"AN IMPACT OF KEY MARKET RISK ENCOUNTERED BY THE LEADING INDUSRTIES ITC AND HINDUSTAN UNILEVER LTD: ANALYSIS AND COMPARISON"

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Abstract

Market risk is the possibilities of investors to experience losses due to factors that affect the overall performances of the company or the organization. Market risk occurs in all the aspects of one business, there is no business which runs risk free. Every business has risk to be faced by them in each and every stages of operating their business. This can be unknown or foreseen by the organization. Therefore an organization must try to identify their risk and must take necessary preventive measures to avoid the risk which might have an adverse effect on their business operation and performances. This paper being a descriptive research paper representing the market risk encountered by the two leading FMCG (Fast moving consumer goods) industries which gradually affects their business plan and their strategies. These risks can also have an adverse impact on business performances and overall growth level. The paper also addresses the comparison of business operation of two leading FMCG industry(ITC LTD and HUL LTD) and their growth status in recent years and provides suggestions to overcome their risks and to sustain for a longer period of time in the market and to create a healthy competition by providing qualitative products and services.

Keywords: *market risk, FMCG industry, business performance*

Introduction

Market risk is the risk that the value of an investment will decrease due to changes in market factors these factors will have an impact on the overall performance on the financial markets and can only be reduced by diversification into assets that are not correlated with the market-such as certain alternative assets classes. Market risk is sometimes called "systematic risk" because it relates to factors, such as recession, that impact the entire market.HUL LTD (Hindustan Unilever ltd) is an Indian consumer goods company based in Mumbai, Maharashtra. HUL is India's largest FMCG co. with the heritage of over 80yrs in India. It is owned by the British Dutch co. Unilever which controls 52% majority stake in HUL its products include food, beverages, cleaning and personal care products. HUL was formed in 1933 as levered brother India ltd and came into being in 1956 as HUL ltd. HUL works to creates better future everyday and helps people feel good, look good, and get more out of life with brands and services. With over 354 brands spanning 20 distinct categories. The ITC LTD (Indian Tobacco Company Ltd). The business of ITC ltd is divided into 5 major segments: FMCG, hotels, paperboards and packaging and Agri- business and information technology. ITC was formed on 24th august 1910 with the name imperial tobacco co. of India ltd and co. went public on 27th October 1954. And later was engaged with tobacco business and again later the co. acquired hotel in Chennai (now known as my fortune Chennai). ITC started Surya tobacco in Nepal, with the shares dividend between ITC. In later days ITC involved themselves in various fast moving consumer goods. And also the company emerged with inline sales in 2014.

Research Methodology

Design of the Study

This paper is completely based on descriptive research design.

Objective of Study

1. To study the overall growth level of two industries: HINDUSTAN UNILEVER LTD, and ITC(India Tobacco Company Ltd)
2. To analyze the various market risk faced by both the leading FMCG industries.
3. To evaluate the impact of market risk on both the industries and to compare the business performances.
4. To suggest the views regarding the negative impact on market risk on the overall growth and development of these industries.

Data Collection

The study is based on secondary data. Information is collected through journals, websites and newspaper.

Limitations of the Study

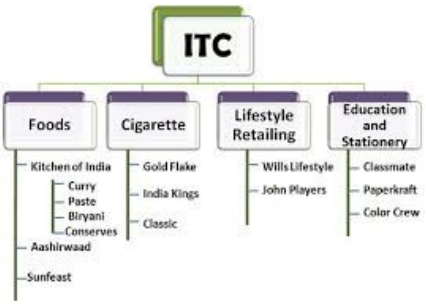
1. The study is based only on secondary data.
2. The study is constrained with respect to limited secondary data due to time constraints.

Findings

Overall Market Risk Faced By the Market Leaders of FMGC Industries

ITC LTD (India Tobacco Company)

ITC Limited



Regulatory Risk

Regulatory risks for ITC remain elevated, despite the change of guard at the health ministry in New Delhi. But the market has shrugged it off, a day after the ministry accepted an expert panel's recommendation on prohibiting sale of loose cigarettes, among other measures, to curb consumption of tobacco products. A day after the announcement, shares of ITC rose 2.1 per cent, as the Street feels implementing such proposals couldn't be easy. There are also other recommendations such as raising the minimum age limit for tobacco consumption and

increasing the penalty on smoking in public from Rs 500 to Rs 20,000. The panel also wants harsher penalties on producers for violation on pictorial warnings. Tighter controls for advertising at the retailer level have also been proposed. If implemented, these would be negative for listed cigarette manufacturers like ITC. About 75 per cent of ITC cigarettes, claim analysts, are sold in the loose format.

