Question Paper
Professional Ethics and Case Studies (CFA660) : October 2008

Section A: Professional Ethics (20 Marks)

- This section consists of questions with serial number 1 - 2.
- Answer all questions.
- Marks are indicated against each question.
- Do not spend more than 25 - 30 minutes on Section A.

1. Every individual has his/her own moral standards. Laws are formed on the basis of group consensus regarding moral standards. Even though they are based on consensus, they may not be acceptable to everyone. Discuss the problems that may arise in the transformation of moral standards to legal requirements. **(10 marks)** <Answer>

2. An ethical organization treats its human capital, which is an important resource, with justice and fairness. However, sometimes organizations may be forced to retrench the employees in response to an increase in competitive pressures. In this regard, explain the ethics related to retrenchment of employees. **(10 marks)** <Answer>

END OF SECTION A

Section B: Case Study (80 Marks)

*0This section consists of questions with serial number 3 – 7.
*1Answer all questions.
*2Marks are indicated against each question.
*3Do not spend more than 140 - 150 minutes on Section B.

Case Study*

3. In Fast Moving Consumer Goods (FMCG) sector, the success of a product depends heavily on brand building, positioning and brand extension. With this respect, discuss the role of brand building and distribution network in FMCG sector. **(12 marks)** <Answer>

4. a. Perform SWOT analysis of FMCG sector. **(12 marks)** <Answer>

b. Discuss the key points that have to be kept in mind while investing in a stock of FMCG company in India. **(14 marks)**

5. Considering the data from January 2007 to December 2007 of Annexure IV, calculate beta, systematic risk and unsystematic risk associated with the returns of the stock of the company. **(14 marks)** <Answer>

6. Mr. Dakshin, an employee of a private company wants to invest in the stock of Hindustan Unilever Ltd. (HUL). You as a financial analyst, help him calculate the value of the stock and suggest him whether he should invest in it or not, based on the following information: **(14 marks)** <Answer>

The dividend is expected to grow at the rate of 30% p.a. for the next five years, 15% p.a. for subsequent three years and after that it will continue to grow at 11% p.a. The

* The above case is prepared only for the purpose of examination and not to illustrate either effective or ineffective performance of the fund. The case contains real information adapted and combined with other information to generate discussion or analysis on the desired topics.

return on treasury bill is 7% p.a, risk premium associated with the investment in this stock of the company is estimated as 8% p.a., The company is expected to have the debt ratio of 56%. The interest rate on debt is 12% p.a. Compute the value per share of HUL as on 31st December 2007, using dividend discount model and also suggest whether the stock is worth investing or not.

7. Discuss the Business Risk Management Framework at HUL. **(14 marks)** <Answer>

Hindustan Unilever Limited

"Brands exist only in the minds of consumers. We are delighted that over the years HUL brands have enjoyed the trust and confidence of consumers."

– Nitin Paranjpe, CEO and MD, HUL

Hindustan Unilever Limited (HUL) is the largest Fast Moving Consumer Goods Company in India. The brands of the company are household names across the country and include soaps, detergents and personal products to tea, coffee, branded staples, ice cream, and culinary products. It has a scale of combined volumes of about 4 million tons and sales of Rs.1,37,177.54 million by the end of 2007.

India's largest exporter, HUL has products that are reaching countries like Europe, Asia, Middle East, Africa, Australia, and North America. The Government of India recognized it as the "Golden Super Star Trading House". The company's mission is to "add vitality to life" which has inspired its over 15000 employees including 1300 managers. Unilever holds 52.10% of the equity and rest of the shareholding is distributed among individual shareholders and financial institutions. Unilever, the parent company of HUL, is a Fortune 500 transnational company that sells Foods, and Home and Personal Care brands in around 100 countries worldwide.

FMCG Industry: An Overview

FMCG market has witnessed a huge potential in India since 1950, as the population in India has always occupied a considerable percentage of the world's population. However, the investments in FMCG sector were limited between 1950s and 1980s due to low purchasing power and with government policies favoring small-scale sector. This sector is the fourth largest sector in India. It consists of consumer non-durable products catering to daily requirements of consumers. This sector is largely unorganized with small companies using their regional advantage to reach out to remote areas. The sectoral impact plays a vital role in the major decision-making factors pertaining to branding and distribution network, contract manufacturing and cost structure in FMCG sector.

ASSOCHAM analyzed that in the year 2007, the FMCG sector has a market size of approximately Rs.700 billion and grew by 12% Year on Year. It plays a key role in the Indian GDP. The major share of the FMCG segment sales comes from low-priced products. Agricultural sector is closely related to the FMCG sector as the agro-based products contribute to approximately 71% of the FMCG sector sales. It is a prominent value creator and it has a market capitalization only next to IT sector. It is also a contributor to the exchequer.

Indian Brand Equity Foundation says that Indian FMCG segment is characterized by a well- established distribution network, intense competition between the organized and unorganized sector, and low operation costs. In India, penetration level and the per capita consumption in most product categories indicates a huge unexploited market potential. The growing Indian population especially in the middle class and rural segments provides an opportunity for expanding the manufacture of branded products.

Industry Segment

FMCG sector is categorized as following segments based on the use of its products:

Table 1

Segment	Products
Household Care	Fabric wash (laundry soaps and synthetic detergents); household cleaners (dish/utensil cleaners, floor cleaners, toilet cleaners, air freshners, insecticides and mosquito repellents, metal polish and furniture polish).
Food and Beverages	Health beverages; soft drinks; staples/cereals; bakery products (biscuits, bread, cakes); snack food; chocolates; ice creams; tea; coffee; soft drinks; processed fruits, vegetables; dairy products; bottled water; branded flour, branded rice; branded sugar; juices etc.
Personal Care	Oral care, hair care, skin care personal wash (soaps); cosmetics and toiletries; deodorants; perfumes; feminine hygiene; paper products.

