

# Working Capital Management And Its Impact On Profitability: A Study On Hindustan Unilever Limited

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**Abstract-** Working capital management is a vital component of financial performance as it ensures that an organization maintains adequate liquidity to meet its short-term obligations. This study examines the relationship between working capital management and profitability in Hindustan Unilever Limited (HUL) using secondary data from FY 2020–21 to FY 2024–25. Analytical tools such as ratio analysis, working capital turnover, changes in working capital, and regression analysis were used to evaluate liquidity and efficiency. Findings reveal that HUL maintains strong inventory management, moderate liquidity, and stable profitability, although working capital turnover fluctuated due to variations in current asset levels. Regression results show that profitability ratios explain part of the variation in working capital turnover, although not at statistically significant levels. The study concludes that improving receivable management, optimizing inventory, and enhancing cash flow strategies can further strengthen profitability.

**Keywords-** Working capital, Liquidity, Profitability, Working capital turnover, Hindustan Unilever Limited

## I. INTRODUCTION

Working capital management is an essential component of financial decision-making as it determines a firm's ability to maintain adequate liquidity and operational efficiency. It involves the management of current assets and current liabilities to ensure uninterrupted business operations while minimizing the cost of carrying working capital. In fast-moving consumer goods (FMCG) companies such as Hindustan Unilever Limited (HUL), effective working capital management is particularly important due to high sales volumes, large inventories, and widespread distribution channels.

HUL, being one of India's largest FMCG companies, operates in a dynamic environment where efficient inventory, receivables, and payables management significantly influence profitability. This study analyzes HUL's working capital performance over a five-year period from FY 2020–21 to FY 2024–25 using financial ratios, schedules of changes in working capital, and regression analysis. The objective is to

understand how working capital efficiency contributes to the company's profitability and identify areas for improvement.

## II. OBJECTIVES OF THE STUDY

The study is conducted with the following specific objectives:

1. To analyze the working capital position of Hindustan Unilever Limited for the period 2020–21 to 2024–25.
2. To evaluate the liquidity position of the company through current ratio, quick ratio, and other relevant measures.
3. To assess the efficiency of working capital management through working capital turnover, inventory turnover, and debtor turnover ratios.
4. To examine the relationship between working capital management and profitability of HUL.

## III. REVIEW OF LITERATURE

**Deloof (2003)** examined Belgian firms and found that reducing accounts receivable days increases profitability, emphasizing efficient receivable management.

**Shin and Soenen (1998)** analyzed U.S. companies and concluded that shortening the net trading cycle improves profitability, showing that efficient working capital management enhances firm performance.

**Lazaridis and Tryfonidis (2006)** studied Greek companies and found a relationship between the cash conversion cycle and profitability, highlighting the need for managing working capital effectively.

**Gill, Biger, and Mathur (2010)** studied Canadian manufacturing firms and discovered that optimal inventory and receivable management positively influence profitability.

**Raheman and Nasr (2007)** found a significant relationship between liquidity, working capital components, and profitability among Pakistani firms.

**IV. RESEARCH METHODOLOGY**

This study adopts an analytical and quantitative research approach to evaluate the working capital management and its impact on profitability of Hindustan Unilever Limited (HUL). The research is based entirely on **secondary data** collected from audited annual reports and published financial statements of HUL for the financial years **2020–21 to 2024–25**.

The methodology includes the collection of financial information such as current assets, current liabilities, inventories, receivables, payables, sales, and profitability ratios. These data points are used to compute various financial ratios related to liquidity, working capital efficiency, and profitability.

The following analytical tools are used in this study:

- Ratio Analysis** – To assess liquidity through Current Ratio and Quick Ratio, and efficiency through Inventory Turnover, Debtor Turnover, and Working Capital Turnover.
- Schedule of Changes in Working Capital** – To examine variations in current assets and current liabilities year by year.
- Regression Analysis** – To determine the relationship between working capital management and profitability, with Working Capital Turnover as the dependent variable and profitability ratios as independent variables.

