UNILEVER COMPANY LTD.
ANALYSIS OF FINANCIAL STATEMENTS

INTRODUCTORY:

The overall analysis showed that the Unilever Pakistan Ltd. Was also affected by the international crises, domestic economic crisis, political uncertainties, law and order situation etc. but they managed to control the situation and act brilliantly in such difficult time due to which the company not only stabilized but also performed well. Unilever Pakistan also suffered due to rampant smuggling of tea. Despite this challenging environment, the company registered a robust top-line growth of 1.7%. Turnover was fuelled by strong volume gains in Home and Personal Care, Ice Cream and Spreads. Unilever Pakistan has able to increase its growth through innovation, best marketing and advertising strategies and Effective communication. Analysis showed that sales, reserves, fixed assets, profit and many more items increased during last 3 years. Unilever also able to make their cash flows positive during last 2 years but analysis showed that Unilever liquidity position is not good. However Unilever's gearing position has improved with big change.

ANALYSIS:

CAPITAL STRUCTURE:

The Paid Up Capital of Ordinary Shareholders of 2010 have not changed as compared to last 2 year. However, the total shareholder's equity increased by 8.18 percent from Rs.3291 million to Rs.3560 million during 2010 due to increase in reserves. Reserves are increasing annually from 2008, it increased by 10.27 percent in 2010 from Rs.2621 million to Rs.2891 million which is a positive sign but after compared the increased percentage in 2009 with the increased percentage in 2010, it seemed that the reserves decreased by 85 percent from 69.5 percent to 10.27 percent during 2010.
The total Fixed Liabilities decreased by 6.4 percent from Rs.1020 million to Rs. 955 million during 2010. It seemed that company have paid or cleared some Fixed Liabilities during 2010 which is a good step to maintain debt ratio, but still company's Fixed Liabilities are too high.

LIQUIDITY:

The analysis indicated that the position of liquid assets (Cash & Investment) of a company is still good. After analyzing three years data it indicated that liquid assets (Cash & investment) in 2010 increased by 633 percent from Rs. 240 million to Rs.1758 million as compared to 2009 which showed that company able to recover the major cash from customers. It is a good sign because company can utilize this cash in various areas to make its operation smooth.
The inventory decreased by 9 percent from Rs.4262 million to Rs.3881 million during 2009 and 2010. It is a good sign because it showed that company able to sell much inventory during last 2 years due to which inventory decreased. Prepayments also decreased during 2010 but overall Current Assets indicated that it increased by 25.6 percent from Rs.7102 million to Rs.8974 million which is due to the increase in cash in 2010. The Current Assets showed a positive sign in 2010 but after analyzed further it seemed that the position of Working Capital was worst which indicated that the current assets was not so good that they can make working capital positive. The Working Capital of a company showed that it decreased by 31 percent from Rs.-1189 million to Rs.-1547 million during 2010 which is not a good sign and its negativity showed that company can't cover its Current Liabilities and the reason for Working Capital's negativity is increase in Current Liabilities. Current liabilities increased by 26.4 percent from Rs.7102 million to Rs.8974 million during 2010 and it is due to the increase in trade and other payables. Therefore it analyzed that over all liquidity position of a company is worst and it can't cover its current liabilities easily.

NON TANGIBLE ASSETS:

The position of Tangible Fixed assets showed that the company didn't add new assets too much in 2010 as compare to 2009. In 2009 company added new tangible fixed assets of Rs. 1143 million but in 2010 company just added Rs.586 million. It seems that company didn't try to expand too much and majority relied on existing assets. The book value didn't change a lot it just increased by 0.6 percent from Rs.4563 million to Rs.4588 million during 2010 but the total Non-Current assets increased by 10 percent from Rs.5513 million to Rs.6074 million during 2010 and this change is due to the major change in Intangible fixed assets. It showed that company gave some amount on the implementation of SAP (ERP) system. Therefore it analyzed that the over all change in Non Current assets was 10 percent.

