



The Study of Growth Analysis of ITC Ltd and Hindustan Unilever Ltd

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Abstract: Population of over one billion, India is one of the largest economies in the world. The Indian FMCG market is the fourth largest sector in the Indian economy and creates employment opportunities for more than three million people in India. The FMCG sector has grown at an average of 11% a year, in the past few years, its growth accelerated at compounded rate of 17.3% per annum. Market share indicate that companies such as ITC Ltd and Hindustan Unilever Limited, with domination in their key categories, have improved their market shares and outperformed peers in the FMCG sector. The future for FMCG sector is very promising due to its inherent capacity and favorable changes in the environment. Profit is the main reason for the continued existence of every commercial organization and profitability depicts the relationship of the absolute amount of profit with various other factors. Liquidity is required to meet out the prompt demands of customers and profitability is required to meet out the expenses of the companies. Hence this research study is an effort to study the Growth rate in ITC Ltd. And Hindustan Unilever Ltd. as both is giant companies in Indian FMCG sector, so a study of Growth analysis of both the companies for a period of 5 years, i.e. from 2013 to 2017 is made. The main parameters of growth in companies are Net profit growth, Net assets growth, Earning per Share growth and Reserve and Surplus growth.

Keywords: Net Assets, Earnings per Share (EPS), Reserves and Surplus, Growth.

I. INTRODUCTION

The fast moving consumer goods (FMCG) sector is an important contributor to Indian GDP and it is the fourth largest sector of the Indian economy. Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods. FMCG may also include pharmaceuticals, consumer electronics, packaged food products, soft drinks, tissue paper, and chocolate bars. The Indian FMCG sector is highly fragmented, volume driven and characterized by low margins. The sector has a strong MNC presence, well established distribution network and high competition between organized and unorganized players. FMCG brands would need to focus on Research and Development and innovation as a means of growth. Companies that continue to work well would be the ones that have a culture that promotes using customer insights to create either the next generation of products or in some cases, new product categories. HUL is owned by Anglo Dutch Company and Unilever which has 52% control share in HUL happens to be a mammoth player in the FMCG domain. It is an Indian company based in Mumbai, Maharashtra. The product segments that it spans include foods, beverages, cleaning agents, and personal care products. ITC is a company of Indian origin that started its business with sales of cigarettes. Slowly the company has started expanding its portfolio and thereby including Sunfeast range of processed foods, Fiamma di wills personal care products.

II. OBJECTIVES OF THE STUDY

1. To examine the growth rate of ITC Ltd and Hindustan Unilever Ltd under study.
2. To compare the growth of the companies in FMCG sector.

III. HYPOTHESIS

1. The Growth rate of net profits of ITC Ltd and Hindustan Unilever Ltd under study is same.
2. The Growth rate of net assets of ITC Ltd and Hindustan Unilever Ltd under study is same.

IV. REVIEW OF LITERATURE

Chidambaram R.M and Alamilu (1994), the study "Profitability in Banks, a matter of survival", revealed that the profitability of public sector banks is low as compared to private sector banks.



Nag and Das (2002) studied the impact of imposition of capital requirement norms on flow of credit to the business sector by public sector banks of India and the results showed that in the post reform period, public sector banks did shift their portfolio in a way that reduced their capital requirements.

Dr. Sanjay Bhayani (2006) in his study, “Performance of the New Indian Private Banks: A Comparative study”. The study covered 4 leading private sector banks- ICICI, HDFC Bank, UTI and IDBI. The result showed that the aggregate performance of IDBI Bank is the best among all the banks.

V. GROWTH

Growth also means the increase in revenue profits, earning of the company in comparison to previous year. It also evaluates the increase in business per employee of the company in comparison to the previous year. Operating profits, net profits, earning per share, dividend per share, return on capital employed, return on equity. Interest coverage ratios are the other yardsticks to measure the growth of a business entity over a period of time. Profit maximization and wealth maximization are the ultimate goals of an organization because it leads to the growth of the organization to a large extent. As regards Growth, it can be studied from various angles like in terms of sales, net profit, reserve and surplus, earning per share, internal growth & sustainable growth. As a matter of fact, the desired growth rate and the debt financing both are interrelated. The higher the growth rate, the greater would be the need for external financing if other things remaining the same or vice-versa. Balanced Debt equity mix and its relationship with growth may better be studied in terms of net assets growth, fixed assets growth, net profit growth, revenue growth, reserves & surplus growth and earnings per share growth.