**IV. DATA ANALYSIS AND INTERPRETATION**

**1. Analysis of Working Capital Position**

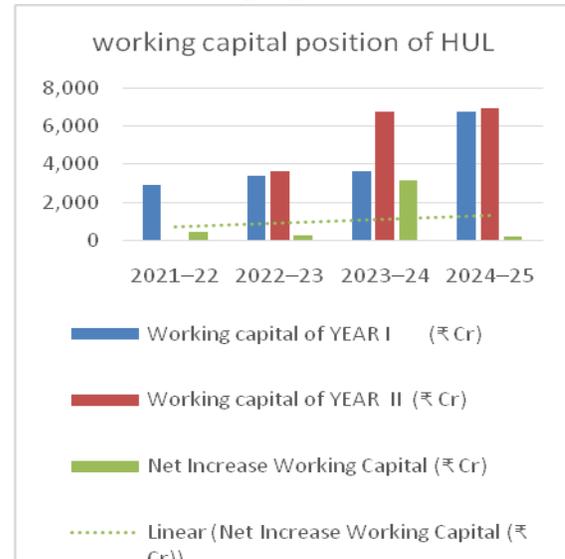
Working capital shows the difference between current assets and current liabilities. HUL’s working capital showed significant fluctuations during the five-year period.

**Table 1: Working Capital Position of HUL**

Year	Working capital of YEAR I (₹ Cr)	Working capital of YEAR II (₹ Cr)	Net Increase Working Capital (₹ Cr)
2021–22	2,903	3,344	441
2022–23	3,344	3580	236

2023–24	3,580	6,734	3,154
2024–25	6,734	6,934	200

**Chart 1: Working Capital Position of HUL**



**Interpretation:**

- The working capital shows an overall **increasing trend**, rising from ₹2,903 Cr in 2021–22 to ₹6,934 Cr in 2024–25.
- There is a **major surge in 2023–24**, where net increase peaked at ₹3,154 Cr, indicating a significant improvement in liquidity.
- Growth slows down before and after the surge, suggesting **moderate increases in other years** with ₹441 Cr, ₹236 Cr, and ₹200 Cr, showing stable but smaller changes.

**2. Working Capital Turnover Ratio**

**Table 2: Working Capital Turnover**

Year	Sales (₹ Cr)	Working Capital (₹ Cr)	WC Turnover (Times)
2020–21	45,996	2,799	16.42
2021–22	51,193	3,703	13.82
2022–23	59,144	4,422	13.37
2023–24	60,469	7,893	7.66
2024–25	61,469	5,227	11.76

**Chart 2: Working Capital Turnover**



**Interpretation:**

- The turnover ratio declined in 2023–24 due to excess current assets.
- Improved again in 2024–25, indicating better efficiency.
- Consistently high sales show strong operational performance.

**3. Liquidity Ratio Analysis**

**Current Ratio Interpretation:**

- Ranged between 1.27 and 1.64, indicating a safe liquidity position and the ability to meet short-term obligations.

**Quick Ratio Interpretation:**

- Maintained between 0.87 and 1.21, showing reliance on efficient inventory movement rather than excess liquid assets.

**4. Activity Ratio Analysis**

**Inventory Turnover**

- High turnover of 8–9 times reflects efficient inventory management, reduced storage costs, and improved liquidity.

**Debtor Turnover**

- Declined from 28.25 to 24.52 over five years, indicating slower receivables collection and a lengthening credit period.

**5. Profitability Analysis**

**Gross Profit Margin**

- Remained strong around **49%**, indicating competitive pricing and cost efficiency.

**Net Profit Margin**

- Stable between **16–17%**, reflecting strong brand value and market demand.

**Interpretation:**

HUL maintains excellent profitability despite fluctuations in working capital.