Source: http:// www.arc.unisg.ch/org

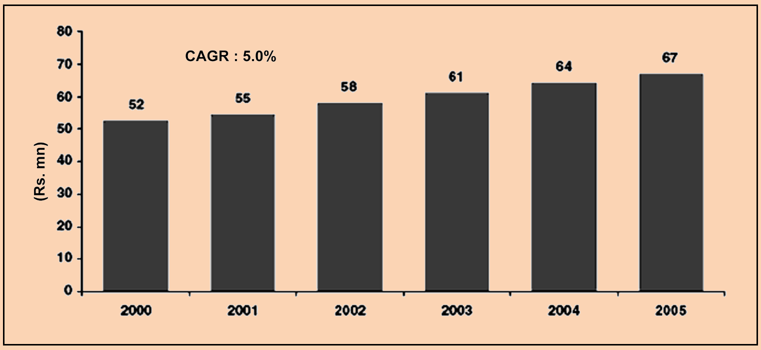
Household Care Segment

Laundry Care

In 2005, the total sale of the laundry care product segment of household was Rs.66,903.4 million accounting for about 69.23% of total sales of household care sector. Laundry care products include laundry detergents, laundry aids, fabric softeners and carpet cleaners. Out of these, Laundry detergents alone cater to 92.44% of total laundry care sales accounting to Rs.61,842.8 million in 2005 and Laundry aids is the second largest category catering to 7.56% of total laundry care sales accounting to Rs.5,060.6 million in 2005. Laundry boosters like fabric whiteners, spot and stain removers, starch and ironing aids in addition to the general products used in laundry are included in the Laundry aids.

The key players in the laundry care product segment are Hindustan Unilever Limited with its brands "Wheel", "Surf" and "Rin", Nirma Limited with its brand "Nirma" and Procter & Gamble Home Products Limited with its brands "Ariel" and "Tide". Euromonitor International, "Household Care – India", December 2006, mentioned that over the past five years, laundry detergents has grown at a CAGR of 4.7%, laundry aids has grown at a CAGR of 8.7% and overall laundry care market has grown at a CAGR of 5%. The following figure shows the historical and projected sales values as well as CAGR of total laundry care in India.

Figure 1: Total Laundry Care

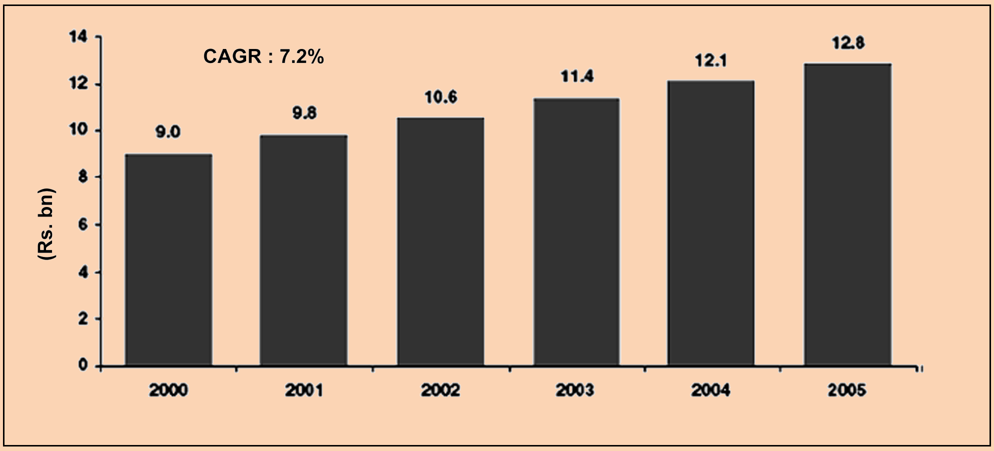


Source: Euromonitor International, "Household Care – India", December 2006.

Insecticides

Products used for eliminating insects come under this segment. They include insecticide coils, electric insecticides, spray and aerosol insecticides and other forms of insecticides. Their sales were 7.53% of household product category sales and worth Rs.12,840.7 million during 2005. The sales of insecticide coils were 43.52% of total insecticides sales and amounted to Rs.5,588.9 million. The sales of electric insecticides were 42.59% of total insecticides sales amounting to Rs.5,467.7 million. For the last five years, the sales in the insecticide segment have grown at a CAGR of 7.2% and from 2004 to 2005 have grown at a CAGR of 6%. The following figure shows the historical sales values as well as CAGR growth rate of total insecticides in India.

Figure 2: Total Insecticides



Source: Euromonitor International, "Household Care – India", December 2006.

Dishwashing Products

The products used in washing dishes like powders, bar soaps and liquids are included in this segment. Bar soaps has a major share in the Indian hand dishwashing segment. In India, presently the dominant share of sales are from hand dishwashing segment as still the concept of automatic dishwashing is new with penetration of dishwashers remaining at below 1% in India as a whole and 2% in urban India. Euromonitor International specified that in the year 2005, total sale of dishwashing products was Rs.7,759.2 million, or 8.03% of total sale of household products. The following figure shows the historical sales values as well as CAGR growth rate of Dishwashing products in India.

Figure 3: Dishwashing Products

Source: Euromonitor International, "Household Care – India", December 2006.

Air Care

Spray and aerosol air fresheners in addition to the other household air care products are the air care segment products. It has strong presence in urban areas of the country as it has aspirational consumer demand within the increasingly prosperous urban consumers. The following figure shows the historical sales values as well as CAGR of total air care products in India.

Figure 4: Total Air Care

Source: Euromonitor International, "Household Care – India", December 2006.

Food and Beverages Segment

Food Processing Segment

In India, food processing is one of the leading segments with a market size worth around Rs.560 billion. This segment is in an emerging stage in India though the industry is large in size. Tea dominates the hot beverage market. The estimated market size of tea is around Rs.35,840 million and HUL dominates with market share of around 24.3%. The expected growth rate of this segment is around 17%. The estimated market size of coffee is around Rs.6,120 million and HUL dominates with market share of around 46.9%. The expected growth rate of this segment is around 4%. The estimated market size of soft drink is around Rs.3,560 billion. The estimated market size of Fruit juice is around Rs.480 billion and Dabur dominates with market share of around 53%. This market is highly seasonal in nature and it is dominated by urban market.

