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"Fundamental Analysis of Hindustan Unilever Limited"

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ABSTRACT:

The purpose of this study was to conduct a Fundamental analysis of Hindustan Unilever Limited (HUL) using EIC (Economy, Industry, Company) framework for the evaluation of the financial health and long-term investment potential. The entire research is based on secondary information from publicly available sources such as HUL annual reports, financial statements and investor presentations, and reputed financial databases such as Moneycontrol, and The World Bank. A descriptive research design was adopted, which enabled to carry out a systematic analysis of macroeconomic indicators like GDP growth, inflation rates, trends of FDI, as well as industry dynamics within the FMCG and certain company-specific financial ratios, such as ROE, ROCE, the current ratio and EPS. Research found that while the Indian economy was recovering from the pandemic with GDP stabilising and inflation declining, and while continued growth in the FMCG sector was due to urbanisation and digitisation, HUL was shown to have a significant decline in efficiency. Return on Equity (ROE) slumped from 83.89% in 2020 to 19.84% in 2024. Yet there was consistent growth in revenue, net profit and dividend along with a strong market presence and strategic initiatives, which suggested that HUL remained a fundamentally strong company with great promise for long-term investment.

Keywords: Fundamental Analysis, Hindustan Unilever Limited (HUL), FMCG Industry, Financial Performance, Long-Term Investment, Key ratios.

Introduction:

Fundamental analysis is a crucial method for evaluating a company's financial health, profitability, and long-term investment potential. It involves assessing macroeconomic factors, industry trends, and company-specific financial statements to determine a stock's intrinsic value. This study applies the EIC (Economy, Industry, Company) framework to analyse Hindustan Unilever Limited (HUL), one of India's leading FMCG (Fast-Moving Consumer Goods) companies. By examining key financial indicators such as Return on Equity (ROE), Return on Capital Employed (ROCE), and liquidity ratios, this research aims to provide insights into HUL's growth trajectory and market standing.

HUL operates in a highly competitive FMCG sector, where market trends, inflation, and raw material costs significantly impact profitability. The company has maintained a strong brand presence and distribution network, making it a dominant player in the industry. However, financial analysis reveals a decline in efficiency, with ROE dropping from 83.89% in 2020 to 19.84% in 2024. This study evaluates HUL's financial resilience, investment potential, and strategic opportunities, helping investors and stakeholders make informed decisions in the evolving market landscape.

The study began by introducing fundamental analysis as a crucial tool for evaluating a company's financial health and investment potential. It emphasized how investors use this method to assess a company's profitability, liquidity, efficiency, and market valuation before making long-term investment decisions. Hindustan Unilever Limited (HUL) was introduced as a market leader in the Indian FMCG sector, known for its strong brand portfolio, extensive distribution network, and consistent financial performance. The discussion highlighted why investing in the FMCG industry is considered a stable option, given its essential nature, consumer demand, and resilience to economic fluctuations.

The study provided an overview of HUL's financial structure, including its short-term and long-term investments, borrowing strategies, and revenue sources. The company's well-established distribution network and market reach were also explored, showcasing how its strong supply chain contributes to its dominance in the industry. Additionally, the EIC (Economy, Industry, Company) framework was introduced as a structured approach to evaluating HUL's performance. This framework enables a holistic assessment by analyzing macroeconomic conditions, industry growth trends, and company-specific financial indicators.

A detailed examination of India's economic landscape was conducted, covering factors such as GDP growth, inflation, foreign direct investment (FDI), and taxation policies that directly impact the FMCG sector. A SWOT analysis of the industry provided insights into its strengths, weaknesses, opportunities, and threats, helping to identify potential risks and growth drivers. The financial performance of HUL was also introduced, with key ratios and valuation metrics setting the foundation for deeper analysis in subsequent sections.

The discussion concluded by emphasizing the importance of understanding economic trends, industry performance, and company-specific financial indicators to make informed investment decisions. By integrating these factors, investors and analysts can better assess HUL's financial stability, competitive positioning, and future growth potential in the evolving FMCG landscape.

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Literatures Reviewed:

Tio Pasukodewo and Neneng Susanti, et al (2020), a study to find how return on assets (ROA), return on equity (ROE), and net profit margin (NPM) influence stock valuation, measured by the price earnings ratio (PER) and to analyse the results to the corporate value which is measured by price to book value (PBV), They had collected secondary data from retail trade companies, The sample size consisted of 11 retail trade companies and the population this research were 31 retail trade companies, The method used in this research is a descriptive method of analysis with a quantitative approach along with the analytical technique used in this research is a double linear regression analysis technique, The findings in this paper suggests that higher the value of these variables (i.e. ROA, ROE, NPM) correlate a higher PER, it will result in a better investor perception and greater market value of the company and vice versa, In addiction to that higher PER by itself will positively influence the company's stock valuation.

