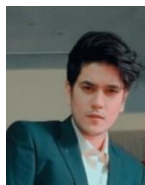


Efficiency of Working Capital Management in Hindustan Unilever Limited and Unilever Sri Lanka Limited: A Comparative Study



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Abstract

Efficient Working capital management (WCM) facilitates the achievement of the company's wealth maximization objective. However, no significant comparative study in India on this issue associated with two FMCG companies of the same parent group situated in two different countries has been carried out. In this backdrop, the present paper makes a comparative analysis of the efficiency in WCM of Hindustan Unilever Ltd. and Unilever Sri Lanka Ltd., two leading FMCG companies in India and Sri Lanka under the Unilever Group during 2009 to 2018.

1. Introduction

The efficiency with which WC is managed in a firm is of great significance for its overall well-being. Working capital management (WCM) of a firm is considered to be efficient if its current assets and current liabilities are managed in such a way that not only a satisfactory level of liquidity is maintained but also such level of liquidity does not hurt its wealth generating capability. In today's challenging and competitive environment, efficient

management of WC has become an integral component of the overall corporate strategy to enhance shareholders' wealth. A considerable number of studies on the WCM of various sectors including FMCG sector in India and Sri Lanka have been made in the last two or three decades (Bagchi & Khamrui, 2012; Kaur & Singh, 2013; Kodithuwakku, 2015; Marie & Azhagaiah, 2016; Gau & Kaur, 2017). However, no significant study has so far been conducted in which a comparison between the FMCG sector in India and that in Sri Lanka in respect of efficiency of WCM of the two FMCG companies in two countries belonging to the same parent group has been carried out. In this backdrop, the present study attempts to make a comparative analysis of the efficiency in WCM of two leading FMCG companies in India and Sri Lanka under the Unilever Group, namely Hindustan Unilever Ltd. (HUL) and Unilever

Sri Lanka Ltd. (USL) during the period 2009 to 2018.

2. Objectives of the Study

The objectives of the present study are:

- i) To analyse the efficiency of WCM of HUL and USL using selected ratios.
- ii) To examine whether there was any uniformity among the selected efficiency ratios of HUL and USL.
- iii) To ascertain the status of HUL and USL in respect of efficiency of WCM.
- iv) To study the relationship between the efficiency of WCM and corporate performance of HUL and USL.
- v) To assess the impact of the efficiency of WCM on corporate performance of HUL and USL.

3. Methodology of the Study

In the present study, HUL and USL, the most reputed FMCG companies in India and Sri Lanka respectively were considered. The data of HUL and USL for the period 2009 to 2018 used in this study were collected from the published financial statements of the companies. In India the financial year starts on 1st April and closes on 31st March of the next year whereas in Sri Lanka it begins on 1st January and ends on 31st December of the same calendar year. So, in order to make a proper comparison between these two leading FMCG companies in India and Sri Lanka the items disclosed in the financial statements of HUL were adjusted in respect of calendar years by applying annualisation technique. In this study,

the technique of ratio analysis, simple statistical tools like arithmetic mean, consistency coefficient (i.e., ratio of arithmetic mean to standard deviation); statistical techniques like Spearman's rank correlation analysis, analysis of Kendall's coefficient of concordance, multiple correlation analysis, multiple regression analysis etc. and statistical tests, namely Chi-square test, 't' test and 'F' test were applied at appropriate places. The achievement of social objective, which is one of the prime goals of a company, is not at all reflected in the reported net earnings. However, value added accounts for the financial as well as social performances achieved by the company (Jafar & Sur, 2006). Hence, in this study 'value added to capital employed' ratio (VACE) was taken as the corporate performance measure.

4. Empirical Results and Discussion

A. For making a comparison between HUL and USL in respect of efficiency of WCM, the following ratios were analysed in Table 1.

- i) Current Ratio (CR): It is a basic measure of liquidity. The higher the CR, the more is the ability of the company to pay off its short-term obligations and accordingly, the greater is the margin of safety to short term creditors. The mean values of HUL and USL were 1.41 and 1.12 respectively and the values of their consistency coefficient (CC) were 0.61 and 0.48 respectively during the study period. It indicates that HUL was better as well as more consistent performer in terms of short-term debt