VI. NET ASSETS GROWTH

Net assets is the sum total of asset side of the balance sheet excluding any provision for depreciation fund or the assets shown at book value less depreciation charges or if the market value of the asset is to be disposed off less any expected loss or provision against that asset. This total of the asset side exclude the fictitious assets if there is any shown in the asset side of the balance sheet like preliminary expenses, discounts on issue of shares or debenture, interest paid out of capital etc. Net assets include both types of assets i.e. fixed asset as well as the current asset possessed by the business entity owned by the concerned. This asset provides the base for making the concern capable for carrying out its business activities for earning revenue and consolidates its position in the years to come. These assets are possessed by the business from various sources shown in the liability side of the concern i.e. owners funds and borrowed funds or the internal resources of the business created out of profits. As regards Net Assets of ITC Ltd and Hindustan Unilever Ltd, it has been computed by deducting all liabilities from total assets and shown in Table 1

Table-1

Year	ITC Ltd			Hindustan Unilever Ltd		
	Total Asset	Net Asset	% of Net Assets to Total Assets	Total Asset	Net Asset	% of Net Assets to Total Assets
2017	54215.95	45340.96	83.63	14751.00	6490.00	44.00
2016	49518.43	32929	66.50	14167.03	3687.29	26.03
2015	44195.66	30735.69	69.54	13634.06	3724.78	27.32
2014	39229.39	26262.02	66.94	12998.40	3277.05	25.21
2013	34017.43	22287.85	65.52	11512.47	2674.02	23.23

Table 1 reveals that Net Assets of ITC Ltd indicated an annual compound growth rate of 19.92 percent; whereas that of Hindustan Unilever Ltd indicated an annual compound growth rate of 27.80 percent. All this indicated that net assets of Hindustan Unilever Ltd increased quicker than that of ITC Ltd. Growth rate of Net Assets of ITC Ltd and Hindustan Unilever Ltd has been computed by way of annual compound growth rate with the help of the following formula:

$$r = \sqrt[n]{\frac{P_n}{P_0}} - 1$$

Where r = Average rate of Growth

pn = value at the end of the period

p0 = value at the beginning of the period

n = Number of years

Using logarithms Growth rate is calculated as

Average Growth rate of ITC Ltd = 19.92%

Average Growth rate of Hindustan Unilever Ltd = 27.80%

As regards Net Assets Growth of ITC Ltd and Hindustan Unilever Ltd, it has been computed with the help of geometric mean.

Growth Rate of Fixed Assets

Any business entity needs for its smooth functioning two types of assets i.e. fixed assets as well as current assets. Fixed assets are those which are purchased once for the business and remains with it for a long time to come. They are also known as dead investment as once the money invested in these assets cannot be used for any other purpose very easily. As for example land, building, plant and machinery, patents, trade mark, furniture, vehicle etc. the building once constructed for the business cannot be constructed or carried to any other place. Such assets help the organization to carry on its production related operations. These are generally shown in the assets side of the balance sheet as follows:

Gross Block -----

Less Depreciation-----

Net Block-----

Gross Block refers to the total cost of acquisition of all the, fixed assets. Out of this actual acquisition cost, accumulated depreciation up to date is deducted. The resultant net block indicated the net fixed assets. Intangible assets of the organization are also of permanent nature. Growth Rate of Net Block can be worked out by dividing the net block assets of the current year by the net fixed assets of the base year as shown below:

$$\text{Growth Index of Net Fixed Assets} = \frac{\text{Net Fixed assets at the end of current year}}{\text{Net Fixed Assets at the end of Base Year}}$$

As regards Net Block of ITC Ltd and Hindustan Unilever Ltd, It has been worked out and shown in Table 2

Year	ITC Ltd			Hindustan Unilever Ltd		
	Total Asset	Fixed Asset	% of Fixed Assets to Total Assets	Total Asset	Fixed Asset	% of Fixed Assets to Total Assets
2017	54215.95	18417.26	33.97	14751.00	4227.00	28.66
2016	49518.43	16705.36	33.74	14167.03	3300.70	23.30
2015	44195.66	16292.63	36.86	13634.06	2936.54	21.54
2014	39229.39	14308.47	36.47	12998.40	2741.84	21.09
2013	34017.43	12697.13	37.33	11512.47	2508.54	21.79

Table 2 reveals that fixed assets of ITC Ltd increased from 12697.13cr. in 2013 to 18417.26 cr. in 2017 indicating an increase of 45.05 %; whereas that of Hindustan Unilever Ltd increased from 2508.54 cr. in 2013 to 4227.00cr. in 2017 certifying an increase of 31.50 % over the corresponding period. All this indicated that fixed assets of ITC Ltd increased more as compared to that of Hindustan Unilever Ltd.

Net Profit / (Loss) Growth

In order to study whether the net profit of an organization has been witnessing growth or not, net profit growth is calculated with the help of Growth rate, Growth rate of ITC Ltd =37.50% Hindustan Unilever Ltd =18.26%

Relevant formulas have been explained in Chapter II; Techniques of Analysis. Net profit growth in respect of ITC Ltd and Hindustan Unilever Ltd has been calculated by taking Net Profit after Tax so as to adjudge the absolute growth of net profit after tax as shown in Table 3

Table-3

Year	ITC Ltd		Hindustan Unilever Ltd	
	Net Profit	% increase over previous years	Net Profit	% increase over previous years
2017	10200.90	3.62	4490.00	9.99
2016	9844.71	2.47	4082.37	-5.40
2015	9607.73	9.36	4315.26	11.58
2014	8785.21	18.42	3867.49	1.87
2013	7418.39		3796.67	

Table 3 reveals that the Net Profit of ITC Ltd increased from 7418.39 cr. in 2013 to 10200.90 cr. in 2017 indicating an increase of 37.50% over the corresponding period whereas that of Hindustan Unilever Ltd increased from 3796.67 cr. in 2013 to 4490.00

cr. in 2017 indicating an increase of 18.26% over the corresponding period. It is certify that ITC Ltd stands better in view of stability and profitability. Hence the hypothesis “The Growth rate of net profits of both the companies under study is same” is rejected.

