservation, waste management and climate adaptation), Health (nutrition, hygiene, sanitation and WASH) and Education (basic infrastructure).. During Covid-19, more than 1.3 million people across the country benefitted from relief kits distribution in 2020, which included Lifebuoy soaps, grocery kits and food packets.The Company also contributed in the area of maintenance and development of road central medians and protection of flora and fauna of the public areas near the Company's Head Office, its Regional Offices and Factory locations.

Q **2. If yes, what does it look like /in terms of life (long term or short term), investment needs and cash flow patterns?**

Ans Project Prabhat has reached out to close to 6 million people across 19 states and two union territories since its inception in 2013. It looks like a long term project. Amount spent in financial year 2020-21 on the project is Rs 5.33 crore. Cumulative expenditure upto 31st march 2020 = Rs 7.24 Crores with direct expenditure = Rs 7.07 crore , overheads = Rs 27 lakhs.

Q3 . How good are the projects that the company has on its books currently?

Ans company has some good projects on its books currently. These are:-

Project Shakti : Project Shakti is Company's initiative that aims to financially empower and provide livelihood opportunities to women in rural India. It aims to provide livelihood opportunities to women in rural India. The Shakti Entrepreneurs are given training for familiarisation with your Company's products and basic tenets of distribution management. Company has a team of Rural Sales Promoters (RSPs) who coach and help Shakti Entrepreneurs in managing their business. Across 18 States, Project Shakti has nearly 1,36,000 Shakti Entrepreneurs whom we call 'Shakti Ammas'. This programme has helped these women gain selling skills, become self-confident, improve their self-esteem and learn communication skills. Most importantly, our interventions have helped in building and fostering entrepreneurial mindset amongst Shakti Entrepreneurs

Project Sanjeevani : company operates a free "Sanjeevani" mobile health service camp for the local community near the Doom Dooma factory in Assam. There are two mobile trucks dedicated to the project. Each has one male and one female doctor,two nurses, one aide and one driver. The Vans is equipped with basic tools such as adiagnostic kit, a blood pressure monitor,medications and a portable stretcher. More than3,57,828 patients have been treated in thisservice camps since its inception in 2003.

Project Asha Daan: Asha Daan is a home in Mumbai for abandoned and differently-abled children, HIV-positive patients and destitute people. Since the inception of Asha Daan in 1976, Company has been looking after the maintenance and upkeep of the premises. At any time, there are over 400 inmates at Asha Daan. The project for redevelopment of Asha Daan is expected to commence as soon as the statutory approvals are obtained for construction.

Project Ankur : Ankur was set up in 1993 as a centre for special education for children with disabilities at Doom Dooma in Assam. Ankur has provided educational and vocational training to 359 children with disabilities

Q4 Are the projects in the future likely to look like the projects in the past? Why or why not?

Ans Hindustan Unilever has spent a massive Rs 165 Cr on various Corporate Social Responsibility (CSR) activities in the year 2021 with major focus on COVID relief projects and long-term Women Empowerment projects. The company's CSR spent also increased by close to 15 % as compared to its CSR expenditure last year. According to the company, its major focus remained on the COVID relief work during the last financial year. Accordingly, it spent more than Rs 61 Cr on COVID relief work.Further, the company also continued its long-term CSR projects like Project Shakti which is focussed empowerment women through creating livelihood opportunities for them.

According to HUL India, the prescribed CSR budget for the company in 2020-21 was Rs 161.7 Cr only. However, the company which recorded 18 % growth in its net profit in 2020-21, spent a little extra on its CSR activities.In 2019-20, the company had spent a total of Rs 143.74 Cr on its CSR activities against a prescribed CSR budget of Rs 142.20

Cr. So , the the project budgets are expected to rise. In that way, projects will be different from that in past.

STAGE 4

Q What are the different kinds or types of financing that this company has used to raise funds? Where do they fall in the continuum between debt and equity?

Ans

equity share capital as at 31st march 2021 = Rs 235 crores

summary of other equity balance	rs in crore as at 31st march 2021
capital reserve	4
capital redemption reserve	6
securities premium	40,350
employees stock options outstanding account	5
retained earning	6805
other reserves	9
Fair value of Cash flow hedges through OCI	20
total other equity	**47,199**

TOTAL EQUITY CAPTAL = Rs 47,434 crores

NO DEBT

Prowess has been used to find this data. PDF is attached along with this document.