Alcoholic Beverages

High regulations with restriction in movement between states is a unique feature of this segment. Out of total beverages consumed, Sprits/liquor dominates this segment and their consumption is around 78%; while beer has a share of around 21.5%, wine has around 0.5%. Southern India leads the beer market consuming around 47% of the total volume; while western region consumes around 27%, the northern region consumes around 20% and eastern region around 6%. The market size of the imported wines is around 0.12m cases.

Cigarettes

India is the third largest tobacco growing country in the world. Around 85% of the tobacco consumption in India is through traditional products such as ‘bidis’, ‘gutkha’ and ‘chewing’ tobacco. Cigarettes have a market share of 15%. For the FY 07, India produced around 857 million units of Cigarettes. Indian Tobacco Company and Godfrey Phillips Ltd. are the key players in the Indian organized tobacco market and they face competition from the unorganized bidi manufacturers.

Personal Care Segment

Hair Care

Hair oils, shampoos, gels, colorants, and conditioners are comprised in the Hair care segment. The total estimated market for hair care is around Rs.38 billion. This segment is expected to grow at 6%. The total hair oil segment is more than Rs.22.6 billion in the hair care segment. Marico (Parachute) dominates this segment with a market share of around 33% while Dabur occupies second position with 17% market share. The growth rate of hair oils in urban India is slower than in rural India.

The total estimated market of shampoo is worth around Rs.15.3 billion. HUL dominates the market with a market share of 47.7%. Procter and gamble, Dabur and L’Oreal has a market share of 24.3%, 5% and 35% respectively. Anti-dandruff shampoo constitutes around 15% of the total shampoo market wherein Clinic All Clear and Head & Shoulders are the major players. Around 38% is the penetration and around Rs.12 per annum is the per capita consumption of shampoo.

Personal Wash

The personal wash market can be divided into Premium (Lux, Dove) Economy (Nirma Bath, Lifebuoy), Popular (Nirma, Cinthol). The total estimated market of the toilet soap is around Rs.59.84 billion. Around 92% is the penetration and around Rs.24 per annum is the per capita consumption of toilet soaps. This segment is expected to grow at 8%. The key growth drivers for this segment are increasing disposable incomes and expected growth in rural demand. HUL, Godrej, Nirma and P&G are the key players in personal wash market. HUL dominates this segment with market share of around 53.2% while Godrej has a market share around 10.2%.

Skin Care

The total estimated market of the skin care is around Rs.21 billion. Around 22% is the penetration and around Rs.12 per annum is the per capita consumption of skin care products. This segment is in an emerging stage in India. The expected growth rate of this segment is around 16%. The penetration level is low for both rural markets as also for urban markets. The key growth drivers for this segment are changing lifestyles, increase in disposable incomes, greater product choice and availability, and influence of advertisements on television. HUL, CavinKare, Godrej, Emami, and Revlon are the key players in this segment.

Oral Care

Toothpaste, toothpowder, toothbrushes and mouthwash are included in the oral care segment. The total estimated market of the toothpaste is around Rs.23,680 million. Around 49% is the penetration and around Rs.24 per annum is the per capita consumption of toothpaste. This segment is expected to grow at 12% per annum. The penetration level of oral care in the rural market is much lesser than in the urban market. Colgate-Palmolive, HUL, and SmithKline are the key players in this segment. Colgate-Palmolive dominates this segment with a market share of around 48.5% while HUL has a market share of around 30%.

Organized Vs. Unorganized

It can be seen from the industry segment that the MNC players have strong presence in FMCG industry. However, the unorganized sector has also significant presence in this industry. Unorganized sector is almost equal to organized sector in most of the categories. In order to gain market share, unorganized players offer higher margins to stockists and additionally they have deeper penetration in key regional markets when compared to larger players.

Performance

Working at the bigger picture of FMCG sector in India, the year 2007 had a total market size worth around Rs.700 billion. It grew at the rate of 12% year on year with the help of higher penetration, per capita consumption, increasing population base, and rising household income. This industry accounts for 5% of the total factory employment in the country and is currently providing employment for three million people in downstream activities. This industry has a well-established distribution network and intense competition exists between the organized and the unorganized sector. This market is highly fragmented with unbranded and unpacked homemade products.

Lower and middle-income groups account for over 60% of the FMCG sales and, the rural area constitutes around 52% of the FMCG industry. ASSOCHAM analyses that the FMCG products share in rural market is expected to grow to 57% and grow by 10% till 2010 as against 6% growth of semi-urban FMCG demand which may grow to 21% level 2010 from present level of 19%. ASSOCHAM president Mr. Venugopal N. Dhoot said that the FMCG urban market size is at 29% in the year 2007 which used to be more than 50% five years ago. This is likely to come down by 25% and stay around 22% by 2010 as more than 120 million urban FMCG consumers will give up excessive FMCG products in order to maintain their physique and shift away towards adoption of use of organic products. The low-priced products drive the sales volume in FMCG sector. This sector has a huge potential to grow as its penetration level and per capita consumption in most product categories in India is low.

Future Outlook

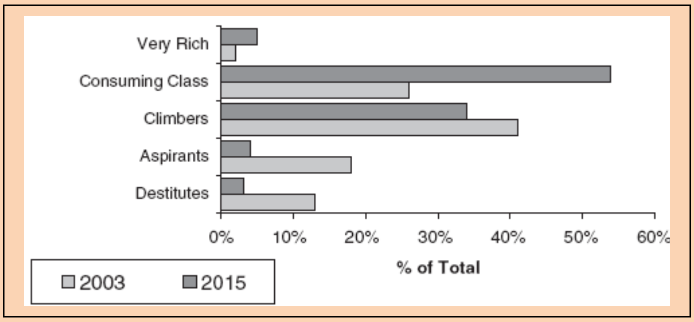
The key growth driver of FMCG industry in India is rural areas with deeper penetration and higher consumption. FMCG industry is considered to have huge potential to grow mainly on the grounds of increasing rural income and developing distribution network. It is also expected that the penetration levels would increase. The FMCG product consumption is expected to increase, as the per capita consumption of almost all the products is less when compared to other countries in the world. Additionally, the consumer base of rural sector and the growing middle class are to provide great opportunities for FMCG companies.

