



A comparative analysis of liquidity of ITC LTD & HUL LTD

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Abstract

This is a comparative study of liquidity analysis of two biggest companies of Indian FMCG (Fast Moving Consumer Goods) Industry namely ITC Ltd and HUL Ltd. The main aim of this research is to study and analyze the liquidity position of ITC Ltd and HUL Ltd. These two companies are selected as sample based on the net profit of the financial year of 2021-22. For the purpose of analysis study period is taken from 2017-18 to 2021-22. To analyze liquidity of both companies Current Ratio, Quick ratio and Inventory Turnover ratio were used. Data analysis is done through t-test. From the data analysis, it is observed that ITC Ltd is doing much better than HUL ltd if comparison made on the basis of Current ratio and Quick ratio. As far inventory turn over ratio shows that HUL ltd doing very well in comparison of ITC Ltd in that particular ratio.

Keywords: Liquidity, ITC Ltd., HUL Ltd

Introduction

Liquidity is a very important part for any company. This is something that can be nightmare for any company if not handled with due care. Liquidity needs to be maintained for day-to-day operations as well for short term obligations. Lack of liquidity leads to liquidity crunch and might company suffer reputation loss and may be shut down in worst case scenario. That's why this part of working capital needs very much attention. Maintenance of liquidity can be easily done if company is aware about its credit policy as well short-term fund planning.

Main rational of this research is to study the liquidity of two biggest Indian FMCG (Fast Moving Consumer Goods) companies. FMCG sector is developing very fast. So, this study focused to check and study how companies are performing on the part of Working Capital – Liquidity.

Review of Literature

(Garg & Tyagi, 2022) ^[1] This study aimed to study the financial analysis of Major FMCG companies of India. Samples taken from FMCG industry were ITC Ltd, HUL Ltd and Dabur Ltd. The time period of this study was 2020-21. Researchers found out that by comparing HUL Ltd is better than Dabur Ltd and ITC Ltd in almost every aspect. HUL Ltd has better records in profitability but in liquidity part ITC takes the charge and came on top.

(Karim, 2022) ^[2] This research paper wants to analyze the financial performance of company through financial ratios as well Economic Value Added (EVA). For that they have taken 5 companies from Food Sector. They have taken 5 years for the study period. From the study they have concluded that companies operating in food sector are doing better than other sectors. Financial ratios are a bit under performer than Economic Value Added (EVA).

(Nurwita & Rodiah, 2022) ^[3] This study aims to compare the financial analysis of two companies namely PT. Ultra jaya Milk industry and Trading Company TBK. Here, for the purpose of analysis, researchers took the time period of 2011-2020 and used descriptive statistics for analysis. Major finding of this research was both of the companies are doing

very well in respective field compared to industry standards. On average both companies are more beneficial by 150 % than industrial average.

(Patel, 2022) ^[4] This study is been conducted on IT Companies of India. Main aim of this research was to study and compare the liquidity of companies. Researcher selected 5 IT companies Namely TCS, Infosys, Wipro, HCL Tech and Tech Mahindra. Study Period was starting from 2016-17 to 2020-21. Study found out that on ana average all the study ratios were better than compared to other sectors of India. From all these companies Infosys was better than everyone.

(Prabhakar & Japee, 2022) ^[5] This paper aims to find out the financial performance of Cement and Real estate companies of India. For the purpose of research, they had taken 5 years of research period starting from 2017-18 to 2021-22. They found out that companies involved in Cement and Real Estate are better performer than those only in cement business. Still there are not any significant difference in any other ratio but profitability ratio.

Objective of the study

- To compare and analyze the Liquidity position of ITC Ltd and HUL Ltd.

Research Methodology

1. Sample and Sample Selection

Both samples are selected with Judgmental -Non-Probability sampling technique. For the selection of sample, the net profit of 2021-22 taken as base.

2. Period of the study

The period of study is 5 years from 2017-18 to 2021-22.

3. Hypotheses of the study

H₀ = There is no major difference in Current ratio of ITC ltd and HUL ltd during the study period.

H₀ = There is no major difference in Quick ratio of ITC ltd and HUL ltd during the study period.

H_0 = There is no major difference in Inventory Turnover ratio of ITC ltd and HUL ltd during the study period.

4. Tools for Liquidity analysis

Various accounting ratios are available for the purpose of the liquidity analysis. in this study mainly three liquidity ratios (i) Current ratio, (ii) Quick ratio and (iii) Inventory Turnover ratio are used for the purpose of analysis and interpretation.

5. Data analysis and Interpretation

Table 1: Current Ratio

Year	HUL Ltd. (in X (times))	ITC Ltd. (in X (times))
2017-18	1.31	2.85
2018-19	1.37	3.17
2019-20	1.32	4.13
2020-21	1.28	3.27
2021-22	1.38	2.81

(Source: www.moneycontrol.com)

Analysis

Current Ratio shows that a company has how much of amount (times) of current asset compared to current liability. That symbolized a company’s capacity to pay its short-term debt. Basically, higher the ratio is better.