Q How large , in qualitative or quantative terms, are the advantages to this company from using debt?

Ans HUL don’t have any debt as at 31st march 2021.

<u>Advantages of debt financing for HUL</u>

business ownership is retained

One major advantage of debt financing is that you won’t be giving up ownership of the business. When you take out a loan from a financial institution or alternative lender, you’re obligated to make the payments on time for the life of the loan, that’s it. In contrast, if you give up equity in the form of stock in exchange for funding, you might find yourself unhappy about input from outside parties regarding the future of your business.

There are tax deductions

A strong advantage of debt financing is the tax deductions. Classified as a business expense, the principal and interest payment on that debt may be deducted from your business income taxes.

Debt can fuel growth

Uses of long-term debt include buying inventory or equipment, hiring new workers and increasing marketing. Taking out a low-interest, long-term loan can give your company working capital needed to keep running smoothly and profitably year round. Think of it as the difference of being able to go that extra mile in your business and make additional profits, opposed to being tied down to a cash-strapped venture that will never be able to get ahead.

Q. How large , in qualitative or quantative terms, are the disdvantages to this company from using debt?

Ans. HUL don't have any debt as at 31st march 2021.

Disadvantages of debt financing for HUL

Repayment is must even if business is not doing well

Company must pay back the loan at the terms agreed upon. That means, even if your business goes under, you still have to make payments. Since most lenders require you to guarantee the loan, your assets could be sold to satisfy your debt.

Discipline.

HUL need to have the financial discipline to make repayments on time. Exercise restraint and use good financial judgment when you use debt. A business that is overly dependent on debt could be seen as 'high risk' by potential investors, and that could limit access to equity financing at some point.

Q**From the qualitative trade off, does this firm look like it has too much or too little debt?**

Ans As on 31st march 2021, company is debt – free. debt is a cheaper source of finance than equity because of less rate of interest and the interest payment are tax- deductible expense. Company has a reassuring net cash and has a good year-on year growth in EBIT. So Hul can use debt since it is not risky for them.

QBringing in reasonable constraints into the decision process, what would your recommended debt-equity ratio be for this firm?

I believe the firm's debt equity rate should be about 0.07 incorporating realistic constraints into the decision-making process,. The debt-to-equity ratio is at 0.00. As a result, I would advisethe corporation to take some debt so that the debt-to-equity ratio can be 0.07.This would assist the company in capitalizing properly on the sector's upcoming expansion, given the company's goals and change in risk profile. Otherwise, the company would lose out on a chance**.**

Q Does your firm have too much or too little debt

a. relative to the sector

b. relative to market?

Ans a. company has no debt as of 31st march 2021. The FMCG sector is a capital-intensive sector and also a competitive one. This sector requires continuous supply of money to fund the projects. So the firm has less (no debt) as compared to sector.

Book value of debt as of 31st march 2021 in leading FMCG

Dabur = rs 5155.25 million

marico = rs 4.77 billion (as of sep 2021)

b. From a pure risk perspective, debt ratios of 0.4 or lower are considered better, while a debt ratio of 0.6 or higher makes it more difficult to borrow money.While a low debt ratio suggests greater creditworthiness, there is also risk associated with a company carrying too little debt.

STAGE 5

.**1. How has this company returned cash to its owners?**

Ans dividend paid for the year ended 31st march, 2021 = Rs 8811 crores

capital redemption reserve as at 31st march 2021 = Rs 6 crores

Company has recognised capital redemption reserve on buyback of equity shares from its retained earnings. The amount in capital redemption reserve is equal to the nominal amount of equity shares brought back.

2. **Has it paid dividends or bought back stock?**

Ans Yes, it has paid dividends or bought back stock.

dividend paid for the year ended 31st march, 2021 = Rs 8811 crores

capital redemption reserve as at 31^{st} march 2021 = Rs 6 crores

Company has recognised capital redemption reserve on buyback of equity shares from its retained earnings. The amount in capital redemption reserve is equal to the nominal amount of equity shares brought back.