Rural areas have a share of more than 50% in the total revenue of major FMCG companies as 70% of India's population lives in rural areas. In case of brand choices, rural market consumer has less access to branded products compared to his urban counterpart. Rural market is untapped to a large extent and offers attractive prospects. However, there are several difficulties in exploiting these markets; for example, high prices of branded FMCG products, inadequate infrastructure facilities (like roads and power), a strong unorganized sector, heavy dependence on external factors (like monsoons), a low per capita disposable income and seasonal consumption linked to harvests, festivals and similar events.

On the other hand, the penetration levels in many FMCG categories are expected to go up in rural areas, as the government has taken steps to improve rural infrastructure, and increased efficiencies in distribution, availability of branded products at lower price levels and price correction by the FMCG companies.

The growing middle class considered as climbers or the consuming class is set to boom the demand for FMCG products. The following figure shows the expected increase in middle class.

Figure 5



Source: IBEF.

The increase in the disposable income in the hands of the middle class with the growing share of middle class will impact effectively on the increase in demand for FMCG products.

Over the last few years, the retail segment has gone through a revolution. In recent times, the concept of chain stores is gaining momentum as they focus on the affordability delivered through squeezing efficiencies from their supply chain. As a result, they offer better discounts as compared to other stores. Besides these, the number of large modern retail formats like supermarkets and hypermarkets is on the rise. Though they do not have significant share in the total FMCG sales, they are expected to increase in future.

Foreign Direct Investment (FDI) in this sector is expected to be permitted, through which overseas retailers are allowed to participate in one of the fastest growing consumer markets in recent times in India. If this happens, players in the FMCG sector have to improve their skills in merchandizing and shelf management. These open formats allow more interaction between the consumer and the products; and experimental consumers will get an opportunity to try new brands and products and the companies can also improve their information technology in order to create supply chain synergies.

Players in the organized sector incur losses due to fake and counterfeit products, which the players in the unorganized sector manufacture. The FMCG sector is incurring 10% to 30% loss of its business due to these fake and counterfeit goods. The growth of strong unorganized sector in India is due to many factors like, low entry barriers in terms of low capital investment, fiscal incentives from government and low brand awareness in small towns and in rural India. This segment offers both localized brands and products in a loose, unbranded form. Under this segment, unorganized players price their products low for the customers and provide high margins to the stockists and intermediaries to increase their sales.

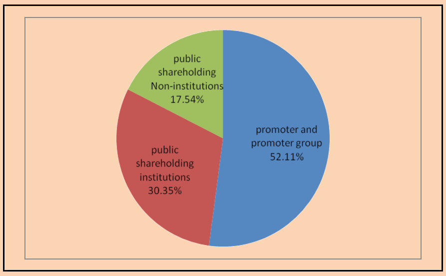
CII-AT Kearney report says that, FMCG sector is expected to grow at a compounded annual growth rate of 9% till the end of 2010. The key challenge before the FMCG industry today is to bring about a change in the mindset of consumers, and to offer them the new generation products. At present, Indian consumers are experimenting with the available brands and are ready to pay more for quality products. Quality, promotion and innovation of products drive the growth in this industry.

Hindustan Unilever Limited

On 17th October 1933, HUL was incorporated as private limited company. It was converted into public limited company on 27th October 1956 and changed its name from Hindustan Lever to Hindustan Unilever on 10th July 2007.

It operates through its home and personal care division that comprises soaps and detergents, skin care, hair care, color cosmetics, deodorants, and oral care products; integrated foods division comprises beverages, foods, tea, coffee, and ice cream businesses. Its products are manufactured in over 40 factories across India. The manufacturing companies include resources of merged companies like Ponds, The Tata Oil Mills, Lakme, Brooke Bond, Lipton India, Tea Estates India, Vashisti Detergents and others. The companies' operations involve more than 2000 suppliers and associates. Its distribution network has more than 4000 redistribution stockists. It covers 6.3 million retail outlets in order to reach the entire urban population and over 250 million rural consumers. Unilever HUL's parent company holds 52.10% of the equity. 360,675 individual shareholders and financial institutions distribute the rest of the equity.

Figure 6



Source: www.hul.co.in and Icfai Research Team.

Table 2: Key Milestones

Year	Milestones
1888	Sunlight soap introduced in India.
1895	Lifebuoy soap launched; Lever Brothers appoints agents in Mumbai, Chennai, Kolkata, and Karachi.
1918	Vanaspati introduced by Dutch margarine manufacturers like Van den Berghs, Jurgens, Verschure Creameries, and Hartogs.
1925	Lever Brothers gets full control of North West Soap Company.
1926	Hartogs registers Dalda Trademark.
1930	Unilever is formed on January 1 through merger of Lever Brothers and Margarine Unie.
1931	Hindustan Vanaspati Manufacturing Company registered on November 27.
1933	Lever Brothers India Limited incorporated on October 17.
1935	United Traders incorporated on May 11 to market Personal Products.
1944	Reorganization of the three companies with common management but separate marketing operations.
1956	Three companies merge to form Hindustan Unilever Limited, with 10% Indian equity participation.
1965	Signal toothpaste launched; Indian shareholding increases to 14%.
1982	Government allows 51% Unilever shareholding.
1992	HUL recognized by Government of India as Star Trading House in Exports.
1993	HUL's largest competitor, Tata Oil Mills Company (TOMCO), merges with the company with effect from April 1, 1993, the biggest such in Indian industry till that time. Merger ultimately accomplished in December 1994; Kissan acquired from the UB Group.
1994	HUL forms Unilever Nepal Limited, HUL and US-based Kimberley-Clark Corporation form 50:50 joint venture – Kimberley-Clark Lever Ltd. – to market Huggies diapers and Kotex feminine care products. Factory set up at Pune in 1995; HUL acquires Kwality and Milkfood 100% brand names and distribution assets.
1995	HUL and Indian cosmetics major, Lakme Ltd., form 50:50 joint venture – Lakme Lever Ltd.; HUL recognised as Super Star Trading House.
2002	HUL enters Ayurvedic health and beauty center category with the Ayush product range and Ayush Therapy Centers.
2003	Launch of Hindustan Lever Network; acquisition of the Amalgam Group.
2005	Launch of "Pureit" Water Purifiers.

