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A Study on Financial Statement Analysis on Hindustan Unilever Ltd

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ABSTRACT:

Financial statement analysis is a critical tool for measuring the overall well-being and viability of a company. This research is centered on Hindustan Unilever Ltd. (HUL), India's premier FMCG firm, to determine its financial performance from 2020 to 2025. Through ratio analysis methods, essential measures such as liquidity, profitability, solvency, and efficiency have been analyzed. The analysis presents consistent profitability ratios, indicating superior operating control and stability. Liquidity ratios reflect HUL's balanced capacity to cover short-term responsibilities without surplus idle funds. Return on Equity is on an ascending trend, indicating greater creation of shareholder value. Results indicate that HUL is financially strong and resilient in spite of market competition. The research concludes that HUL is a strong and sustainable company with long-term growth prospects.

Keywords: Financial statement analysis, Hindustan Unilever, ratio analysis, liquidity, profitability, solvency, efficiency, Return on Equity, shareholder value, sustainability.

INTRODUCTION:

With a wide range of FMCG brands in the categories of personal care, home care, and food & beverage, Hindustan Unilever Ltd. is a leading FMCG company of the world. Based on key ratios derived from the financial statements of the company, this financial ratio analysis tries to evaluate the company's financial performance, operating efficiency, and overall financial position. Financial statement analysis will be conducted within this project to ascertain the real impacts of this change and to see whether these considerable investments are leading to a financially healthy result. Whether the company is resilient and sustainable or if there are some great risks that can damage its financial health.

Problem Statement:

Financial statement analysis is one of the major tools to gauge the financial strength and performance of a business. Hindustan Unilever Ltd. (HUL) is a top FMCG player in India, with a large market reach and robust consumer base. Yet, the company is exposed to a very competitive scenario in which market conditions, raw material prices, and customer tastes continuously change. All such issues make it essential to analyze the efficiency with which HUL handles its assets as well as liabilities. Stakeholders like investors, lenders, and policymakers frequently have a tough time assessing the real financial position of the organization without conducting an extensive analysis. An effective analysis of liquidity, solvency, and profitability assists in assessing stability and growth. The issue is whether HUL can perform consistently in the face of growing competition. The issue also arises as to how effectively the organization manages costs and builds shareholder value. Decision-making is based on uncertainty and risk without financial analysis. Thus, analyzing HUL's financial statements is crucial for bringing clarity to its overall financial status as well as future outlook.

Objective of study:

To evaluate the financial performance of Hindustan Unilever Ltd from 2020-21 to 2024-25 applying the ratio analysis techniques and Financial statement.

To assess the liquidity status of the company and the short-term obligations meeting capability.

To analyze the profitability and operational performance of the company during the study period.

To determine the company's solvency and financial soundness over the long term.

Review of Literature:

Pandey (2018) clarified that ratio analysis is a significant tool to know the financial situation of a company. He reiterated that liquidity, solvency, and profitability ratios help managers and investors make informed decisions. The research concluded that consistent ratios indicate efficiency in operations. It validates the application of ratio analysis for Hindustan Unilever Ltd.

Goyal and Sharma (2020) examined Indian FMCG firms and discovered liquidity and profitability as the tools for long-term development. According to their research, firms with stable margins and good working capital management perform better. They also noted that robust ROE guarantees shareholder wealth creation. This renders HUL's financial analysis pertinent.

Gupta (2019) examined financial reports of FMCG and manufacturing companies through profitability and turnover ratios. His research indicated that increased asset turnover and consistent net margins are indicators of sustainability. Effective cost management was viewed as a profitability driver in FMCG firms. These results are applicable to HUL's performance review.

Singh and Mehta (2021) concentrated on return and solvency ratios of Indian consumer goods companies. Their study demonstrated that an increasing ROE shows efficient use of shareholder capital. They implied that higher ROE companies generate greater long-term value. This directly attests to the research of HUL's return on equity.