Novi Tri Asiani and Ni Putu Widhia Rahayu, et al (2024), they studied to analyse the financial performance of PT. GoTo Gojek Tokopedia Tbk from 2019 to 2022 by evaluating liquidity ratios (current, quick, and cash ratios) and profitability ratios (gross profit margin, net profit margin, return on assets, and return on equity). The sampling method used here was judgemental and the population comprises the complete set of financial statements of PT. GoTo Gojek Tokopedia Tbk available on the ISE and the company's official website. The study was done using a quantitative descriptive methodology based on secondary data from the company's financial reports available on the ISE and the official company website. Findings revealed that the liquidity ratios exceeded industry standards, indicating strong short-term financial health. However, the profitability ratios consistently underperformed, showing inefficiencies and declining profitability, making the company's financial position a concern for long-term sustainability.

Xiaomo Zhang, et al (2024) He studied the impact of macroeconomic factors on stock valuations, focusing on the case of Baiyunshan, a Chinese pharmaceutical company. He tried to assess how variables like interest rates, inflation, economic growth, and political stability influence the intrinsic value of stocks, using valuation models such as the Price-to-Earnings (P/E) ratio, Price-to-Book (P/B) ratio, Gordon Growth Model, and Economic Value Added (EVA) model. The research relied on secondary data from financial statements and macroeconomic reports. Judgemental sampling was used here the financial data of Baiyunshan Pharmaceutical Holdings Company Limited for the period 2016–2020, The population comprised all publicly available financial data relevant to companies in the pharmaceutical industry, The methodology he used was descriptive and analytical, to find relationships between these factors and stock valuations. Findings revealed that lower interest rates eventually showed higher return on equity and innovation through R&D investments, inflation posed risks to profit margins, economic growth positively affected revenues, and favorable regulatory policies supported profitability and stock valuations. (Novi Tri Asiani, 2024)

Radim gottwald, et al (2011), Investors use fundamental and technical analysis to assess stocks and calculate their intrinsic value, helping them identify undervalued and overvalued stocks. They aim to buy undervalued stocks and sell overvalued ones to maximize returns. The paper aims to analyse the relationship between stock price and intrinsic value within the framework of fundamental analysis, using data from empirical research. Descriptive methods are used to explain key terms related to stock valuation, while analytical methods evaluate the results from these studies. The findings of this research on the relationship between stock price and intrinsic value, points out that most studies focus on specific types of stocks and may vary based on sample, time period, and method. The findings are crucial for both academic researchers and market participants, offering insights to help investors make more informed decisions based on fundamental analysis.

Danil Syahputra and Supiah Ningsih, et al (2024), Financial reports, according to accounting standards, reflect an entity's financial condition and performance, serving as benchmarks for success. These reports offer insights into a company's financial health and efficiency, aiding investors in their decision-making. Financial ratios are commonly used to analyze profitability and assess the effectiveness of financial management. This study uses a quantitative design with secondary data from 10 manufacturing companies in the food and beverage sector, selected through purposive sampling. Multiple linear analysis, including F-test, t-test, and R2 determination test, is applied to examine the relationship between profitability (ROA) and liquidity (current ratio) as independent variables. The findings show that all three variables significantly affect financial performance, with ROA, current ratio, and total asset turnover having significant values below 0.05 and t-values exceeding the critical value, indicating a strong relationship.

Lijuan Ma, Marcel Ausloos, Christophe Schinckus, H. L. Felicia Chong, et al (2018), The study explores the predictive power of fundamental analysis in transitional economic contexts, specifically focusing on China. It addresses the informational challenges in such regimes, where financial and accounting information may not be synchronized. The sample includes 60 Chinese listed companies across three industries—media, power, and steel—between 2011 and 2015. Using three types of correlation, the study examines 25 financial determinants to assess their relevance. Findings indicate that fundamental analysis is a viable investment tool in transitional economies, as accounting information reflects economic reality and provides insights into stock value based on industry conditions. Unlike the Efficient Market Hypothesis (EMH), where information is instantly integrated into stock prices, the study suggests a lag in synchronization, allowing fundamental analysis to predict stock performance effectively.

Research Methodology:

This study conducts a comprehensive fundamental analysis of Hindustan Unilever Limited (HUL) within the FMCG sector using a descriptive research design and the EIC (Economy, Industry, Company) framework. It relies on secondary data from sources such as HUL's annual reports, financial statements, stock market data, and industry reports, focusing on the 2020–2024 period. Key financial ratios like ROE, ROCE, Current Ratio, and P/E ratio are evaluated to assess profitability, liquidity, and valuation trends. Macroeconomic indicators such as GDP growth, inflation, and FDI are also examined to understand broader economic influences on HUL's performance. The aim is to provide valuable insights into the company's financial health and long-term investment potential for investors and analysts.