Earnings per Share Growth

It is the profits before tax but after interest divided by the number of shares issued by the business house. Higher earnings per share show the effectiveness of the management and their policies and decision making. Earnings per share when increases the goodwill, overall confidence of the investor to remain with the company and the potential of future growth of the business house. This depends upon the fundamentals of the business like competition, environment, and nature of the product, technology used and applied and long standing history of the enterprise.

$$EPS = \frac{\text{Net Income} - \text{Preference dividend}}{\text{No. of equity shares}}$$

More the earning per share better are the performance and prospectus of the company. The higher EPS has a favorable impact on the market price of share. As regards EPS of ITC Ltd and Hindustan Unilever Ltd, it has been calculated as shown in Table 4

Year	ITC Ltd		Hindustan Unilever Ltd	
	EPS	Growth of EPS	EPS	Growth of EPS
2017	8.43	-31.24	20.75	9.96
2016	12.26	2.17	18.87	-5.41
2015	12.00	8.21	19.95	11.58
2014	11.09	17.35	17.88	1.82
2013	9.45		17.56	

Table 4 reveals that the Earning per share of ITC Ltd decreased by -31.24% in 2017 whereas that of Hindustan Unilever Ltd increased by 9.96% in 2017. All this certify that Hindustan Unilever Ltd stands better than ITC Ltd in view of earning per share.

Reserve and Surplus Growth

Various types of reserves and profits of the current year as well as the previous year balance of profits are shown under this head. This consists of ; Capital reserve which includes Capital Redemption Reserve, Securities Premium, Other reserve less debit balance of profit and loss account, appropriation account. Surplus means credit balance of profit and loss account. Proposed addition to reserve, Sinking Fund when the reserves are invested outside the business in securities or tangible assets, are known as reserve fund. They may be for specific purpose or general purpose. The reserve and surplus is the 2nd head in the liability side of the balance sheet of a company. Various types of reserve and profits of the current year as well as the previous year balance of profits are shown under this head. This shows the following items. Capital reserve, Capital redemption reserve, Securities premium, Other reserve less debit balance of profit and loss account appropriation account (if any), Surplus means credit balance of profit and loss account, Proposed addition to reserve, Sinking fund- if the reserves are invested outside the business in securities or tangible assets these are known as reserve fund. They may be for specific purpose or general purpose. Growth Rate of Reserve and Surplus

As regards Reserve and Surplus Growth of ITC Ltd and Hindustan Unilever Ltd, it has been calculated as shown in Table 5

Year	ITC Ltd			Hindustan Unilever Ltd		
	Shareholders Fund	Reserve and Surplus	% of Reserve and Surplus to Shareholders Fund	Shareholders Fund	Reserve and Surplus	% of Reserve and Surplus to Shareholders Fund
2017	45340.96	44126.22	97.32	6490.00	6274.00	96.67
2016	32929.00	32124.28	97.56	3687.29	3470.90	94.13
2015	30735.69	29934.14	97.39	3724.78	3508.43	94.19
2014	26262.02	25466.70	96.97	3277.05	3060.78	93.40
2013	22287.85	21497.67	96.45	2674.02	2457.77	91.91

Table 5 reveals that the Reserve and Surplus of ITC Ltd increased from 21497.67 cr. in 2013 to 44126.22 cr. in 2017 indicating an increase 105.26% whereas that of Hindustan Unilever Ltd increased from 2457.77 cr. in 2013 to 6274.00 cr. in 2017 indicating an increase of 155.27% over the corresponding period. All this certify that Hindustan Unilever Ltd stands better than ITC Ltd.



VII. ANALYSIS AND FINDINGS

Net Assets of ITC Ltd indicated an annual compound growth rate of 19.92 percent; whereas that of Hindustan Unilever Ltd indicated an annual compound growth rate of 27.80 percent. As regards fixed assets, there is an increase of 45.05% in case of ITC Ltd whereas that of Hindustan Unilever Ltd there is an increase of 31.50% over the corresponding period. Reserve and Surplus growth rate of ITC Ltd is 105.26% of ITC Ltd and 155.27% of Hindustan Unilever Ltd. Net profit average growth of ITC Ltd is 8.47% and 4.51% for Hindustan Unilever Ltd so it is identified that growth of net profit for ITC Ltd is better than Hindustan Unilever Ltd.

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