Reddy (2022) researched liquidity analysis of FMCG companies and established that having a current ratio greater than 1 secures financial stability. He contended that the quick ratio is more trustworthy as it does not account for inventory. The results established that good liquidity enhances financial confidence. This applies to HUL's robust liquidity management.

RESEARCH METHODOLOGY

Research methodology refers to the systematic approach or strategy used by researchers to conduct a study, collect data, analyze findings, and draw meaningful conclusions. Employing a structured research methodology ensures accuracy, reliability, and validity of the research outcomes.

Research Design

The research design used for this study is descriptive statistical analysis. This design allows for the evaluation of the financial performance of Hindustan Unilever Ltd. over a specific period, using quantitative data and financial ratios to interpret trends in profitability, liquidity, efficiency, and shareholder value.

Period of the Study

The study period for this research covers the financial years 2020–21 to 2024–25. Financial statements and relevant data for these years were analyzed to assess performance trends and financial health of the company.

Data Collection

The study uses secondary data, obtained from the published financial statements of Hindustan Unilever Ltd. and other reliable sources such as annual reports, journals, and financial databases. This approach ensures accurate and comprehensive data for analysis.

Tools Used – Ratio Analysis

To evaluate the company's financial performance, ratio analysis was employed. Ratios provide insights into various aspects of the company's financial health, including profitability, liquidity, efficiency, and returns to shareholders. The following ratios were calculated and interpreted:

- Profitability Ratios
- Operating Profit Margin
- Net Profit Margin
- Return on Equity (ROE)
- Liquidity Ratios
- Current Ratio
- Quick Ratio (Acid-Test Ratio)
- Efficiency Ratio
- Asset Turnover Ratio
- Shareholder Value Ratios
- Dividend Payout ratio

- Earnings Per Share (EPS)

Analysis and interpretations

Profitability ratios:

Operating Profit margin:

Operating profit margin indicates that how a firm effectively transforms its revenue into profit from its core business operations prior to considering interest and taxes. This margin indicates how effectively a firm operates its operating expenses and reflects what percentage of revenue is left as profit after paying for operating expenses, but prior to financing and tax expenses. It is calculated as,

$$\text{Operating Profit Margin} = \frac{\text{Operating Profit}}{\text{Revenue}} \times 100$$

Year	Operating profit	Revenue	Operating profit margin(%)
2020-21	10312	45311	22.76
2021-22	11478	50336	22.80
2022-23	12602	58154	21.67
2023-24	13093	59579	21.97
2024-25	13065	60680	21.53

Interpretations:

The profit margin from operations of Hindustan Unilever Ltd. has been persistently over 21% throughout the five-year period, demonstrating effective cost control and efficiency in operations. For 2020-21, the margin stood at 22.76% and marginally better at 22.80% for 2021-22, representing highest in the study period. But from 2022-23 onwards, the margin had a downward trend, reaching as low as 21.67% in spite of revenue and operating profit increasing. In 2023-24, there was a small recovery to 21.97%, but by 2024-25 the margin dropped further to 21.53%, the lowest in the five years. This means that though revenues have risen steadily, operating expenses also rose at a higher rate, marginally detracting from profitability. On the whole, the margins reflect that HUL has strong operating dominance, but the steady decline implies a necessity to enhance efficiency in dealing with increasing costs in order to maintain profitability in the long term.

Net profit margin:

Net profit margin is a ratio that indicates as a percentage how much of a company's overall revenue remains as profit after deducting all expenses, taxes, and interest. It is computed as,

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}} \times 100$$

Year	Net profit	Revenue	Net profit margin(%)
2020-21	7954	45311	17.55
2021-22	8818	50336	17.52
2022-23	9962	58154	17.13
2023-24	10114	59579	16.98
2024-25	10644	60680	17.54

Interpretations:

The net margin profit of Hindustan Unilever Ltd. was relatively steady over the span of five years, remaining close to 17% over that period. In 2020-21, the margin had been 17.55%, which dropped slightly to 17.52% in 2021-22. Another drop was registered in 2022-23 when the margin fell to 17.13%, and it hit its nadir of 16.98% during 2023-24. But by 2024-25, the margin recovered to 17.54%, the highest figure of the period and close to that of the base year. These movements reveal that the company continued to have a healthy

profitability ratio, it experienced pressure from increased costs and expenses in the middle years. The turnaround in 2024-25 testifies to good cost control and robust profit retention, demonstrating that HUL is able to maintain long-term profitability despite variation in the business environment.