3. How much cash has the firm accumulated over time?

Ans	**AS AT 31^{ST} MAR 2021 (in cr)**
Cash on hand	0
balance with banks	
in current accounts	121
term deposits with original maturity of less than 3 months	1619
	1740
earmarked balance with banks	
unpaid dividend	206
others (escrow account)	-
investment in term deposits with original maturity of less than 3 months but less than 12 mnths	2375
	2581
total	**4321**

Prowess has been used to find this data. PDF is attached along with this document.

4.Given this firm's characteristics today, how would you recommend that they return cash to stockholders (assuming that they have excess cash)?

Ans The reasons that drive the strategic decision on dividend vs share buyback differ from company to company and are based on several factors such as the company's current stock price, its long-term vision, tax structure applicable to the company and its shareholders, the message the company wants to give the stakeholders, investment opportunities, etc.

The cash dividend provides a regular stream of cash for investors. It allows the shareholder to remain invested in the company and still receive regular cash flows. Cash dividend can be a big incentive for investors who rely heavily on their investments to meet their living expenses, especially retired investors who may not have another source of income

Since the size of a dividend payout is smaller, compared to a buyback, it allows the company to maintain a conservative capitalization structure every quarter rather than just hold large piles of cash

Buybacks are clearly a more tax-efficient way to return capital to shareholders because the investor doesn't incur any additional tax on the buyback sale process. Tax is only applicable on the actual sale of shares, whereas dividends attract tax in the range of 15% to 20 % **.**

So, for being more tax -efiicient, HUL should prefer buy back.

5.Given this dividend policy and the current cash balance of this firm, would you push the firm to change its dividend policy (return more or less cash to its owners)?

Ans. Company has cash and cash equivalents of Rs 4115 crores as at 31st march 2021.

dividend paid for the year ended 31st march, 2021 = Rs 8811 crores

So company need to return less cash to its owners.

6.. How does this firm's dividend policy compare to those of its peer group and to the rest of the market?

Year ending 31st march 2021

Ans dividend paid for the year by HUL = Rs 8811 crores

dividend paid for the year by dabur = Rs 592.09 cr

dividend paid for the year by ITC Rs 18629.29 cr

HUL has a good dividend track report and has consistently declared dividends for the last 5 years

on 4-10-2021, HUL announced interim dividend of Rs 15 Rs 15.0000 per share (1500%)

on 29-4-2021, HUL announced ffinal dividend of Rs 17 Rs 17.0000 per share (1700%)

Q If you were hired to enhance value at this firm, what would be the path you would choose?

I will try to constantly innovate across our portfolio and creating categories of the future to address the evolving needs of HUL consumers. I will continue to put thrust on strengthening core portfolio, driving consumption through targeted market development activities and building a strong portfolio of naturals. I will lay emphasis on building iconic engagement platforms and customising the brand messaging content specifically for each of communication channels (both traditional and digital) to ensure that their brand messages reach their target consumers.

Hindustan Unilever Ltd.