Source: www.hul.co.in

Business Analysis

Apart from being India's largest fast moving consumer goods company, HUL is the leader in Home & Personal Care Products, and Foods & Beverages segments. The brands of the company spread across 20 distinct consumer categories touching the lives of two out of every three Indians. It meets the daily requirements of nutrition, hygiene, and personal care of the people in order to make them feel good, look good and get more out of life.

Table 3

Personal Wash	Lux
	Lifebuoy
	Liril
	Hamam
	Breeze
	Dove
	Pears
	Rexona
Laundry	Surf Excel
	Rin
	Wheel
Skin Care	Fair & Lovely
	Pond's
	Vaseline
Hair Care	Sunsilk Naturals
	Clinic
Oral Care	Pepsodent
	Closeup
Deodorants	Axe
	Rexona
Color cosmetics	Lakme
Ayurvedic personal and Health Care	Ayush
Tea	Brooke Bond
	Lipton
Coffee	Brooke Bond Bru
Foods	Kissan
	Annapurna
	Knorr
Ice Cream	Kwality Wall's

Source: www.hul.co.in and Icfai Research Team.

The wide brand portfolio of the company comprise of products for all income groups. HUL has the capabilities and the key mindset to simultaneously cover various consumer segments, product categories, technologies and business systems. It has Wheel, Rin and Surf excel in the laundry segment to span multiple benefits, product forms, pack sizes and a price range that makes its portfolio accessible to every segment of the market. Similarly in hair segment it has products Clinic to Lakme hair next, in the personal wash segment it has Lifebuoy to Dove and in tea category it has Brooke bond Taaza to Lipton yellow label. HUL plans to strengthen its portfolio across categories with the help of its strong Research and Development (R&D) expertise and a deep category and consumer understanding.

HUL can serve all its consumers in various segments with its multi-faceted innovation in product development, business processes, packaging, distribution channels, formats and delivery mechanisms. The R&D and innovation skills of the company play an important role in the success of its each segment. HUL has institutionalized the concept of challenge cost mindset so that the target price for consumers drives its specific segment and category. For example, consumers moved from washing their hair with simple bar soaps to using branded shampoos.

Company introduced single-use sachet for one rupee that assisted it to build its shampoo market in India. This helped the company to repeat the concept of low unit price in other categories like detergent, toothpaste, fairness cream sachets, mini-deodorant sticks and single use tea bags. All these are quite successful and key drivers to market development. HUL plans to continue the influence its strong R&D and innovation capabilities to perform better and create value to consumers of all income levels.

The brands of the company are available in 6.3 million outlets and with this the company's products are accessible to all the consumer segments in every single market in India. The distribution reach of the company has huge reach and it is considered as a big competitive advantage. In order to stay ahead of the game, HUL has constantly improved its distribution channels. In the recent times, it has strengthened its relationship with customers and it reinvented ways to manage its distribution channels and consumers. The structure of sales is now influencing the scale and assisting to build expertise in servicing Modern Trade and Rural Markets. It also segregated the sales force into layers to improve its response times and service levels. It serves customers on continuous replenishment. In order to support units across the country it has combined its backend processes into a common shared service infrastructure. These initiatives of the company have enhanced its operational efficiencies and improved its services to its customers.

In order to pursue growth, company is investing in both new businesses and new ways of engaging with consumers. It has a good record in building large, mass-markets from scratch. The company wants to replicate this with the branded food market segment. It is already in this segment with Brooke Bond tea and strong equities in brands like Annapurna, Kissan and Knorr. The key challenge of the company is to build the scale. In India more than convenience nutrition, vitality and functional benefits at affordable price are more important as the Indian woman has high sense of pride and emotional attachment towards cooking.

Unilever has good presence globally and it assists the food segment of HUL by complementing local consumer knowledge and insights of the market. India is facing the challenge of malnutrition and over nutrition. In this regard, Unilever has developed the food products with both vitality and well-being so that the products control blood pressure, cholesterol or deliver daily requirements of fruits and vegetables in one shot.

For the lower income consumers, the products should have daily requirement of vitamins with other do good ingredients at affordable price. For instance, more than 40% of Indian population shows the symptoms of iodine deficiency and HUL's Annapurna iodized salt solves this problem effectively.

HUL is famous for attracting and retaining best talented people in India. The employees of the company represent the diversity in India and have shared values of country's middle class. This acts as a link between the consumers and the communities where it does the business. Company offers rich development opportunities like broad portfolio of product categories, brands and geographies to its employees. For the managers it provides the exposure to business challenges in the innermost villages of the country to the corridors of the Unilever's head office in London and Rotterdam. Consequently, it acts as the key source of the talent for Unilever globally.

Revenue Model

The products of the company are sold through retailers, Hindustan Unilever Network (the direct selling segment) and exported to other countries in order to generate revenue for the company. The direct selling segment is one of the fastest emerging sectors worth more than Rs.23,000 million as an industry and Hindustan Unilever Network (HUN) is well-poised to tap the industry's growth. HUL has access to both global and local research, technology and development teams. HUL supports the HLN with its nation-wide manufacturing and distribution support system. Additionally, it also provides world-famous management education and business training. By the end of 2008, HLN plans to be among the top 2 players in the direct selling channel with a base of 1 million consultants. HLN has the unique and competitive advantage over other players in the channel with the HUL goodwill, widest reach amongst direct selling companies in India (more than 250 servicing points), widest range of top quality Home Care, Personal Care and Food products, highly affordable prices and focused training system and tools to aid self development.