**6. Regression Analysis**

To measure the relationship between working capital turnover and profitability:

- Dependent variable: Working Capital
- Independent Variable: Net profit, Gross Profit and Operating profit

Model	1
<b>R</b>	0.819
<b>R<sup>2</sup></b>	0.671
<b>Adjusted R<sup>2</sup></b>	-0.316
<b>Std. Error</b>	3.70821
<b>F Change</b>	0.680
<b>Sig. (p-value)</b>	0.688

**Interpretation:**

- R<sup>2</sup> shows **67.1%** variation explained by profitability ratios.
- p-value > 0.05 means the relationship is **not statistically significant**.
- Profitability does not directly determine working capital efficiency.
- Other operational factors influence working capital turnover.

**V. FINDINGS**

1. **Working capital levels showed significant fluctuations** during the study period. The highest working capital was recorded in 2023–24 due to an increase in current assets, while a decline in 2024–25 indicated efficient utilization of resources.
2. **Working Capital Turnover ratio experienced sharp variations**, decreasing from 16.42 (2020–21) to 7.66 (2023–24) before rising again to 11.76 (2024–25). This

shows inconsistency in converting working capital into sales.

3. **Liquidity remained stable and adequate**, with current ratios ranging between 1.27 and 1.64, showing that HUL is capable of meeting short-term liabilities.
4. **Quick Ratio remained moderate**, between 0.87 and 1.21, indicating that the company relies on efficient inventory turnover to maintain liquidity.
5. **Inventory turnover was strong**, consistently around 8–9 times, which reflects effective management of stock and fast-moving goods typical of FMCG companies.
6. **Debtor turnover ratio declined over the years**, showing delayed collection of receivables and a possible extension of credit periods.
7. **Profitability ratios remained consistently strong**, with net profit margin staying between 16% and 17%, indicating stable operational efficiency despite fluctuations in working capital.
8. **Regression analysis revealed no significant statistical relationship** between working capital turnover and profitability (p-value = 0.688), suggesting that profitability alone does not determine working capital performance.
9. **Overall financial performance of HUL is strong**, but improvement is required in receivable collection and working capital consistency.

## VI. SUGGESTIONS

1. **Improve Receivables Management**  
The debtor turnover ratio shows a declining trend. HUL should strengthen its credit policy, reduce credit periods, and implement stricter follow-up mechanisms to improve cash collection.
2. **Optimize Inventory Levels**  
Although inventory turnover is strong, HUL should continue using demand forecasting, automation, and supply chain technologies to avoid excess inventory and reduce storage costs.
3. **Strengthen Cash Flow Planning**  
The fluctuations in working capital indicate inconsistent cash utilization. A more accurate cash budgeting system can help ensure better liquidity and resource allocation.
4. **Reduce Dependency on Large Current Assets**  
The sudden rise in current assets during 2023–24 led to a fall in working capital turnover. HUL should avoid unnecessary accumulation of current assets and invest excess funds more efficiently.
5. **Shorten the Working Capital Cycle**  
Improving coordination between procurement, production, and distribution teams can shorten the cash conversion cycle and enhance operational efficiency.

6. **Increase Automation in Financial Operations**  
Automation in billing, payment tracking, and receivable follow-ups can reduce delays and improve turnover ratios.
7. **Continuous Monitoring of Key Ratios**  
Regular analysis of liquidity, profitability, and working capital performance can help identify inefficiencies early and support timely corrective action.

## VII. CONCLUSION

This study shows that Hindustan Unilever Limited (HUL) manages its working capital effectively while maintaining strong profitability. Although working capital levels fluctuated across the five years, the company consistently maintained safe liquidity and efficient inventory management. However, the decline in debtor turnover indicates slower receivable collection, which needs improvement. Profitability remained stable, but the regression results show no significant direct link between profitability and working capital efficiency. Overall, HUL is financially strong, but better receivable control and improved working capital consistency will further enhance its performance.

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