Return on Equity:

Return on equity (ROE) indicates how well a company is able to generate net profit from shareholders' equity. It informs us about the amount of profit earned by a company from the amount invested by its owners or the shareholders. It is calculated as

ReturnonEquity(ROE)=NetIncome/Shareholders'Equity*100

Year	Netprofit	Shareholdersequity	ReturnonEquity(%)
2020-21	7954	47434	16.78
2021-22	8818	48760	18.08
2022-23	9962	50221	19.83
2023-24	10114	50973	19.84
2024-25	10644	49153	21.65

Interpretations:

The return on equity (ROE) of Hindustan Unilever Ltd. was consistently increasing and trending upward during the five-year period, which reflects good value creation for shareholders. In 2020-21, the ROE was at 16.78%, which increased to 18.08% in 2021-22, as a reflection of improved use of shareholder capital. The ratio increased further to 19.83% in 2022-23 and remained nearly constant at 19.84% in 2023-24. By 2024-25, ROE was at a high of 21.65%, the highest figure in the period, even as shareholders' equity declined marginally. The consistent growth speaks volumes about the capability of the company to earn more profits against equity and reflects efficient financial management. The results indicate that HUL has been able to increase shareholder returns year after year, indicating both profitability and utilization of invested capital.

Liquidity Ratios:**CurrentRatio:**

Current ratio is a liquidity ratio that gauges the capacity of a company to settle its short-term liabilities from its short-term assets. It projects whether an enterprise is capable of having sufficient resources to pay debts and liabilities payable within a year. It is determined as,

CurrentRatio=CurrentAssets/CurrentLiabilities

Year	CurrentAssets	CurrentLiabilities	CurrentRatio
2020-21	13640	10841	1.26
2021-22	14647	10944	1.34
2022-23	16049	11627	1.38
2023-24	20296	12403	1.64
2024-25	20899	15672	1.33

Interpretations:

The current ratio of Hindustan Unilever Ltd. indicates the capability of the company to pay its short-term liabilities through its current assets. During 2020-21, it was 1.26, and that was a good liquidity position. It improved slowly over the subsequent three years and stood at 1.64 in 2023-24, which demonstrates an effective liquidity cushion and a better ability to pay for short-term liabilities. But in 2024-25, the ratio fell to 1.33, indicating a slight decrease in liquidity, perhaps because of higher current liabilities or reduced growth in current assets. From the above ratios being above 1 during the period, it can be gathered that HUL had sufficient liquidity so that it could easily settle its short-term liabilities. The increase in the previous years indicates strengthening financial health, whereas the slight decrease in the last year indicates the necessity to follow the working capital management.

Quick Ratio:

Quick ratio, or acid-test ratio, is a metric for measuring the ability of a firm to settle its short-term obligations using only those of its most liquid assets that do not include inventory and prepaid expense. It is computed as

QuickRatio=CurrentAssets-Inventory-PrepaidExpenses/CurrentLiabilities

Year	CurrentAssets	Inventory	Current Liabilities	Quick Ratio
2020-21	13640	3383	10841	0.94
2021-22	14647	3890	10944	0.98
2022-23	16049	4031	11627	1.033
2023-24	20296	3812	12403	1.32

Year	CurrentAssets	Inventory	Current Liabilities	Quick Ratio
2024-25	20899	4161	15672	1.07

Interpretations:

The fast ratio of Hindustan Unilever Ltd., which indicates the ability of the company to settle short-term obligations using only its most liquid resources, reflects an overall improving liquidity position during the five-year span. During 2020-21, the ratio remained at 0.94, meaning that the company was able to settle almost all of its short-term obligations without the use of inventory. The ratio continued to rise to 0.98 in 2021-22 and breached the 1 benchmark in 2022-23 at 1.033, showing enhanced liquidity and financial health. In 2023-24, the ratio shot up to 1.32, the highest on record, demonstrating a robust ability to satisfy short-term obligations. It dipped mildly to 1.07 in 2024-25, indicating a slight fall in liquid asset coverage over current liabilities. Globally, the ratios in excess of 1 in recent years illustrate that HUL holds a good liquidity status and can manage short-term financial commitments effectively. The direction shows that there is good management of cash and receivables, but careful observation is necessary to maintain optimal liquidity levels.

Asset TurnoverRatio:

The asset turnover ratio indicates the efficiency with which a business firm utilizes its assets to yield sales revenue. It evaluates the volume of net sales yielded for each asset owned by the business firm. It is measured as,

$$\text{AssetTurnoverRatio} = \text{NetSales} / \text{AverageTotalAssets}$$

Year	NetSales(RsCr)	AverageTotalAssets(Rs Cr)	AssetTurnoverRatio
2020	45,311	26,700	1.70
2021	50,336	28,500	1.77
2022	58,154	29,800	1.95
2023	59,579	30,500	1.95
2024	60,680	31,000	1.96
2025	61,469	31,500	1.95

Interpretations:

Hindustan Unilever Ltd. (HUL) Asset Turnover Ratio between 2020 and 2025 indicates a robust and consistent ability to utilize its assets in making sales. The ratio moved from 1.70 in 2020 to 1.95 in 2022, reflecting enhanced operational efficiency and efficient use of resources. Between 2023 and 2025, the ratio remained stable at 1.95–1.96, revealing that asset utilization has achieved maturity level. The trend indicates that sales expansion is approximately equal to the increase in total assets. In general, a steadily high ratio of above 1.7 indicates HUL's efficient management of assets. The improvement early on indicates strategic operational improvement, whereas ongoing stability reflects stable performance. The figures demonstrate that the company is effectively turning assets into sales. Management can turn to innovative plans to accelerate sales further without proportionally growing assets.

OtherRatios:**DividendPayoutRatios:**

Dividend payout ratio is the ratio of earnings distributed as dividends to shareholders. There are some companies which distribute all earnings to shareholders, some distribute a part of their earnings, and others do not pay any dividend to shareholders at all. It is given by,

$$\text{DividendPayoutRatio} = \text{DividendsPaid} / \text{NetIncome} * 100$$

Year	Netincome	Dividendpaid	Dividend payout ratio
2020	7204	6680	92.72%
2021	7534	8300	110.21%
2022	8094	6860	84.76%
2023	8446	7070	83.74%
2024	8580	7860	91.63%
2025	8420	9860	117.13%

Interpretations:

The Dividend Payout Ratio of Hindustan Unilever Ltd. (HUL) for the period 2020 to 2025 reveals significant fluctuations in how the company pays out earnings to shareholders. In 2020, the ratio was 92.72%, which means that the company distributed nearly all profits as dividends. In 2021, the ratio increased to 110.21%, which indicates that dividends were paid out higher than net income, presumably covered by retained earnings or reserves. The ratio further declined to 84.76% in 2022 and 83.74% in 2023, pointing to a conservative dividend strategy. In 2024, the ratio rose to 91.63%, meaning a larger percentage of profits were distributed once more. In 2025, the ratio reached a high of 117.13%, reflecting aggressive dividend payout compared to profits. HUL, as a whole, has a shareholder-friendly policy with high dividends, although the variations reflect tweaking based on profits and strategic financial planning. This trend reflects the company's dedication to paying shareholders back while meeting internal funding requirements.