The research addresses a gap in previous studies that lacked detailed analysis of HUL specifically within the FMCG industry. Earlier studies mainly focused on general financial trends and overlooked company-specific factors such as competitive advantages, market dynamics, and long-term viability. This study bridges that gap by integrating conventional financial analysis with contextual industry and economic factors. The use of secondary data ensures a cost-effective, efficient approach while allowing access to extensive historical financial data. This method supports a more accurate and in-depth assessment of HUL's market positioning, growth trends, and operational performance.

Data Analysis and Interpretation:

Following are the findings of the study

Date	GDP growth rate (in %)	Inflation Rate (in %)	Foreign Direct Investment (USD)
Mar-23	8.2	5.65	$ 28.08B
Mar-22	6.99	6.70	$ 49.94B
Mar-21	9.69	5.13	$ 44.73B
Mar-20	(-5.78)	6.62	$ 64.36B
Mar-19	3.87	3.73	$ 50.61B

Source of data: https://data.worldbank.org/indicator

1. Economic Analysis

- **GDP Growth Rate:** The Indian economy showed resilience post-pandemic, with GDP growth bouncing back from a negative rate in 2020 (-5.78%) to a strong recovery of 9.69% in 2021. However, it has stabilized at around 6-7% in recent years.
- **Inflation Trends:** Inflation fluctuated, peaking at 6.70% in 2022, likely due to global supply chain disruptions. By 2023, it moderated to 5.65%, showing signs of economic stability.
- **Foreign Direct Investment (FDI):** India continues to attract FDI, with steady inflows supporting economic expansion and business growth.

Remarks:

- A growing GDP and controlled inflation support consumer demand, which benefits HUL's FMCG business.
- Stable economic conditions provide a conducive environment for HUL's long-term financial growth.

Date	Growth of FMCG (in %)
Q1 2020	3.00
Q2 2020	-19.00
Q3 2020	7.10
Q4 2020	9.40
Q1 2021	9.50
Q2 2021	36.90
Q3 2021	12.60
Q4 2021	9.60
Q1 2022	6.00
Q2 2022	10.90
Q3 2022	9.20
Q4 2022	7.60
Q1 2023	10.20
Q2 2023	12.20
Q3 2023	9.00
Q4 2023	10.40

Competing Brands	Composition in NIFTY FMCG index in 2023 (in %)
ITC	38.60
HUL	23.10
Nestle	8.00
Britannia	5.80
Tata Cp	5.10
Godrej CP	3.80
Dabur	3.30
Marico	2.60
Others	9.70

Date	IIP Growth Rate (in %)
Q1 2020	-18.70
Q2 2020	-16.60
Q3 2020	1.00
Q4 2020	2.20
Q1 2021	24.20
Q2 2021	13.80
Q3 2021	4.40
Q4 2021	1.00
Q1 2022	2.20
Q2 2022	2.20
Q3 2022	3.30
Q4 2022	5.10
Q1 2023	1.70
Q2 2023	4.00
Q3 2023	6.40
Q4 2023	4.40
Q1 2024	4.90
Q2 2024	4.70
Q3 2024	3.10

Growth of FMCG industry & NiftyFMCG Composition: www.maximizemarketresearch.com/market-report/indian-fast-moving-consumer-goods-fmcg-market

IIP growth rate: https://tradingeconomics.com/india/industrial-production

2. Industry Analysis (FMCG Sector)

Revenue Growth: The FMCG industry remains strong, driven by rising disposable incomes and urbanization. HUL's segmental revenue highlights sustained demand across Home Care, Beauty & Personal Care, and Foods.

Competitive Landscape: The industry faces high competition, requiring continuous innovation and strategic pricing.

Cost Pressures: Fluctuations in raw material costs and supply chain inefficiencies may affect profitability.

Remarks:

- The industry's resilience benefits HUL, but maintaining market leadership requires ongoing product innovation and cost efficiency.

Date	Net Sales (in cr)	Net Profit (in cr)	Turnover (in cr)	Earnings Per Share (EPS)	Dividend Per Share
2020	₹ 38,273.00	₹ 6,738.00	₹ 38,273.00	₹ 31.13	₹ 25.00
2021	₹ 45,331.00	₹ 7,954.00	₹ 45,311.00	₹ 33.85	₹ 31.00
2022	₹ 50,336.00	₹ 8,818.00	₹ 50,336.00	₹ 37.53	₹ 34.00
2023	₹ 58,154.00	₹ 9,962.00	₹ 58,154.00	₹42.40	₹ 39.00
2024	₹ 59,579.00	₹ 10,114.00	₹ 59,576.00	₹ 43.05	₹ 42.00

Source: https://www.moneycontrol.com/stocks/company_info/print_main.php

Company Analysis (HUL Performance)

The financial data from 2020 to 2024 reflects a consistent growth trajectory for the company. Net sales and turnover have steadily increased from ₹38,273 crore in 2020 to ₹59,579 crore in 2024, indicating strong revenue expansion and market demand. Alongside this, the company's net profit has also risen significantly from ₹6,738 crore in 2020 to ₹10,114 crore in 2024, suggesting improved profitability through better cost management, operational efficiency, or higher-margin business segments.