Balance Sheet Summary : Mar 2012 - Mar 2021 : Non-Annualised : Rs. Million

	Mar 2012 12 mths IGAAP	Mar 2013 12 mths IGAAP	Mar 2014 12 mths IGAAP	Mar 2015 12 mths IGAAP	Mar 2016 12 mths INDAS	Mar 2017 12 mths INDAS
Total liabilities	111,980.2	117,762.0	132,689.4	139,419.2	142,850.0	152,240.0
Total Capital	2,161.5	2,162.5	2,162.7	2,163.5	2,160.0	2,160.0
Paid up equity capital	2,161.5	2,162.5	2,162.7	2,163.5	2,160.0	2,160.0
Paid up preference capital						
Share appln money & suspense account						
Reserves and funds	32,967.8	24,577.7	30,607.8	35,084.3	60,630.0	62,740.0
Free reserves	31,902.8	23,312.7	29,257.9	33,644.2	59,140.0	61,400.0
General reserves	14,163.2	17,959.9	21,827.4	21,873.3	21,870.0	21,870.0
Balance as per profit & loss account	17,739.6	5,352.8	7,430.5	11,770.9	37,270.0	39,530.0
Specific reserves	1,058.3	1,258.3	1,343.2	1,433.4	1,490.0	1,340.0
Security premium reserves (net of deductions)	387.4	556.9	597.6	811.6	980.0	1,160.0
Capital reserves (incl grants and subsidies)	98.6	104.1	104.1	104.1		
Capital redemption reserves	64.6	64.6	64.6	64.6	60.0	60.0
Debenture and bond redemption reserves						
Long term borrowings excl current portion						
Long term borrowings incl current portion						
From banks						
From financial institutions						
Syndicated across banks & institutions						
Debentures and bonds						
Loans from promoters, directors & shareholders						
Less: current portion of long term borrowings						
Deferred tax liability	1,890.2	2,104.2	2,344.1	2,706.6	3,420.0	4,120.0
Other long term liabilities	3,296.9	4,762.5	2,788.2	1,701.1	2,020.0	2,290.0
Long term provisions	6,669.5	7,063.4	9,239.9	9,563.5	7,870.0	8,300.0
Current liabilities & provisions	64,994.3	77,091.7	85,546.7	88,200.2	66,750.0	72,630.0
Short term borrowings						
Short term trade payables and acceptances	46,229.6	51,676.9	56,238.4	52,889.0	54,980.0	60,060.0
Total assets	111,980.2	117,762.0	132,689.4	139,419.2	142,850.0	152,240.0
Net fixed assets	21,474.7	22,929.0	24,220.6	24,575.3	29,140.0	40,240.0
Net intangible assets	299.4	361.1	241.2	220.3	120.0	3,700.0
Land and buildings	8,821.1	8,692.2	8,895.0	8,828.5	9,240.0	11,600.0
Plant, machinery, computers & electrical assets	11,583.2	12,983.8	14,238.9	14,972.8	19,140.0	24,230.0
Capital work-in-progress	2,154.5	2,156.4	3,197.8	4,790.1	3,860.0	2,030.0
Net pre-operative exp pending allocation						
Long term investments	1,863.1	5,480.3	6,361.7	6,541.1	3,190.0	2,600.0
Long term investments in group cos	1,705.7	1,974.6	2,988.2	3,483.9	3,130.0	2,540.0
Long term investments in non group cos	157.4	3,505.7	3,373.5	3,057.2	60.0	60.0
Long term loans & advances	4,012.7	3,842.9	6,055.1	5,834.6	5,490.0	7,630.0
Deferred tax assets	4,032.6	4,152.0	3,961.4	4,666.2	5,100.0	5,720.0
Other long term assets		2,968.4	6.8	4.4	320.0	60.0
Current assets and loans & advances	78,442.6	76,233.0	88,886.0	93,007.5	95,750.0	93,960.0
Inventories	25,166.5	25,269.9	27,475.3	26,026.8	25,280.0	23,620.0
Trade & bills receivables	7,297.2	8,867.9	8,525.6	8,201.4	10,870.0	9,590.0
Cash & bank balance	18,300.4	17,078.9	22,209.7	25,375.6	27,590.0	16,710.0
Short term investments	22,519.0	17,826.3	24,579.5	26,238.2	24,610.0	35,190.0
Short term loans & advances	3,788.4	5,144.7	3,606.4	4,650.8	2,100.0	2,060.0
Addendum Information						
Net fixed assets net of reval	21,468.0	22,922.3	24,213.9	24,568.6	29,140.0	40,240.0

Hindustan Unilever Ltd.