- paying capability as compared to USL during the period under study.
- ii) **Defensive-Interval Ratio (DIR):** This is a cash flow-based liquidity ratio. The higher the DIR, the more favourable is the position of a company in respect of liquidity. The mean values of DIR of HUL and USL were 115.12 days and 93.83 days respectively whereas the CC values were 0.52 and 0.57 respectively. It implies that though the average capability of the quick assets of HUL to service its daily operating expenditure was considerably higher as compared to USL, the consistency in this capability of HUL was slightly lower in comparison with that of USL during the study period.
- iii) **Operating Cash Flow Ratio (OCFR):** It is also a cash flow-based liquidity ratio. A high OCFR is desirable as it usually ensures a higher liquidity. The mean and CC values of OCFR of HUL were 1.15 and 0.46 respectively whereas those of USL were 0.97 and 0.39 respectively. It reveals that in respect of both average and consistency of the capability to generate cash flow from operations to meet short-term liabilities, HUL established itself in a better position as compared to USL during the period under study.
- iv) **Inventory Turnover Ratio (ITR):** It evaluates the efficiency of inventory management. Generally, a high ITR is good from the liquidity point of view and implies sound inventory management. The mean values of ITR of HUL and USL were 15.21 and 11.35 respectively and the CC values were 0.21 and 0.17 respectively. It reflects that both the average efficiency of the inventory management of HUL and its consistency were higher as compared to USL during the study period.
- v) **Trade Receivable Turnover Ratio (TRTR):** It reflects the efficiency of the credit management. The higher the TRTR, the greater is the degree of efficiency in credit management. The mean values of the TRTR of HUL and USL were 30.52 and 27.67 respectively whereas the CC values were 0.34 and 0.51 respectively. It indicates that the average efficiency in the credit management of HUL was slightly higher as compared to USL though its consistency was considerably lower in comparison with USL during the study period.
- vi) **Cash Turnover Ratio (CTR):** It measures how efficiently cash is managed. Generally, a high CTR implies a high degree of efficiency in cash management. The mean values of CTR of HUL and USL were 12.13 and 8.52 respectively while the CC values were 0.29 and 0.32 respectively. It signifies that though the average efficiency in managing cash of HUL was higher as compared to USL, the consistency was slightly lower during the study period.
- B.** In Table 2 it was attempted to examine whether there was any uniformity among CR, DIR, OCFR, ITR, TRTR and CTR in HUL and USL using

Kendall's coefficient of concordance (W). For testing the computed value of W Chi-square test was applied. The computed value of W in HUL was 0.27 which was not found to be statistically significant while that in USL was 0.45 which was found to be statistically significant. So, lack of uniformity among the selected indicators of WCM efficiency was observed in HUL but well-existence of uniformity among them in its counterpart in Sri Lanka was noticed during the study period.

C. In Table 3, in order to judge the status of the selected companies in respect of WCM efficiency more precisely, a comprehensive rank test, considering both the average of and consistency in the selected parameters, was applied. In this test, a process of ranking was used for arriving at a more comprehensive measure of WCM efficiency in which the mean values and CC values of all the selected indicators as shown in Table 1 were combined in a composite score. The ultimate ranking, based on the sum of scores of each company's separate individual rankings under the mean and CC of the selected efficiency criteria, was made on the principle that the lower the composite score, the higher is the WCM efficiency and vice versa. HUL, which ranked first according to the average values and second according to the CC values, had

a combined score of 15 in the composite ranking. Similarly, USL had a combined score of 20. Thus, HUL performed better in respect of WCM efficiency as compared to USL during the period under study.

D. In Table 4, the closeness of association between efficiency in WCM and corporate performance of HUL and USL was assessed by computing Spearman's rank correlation coefficient between VACE and each of the selected measures relating to WCM of these two companies. These coefficients were tested by 't' test. In HUL all the rank correlation coefficients between VACE and ITR (+0.92), VACE and TRTR (+0.71), VACE and CTR (+0.91) and in USL only the rank correlation coefficient between VACE and CTR (+0.72) were found to be statistically significant. It is theoretically argued that the higher the efficiency of inventory management, receivable management or cash management, the greater is the value generating capability of the company. So, the above mentioned results conform to the theoretical argument. Similarly, in USL the rank correlation coefficient between VACE and DIR and that between VACE and OCFR were (-) 0.89 and (-) 0.87 respectively which were found to be statistically significant. Thus, the relationships in

USL conform to the theoretical argument that decisions which tend to maximise wealth do not tend to maximise the chances of adequate liquidity (Simth, 1980).

E. In Table 5, the joint impact of the selected WCM efficiency indicators on corporate performance was explained using multiple correlation and multiple regression techniques. The regression equation that was fitted in the study is: $VACE = \alpha + \beta_1.CR + \beta_2.DIR + \beta_3.OCFR + \beta_4.ITR + \beta_5 .TRTR + \beta_6 .CTR + e$ where α is the value of the intercept term, $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ are the partial regression coefficients and e is the error term. The multiple correlation coefficients and the partial regression coefficients were tested by 'F' test and 't' test respectively. For one unit increase in CR, the VACE of HUL increased by 1.26 units and that of USL decreased by 0.57 unit which were not found to be statistically significant. When DIR increased by one unit, the VACE of HUL improved by 0.89 unit which was not found to be statistically significant whereas the VACE of USL stepped down by 4.62 units which was found to be statistically significant. Similarly, for one unit increase in OCFR, both the VACE of HUL and that of USL decreased by 0.72 unit and 3.92 units respectively but only the decrease in the VACE of USL was found to be statistically significant. So,

the negative influence of liquidity on the overall performance of USL was noticeable during the study period. For one unit increase in ITR, TRTR and CTR, the VACE of HUL stepped up by 8.51 units, 5.91 units and 7.63 units respectively which were found to be statistically significant whereas the VACE of USL increased by 1.67 units, 1.78 units and 2.89 units respectively which were not found to be statistically significant. It reflects that the corporate performance of only HUL was highly influenced by its efficient inventory management, receivable management and cash management during the period under study. The multiple correlation coefficient in HUL was 0.96 which was found to be statistically significant whereas the coefficient in USL was 0.87 which was not found to be statistically significant. So, the joint influence of the liquidity as well as efficiency in managing inventory, receivable and cash on total performance was notable only in HUL. The coefficients of multiple determination (R^2) reveal that 92 per cent and 76 per cent of the variation in VACE of HUL and USL respectively were accounted for by the joint variation in the selected WCM efficiency indicators during the study period.

