



Research Paper

## Influence of Capital structure on the financial performance of FMCG Companies: A case study Hindustan Unilever Ltd (HUL)

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### Abstract

In this study an attempt is made to analyse the influence of Capital structure on the financial performance of Hindustan Unilever Ltd . The present study is secondary data based. Financial data of HUL have been collected from published annual reports of HUL for five years from 2018-19 to 2022-23. The study consists of secondary data related to capital structure (Total Debt Ratio(TDR), Debt to Equity Ratio(DER), Short Term Debt to Total Assets (STDA), and Long Term Debt to Total Assets (LTDA) and financial performance (ROA)of Hindustan Unilever Ltd, India published in statistical reports. The study covers the period of 05 years from 2018-19 to 2022-2023. According to the findings of present research, the total debts have also increased gradually during this period. However, the total capital employed is also constantly increased in Hindustan Unilever Ltd (HUL). The ROA of Hindustan Unilever Ltd (HUL) have reported a gradual decrease from 2018-19 to 2022-23. Random effect model has been used to estimate the relationship between the capital structure and financial performance of Hindustan Unilever Ltd (HUL). The study documents a significant positive association between the capital structure and financial performance of Hindustan Unilever Ltd (HUL).

**Keywords:** Hindustan Unilever Ltd (HUL), Capital Structure, Financial Performance.

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### I. Introduction

Major business decisions of a company include finance choices (Beattie, et.al., 2006). Market share price and the company's worth play a key role in taking the financial decisions of a company (Rodella and De Giacomo (2023)). Capital structure or financial structure represents the financial mix of debt and equity which a company is used by a company to finance its operations and growth (Akeem, et.al., 2014). The management of the capital structure of a company directly influences its profitability and financial progress (Taqi, et.al., 2016). The capital structure helps the company to form its financial strategies (Parsons and Titman, 2008). Companies can issue a variety of instruments to fund their assets, but the right mix of debt and equity (also known as an optimal capital structure) is essential for lowering the company's cost of capital and optimizing market value and stock price. Businesses might even gain a competitive edge if their financial structure is ideal. The choices a company makes about its capital structure are influenced by a number of macro-environmental and firm-specific factors (Puleikiene and Rudyte, 2022). The nation in which the specific company conducts business has an impact on both their capital structure and financial results (Nini, et.al., 2020). A company's overall performance is obtained through its financial performance. The financial performance of a company in broadest sense, describes the extent to which the financial goals are initiated or achieved (Palepu, et.al., 2020). It is the process of calculating the financial impact of a company's operations and policies. It is used to assess the overall financial health of a company over a certain time period. It may also be used to aggregate compare industries or sectors or to compare similar companies within the same industry. Capital structure has been used to determine the financial performance of a company (Adesina, et.al., 2015). Thus in the present study the capital structure of Hindustan Unilever Ltd (HUL) was examined.

The FMCG is a group of products that consumers buy from the market on daily basis (Vibhuti and Pandey, 2015). There are number of FMCG companies in India. With the increase in the population the demand of FMCG products is proportionally increased. The financial status of FMCG companies in India remains unknown. Numerous studies conducted in developed nations around the world which have described the impact of capital structure on the financial performance of FMCG company. There had been little studies on the topic carried out in the world's emerging nations. This issue has been investigated in a few sectors in India. Many researches show a positive correlation, others show a negative one. Up until now, no research has been done in India's FMCG industry on this topic. The goal of this study is to examine how Hindustan Unilever Ltd (HUL) capital structure and financial performance are related.

## II. Objectives of Study

- To determine the capital structure of Hindustan Unilever Ltd (HUL)
- To calculate the financial performance of Hindustan Unilever Ltd (HUL)
- To report the relationship between capital structure and financial performance of Hindustan Unilever Ltd (HUL)

## III. Research Methodology

The aim of this study is investigate the influence of capital structure on the financial performance of FMCG companies with special reference to Hindustan Unilever Ltd (HUL). This study uses secondary data to examine how capital structure decisions related to financing affect Hindustan Unilever Ltd (HUL) financial performance. The information was obtained from Hindustan Unilever Ltd (HUL) annual reports and balance sheet analysis. The five years from 2018 to 2023 are covered by the data used in this article.