Earnings per share (EPS) has shown a steady increase from ₹31.13 in 2020 to ₹43.05 in 2024, highlighting the company's ability to generate higher returns for shareholders. Similarly, the dividend per share (DPS) has grown from ₹25.00 in 2020 to ₹42.00 in 2024, indicating the company's confidence in its financial strength and commitment to rewarding investors. This upward trend in both EPS and DPS reinforces the company's focus on value creation and financial stability.

The consistent rise in EPS and dividends makes it attractive to investors, reinforcing confidence in long-term growth potential.

However, while the growth between 2022 and 2023 was substantial, there is a noticeable slowdown in the rate of increase from 2023 to 2024. The rise in net sales, net profit, and EPS has become more moderate, suggesting that the company may be entering a phase of stabilization rather than rapid expansion. Despite this, the overall financial performance remains strong, with steady profitability and increasing shareholder returns. The company's consistent growth in revenue, profit, and dividends reflects a resilient business model and strong market position, making it an attractive prospect for investors.

Date	Current ratio	Return on Asset (ROA)	Return on Capital Employed (ROCE)	Return on equity (ROE)	Inventory turnover	Asset turnover	Price to book value (P/Bv)	Price to earnings (P/E)
Mar-20	1.31	34.37	89.49	83.89	14.71	197.86	61.81	66.60
Mar-21	1.26	11.67	18.90	16.76	13.60	67.52	12.04	70.90
Mar-22	1.34	12.64	20.19	18.08	4.36	0.74	9.87	52.00
Mar-23	1.38	13.86	21.99	19.83	4.86	0.84	11.97	60.80
Mar-24	1.64	13.12	21.74	19.84	4.54	0.81	10.46	51.60

Source: https://www.moneycontrol.com/financials/hindustanunilever/ratiosVI/HU

Profitability: HUL has shown consistent revenue and profit growth. However, financial ratios indicate a decline in efficiency compared to pre-2021 levels.

Liquidity & Efficiency: The current ratio improved from 1.31 (2020) to 1.64 (2024), indicating stronger financial health.

Return Metrics:

- **ROE** declined from 83.89% (2020) to 19.84% (2024), suggesting lower profitability relative to shareholders' equity.
- **ROCE** also dropped from 89.49% (2020) to 21.74% (2024).
- **Asset Turnover** decreased sharply, signalling reduced efficiency in utilizing assets.

Remark:

Despite strong brand positioning and revenue growth, HUL must improve efficiency and operational performance to regain its pre-2021 profitability levels.

Findings and Conclusion:

The study finds that Hindustan Unilever Limited (HUL) remains a financially stable and fundamentally strong company, despite a decline in efficiency over recent years. The economic analysis highlights India's post-pandemic recovery, with GDP growth stabilizing at 6-7% and inflation moderating to 5.65% in 2023, creating a favorable environment for the FMCG sector. The industry analysis underscores consistent growth, driven by urbanization and rising consumer spending, though challenges such as fluctuating raw material costs persist. The company analysis reveals a declining ROE from 83.89% in 2020 to 19.84% in 2024, indicating reduced operational efficiency. However, HUL's strong market position, extensive distribution network, and brand equity continue to support its long-term growth. Overall, while HUL remains a viable long-term investment, improving cost efficiency and innovation will be essential for sustaining its competitive edge in the evolving FMCG landscape.
Apart from the key findings, the study also highlights several other important aspects of Hindustan Unilever Limited's (HUL) financial and operational performance. The company maintains a strong liquidity position, ensuring it can meet short-term obligations, though optimizing working capital and reducing reliance on borrowings could further strengthen its financial stability. HUL's valuation remains high, indicating strong investor confidence, but future stock price appreciation may depend on earnings growth and cost efficiency improvements. Additionally, regulatory changes related to taxation and import duties could impact pricing strategies and profit margins, making adaptability a crucial factor for long-term sustainability.
Furthermore, HUL has been investing in digital transformation and e-commerce expansion, leveraging data analytics and AI to enhance consumer engagement and supply chain efficiency. The company's commitment to sustainability and ESG initiatives, such as eco-friendly packaging and ethical sourcing, adds to its long-term attractiveness for responsible investors. However, growing competition from regional brands and new-age direct-to-consumer (D2C) players poses a challenge to its market dominance. To sustain growth, HUL must focus on cost optimization, product innovation, and strategic acquisitions, ensuring its leadership in the evolving FMCG landscape.

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