OPERATIONAL ACTIVITIES:

The net sales during 2010 were Rs.44672 million which was increased by 17 percent as compared to the amount of Rs.38187 million in 2009. But if we compared the increase percentage of 2009-2010 over the increased percentage of 2008-2009 then it seems that it decrease by 27 percent from 23.3 percent to 17 percent. The major factor involves in increasing sale in 2010 as compare to 2009 was strong innovation, improved visibility and promotional campaigns, by this factor company able to attract more customers in manufacturing products because the way inflation increased, it made customer to think about the price before buying and it seems that company totally relied on their own products. Due to increase in sales, the cost of sales also increased by 21 percent from Rs.24853 million to Rs.30094 million but according to vertical analysis it is a bad sign because cost of sales should be Rs.29036 million or 65.1 percent to sales but it was 67.4 percent to sales or increased by 3.5 percent as compare to 2009.

The Gross profit also increased by 9.3 percent during 2010 from Rs.14577 million to Rs.13335 million but according to vertical analysis it decreased by 6.5 percent from 35 percent to 32.6 percent to sales.

The net operating expense also increased by 14.5 percent from Rs.8391 million to Rs.9607 during 2010 and after analyzed vertically it seem that the operating expenses bit decreased by 2.2 percent from 22 percent to 21.5 percent to sales. However the operating profit not changed very much due to the increase in cost of sales, t just increased by 0.5 percent and according to vertical analysis it indicated that the operating profit percentage is same as compared to 2008 but according to 2009 it decreased by 14 percent from 13 percent to 11 percent to sales. Further analyzed and it indicated that the financial cost decreased by 56 percent from Rs.428 million to Rs.189 million which was a good sign for a company to have bit more net profit but the vertical analysis of net profit showed that it decreased by 9.5 percent from 11.8 percent to 10.7 percent. However, the net profit increased by 6 percent during 2010 from Rs.4516 million to Rs.4780 million.

	Vertical analysis		
Items	**2008**	**2009**	**2010**
	%	%	%
1- Net Sales	100	100	100
2- Cost of sales	64.7	65.1	67.4
3- Gross profit (D1-D2)	35.3	34.9	32.6
4- Commission earned	0	0	0
5- Net Operating expenses	24.4	22	21.5
6- Operating profit (D3+D4-D5)	11	12.9	11.1
7- Net Financial cost	1.5	1.1	0.4
8- Net profit before tax (B6-B7)	9.4	11.8	10.7

The analysis showed that the Preference dividend didn't change during last three years which indicated that company didn't need to take finance from outsource. The ordinary shares dividend indicated that it increased by 52 percent from Rs.1973 million to Rs.2990 million during 2010 and after compared with the increased percentage in 2009 (i.e. 15.5 percent), it showed that the company paid very handsome dividend during 2010 which is a good sign. It seems that company really cared about their shareholder.