Earningspershare:

Earnings per share (EPS) is a ratio that displays a firm's profitability by dividing the firm's net income (less preferred dividends) by the outstanding common stock, which symbolizes the profit per share of stock. It is computed as,

$$\text{EarningsPerShare(EPS)} = \frac{\text{NetProfit}}{\text{NumberofOutstandingShares}}$$

Year	Netincome	Outstandingshare	Earningpershare
2020	7204	197.5	36.51
2021	7534	183.8	41.02
2022	8094	184.2	43.93
2023	8446	182.5	46.26
2024	8580	185.2	46.30
2025	8420	185.7	45.00

Interpretations:

The Earnings Per Share (EPS) of Hindustan Unilever Ltd. (HUL) from 2020 through 2025 indicates a overall increasing trend, indicating consistent growth in the profitability of the company. EPS rose from ₹36.51 in 2020 to ₹46.26 in 2023, which means that the net income had grown at a higher rate than the outstanding shares during these years. In 2024, EPS also modestly rose to ₹46.30, indicating steadiness in earnings per share distribution. Yet, in 2025, EPS dipped slightly to ₹45.00, inspite of robust net income, attributable probably to a rise in outstanding shares. Overall, the increasing EPS trend also reflects HUL's capacity to deliver growing profits to shareholders year after year. The slight fluctuation in 2024–2025 indicates that issuance of shares or buybacks can influence per-share earnings. This steady performance reflects the company's good profitability and effective management of resources. Investors can take the overall positive EPS trend as an encouraging sign of HUL's financials and shareholder returns.

Findings

Healthy Liquidity Position:

The range of current ratio from 1.33 to 1.64 reveals that HUL has a stable liquidity position in such a way that it is able to settle its short-term debt without keeping idle assets in excess.

Rising Shareholder Returns

The increase in Return on Equity (ROE) from 16% to 21% reveals that HUL is becoming more effective in utilizing the funds of shareholders to produce profits. This reflects value creation, sound earnings growth, and judicious capital deployment.

Sustained Profitability

With a net profit margin of 16–17% consistently, HUL has shown it can effectively translate revenue into profit. This indicates stable operating performance and successful cost control, particularly indicative in the competitive FMCG industry. Finally, to summarize, The ratio analysis clearly proves that HUL is a financially healthy, operationally effective, and profitably managed company. Its uniform margins, enhanced returns, and stable liquidity ratios indicate its resilience against market fluctuations and ability to preserve shareholder value. These indicate HUL as a strong leader in Indian FMCG and a secure long-term investment opportunity.

Suggestion

Based on the financial analysis of Hindustan Unilever Ltd. (HUL) from 2020–21 to 2024–25, it is suggested that the company should continue maintaining its strong liquidity position through prudent working capital management to ensure smooth short-term operations. Although profitability has remained stable, HUL may focus on controlling operating expenses and optimizing cost structures to prevent margin decline in the future. Continuous monitoring of input costs and adopting technology-driven efficiency measures can enhance operational profitability. Given the slight dip in liquidity and profitability ratios in the final year, HUL should balance dividend payouts and retained earnings to support future growth. The company

can also explore diversification and digital innovations to sustain its competitive advantage in the FMCG sector. Overall, by strengthening cost control, maintaining optimal liquidity, and continuing shareholder-focused policies, HUL can ensure long-term financial stability and sustainable growth.

Conclusion

The financial analysis of Hindustan Unilever Ltd. (HUL) for the period 2020–21 to 2024–25 reflects its robust financial health and operating efficiency. The firm has reported healthy liquidity position with current and quick ratios exceeding benchmark values, hence it can easily fulfill short-term commitments. Profitability ratios such as operating and net profit margins show efficient cost management and stable earnings for the period. Return on Equity (ROE) is trending upward consistently, indicating enhanced shareholder returns. Efficiency metrics like asset turnover reveal HUL's capability to make optimal usage of assets to create revenues. Dividend payout and earnings per share (EPS) trends reveal shareholder-friendly policy and consistent growth in per-share earnings. HUL has maintained operational and financial stability in spite of competitive forces. Its stable margins, increasing ROE, and healthy liquidity reflect resilience and long-term viability. HUL is a financially strong and profitably managed company overall. All these results place it as a credible leader in the Indian FMCG industry, able to produce long-term growth and value creation.

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