In India, HUL is one of the largest exporters of branded FMCG and it has been recognized as the Golden Super Star Trading House by the Indian Government. With the time, HUL has emerged as the viable & competitive sourcing base for Unilever world wide for products in Home & Personal Care and Foods & Beverages category. It is a global marketing arm for select licensed Unilever brands and adds categories to the portfolio with its core country advantage like branded basmati rice. Through out the supply chain the company exports add high level of service with flexibility and responsiveness. The organization structure of the company is dedicated to support the efforts which help in the growth of this business.

HUL is an important sourcing hub for Unilever as it provides best quality products with intrinsic cost competitiveness in the end to end supply chain with appropriate technology and competitive capital investment operations. It is also considered as preferred partner for global customers in categories in which it operates. The main focus of HUL is to provide base for Unilever brands in Home and Personal Care (HPC) and Food and

Beverages (F&B) for supplies to other Unilever companies. Besides this it plans to become an ideal supplier to non-Unilever and Unilever clients in three categories in which India, as a country, has competitive advantage – Branded Rice, Marine Products and Castor and its Derivatives. It has an international recognition within Unilever and outside for its quality, reliability and speed of customer service. It mainly exports its products to Europe, Asia, Middle East, Africa, Australia, North America. The export portfolio of HUL includes home and personal care segment (Skin care, Oral care, Pears, Personal Wash and Lakme range products), food and beverages (Tea, Coffee and Processed Foods range of products), Marine Products (that offer a complete portfolio, ranging from Surimi, Crabsticks to Shrimps and several value-added products) and Rice (Basmati Rice and Basmati Rice-based ready-to-eat rice meals).

Segmental Analysis

The products of the company as discussed earlier are categorized into various segments as follows:

Home and Personal Care Segment

This segment consists of Household Care, Fabric Wash, Personal Wash and Personal Care categories, which include products like toothpaste, shampoo, skin care soaps, lotions, deodorants and color cosmetics. HUL recorded a double-digit growth ahead of market for the third consecutive year (2007) even in an intense competitive scenario. For the year 2007, HUL faced huge cost pressures due to increase in crude petroleum prices and steep escalations in vegetable oil costs. The increased crude price in turn affected various input prices like chemicals, packaging and freight. The company cracked the cost pressures by taking active cost reduction programs across the entire supply chain and judicious price increases. It has invested ample amount in the brands, as they constitute one of its most valuable assets. It has appropriately invested in advertising and promotional activities. In order to improve the effectiveness of this expenditure, HUL is using world-class tools like Advertising Budget Guidelines, Minimum Invest Levels, Market Activities Costing and Dynamic Resource Allocation, and which are provided by the parent company Unilever.

Table 4

Particulars	Laundry	Soaps	Shampoo	Skin	Toothpaste	Tea	Coffee
Market Size-$ min	2247	1658	542	698	691	1113	177
HUL Share	37.5%	54.3%	47.8%	54.5%	29.5%	22.7%	44.0%
Nearest Competitor	13.6%	9.7%	23.7%	7.4%	48.8%	20.8%	39.1%

Source: www.hul.co.in

Soaps and Detergents category recorded a healthy growth of 13.9% despite bearing the brunt of cost and competitive pressures. With an excellent portfolio of Surf, Rin, Wheel and Sunlight – the fabric wash section caters to the requirements of consumers from different income levels. This segment has not only recorded a good growth but also improved the overall market share of the company. For the four years i.e., from 2004 to 2007, the Fabric Wash category witnessed severe cost pressures as crude oil prices continued to rule high. This cost impact was partly solved by the robust supply chain savings and selective price corrections. In the environment of cost and competitive constraints, the company has still managed to maintain margins as well. For the year 2007, the Surf franchise has recorded strong sales performance with the turnover crossing Rs.10 billion for the first time. Wheel, the largest detergent brand in India, has also recorded its sales volume exceeding 0.8 million tons. Dish wash category led by Vim and floor and toilet cleaning category led by Domex have continued to grow well in the household care segment.

Though the Personal wash category faced cost pressure due to very steep increase in vegetable oil prices, which increased almost 50% over the year 2006, mainly due to diversion of oils for production of bio fuels, the company however still managed to perform well for the year 2007. Margins were maintained by taking up actions such as buying efficiencies, savings in supply chain and selective price increases. Personal product categories like Hair Care, Skin Care, Toothpaste, Deodorants and Color Cosmetics are high potential areas of HUL as per capita consumption is currently low in these categories. It is also expected to grow with the increasing income levels and awareness in personal hygiene and grooming. This category is facing huge competition with existing players offering a varied choice of brands and propositions and new players entering the arena.

Table 5

(Rs. in Million)

	2007		2006	
	Sales	Others*	Sales	Others*
Soaps, Detergents & Sources	63,288	457.2	55,634.1	3,24.8
Personal Products	36,147.6	570.6	33,096.5	5,014
Beverages	15,204.0	123.8	13,259.6	47.8
Foods	5,329.8	47.6	3,804.6	44.5
Ice Creams	1,584.9	21.5	1,344.2	26.5
Exports	13,422.6	–	12,788.9	–
Others	2,268.8	583.9	1,201.1	601.4
Less: Inter segment revenue	(68.2)	–	(95.0)	–
Total	(137,177.5)	1,804.6	121,033.9	1,546.4

* Others represents service income from operations relevant to the respective businesses.

