International Journal of Science and Research (IJSR)
ISSN: 2319-7064
SJIF (2020): 7.803

A Comparative Study on Cash Flow Statements of ITC Ltd and HUL

Sikh Simran Bhupender Singh

Abstract: ***The Statement of Cash Flows or Cash Flow Statements prepared on the cash-basis accounting is a crucial part of company's financial statements. It provides complete information about cash inflows and cash outflows of a company in three activities-operating, investing and financing for a particular period of time. In this paper, a comparative analysis of cash flow statements of ITC Ltd and HUL for a recent three-year period has been undertaken. Statistical techniques have been used to analyze the cash flow statements of selected companies. The findings of the study suggest that both the companies have same trends for operating, investing and financing activities over the selected period and ITC Ltd has better consistency than HUL in generating cash flows. The study concluded that ITC Ltd is performing better than HUL.***

Keywords: Cash Flow Statements, Operating Activities, Investing Activities, Financing Activities

1. Introduction

Cash Flow Statement is a financial statement that records the inflows and outflows of cash and cash equivalents within a business. In other words, Cash Flow Statement summarizes the cash generated and used by a business during a particular period. Also referred to as Statement of Cash Flows, this statement focuses on movement of cash and cash equivalents between two balance sheet dates and so it complements balance sheet and income statement of a company. Cash Flow Statement is also used as a performance related statement because it discloses net increase (or decrease) in cash and cash equivalents during a particular period and ability of a company to pay its bills and debt obligations.

Cash Flow Statements, as per AS-3 (revised) issued by the ICAI, present cash flows under three categories: Cash flows from Operating Activities, Cash flows from Investing Activities and Cash flows from Financing Activities. This standard was made mandatory for accounting period commencing from April 01, 2004 and cash flow statements became an important part of annual reports published by companies since then. Statement of Cash Flows, IND AS 7 came into existence from accounting year 2015-16 and companies are now following provisions of IND AS 7 for preparation of cash flow statements.

According to provisions of accounting standards, Cash flows from Operating Activities disclose transactions concerned with the core operations of the business and effects of changes in working capital. Cash flows from Investing Activities report transactions relating to long-term investments of the company. Cash flows from Financing Activities include transactions relating to long-term liabilities of the company. There are two methods of preparing cash flow statements: direct method and indirect method. Both methods show the same amount of closing cash and cash equivalents and the only difference between the two is the presentation of cash flow from operating activities.

2. Literature Review

The literatures reviewed here are completely based on secondary data and has been divided into two parts.

2.1 Comparative analysis of cash flow statements of selected banks

Samba, Siva & Anand (2021) [1] analysed cash flow statements of a public sector bank and a private sector bank for a period of five financial years starting from 2015-16 until 2019-20. The researchers selected State Bank of India (SBI) and HDFC Bank as samples for the study. The statistical tools of mean, standard deviation and t-test were applied to analyse collected data and test research hypotheses. The researchers found that average of SBI is higher than HDFC Bank in operating and investing activities and the average in financing activities of HDFC Bank is higher. The variation of HDFC Bank is lower than SBI for operating and investing activities and for financing activities, the variation of SBI is lower. Thus, the researchers concluded that HDFC bank performed well on an overall basis as compared to State Bank of India.

Maheshwari (2018) [2] analysed cash flow statements of PNB Bank and ICICI Bank with the aim of comparing their performance and consistency levels. For the purpose of the study, a period of five financial years starting from 2011-12 to 2015-16 was selected. The data analysis was done through statistical tools of mean, standard deviation and coefficient of variation. The researcher tested hypotheses by applying paired t-test. The researcher concluded from the findings of the study that ICICI Bank is better than PNB Bank in performance. On the contrary, the researcher concluded that on the consistency grounds PNB Bank is better.

Varshney & Jain (2016) [3] analysed and compared the cash flow statements of Bank of Baroda and Syndicate Bank. The period selected for the study comprised of five financial years from 2011-12 to 2015-16. The researchers analysed data with the help of statistical techniques like mean, standard deviation and coefficient of variation. The researchers founded that Bank of Baroda has less variations in cash flows from operating, investing as well as financing activities as compared to Syndicate Bank. Thus, the findings of the study concluded Bank of Baroda is performing well as compared to Syndicate Bank over the period of the study.

2.2 Comparative analysis of cash flow statements of selected companies

Singh (2016) [4] undertook a comparative study between Meghmani Chemicals Ltd and Clariant Chemicals Ltd by analysing their cash flow statements. For the purpose of the study, the period of six financial years from 2011-12 to 2016-17 was selected. The data was collected from the annual reports published by the companies on their websites. The researcher analysed the collected data using statistical tools of mean, standard deviation and coefficient of variation. The researcher found that in case of operating and investing activities, Clariant Chemicals Ltd has increasing trend and in case of financing activities, Meghmani Chemical Ltd has good trend. But on an overall consistency ground the researcher concluded that Clariant Chemicals Ltd performed better.