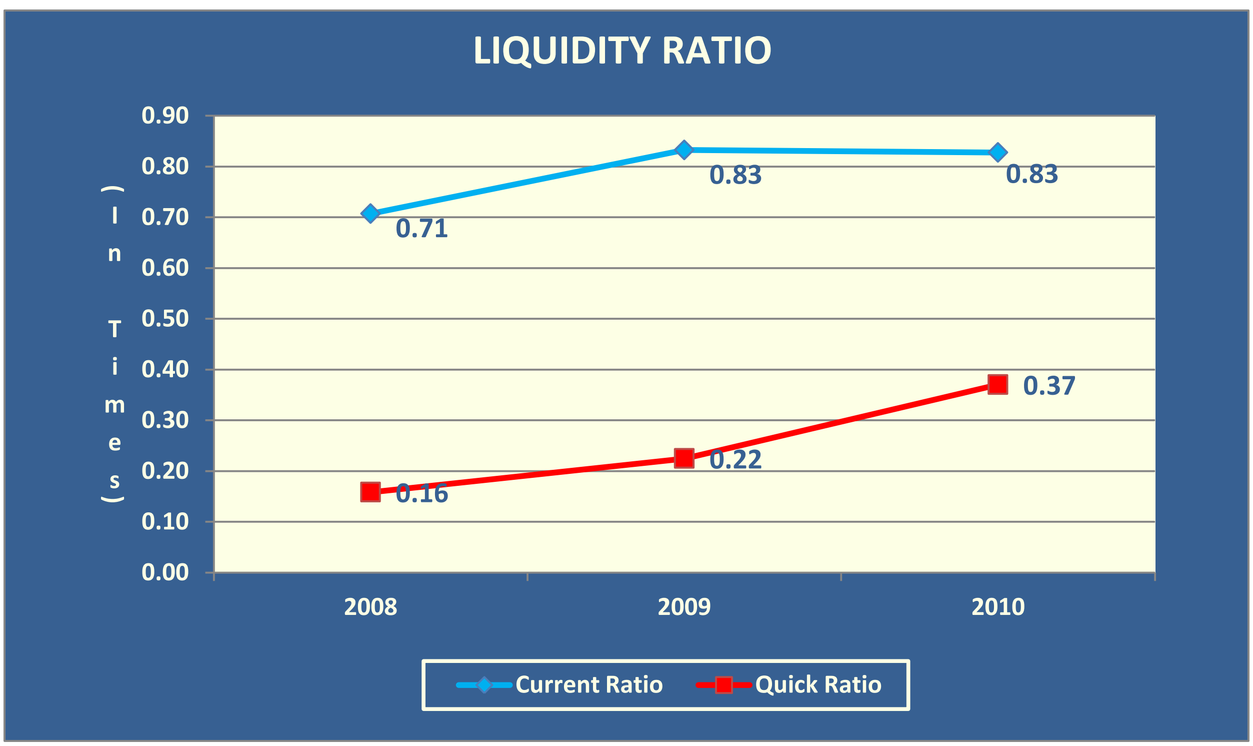
CASH FLOW DATA:

After analyzing the data of cash flows, it showed that the net cash flow decreased by 2.9 percent from Rs.2327 million to Rs.2259 million during 2010, but its Positivity showed that the cash flows positions are very good. Net cash flows were down till 2008 and then in 2009 it changed with big numbers and gets positive which was a very good sign. It changed from Rs.-2891 million in 2008 to Rs.2327 million in 2009. This change is due to the major increase in cash flow from operating activities. Till 2008 it was down but after 2008 it got positive because in 2009 and 2010 the receipts were very much as compared to payments due to this cash flow statement showed positive value.

FINANCIAL RATIOS:

Liquidity Ratio:

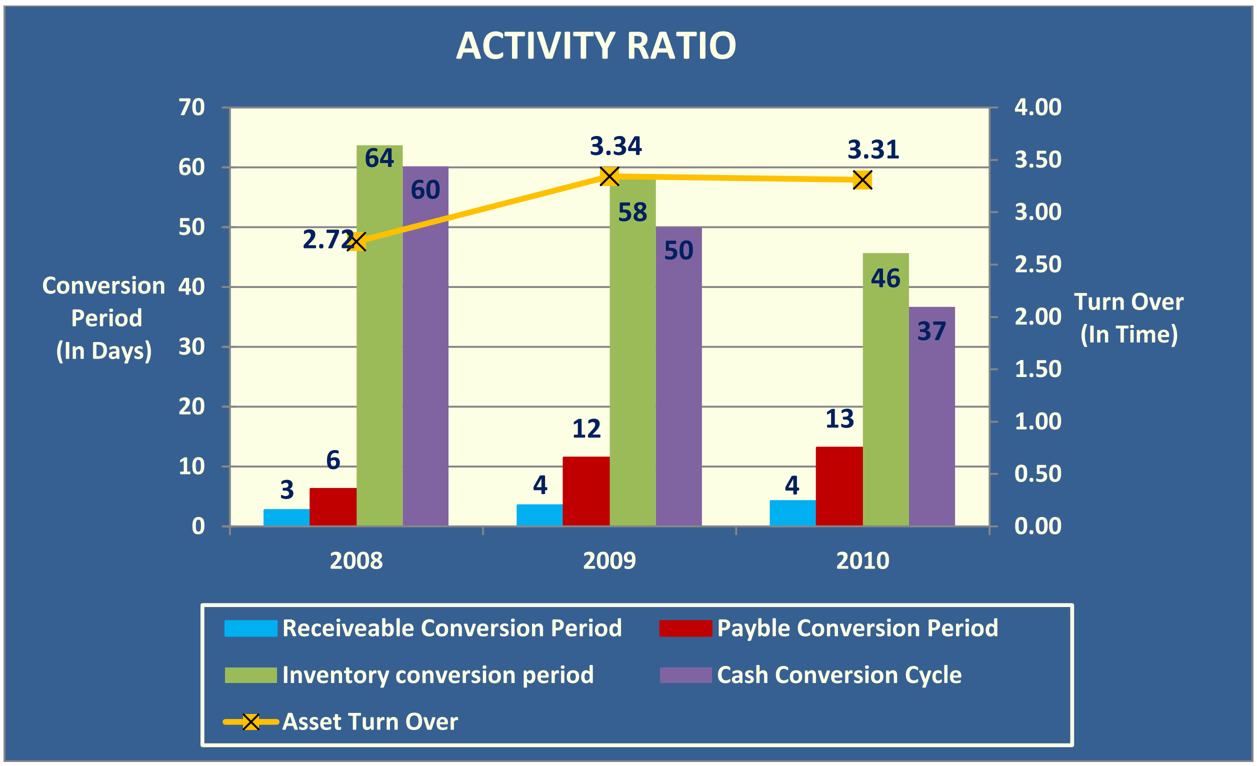
The current ratio didn't change during 2010 as compared to 2009, it was 0.83 times and as compared to 2008 it increased by 17.4 percent from 0.71 times to 0.83 times. Company's current ration should be around 1.5 times or at least more than 1 time but Unilever's current ratio is below 1 time which indicated that the companies liquidity position is very poor, it seems that company can't cover it's current liabilities in short period of time.



Further analysis indicated that the company's quick ratio was also very poor. It should be at least 1 time but Unilever's quick ratio is 0.37 times in 2010 which improved in 2010 with 65 percent from 0.22 times to 0.37 times. It indicated that Unilever didn't have enough liquid assets to cover its current liabilities.

Activity Ratio:

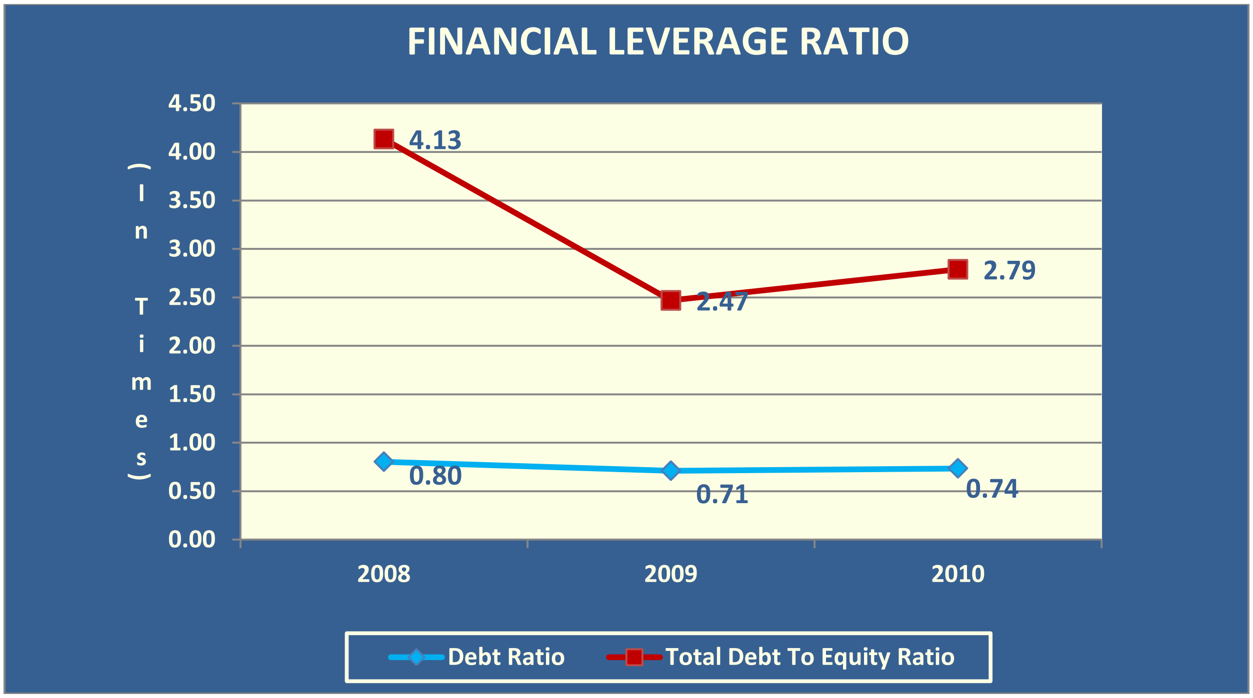
Activity ratios measure the effectiveness of the firm's use of resources. After analyzed it seems that the receivable conversion period of 2010 was same as compared to 2009 which was 4 days, it indicated a good sign because the lower receivable conversion periods mean that the company recovered its cash with in a week. After analyzed payable conversion period it indicated that it was also almost same during 2010 as compared to 2009 which was 12-13 days. It seems that company can't hold cash for too long which is not good. After analyzed further it seems that company inventory conversion period was high as compare to receivable conversion period which means that the company's stock management was not too good because if your sales are increasing then your stock should be convert quickly in to cash. However the inventory conversion period decreased by 21.3 percent from 58 days to 46 days which was a good sign for a company and it seems that it continuously decreased during last three years.