5. Conclusions

The average efficiency of HUL was considerably higher as compared to USL while in respect of maintaining consistency HUL could not retain its dominance over USL during the study period. However, considering both average and consistency aspects, the study concludes that HUL established itself more efficient in managing WC as compared to USL during the study period. The rank correlation results in USL only corroborate the theoretical argument that the lower liquidity, the larger the company's capability of generating wealth. Similarly, strong evidence of positive association of the corporate performance with the efficiency of managing inventory, receivable and cash was noticed in HUL while a significant positive relationship between the corporate performance and efficiency of cash management was observed in USL. The analysis of the partial regression coefficients confirms that the inventory management, receivable management and cash management of HUL made significant contribution towards enhancing its value generating capability while in USL only the cash management did the same during the study period. Similarly, the multiple correlation results justify the efficiency of WCM in HUL during the study period.

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Table 1: Analysis of Average and Consistency of the Selected Parameters indicating Efficiency of Working Capital Management of HUL and USL for the period 2009 to 2018

Parameter	CR	DIR	OCFR	ITR	TRTR	CTR
Mean:						
HUL	1.41	115.12	1.15	15.21	30.52	12.13
USL	1.12	93.83	0.97	11.35	27.67	8.52
Consistency Coefficient:						
HUL	0.61	0.52	0.46	0.21	0.34	0.29
USL	0.48	0.57	0.39	0.17	0.51	0.32
Source: Compiled and computed from Published Financial Statements of HUL and USL.						

Table 2: Test of Uniformity among the Selected Efficiency Indicators of Working Capital Management of HUL and USL for the period 2009 to 2018

Company	Kendall's coefficient of concordance among CR, DIR, OCFR, ITR, TRTR and CTR
HUL	0.27
USL	0.45**
**Significant at 1 per cent level	
Source: Compiled and computed from Published Financial Statements of HUL and USL.	

Table 3: Statement of Ranking in order of Efficiency of Working Capital Management of HUL and USL for the period 2009 to 2018

Company WCM Efficiency Measure	HUL		USL	
	Mean	Ranking as per mean	Mean	Ranking as per mean
CR	1.41	1	1.12	2
DIR	115.12	1	93.83	2
OCFR	1.15	1	0.97	2
ITR	15.21	1	11.35	2
TRTR	30.52	1	27.67	2
CTR	12.13	1	8.52	2
TOTAL (A)		6		12
Combined score as per average		1		2
	CC	Ranking as per CC	CC	Ranking as per CC
CR	0.61	1	0.48	2
DTR	0.52	2	0.57	1
OCFR	0.46	1	0.39	1
ITR	0.21	1	0.17	2
TRTR	0.34	2	0.51	1
CTR	0.29	2	0.32	1
TOTAL (B)		9		8
Combined score as per consistency		2		1
Grand Total (A+B)		15		20
Ultimate Rank		1		2

Source: Compiled and computed from Published Financial Statements of HUL and USL.

Table 4: Analysis Spearman’s Rank Correlation Coefficient between VACE and Selected Parameters relating to Efficiency of Working Capital Management of HUL and USL for the period 2009 to 2018

Companies	CR	DIR	OCFR	ITR	TRTR	CTR
HUL	0.27	0.53	-0.25	0.92**	0.71*	0.91**
USL	-0.16	-0.89**	-0.87**	0.32	0.41	0.72*
**Significant at 1 per cent level.						
*Significant at 5 per cent level.						
Source: Compiled and computed from Published Financial Statements of HUL and USL.						

Table 5: Analysis of Multiple Regression of VACE on Selected Efficiency Indicators of Working Capital Management of HUL and USL

Regression Equation:		
$VACE = \alpha + \beta_1.CR + \beta_2.DIR + \beta_3.OCFR + \beta_4.ITR + \beta_5 .TRTR + \beta_6 .CTR + e$		
Variable	Intercept and Partial Regression Coefficients	
	HUL	USL
α	23.12	47.25
β_1	1.26	-0.57
β_2	0.89	-4.62**
β_3	-0.72	-3.92**
β_4	8.51**	1.67
β_5	5.91*	1.78
β_6	7.63**	2.89
R	0.96*	0.87
R ²	0.92*	0.76
*Significant at 5 per cent level.		
**Significant at 1 per cent level.		
Source: Compiled and computed from Published Financial Statements of HUL and USL.		