Acharya (2016) [5] analysed cash flow statements of Jay Chemicals Ltd and Adhik Chemicals Pvt Ltd to carry comparative analysis. The period selected for the study constituted five financial years from 2007-08 to 2011-12. The researcher analysed the collected data using statistical tools of mean, standard deviation and coefficient of variation. The researcher found that Adhik Chemicals Ltd has increasing trend in case of operating and investing activities while in case of financing activities, Jay Chemicals Pvt Ltd has good trend. The researcher concluded that Adhik Chemicals Ltd performed better on an overall consistency level.

Gelda & Dodiya (2014) [6] undertook a comparative study on cash flow statements of Tata Chemicals Ltd. and Pidilite Chemicals Ltd. The study was done for a period of five financial years from 2008-09 to 2012-13. The researchers used statistical tools of mean, standard deviation and co-efficient of variation to conduct the study. The researchers found that Tata Chemicals Ltd. performed best in terms of operating cash flows but the findings were contrary in terms of investing and financing cash flows. The researchers found that Pidilite Chemicals Ltd. performed best in investing and financing cash flows. The study found Pidilite Chemicals Ltd best performing company as an overall conclusion.

- **Research gap:**

Review of literature shows that most articles are published on comparative analysis of cash flow statements of selected banks and comparative analysis of cash flow statements of selected companies from chemical industries only. This study focuses on comparative analysis of cash flow statements of selected companies from FMCG industry and tries to fill in the gap in recent literatures.

3. Research Methodology

3.1 Objectives of the study

i. To undertake comparative study of operating, investing and financing activities of selected companies.
ii. To determine trends of operating, investing and financing activities of selected companies.

3.2 Hypotheses of the study

$_{Ho-1}$ There is significant difference between operating, investing and financing activities of selected companies.
$_{H1-1}$ There is no significant difference between operating, investing and financing activities of selected companies.
$_{H0-2}$ There is significant difference between trends of operating, investing and financing activities of selected companies.
$_{H1-2}$ There is no significant difference between trends of operating, investing and financing activities of selected companies.

3.3 Sample selection for the study

For the purpose of the study, two companies namely, Hindustan Unilever Limited (HUL) and ITC Ltd from Indian FMCG sector have been selected.

3.4 Period for the study

A period of three-financial years starting from 2018-19 to 2020-21 has been selected to conduct the study.

3.5 Nature and Sources of data

The data has been collected from secondary sources only. The sources include published annual reports for the selected period and official websites of the selected companies.

3.6 Tools and techniques

Statistical analysis technique has been selected to conduct the study. Statistical tools of central tendency and dispersion-mean, standard deviation and co-efficient of variation have been applied to carry out analysis. Graphical representation of the data analysis has also been done.

3.7 Limitations & Future scope of the study

i. This study has been carried out for two companies. More companies can be selected for carrying out comparative analysis.
ii. This study has been conducted for a period of three-financial years. Further study can be conducted for more financial years like five-years or seven-years.
iii. This study uses data collected from published annual reports. Any manipulations in the published data may lead to manipulated analysis.

iv. This study uses three statistical analysis tools. More statistical tools as well as accounting techniques can be used for future study.

4. Data Analysis

Statistical analysis technique and Statistical tools of mean, standard deviation and co-efficient of variation are used to reach out conclusions. For this purpose, standalone cash flow statements of both the selected companies have been referred because standalone financial statements help in knowing how the core business of a company is doing.

Table 1: Comparative study of operating, investing and financing activities

Year / Activities	2018-19		2019-20		2020-21	
	ITC	HUL	ITC	HUL	ITC	HUL
Operating Activities	11749.05	5728	13806.18	7305	11493.95	8957
Investing Activities	(5081.75)	(264)	(5516.71)	1926	6497.89	(1367)
Financing Activities	(6600.57)	(5462)	(7890.87)	(6676)	(18378.89)	(9280)