Source: www.hul.co.in

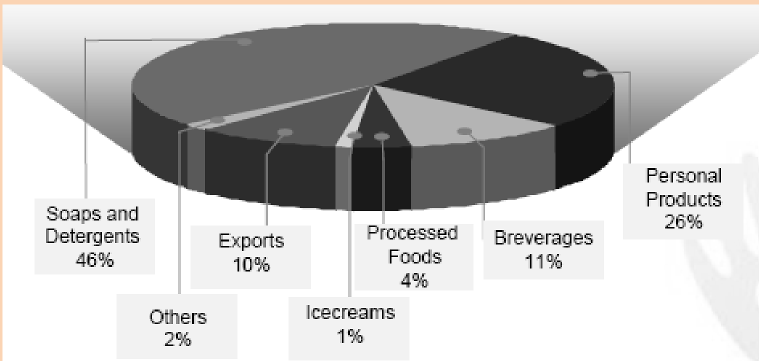
Foods

The food segment of HUL consists of Beverages, Processed Foods, Ice Creams and Modern Foods businesses. The packaged foods business has performed strongly for the last three years i.e., 2005, 2006, and 2007. It has allocated resources to increase sales in processed foods to institutions like restaurants, hotel chains etc. Though this category is currently small, it is moving well ahead and has the potential for a scale up by influencing the existing supply chain and product development capabilities of foods division. One of the key aspects of this division is the steep change and continuous improvements in supply chain in Foods, which helped to deliver freshness in the company's products to the consumers.

The packet tea category faces tough competition from national, regional and local players for increased share and volumes. This category Tea represents the largest share in the Foods portfolio. HUL is the market leader in the branded coffee market (roasted and ground coffee) with strong trade and consumer communications. For the year 2007, the profit margin of this category was under pressure as the coffee bean prices witnessed significant increases during that year. Though the company has managed to maintain profitability with strong efficiency improvements and judicious price increases, the overall margins were lower compared to those of 2006.

The ice cream business is performing well for the last few years especially in the year 2007 with significant sales growth. The profitability in this category increased in both scale and efficiency mainly due to the focus on availability, affordability and acceptability. Additionally, the company can get the benefit of the parent company, Unilever, for its tremendous innovation capabilities on a global scale.

Figure 7



Source: www.hul.co.in

Future Outlook

HUL has a well-developed distribution network with a direct coverage of one million outlets; and the brands reach 6.3 million outlets in a country with the highest store density. As a result, it need not rely completely on the costs of raw material to decide on price. The key determinant of HUL's success lies on delivering products on consumers' demand. A strong distribution network helps the product to grow in volumes through increased penetration levels. With the help of proper and widespread distribution network, a company can deliver products to the consumers where they want them. HUL has strong IT capability and ability to track sales up to the retail point. HUL can continue with the idea of re-launching a product by re-positioning it so that the life cycle is re-started to extract better value. Considering the position of HUL in the industry, experts feel that HUL with a portfolio of potential brands can invest in new brands to create a pipeline of new brands and products for the future.

ANNEXURE I

Additional Information

- **Net Sales:** Net sales of the company are expected to grow at 13.5%, 13% and 13.2% for the years 2008, 2009, 2010 respectively.
- **Cost of Goods Sold:** Cost of goods will remain at 53% of net sales for the coming years.
- **General Expenditure:** General expenditure is expected to remain at 32% of net sales for the next coming years.
- **Depreciation and Amortization:** The rate of depreciation of 2007 will remain constant for future which is 4.85% on the gross assets.
- **Interest:** The company is expected to have a cost of debt of 8% in the future.
- **Other Income:** Other income will remain at 15% of investments.
- **Tax:** Tax rate for the future years will be at 19%.
- **Gross Assets:** Gross assets of the company for future is projected based on the previous trend of gross assets turnover ratio. This ratio has shown an increasing trend for the last four years i.e., for 2004, 2005, 2006 and 2007.
- **Investments:** Investments of the company for the future is projected based on the moving average of investments to sales ratio.
- **Current Assets:** Current assets turnover ratio will remain at 4.
- **Current Liabilities and Provisions:** Current liabilities of the company will remain at 2.6.
- Debt equity ratio will remain at 0.08, 0.06 and 0.06 for the next coming years.
- No. of shares outstanding 2117.46 million.

Source: Icfai Research Team.

ANNEXURE II

Profit & Loss Statement of HUL for the Financial Years 2004, 2005, 2006 and 2007

(Rs. in Million)

Particulars	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Net Sales	**99269.46**	**110605.46**	**121033.86**	**137177.54**
% Growth		11.42%	9.43%	13.34%
Expenditures				
Cost of Goods Sold	54120.80	61621.323	65027.80	73108.62
% of Net Sales	54.52%	55.71%	53.73%	53.29%
General Expenditure	30775.00	34550.83	39525.42	45211.90
% of Net Sales	31.00%	31.24%	32.66%	32.96%
Total Expenditures	**84895.80**	**96172.15**	**104553.22**	**118320.52**
% of Net Sales	85.52%	86.95%	86.38%	86.25%
EBITDA	**14373.66**	**14433.31**	**16480.64**	**18857.01**
EBITDA Margin %	14.48%	13.05%	13.62%	13.75%
Growth %		0.41%	14.18%	14.42%
Depreciation & Amortisation	1208.99	1244.53	1301.64	1383.59
EBIT	**13164.67**	**13188.78**	**15179.01**	**17473.42**
Interest	1299.84	191.93	107.34	254.97
Other Income	3188.34	3047.87	3545.15	4626.81
PBT	**15053.17**	**16044.71**	**18616.82**	**21845.27**
Pre-tax Margin %	15.16%	14.51%	15.38%	15.92%
Tax	3060.41	2499.63	3220.10	4154.69
Effective Tax Rate %	20.33%	15.58%	17.30%	19.02%
PAT before Exceptional Items	**11992.76**	**13545.08**	**15396.72**	**17690.58**
Exceptional Items	19.33	535.96	3157.03	1564.12
Adjusted PAT	**11973.43**	**14081.04**	**18553.75**	**19254.70**
Net Profit Margin %	12.06%	12.73%	15.33%	14.04%
Growth %		**17.60%**	**31.76%**	**3.78%**
Shares in Issue	2201.24	2201.24	2205.52	2177.46
Adjusted EPS	**5.44**	**6.40**	**8.41**	**8.84**
Growth %		17.60%	31.51%	5.12%
Dividends Paid	12086.76	10999.91	12107.01	19544.71
DPS	**5.49**	**5.00**	**5.49**	**8.98**
Retained Earnings	(113.33)	3081.14	6446.73	(290.01)

Source: Adapted from Company Financial Reports, Icfai Research Team.