Balance Sheet Summary : Mar 2012 - Mar 2021 : Non-Annualised : Rs. Million

	Mar 2018 12 mths INDAS	Mar 2019 12 mths INDAS	Mar 2020 12 mths INDAS	Mar 2021 12 mths INDAS
Total liabilities	176,100.0	183,650.0	199,310.0	688,950.0
Total Capital	2,160.0	2,160.0	2,160.0	2,350.0
Paid up equity capital	2,160.0	2,160.0	2,160.0	2,350.0
Paid up preference capital				
Share appln money & suspense account				
Reserves and funds	68,590.0	74,430.0	78,150.0	471,990.0
Free reserves	67,260.0	73,030.0	76,640.0	68,050.0
General reserves	21,870.0			
Balance as per profit & loss account	45,390.0	73,030.0	76,640.0	68,050.0
Specific reserves	1,330.0	1,400.0	1,510.0	403,940.0
Security premium reserves (net of deductions)	1,270.0	1,420.0	1,530.0	403,500.0
Capital reserves (incl grants and subsidies)				
Capital redemption reserves	60.0	60.0	60.0	60.0
Debenture and bond redemption reserves				
Long term borrowings excl current portion			5,510.0	6,790.0
Long term borrowings incl current portion			5,510.0	6,790.0
From banks				
From financial institutions				
Syndicated across banks & institutions				
Debentures and bonds				
Loans from promoters, directors & shareholders				
Less: current portion of long term borrowings				
Deferred tax liability	3,980.0	4,390.0	2,730.0	66,410.0
Other long term liabilities	1,910.0	2,150.0	2,090.0	2,150.0
Long term provisions	12,760.0	16,710.0	17,290.0	29,780.0
Current liabilities & provisions	86,700.0	83,810.0	91,380.0	109,480.0
Short term borrowings			2,240.0	2,640.0
Short term trade payables and acceptances	70,130.0	70,700.0	73,990.0	86,270.0
Total assets	176,100.0	183,650.0	199,310.0	688,950.0
Net fixed assets	41,420.0	43,430.0	50,560.0	510,270.0
Net intangible assets	3,660.0	4,360.0	4,310.0	452,410.0
Land and buildings	12,410.0	13,470.0	15,880.0	23,640.0
Plant, machinery, computers & electrical assets	24,600.0	24,810.0	29,350.0	33,150.0
Capital work-in-progress	4,300.0	3,730.0	5,130.0	6,230.0
Net pre-operative exp pending allocation				
Long term investments	2,560.0	2,560.0	2,520.0	3,120.0
Long term investments in group cos	2,540.0	2,540.0	2,500.0	3,100.0
Long term investments in non group cos	20.0	20.0	20.0	20.0
Long term loans & advances	9,500.0	12,020.0	16,310.0	19,180.0
Deferred tax assets	6,530.0	7,780.0	5,340.0	6,550.0
Other long term assets	60.0	110.0	30.0	6,130.0
Current assets and loans & advances	111,730.0	114,020.0	119,420.0	137,470.0
Inventories	23,590.0	24,220.0	26,360.0	33,830.0
Trade & bills receivables	11,810.0	17,010.0	10,800.0	17,550.0
Cash & bank balance	33,730.0	36,880.0	56,160.0	43,210.0
Short term investments	28,550.0	26,930.0	12,480.0	26,830.0
Short term loans & advances	5,600.0	3,510.0	5,330.0	4,380.0
Addendum Information				
Net fixed assets net of reval	41,420.0	43,430.0	50,560.0	510,270.0

Hindustan Unilever Ltd.

Balance Sheet Summary : Mar 2012 - Mar 2021 :

Non-Annualised : Rs. Million	Mar 2012 12 mths IGAAP	Mar 2013 12 mths IGAAP	Mar 2014 12 mths IGAAP	Mar 2015 12 mths IGAAP	Mar 2016 12 mths INDAS	Mar 2017 12 mths INDAS
Tangible net worth	34,823.2	26,372.4	32,522.6	37,020.8	62,670.0	61,190.0
Total outside liabilities	76,850.9	91,021.8	99,918.9	102,171.4	80,060.0	87,340.0

Hindustan Unilever Ltd.

Balance Sheet Summary : Mar 2012 - Mar 2021 :
Non-Annualised : Rs. Million

	Mar 2018 12 mths INDAS	Mar 2019 12 mths INDAS	Mar 2020 12 mths INDAS	Mar 2021 12 mths INDAS
Tangible net worth	67,090.0	72,220.0	76,000.0	21,930.0
Total outside liabilities	105,350.0	107,060.0	119,000.0	214,610.0

Hindustan Unilever Ltd.