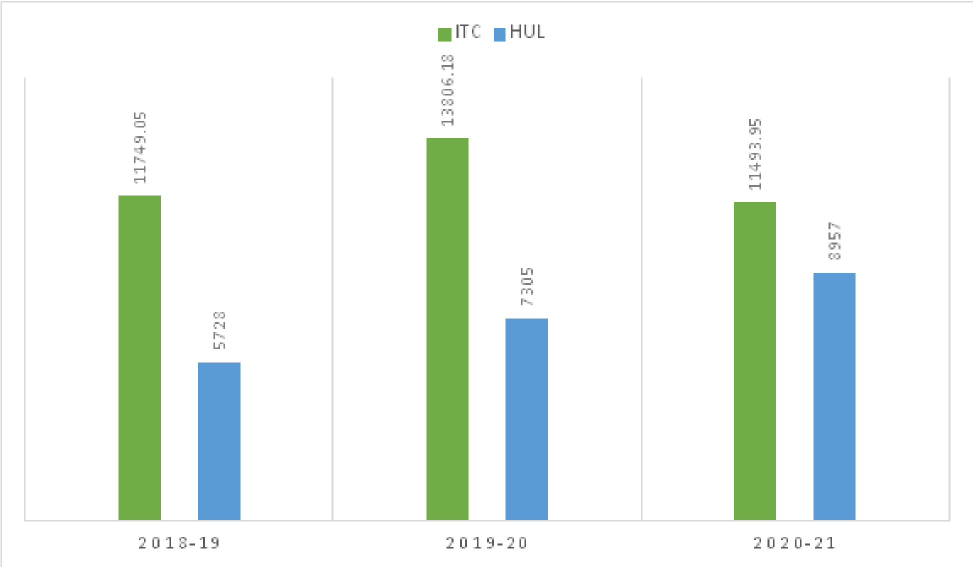

Chart 1: Comparative chart for operating activities

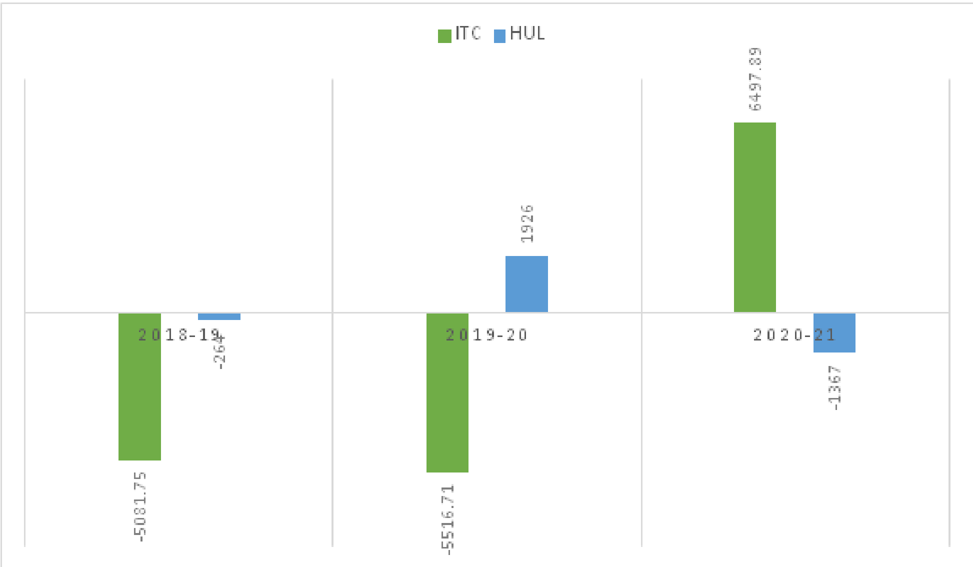

Chart 2: Comparative chart for investing activities

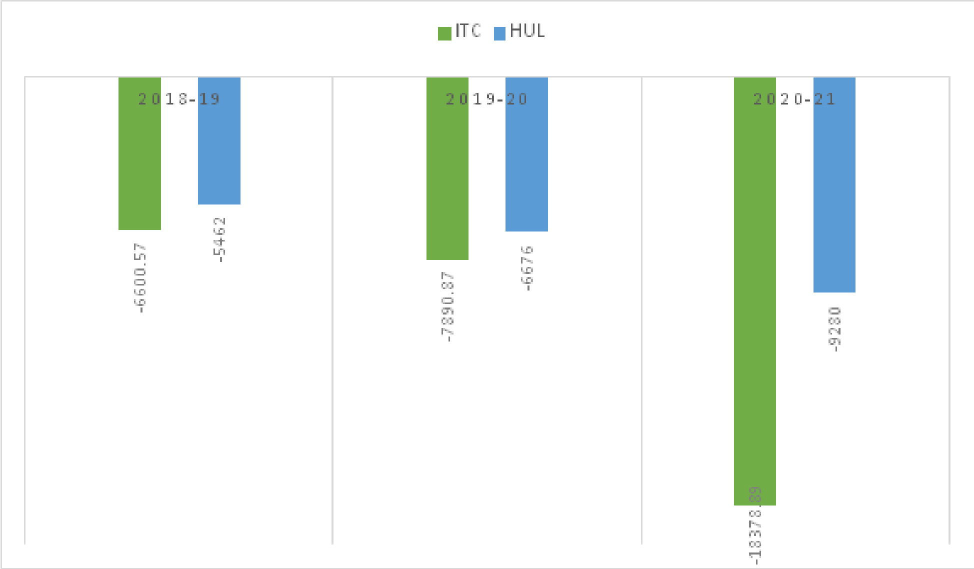

Chart 3: Comparative chart for financing activities

Table 2: Mean, Standard deviation and Co-efficient of variation of Operating Activities