The overall Cash conversion cycle indicated that the company has improved in last three periods and was able to reduce that conversion period up to 37 (2010). In 2008 it was 60 days but in 2009 it reduced to 50 days and in 2010 it reduced by 27 percent from 50 days to 37 days which was a good achievement for a company because company just took a month to convert its assets in to cash.

Asset turn over indicated that it almost same during 2010 as compared to 2009 which was 3.31-3.34 times. But after compared with 2008, it indicated that it increased by 22 percent from 2.72 times to 3.31 times which was a good sign that the company utilized its assets to generate more revenue during last 2 years.

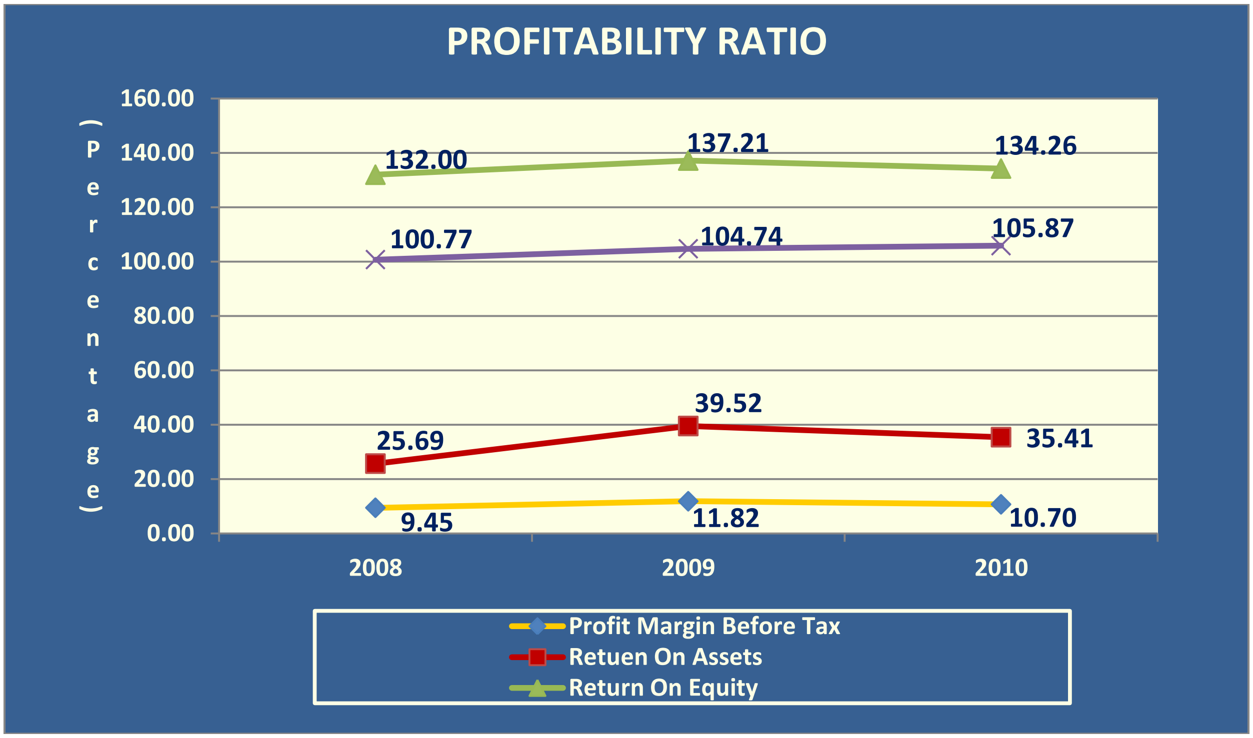
Financial leverage ratio:
Capital gearing ratio measures that how much company is financed to operate or expand from outsources. So, Capital gearing ratio of Unilever of 2010 indicated a good sign because it is very much low and it decreased by 73 percent from 33.5 percent to 9 percent as compared to 2009 and the company's last three years data indicated that the company's gearing ratio continuously decreased. It means that the company has cleared its majority debt in last two years and didn't need finance from outsources. The debt ratio of Unilever indicated very good sign because it is very low in last three years. As compared to 2008 it decreased by 11.2 percent in 2009 and then increased by just 3.5 percent in 2010 from 0.71 times to 0.74 times during 2010. It seems that Unilever debt ratio is very positive they can pay their all debts very easily in a long run. After further analyzed it seems that Unilever's debt to equity ratio increased by 13 percent from 2.47 times to 2.79 times during 2010. But in last three years it indicated that Unilever has able to reduced its debt to equity ratio from 4.14 times to 2.79 times which was a good sign. Overall analysis of Financial leverage showed that Unilever's solvency position is very good.



Profitability Ratio:

Profitability is the net result of policies and decisions. The ratios examined thus far provide useful clues as to the effectiveness of a firm's operations, but the profitability ratios go on to show the combined effects of liquidity, asset management, and debt on operating results.

The profit margin ratio indicated that in 2010 the company has unable to maintain its net profit as compared to 2009. It is decreased by 9.5% percent from 11.82 percent (2009) to 10.70 percent (2010) during 2010 but after analyzing three years it seems that company's profit margin ratio increased in 2009 but decreased in 2010. It decreased in 2010 due to the increase in cost of sales; it seems that company's operation efficiency was not too good that's why they unable to control the cost.