Cash Flow Summary : Mar 2012 - Mar 2021 :
Non-Annualised : Rs. Million

	Mar 2012 12 mths IGAAP	Mar 2013 12 mths IGAAP	Mar 2014 12 mths IGAAP	Mar 2015 12 mths IGAAP	Mar 2016 12 mths INDAS	Mar 2017 12 mths INDAS
Net cash flow from operating activities	28,724.1	35,295.8	37,241.5	31,037.6	39,740.0	49,530.0
Net profit before tax & extraordinary items	33,501.6	43,494.8	47,997.1	55,231.2	59,770.0	61,550.0
Add: Adj for non-cash and non-op exp	2,880.5	3,168.3	3,709.9	3,662.9	3,780.0	5,770.0
Less: Adj for non-cash and non-op income	2,778.8	5,929.2	6,393.8	6,244.9	5,640.0	5,130.0
Operating cash flow before working cap chgs	33,603.3	40,733.9	45,313.2	52,649.2	57,910.0	62,190.0
Add:Cash inflow due to decr/(incr) in wkg cap	2,590.8	7,754.6	6,970.9	1,448.5	1,680.0	5,680.0
Less:Cash outflow due to (decr)/incr in wkg cap	755.6	3,028.0	2,205.4	3,604.2	2,810.0	300.0
Cash flow generated from operations	35,438.5	45,460.5	50,078.7	50,493.5	56,780.0	67,570.0
Cash flow before extraordinary items	28,870.9	35,413.8	37,293.4	31,089.2	39,820.0	49,740.0
Cash outflow due to extraordinary items	146.8	118.0	51.9	51.6	80.0	210.0
Cash inflow due to extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0
Cash outflow due to misc expend						
Net cash inflow from investing activities	-4,524.5	343.3	-5,131.6	4,398.1	-510.0	-7,520.0
Less: Cash outflow from investing activities	142,435.2	173,506.7	103,060.9	182,394.8	200,380.0	276,820.0
Add: Cash inflow due to investing activities	137,910.7	173,850.0	97,929.3	186,792.9	199,870.0	269,300.0
Net cash flow from financing activities	-17,251.7	-41,604.4	-29,167.9	-34,422.1	-40,080.0	-42,640.0
Less: Cash outflow due to financing activities	17,587.2	41,677.8	29,183.0	34,443.9	40,080.0	42,640.0
Add: Cash inflow from financing activities	335.5	73.4	15.1	21.8	0.0	0.0
Net change in cash & cash equivalents(cl-op)	6,947.9	-5,965.3	2,942.0	1,013.6	-850.0	-630.0
Cash & cash equivalents as at the start of the year	2,281.5	9,229.4	3,264.1	6,206.1	7,200.0	6,350.0
Cash & cash equivalents as at the end of the year	9,229.4	3,264.1	6,206.1	7,219.7	6,350.0	5,720.0

Hindustan Unilever Ltd.

Cash Flow Summary : Mar 2012 - Mar 2021 :
Non-Annualised : Rs. Million

	Mar 2018 12 mths INDAS	Mar 2019 12 mths INDAS	Mar 2020 12 mths INDAS	Mar 2021 12 mths INDAS
Net cash flow from operating activities	59,130.0	57,280.0	73,050.0	89,570.0
Net profit before tax & extraordinary items	72,850.0	85,220.0	90,920.0	104,900.0
Add: Adj for non-cash and non-op exp	6,950.0	7,370.0	12,670.0	14,440.0
Less: Adj for non-cash and non-op income	7,430.0	5,850.0	8,860.0	5,540.0
Operating cash flow before working cap chgs	72,370.0	86,740.0	94,730.0	113,800.0
Add:Cash inflow due to decr/(incr) in wkg cap	15,880.0	2,410.0	6,660.0	8,110.0
Less:Cash outflow due to (decr)/incr in wkg cap	7,240.0	5,020.0	3,690.0	8,670.0
Cash flow generated from operations	81,010.0	84,130.0	97,700.0	113,240.0
Cash flow before extraordinary items	59,130.0	57,280.0	73,050.0	89,570.0
Cash outflow due to extraordinary items				
Cash inflow due to extraordinary items				
Cash outflow due to misc expend				
Net cash inflow from investing activities	-12,610.0	-2,640.0	19,260.0	-13,230.0
Less: Cash outflow from investing activities	503,130.0	714,750.0	349,040.0	426,480.0
Add: Cash inflow due to investing activities	490,520.0	712,110.0	368,300.0	413,250.0
Net cash flow from financing activities	-46,510.0	-54,620.0	-66,760.0	-93,240.0
Less: Cash outflow due to financing activities	46,510.0	54,620.0	66,760.0	93,240.0
Add: Cash inflow from financing activities				
Net change in cash & cash equivalents(cl-op)	10.0	20.0	25,550.0	-16,900.0
Cash & cash equivalents as at the start of the year	5,720.0	5,730.0	5,750.0	31,300.0
Cash & cash equivalents as at the end of the year	5,730.0	5,750.0	31,300.0	17,400.0