Current Ratio of HUL Ltd is consistent. Ratio showing mixed trend during the study period. In 2017-18 it was 1.31 times, which increased in very next year and arrived to 1.37 times in 2018-19. On an average it was 1.33 times. In 2019-20, it was reduced to 1.32 times and again slipped to 1.28 times in 2020-21. It was recovered a bit in 2021-22 and got up to 1.38 times.

ITC Ltd.’s Current Ratio is less consistent compared to HUL. It shows major changes during the study period. It was 2.85 times in 2017-18 which was increased to 3.17 in 2018-19 again it rose to 4.13 times in 2019-20. In 2020-21 it was backed to 3.27 times and again slipped to 2.81 times in 2021-22.

Table 2: Quick Ratio

Year	HUL Ltd. (in X (times))	ITC Ltd. (in X (times))
2017-18	1.03	2.03
2018-19	1.08	2.38
2019-20	1.03	3.19
2020-21	0.96	2.29
2021-22	1.01	1.91

(Source: www.moneycontrol.com)

Analysis

Quick Ratio is also known as Acid test ratio. This ratio measures the ability of any company to deal with its short-term obligations with its short-term liquidity.

Quick Ratio of HUL ltd was 1.03 times in 2017-18 then it rose up a bit and went up to 1.08 times. In very next year (2019-20), it was dropped to 1.03 times and again lowered to 0.96 times in 2020-21.

In the meantime, ITC ltd.’s performance of Quick Ratio was almost double than HUL ltd. It was 2.03 times in 2017-18 and lift up to 2.38 times and 3.19 times in 2018-19 and 2019-20 respectively. Then it suffers a setback in 2020-21 and halted to 2.29 times and again got dropped to 1.91 times in 2021-22.

Table 3: Inventory Turnover Ratio

Year	HUL Ltd. (in X (times))	ITC Ltd. (in X (times))
2017-18	14.14	5.73
2018-19	15.27	6.09
2019-20	14.38	5.51
2020-21	13.14	4.69
2021-22	4.25	1.57

(Source: www.moneycontrol.com)

Analysis

Inventory turnover ratio shows that how many times company sells its full stock of finished goods and replenish it during the year.

Inventory Turnover ratio of HUL Ltd showing mixed trend during study period. It was 14.14 times in 2017-18 and then it increased to 15.27 times in 2018-19. In 2019-20, it started falling and got on 14.38 times and again slipped in next year (2020-2021) to 13.14 times and it got terrible fall and ended to 4.25 times.

Meanwhile Inventory turnover ratio of ITC ltd was 5.73 times in 2017-18. In very next year it went up to 6.09 times but in 2019-20, it falls short and reduced to 5.51 times. Again in 2020-21, it was reduced to 4.69 times but in last year study period it showed step fall and ended to 1.57 times.

6. Result of the study

Table 4

No.	Ratio	Calculated Value	Table Value	Result
1	Current Ratio	(-8.010)	2.306	H_0 is REJECTED
2	Quick Ratio	(-5.944)	2.306	H_0 is REJECTED
3	Inventory Turnover Ratio	3.441	2.306	H_0 is REJECTED

Analysis

From the table it is visible that calculated value of current ratio is (-8.010) and critical value is 2.306. it is very much clear that calculated value is not in range of table value. Hence, null hypothesis cannot be accepted and it shows there is a significant difference in current ratio of HUL ltd and ITC ltd.

The critical value of Quick ratio is 2.306 and calculated value of the same is (-5.944). which is not in range of critical value. Hence, null hypotheses can’t be accepted and that provides that there is a significant difference in quick ratio of HUL ltd and ITC ltd.

Calculated value of Inventory turnover ratio is 3.441 whereas, table value is 2.306. Again, calculated value does not lie in the range of Table value hence, null hypothesis can’t be accepted and it means that there is a significant difference in inventory Turn over ratio of HUL ltd and ITC ltd.

Findings

- ITC ltd.’s current ratio is almost doubled than HUL ltd. This shows that ITC has more potential to pay off its short-term obligations.
- HUL ltd.’s quick ratio is almost half of the ITC ltd. This indicates that ITC is twice good in quick ratio than HUL ltd.

- In inventory turn over ratio, HUL Ltd is far better than ITC Ltd. It means HUL Ltd is able to sold more goods and replenish it during the year than ITC ltd. More turnover ratio is may be result of HUL Ltd.'s vast sales mix.

Conclusion

HUL Ltd and ITC Ltd both are having a good liquidity in their respective companies. It is also to be mentioned that this situation can still be improved positively if efforts are put into. HUL Ltd has to do more work on Current Ratio and Quick Ratio. While at the same time ITC has to do more focus on Inventory Turnover ratio.

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