Company	Mean	Rank	SD	Rank	CV	Rank
ITC	12349.73	1	1035.12	1	0.08	1
HUL	7330	2	1318.352	2	0.18	2

Table 3: Mean, Standard deviation and Co-efficient of variation of Investing Activities

Company	Mean	Rank	SD	Rank	CV	Rank
ITC	(1366.86)	2	5564.05	2	(4.07)	1
HUL	98.33	1	1368.558	1	13.91	2

Table 4: Mean, Standard deviation and Co-efficient of variation of Financing Activities

Company	Mean	Rank	SD	Rank	CV	Rank
ITC	(10956.8)	2	3202.437	2	(0.29)	1
HUL	(7139.33)	1	1592.752	1	(0.22)	2

5. Interpretations

1. Table 1 shows the amount of cash flows from operating activities, investing activities and financing activities of both the selected companies for the FY 2018-19, 2019-20 and 2020-21.
2. Chart 1, 2 and 3 represents the amount of cash flows from operating activities, investing activities and financing activities of both the selected companies for the FY 2018-19, 2019-20 and 2020-21 in columnar chart.
3. Table 2, 3 and 4 shows the calculated mean, standard deviation and co-efficient of variation values for each activity. Ranks are given to these calculated values to identify the company performing better than the other.
4. For calculated values of mean, 1st rank is given to the company with higher mean. Because statistically higher value of mean is considered better.
5. For calculated values of standard deviation and co-efficient of variation, 1st rank is given to the company with lower values. Because statistically lower value of standard deviation and co-efficient of variation are considered better.

6. Findings

1. The first objective of the study is ‘to undertake comparative study of operating, investing and financing activities of selected companies’. The study found that ITC Ltd secured 1st rank in all the three activities for the calculated values of co-efficient of variation. This shows ITC Ltd has higher consistency in generating cash flows than HUL.
2. The second objective of the study is ‘to determine trends of operating, investing and financing activities of both the companies’. The study found that both the companies show same trends for all the three activities. Operating activities have an increasing trend; Investing activities have show an up-down patterned trend and Financing activities have an increasing trend for the selected period of the study.

7. Conclusions

1. For the first objective of the study, null hypothesis that ‘there is significant difference between operating, investing and financing activities of selected companies’ is developed. The findings of the study show that there is difference between cash flows from operating, investing and financing of both the companies and conclude that ITC Ltd performed better and more

consistent than HUL. Thus, the first null hypothesis is accepted.

2. For the second objective of the study, null hypothesis that ‘there is significant difference between trends of operating, investing and financing activities of selected companies’ is developed. The findings of the study show that there is similarity between the trends of operating, investing and financing activities of both the companies and conclude that operating and financing activities of both the companies show an increasing trend and investing activities have an up-down pattern trend for both the companies. Thus, the second null hypothesis is rejected.

References

[1] Samba, V., Siva, S. V., & Anand, M. P. G. (2021). A Comparative Study on Cash Flow Statements of HDFC and SBI Banks. Wutan Huatan Jisuan Jishu, 17 (1), 1-6.
[2] Maheshwari, A. (2018). Cash Flow Statements of Punjab National Bank and ICICI Bank: A Comparative Analysis.
[3] Varshney, N., & Jain, M. (2016). Cash flow statement of Bank of Baroda and Syndicate bank: a comparative analysis of operating, investing and financing activities. Voice of Research, 5 (2), 43-45.
[4] Singh, M. (2016). Cash flow statements of Meghmani Chemicals Ltd. and Clariant Chemicals Ltd.: A Comparative study.
[5] Acharya, A. P. (2016). A Comparative Study of Cash flow Statements of Jay Chemical Industries Ltd. and Adhik Chemicals Pvt. Ltd.
[6] Gelda, K. and Dodiya, B. (2014). A comparative Study on Cash Flow Statements of Tata Chemicals Ltd. and Pidilite Chemicals Ltd. PARIPEX-Indian Journal of Research, 3 (6).

Webliography

[1] https://scholar.google.com/
[2] https://www.itcportal.com/
[3] https://www.hul.co.in/
[4] https://www.mca.gov.in/content/mca/global/en/acts-rules/ebooks/accounting-standards.html