The construct of the tobacco industry in India is unique and is largely dominated by non-cigarette products which are not only cheaper but also revenue inefficient. With over 17% of the world population, India has a miniscule share of only 1.8% of global cigarette consumption. In fact, India's annual per capita consumption of cigarettes is amongst the lowest in the world. While cigarettes account for less than 15% of the overall tobacco consumption (by weight) in the country, they contribute about 75% of the total tax revenue from the tobacco sector accruing to the exchequer. On the contrary, other forms of tobacco are lightly taxed in India, and in some cases are even tax exempt, leading to a high degree of potential tax loss.

The Cigarette industry had to contend with a steep increase in Excise Duty for two years in succession along with discriminatory and punitive increases in Value Added Tax (VAT) rates by some States. Such tax increases not only undermine the legal domestic cigarette industry and sub-optimize revenue potential from this sector but also fail to achieve the objective of tobacco control in the country. According to various independent reports, there is a high degree of dual consumption with a significant number of cigarette consumers in India also consuming other forms of tobacco. High incidence of taxation and a discriminatory regulatory regime on cigarettes have, over the years, led to a significant shift in tobacco consumption to cheaper and revenue inefficient forms like bidis, chewing tobacco etc.

Hindustan Unilever Ltd (HUL)

Financial Risk

- The problems that Hindustan Unilever Limited currently facing is increasing input costs and operations costs due to rise in raw material costs, increasing imitative and spurious products, and stiff competition from other FMCG players.
- There is slowdown in the global economy and the problem that started in the financial sector extended rapidly to other sectors affecting not only the US but the global economy. Most of India's domestic sectors are also affected including country's exports performance and FMCG sectors.
- There is an unprecedented volatility in raw materials price contributed largely by increasing crude oil prices. Unprecedented volatility in raw materials price associated with uncertainties in the commodities movement needs a desperate careful management in the FMCG companies. Although some companies managed to do well categories like detergents met decreasing sales.
- Hindustan Unilever Limited has a large brand portfolio consisting number of brands. It will be difficult to manage such extended brand portfolio by any company but it is the

nature of FMCG industry and company. The current global scenario with swinging raw material prices and intense competition faced by the company needs a careful management.

- The problem that the company is facing for long time is the increasing imitative products. The popularity of the HUL's brand and the reach it possess drives the local manufactures to imitate the products leading some to produce even the fake products. The fake products are seen highly in rural markets. This greatly affects the brand equity of the HUL.
- The company is facing increasing input costs due to increase in price of the raw materials. There is a potential impact on the company due to rising inflation, freight costs and raw materials.
- Hindustan Unilever Limited is facing tough competition than years before from ITC, Procter & Gamble, Colgate-Palmolive, Nestle and Godrej. ITC is competing toughly with HUL through various brands that are market leaders. The competition is further intensified by several new entrants. This intensified competition already witnessed by HUL's losing market share in certain segments and also increase in operation costs.

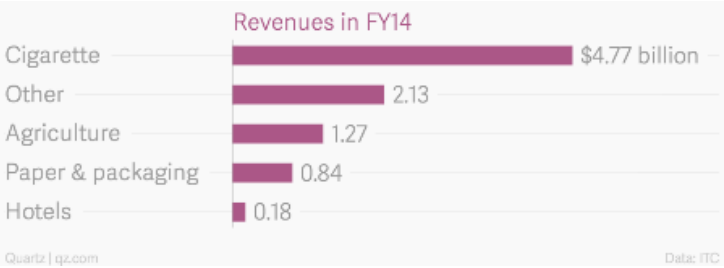
Comparision of Two FMCG Majors: Hindustan Unilever Ltd and India Tobacco Company Ltd

ITC

ITC is not a pure-play FMCG company, since cigarette is its primary business. It is diversifying into non- tobacco FMCG segments like foods, Personal care, paper products, hotels and agri-business to reduce its exposures to cigarette.

Performance

Despite diversification, ITC reliance on cigarette is still huge. The tobacco business contributes 40% to its revenues, and accounts for over 80% of its profits. This cash generating business as enabled it to take ambitious, but expensive bits in new segments and deliver modest profit growth. ITC's non-cigarette FMCG business which contributes 15% of its revenues eroded close to 8% of ITC's profits last year. Its other businesses like Hotels and paper together account for over 20% of ITC's profit. Agri-business, which is its 2nd largest revenue earner, contributes 1/4th to its revenues, but only 3-4% to its PBIT.



Growth Drivers

ITC's backward integration to ensure that its products pass efficiently from the farms to consumers has helped it to cut down supply and procurement cost. ITC's non-cigarette FMCG business leverage the large distribution network the company has developed by selling cigarette over the years. A rich product mix, along with ramp up of its investments in its new sectors, will be instrumental in charting ITC's growth path.

Financial Aspects

During the last three fiscals, ITC's consolidated revenue as seen a CAGR of 22%. Its profit as growth adjusts 12% during the same period. ITC's sales and profit have displayed a secular growth trend. But the pressure of sustaining its new businesses as well as higher tax burden on the cigarette business, its straining its profit. After undeterred growth spanning 8 quarters, ITC witnessed a marginal growth in net profit for the training 4 quarters ended June.