### 3.1. Variables of Study

The following variables have been used to determine the financial performance of Hindustan Unilever Ltd (HUL)

#### 1. Independent Variables (Capital Structure)

- |   |                                 |
|---|---------------------------------|
| a. Total Debt Ratio(TDR)                  | = Total debit/Total Assets      |
| b. Debt to Equity Ratio(DER)              | = Total Debt/Total Equity       |
| c. Short Term Debt to Total Assets (STDA) | = Short term debit/Total Assets |
| d. Long Term Debt to Total Assets (LTDA)  | = Long term debit/Total Assets  |

#### 2. Dependent Variable (Financial Performance)

- |                           |                           |
|---------------------------|---------------------------|
| a. Return on Assets (ROA) | = Net Income/Total Assets |
|---------------------------|---------------------------|

### 3.2. Data Analysis

The significant data values have been computed using the financial figures included in the yearly audited reports. Various statistical analytic techniques were employed, including descriptive statistics, panel least square regression analysis, and correlation analysis to determine the relation between capital structure and financial performance of Hindustan Unilever Ltd (HUL)

## IV. Results

Table-1 shows the ownership pattern of Hindustan Unilever Ltd (HUL) from 2018-19 to 2022-23. It could be observed from the table that Hindustan Unilever Ltd (HUL) has highest promoter ownership. However we can observe that the promoter ownership has decreased from 67.19 in 2018-19 to 61.90 in 2022-23. The ownership of Foreign Institutional Investors (FIIs) was increased from 2018-19 (11.83) to 2022-23 (14.36). The Domestic Institutional Investors (DIIs) ownership of Hindustan Unilever Ltd (HUL) has reported an increase from 7.03 in 2018-19 to 11.51 in 2022-23. The Hindustan Unilever Ltd (HUL) has reported a government ownership for the first time in 2022-23. The public ownership of Hindustan Unilever Ltd (HUL) decreased from 2018-19 to 2022-23. It could be noted from the Table-1 the number of shareholders of Hindustan Unilever Ltd (HUL) increased from 2018-19 (378368) to 2022-23 (1127982) respectively.

**Table-1. Proportion (in percentage) of Ownership pattern of Hindustan Unilever Ltd (HUL) from 2018-19 to 2022-23.**

S.No	Name of Company	Mahindra & Mahindra Ltd				Average
		2018-19	2019-20	2020-21	2021-22	
01	Promoter Ownership	67.19	67.18	61.90	61.90	<b>64.014</b>
02	FIIS	11.83	12.10	14.95	13.66	<b>13.38</b>
03	DIIS	7.03	6.67	10.68	11.61	<b>9.5</b>
04	Government	0.00	0.00	0.00	0.00	<b>0.008</b>
05	Public	13.95	14.05	12.47	12.83	<b>13.094</b>

07	No of Shareholders	378368	459182	769663	1361506	1127982	<b>819340.2</b>
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In order to evaluate the capital structure of Hindustan Unilever Ltd (HUL) four parameters of Capital structure viz; Total Debt Ratio(TDR), Debt to Equity Ratio(DER), Short Term Debt to Total Assets (STDA), and Long Term Debt to Total Assets (LTDA) were calculated. The values of Capital structure parameters are presented in Table-2. From this table it could be observed that TDR have a mean value of 0.052, which depicts that Hindustan Unilever Ltd (HUL) has an average of 5.2% debt in their total capital structure. This shows that Hindustan Unilever Ltd (HUL) has low leverage in that specific sector. The average value of DER was 4.3568, this is a higher than the normal values of DER. It suggests that major financing source of Hindustan Unilever Ltd (HUL) in that sector is debt and this company is highly financial leveraged. The average value obtained for STDA is 0.28. This reveals that 28.0% financing of Hindustan Unilever Ltd (HUL) arise from short term debts. Also we observed that out of total debt the short term debts covers a specific portion of financing of total assets. The average value for long term debt assets 0.018, it depicts that 1.8% financing of the total assets are associated with the long term financing of Hindustan Unilever Ltd (HUL).

**Table-2. Capital structure of Hindustan Unilever Ltd (HUL)from 2018-19 to 2022-23.**

S.No	1. Capital Structure	Hindustan Unilever Ltd (HUL)					Average
		2018-19	2019-20	2020-21	2021-22	2022-23	
01	Total Debt Ratio(TDR)	0.044	0.042	0.015	0.142	0.017	<b>0.052</b>
02	Debt to Equity Ratio(DER)	3.434	3.583	4.294	4.829	5.644	<b>4.3568</b>
03	Short Term Debt to Total Assets (STDA)	0.452	0.462	0.161	0.160	0.165	<b>0.28</b>
04	Long Term Debt to Total Assets (LTDA)	0.029	0.030	0.011	0.011	0.011	<b>0.0184</b>

The financial performance of Hindustan Unilever Ltd (HUL) was evaluated by using the Return on Asset (ROA) analysis. The obtained values of ROA of Hindustan Unilever Ltd (HUL) are reported in Table-3. We have observed that the values of ROA were higher in 2018-19 (0.347), which decreased to 0.138 in 2022-23 respectively. The average value of ROA was 0.212, which depicts that 21.2% of the profits are generated from the assets.