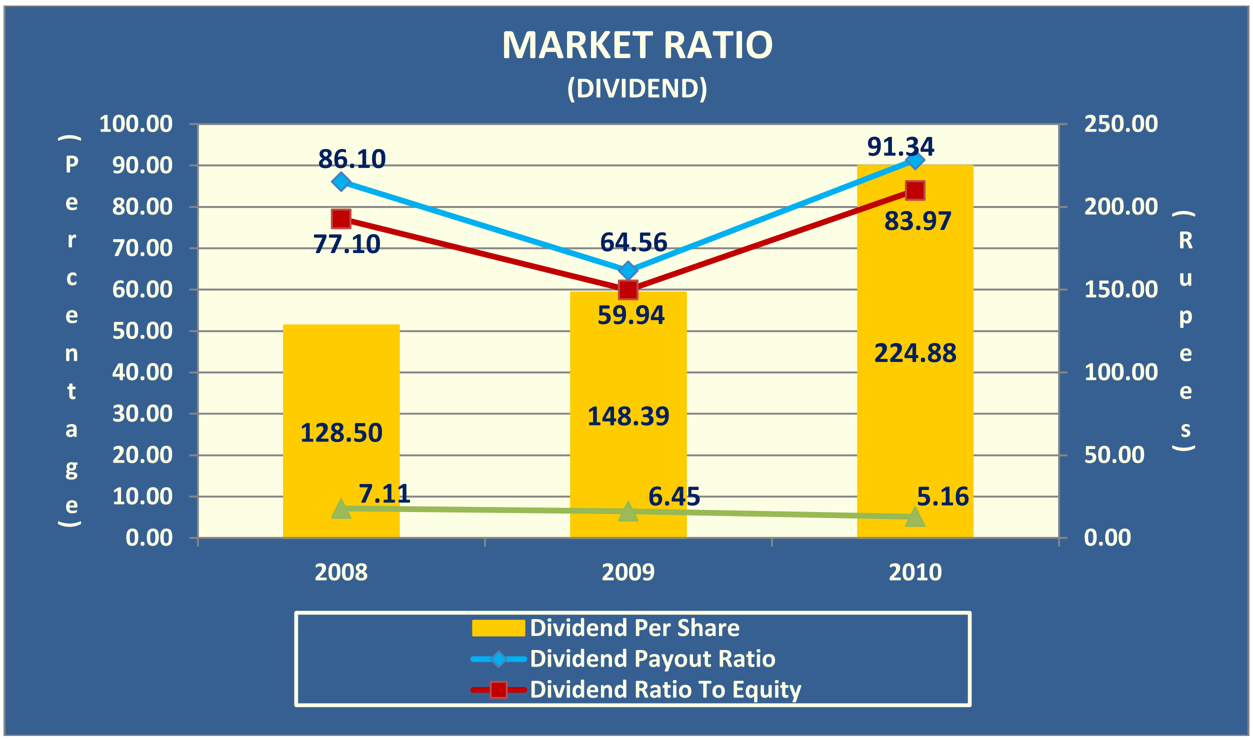


Return on assets decreased by 10.41 percent from 39.52 percent to 35.41 percent during 2010. After further analyzed it seem that return on assets increased by 53.86 percent from 25.69 percent to 39.52 percent during 2009. The major change in return on assets during 2010 is due to the decrease in profit and purchase of new assets, so it indicated that the assets didn't utilize efficiently to make a handsome return. After further analyzed it seem that the return on equity also decreased by just 3 percent from 137.41 percent to 134.44 percent during 2010 but in last three years it seem that Unilever has maintained its return on equity ratio around 131 percent to 138 percent which is a positive sign.

However, the profit declined but still the return on capital employed increased which was a good sign.

The return on capital employed increased by 1.07 percent from 104.74 percent to 105.87 percent during 2010.

Market Ratio:
The market ratios give an indication of what investors think of the company's past performance and future prospects.
Dividend payout ratio indicated that it decreased by 25 percent from 86 percent to 65 percent during 2009 but during 2010 it increased by 41.5 percent from 65 percent to 91 percent which was a good sign because it showed that even profit decreased but company still manage to paid handsome dividend to their shareholders which indicated that the company cared about their shareholders very much. Dividend ratio to equity also indicated a positive sign because it increased by 40 percent from 60 percent to 84.1 percent during 2010.



But after analyzing earning per share it seems that due to decrease in profit company's earning per share didn't decrease which was a positive sign. The earning per share increased by 7.12 percent from Rs.230 to Rs.246 during 2010 and after analyzing three years data it seems that the earning per share has an increasing trend. Price/earning ratio shows that how much investors are willing to pay per Rs. of reported profits so after analyzing price/earning ratio it indicated that it increased by 77 percent from 10 times to 17.7 times during 2010 which showed that investor were willingly to pay Rs.17.7 per Rs. of profit. Further analyzed that dividend yield ratio decreased by 20 percent from 6.45 percent to 5.16 percent during 2010 and it was decreasing from last three years which indicated that the company's share market has increased in last tree years.

Overall analysis indicated that the company's earning has bit decreased due to the increase in cost of sales but still company has paid handsome dividend and tried their level best to maintain its market value by distributing handsome dividend.