Hindustan Unilever Ltd (HUL)

HUL is the largest pure play FMCG Company in the country and as one of the widest portfolio of products sold via a strong distribution channel. It owns and markets some of the most popular brands in the country across various categories, including soaps detergent, shampoos, tea, and face cream.

Performance

After stagnating, the company is back in the growth track. In the past three years, HUL's net sales have witnessed a CAGR of 11%, while net profit as posted a CAGR of 17%. The company is said to gain further momentum, given the revival of consumer spending, HUL sells products at different price points straddled between the entire value chains. In the past few years, it has diversified into processed foods, ice-creams. Water purifiers, specialised chemicals. But home and personal care (HPC) continues to remain the bread and butter segment for the company. This division accounted for 72% of HUL's revenue and 91% of its profit (BIT) during the year financial year. So it would not be wrong to call a personal care major.

Growth Drivers

The company has being launching new products and brand extension, with investment being made towards brand building and increasing its market share. HUL is also stream lining its various business operations, in line with the one Unilever philosophy adopted by the Unilever group worldwide. Introduction of premium products and addition of new consumers via market expansion will be HUL's growth drivers.

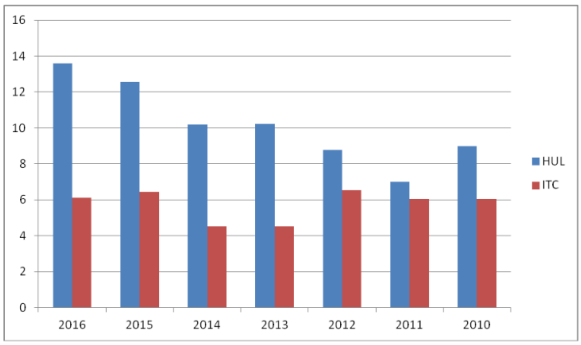
Financial Aspects

HUL's net sales have recorded a CAGR of more than 11% over the past 3yrs, while its net profit has posted a CAGR of 17% during the same period while its sales have maintained a secular growth trend, profit margin have shown an erratic trend during the period. High

dividend yield, study growth and strong market standing in its product categories have enabled HUL to command premium valuation compare to other FMCG companies.

Graph Showing the Comparison of "Inventory Turn Over Ratio" between HUL and ITC Ltd

	2016	2015	2014	2013	2012	2011	2010
HUL	13.61	12.57	10.20	10.21	8.79	7.02	8.99
ITC	6.10	6.43	4.52	4.53	6.53	6.05	6.04



Graph Showing the Comparison of "Stock Market Performance" between HUL and ITC Ltd

	ITC Ltd ITC (NSE)	Hindustan Unilever Ltd HINDUNILVR (NSE)
Mkt cap	3.16T	2.80T
Employees	25,883	18,000
P/E ratio	-	172.72
Div yield	1.84%	1.39%

Suggestions

- ITC has earned better dividend yield but, HUL has paid better returns when compared to ITC so, ITC has to look into this aspect in overcoming capital issues.
- Managing the competitions is leaded in the front by HUL and ITC must adopt some policies which can overcome their competitive risk.
- ITC has to concentrate on food and personal care items due to the reason for CSR issues with the producing the tobacco products which is always a risk oriented.
- ITC has to create a good image for its sub-brands, and must also concentrate on other products than the farm based products.

Conclusion

The overall comparison between ITC and HUL shows that HUL still remains to be the largest FMCG Company in India. ITC has diversified businesses but is highly dependent on its segment of cigarettes. The analysis also shows that ITC has managed to earn the most in cash because of its cash-generative business of cigarettes in comparison to HUL. The changes in ratios show that HUL has still been the same customer-friendly company as usual but ITC has

been competitive and managed to remove various debts in the past six years. ITC has earned a lot of bonus in equity but still HUL has paid a good amount of dividend in comparison to ITC. The inventory of HUL has rose sharply because of more and more new brand launches while it remains stable for ITC because it focuses more on delivering the farm products from the villages to its customers.HUL has been witnessed a good competition from ITC and this shows that MNCs like HUL are increasingly facing competition from domestic companies which have, in turn, shown an increase in the global reach like ITC. But HUL seems to be handling the competition well.ITC has shown sharp increases positively in most of the ratios and has shown growth. But increasing clamps on tobacco and tax burden are big threats.HUL has very smoothly managed its Corporate Social Responsibility (CSR) and has stable ratios and good growth in equity and market. ITC has a bit difficulty in CSR because of its tobacco-dominated business but in other businesses, it has tried its every technique to manage CSR like through stationery, food items, etc. Both the companies are the true reflections of the overall growing industry and economy in India.

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