**Table-3. Financial Performance of Hindustan Unilever Ltd (HUL)from 2018-19 to 2022-23.**

S.No	Financial Performance	Hindustan Unilever Ltd (HUL)					Average
		2018-19	2019-20	2020-21	2021-22	2022-23	
01	Return on Assets (ROA)	0.347	0.334	0.116	0.125	0.138	<b>0.212</b>

Table -4 presents Regression summary for Capital Structure (independent variable) and ROA (Dependent Variable) of Hindustan Unilever Ltd (HUL) from 2018-19 to 2022-23. It can be observed from the table that except TDR all the elements of capital structure report a significant association with the return on assets (ROA) of Hindustan Unilever Ltd (HUL).

**Table-4: Regression summary for Capital Structure (independent variable) and ROA (Dependent Variable).**

Independent Variables	Dependent Variables	Coefficient	SE	t-value	Sig
<b>Intercept</b>		11.3681	1.1163	2.81669	0.023664
<b>TDR</b>	<b>ROA</b>	0.067269	0.059706	1.126671	0.341865
<b>DER</b>	<b>ROA</b>	5.694146	0.617515	9.221061	0.00026
<b>STDA</b>	<b>ROA</b>	1.368936	0.066355	20.63063	0.000249
<b>LTDA</b>	<b>ROA</b>	-0.08575	0.004942	-17.35113	0.000417

The outcome of the regression analysis is depicted in table-5. The regression analysis was employed to inspect the affect of capital structure (independent variable) on the financial performance (Dependent variable). The outcome the Model-I depicts that value of R for TDR with ROA was 0.1626, and the computed F value was 0.0815 (p=0.991). These values suggest that there is no significant relationship between the TDR and financial performance of financial performance. Results of the panel least square regression analysis disclose that DER has R value equal to 0.8129, the computed F value was 6.8454 (p=0.0430). This portray that the DER has a significant positive relationship with the financial performance.

From Table-5 it can be observed that the R value for STDA was 0.9930, the computed F-value was 425.622 (p=0.0001). This condition defines that STDA report a significant positive relationship with ROA. This depicts that the increase in STDA has significantly increased ROA and the decrease in STDA has significantly decreased ROA. It can be concluded that STDA directly affect the financial performance of Hindustan Unilever Ltd (HUL). The regression values for LTDA was -0.9950, the F-calculated was -301.06(p=0.0001). This

represents a significant negative relationship between LTDA and ROA. Thus LTDA has a significant influence on the financial performance of Hindustan Unilever Ltd (HUL). Very little long-term debt is employed as a source of funding in developing nations like India. Financial performance is improved by the efficient use of debt, and vice versa.

**Table-5: Showing regression analysis of capital structure on financial performance of Hindustan Unilever Ltd (HUL).**

Variable	df	R <sup>2</sup>	R	F	Sig
<b>MODEL-I</b>					
Total Debt Ratio(TDR)	4	0.0264	0.1626	0.0815	<b>0.991<sup>NS</sup></b>
Debt to Equity Ratio(DER)	4	0.6608	0.8129	6.8458	<b>0.0430*</b>
Short Term Debt to Total Assets (STDA)	4	0.9930	0.9964	425.622	<b>0.0001*</b>
Long Term Debt to Total Assets (LTDA)	4	-0.9901	-0.9950	-301.06	<b>0.0001*</b>
<i>NS = Not significant correlation</i>					
<i>* Significant correlation at 0.05 level of confidence</i>					

## V. Conclusion

The goal of this study is to better understand how the capital structure affects its financial performance of Hindustan Unilever Ltd (HUL). While ROA is used to analyze financial performance, four variables are utilized to assess the capital structure: TDR (total debt to total assets), DER (debt to equity), STDA (short term debt to total assets), and LTDA (long term assets to total assets). Return on Assets(ROA) was evaluated to determine the financial performance of Hindustan Unilever Ltd (HUL). The data was collected between 2018-19 to 2022-23 respectively. The overall findings reveal that Hindustan Unilever Ltd (HUL) has maximum promoter ownership. It was observed that out of four parameters of capital structure of Hindustan Unilever Ltd (HUL) three parameters viz; Debt to Equity Ratio(DER), Short Term Debt to Total Assets (STDA), and Long Term Debt to Total Assets (LTDA) report a relationship with the financial performance of the company. The DER and ISDA has a significant positive effect on the ROA of Hindustan Unilever Ltd (HUL). However, LTDA has a negative relationship with the ROA of Hindustan Unilever Ltd (HUL). This suggest that the lower debts reports good financial performance while the higher debits reduce the financial performance of Hindustan Unilever Ltd (HUL)

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