ANNEXURE III

Balance Sheet of HUL for the
Financial Years 2004, 2005, 2006 and 2007

(Rs. in Million)

Particulars	Dec. 2004	Dec. 2005	Dec. 2006	Dec. 2007
Gross Assets	24086.41	24731.43	25729.49	28547.15
Accumulated Depreciation	8910.81	9896.13	10619.40	11465.74
Net Fixed Assets	**15175.61**	**14835.30**	**15110.09**	**17081.41**
Investments	22295.63	20141.98	24139.32	14408.07
Current Assets Cash	6980.48	3550.32	4169.43	2008.62
Inventories	14704.43	13217.69	15477.11	19535.99
Trade Debtors	4892.70	5228.29	4403.71	4433.75
Loans and Advances	5944.18	5394.72	7428.98	6671.82
Other Current Assets	527.77	238.91	217.32	123.93
Current Liabilities and Provisions	**37142.55**	**41182.98**	**45230.57**	**51109.81**
Net Current Assets Excluding Cash	**–11073.48**	**–17103.39**	**–17703.45**	**–20344.33**
Deferred Tax (Net)	2260.01	2201.45	2245.47	2123.88
Capital Deployed	**35638.24**	**23625.67**	**27960.86**	**15277.64**
Total Assets	**72780.79**	**64808.65**	**73191.43**	**66387.45**
Non-Current Liabilities				
Secured Debt	14530.58	245.00	371.29	255.19
Unsecured Debt	180.57	324.41	354.74	630.12
Total Debt	**14711.15**	**569.41**	**726.03**	**885.30**
Share Capital	2201.24	2201.24	2206.78	2177.46
Reserves	18725.85	20855.02	25028.05	12214.88
Total Stockholders Equity (NW)	**20927.10**	**23056.26**	**27234.83**	**14392.34**
Capital Employed	**35638.24**	**23625.67**	**27960.86**	**15277.64**
Total Liabilities	**72780.79**	**64808.65**	**73191.43**	**66387.45**

Source: Adapted from Company Financial Reports, Icfai Research Team.

ANNEXURE IV

HUL Stock Prices and BSE Sensex for the Financial Years 2005, 2006 and 2007

Year	Month	HUL (Rs.)	BSE
2005	January	159.85	6555.94
2005	February	144.00	6713.86
2005	March	131.75	6492.82
2005	April	137.70	6154.44
2005	May	143.15	6715.11
2005	June	163.60	7193.85
2005	July	166.95	7635.42
2005	August	165.65	7805.43
2005	September	181.15	8634.48
2005	October	161.40	7892.32
2005	November	181.95	8788.81
2005	December	197.25	9397.93
2006	January	194.80	9919.89
2006	February	241.95	10370.24
2006	March	272.30	11279.96
2006	April	287.95	12042.56
2006	May	233.70	10398.61
2006	June	229.10	10609.25
2006	July	232.25	10743.88
2006	August	234.60	11699.05
2006	September	256.20	12454.42
2006	October	233.60	12961.90
2006	November	235.85	13696.31
2006	December	216.55	13786.91
2007	January	208.20	14090.92
2007	February	176.15	13938.09
2007	March	205.25	13072.10
2007	April	199.40	13872.37
2007	May	203.50	14544.46
2007	June	188.85	14650.50
2007	July	206.35	15550.99
2007	August	208.60	15318.60
2007	September	219.35	17291.10
2007	October	207.60	19837.19
2007	November	207.15	19363.10
2007	December	213.90	20286.99

Source: www.bseindia.com, Icfai Research Team.

ANNEXURE V

Financial results of Marico Limited, and Godrej Consumer Products Limited

(Rs. in Million)

Particulars	Marico	Godrej
	31-Mar-08	31-Mar-08
Net Sales/Interest Earned/Operating Income	15,687.80	8,875.90
Other Income	100.7	87.00
Total Income	15,788.50	8,962.90
Expenditure	–13,713.60	–7,025.50
Operating Profit	2,074.90	1,937.40
Interest	–152.9	–88.20
Profit before Depreciation and Tax	1,922.00	1,849.20
Depreciation	–189.3	–157.00
Profit before Tax	1,732.70	1,692.20
Tax	–298.5	–211.2
Net Profit	1,434.20	1,481.00
Equity Capital	609	225.8
Reserves	2,193.40	1,279.10
Basic and Diluted EPS after Extraordinary Item	2.35	6.56
Nos. of Shares-Public	222,593,480	72,689,928
Percent of Shares-Public	36.55	32.19
Operating Profit Margin	13.23	21.83
Net Profit Margin	9.14	16.69

Source: www.bseindia.com, Icfai Research Team.

END OF SECTION B

END OF QUESTION PAPER

Suggested Answers
Professional Ethics and Case Studies (CFA660) : October 2008
Section A

1. Moral standards define right and wrong behaviors of individuals. They focus on what ought to be done and what ought not to be done by an individual or group in a given situation. Moral standards state what is right and wrong behavior, and the law compel individuals to follow "right" behavior. Moral standards supported by a legal system constitute law. Law also defines the way in which one must act or must not act in a given situation. Certain problems arise during the transformation of individual's moral standards to universal legal requirements. < TOP >
   i. Moral standards are sometimes formulated on the basis of inaccurate information, thus making it difficult to formulate appropriate laws.
   ii. The moral standards get diluted by the formation of small group. These groups are formed on the basis of beliefs, values and norms. In many cases, these beliefs are not widely accepted and the members of different groups have to arrive at a compromise.
   iii. Legal requirements formulated by the political process are often incomplete and imprecise. These drawbacks are apparent in product liability cases and employment reviews.
   iv. The moral standards of members of society may be misrepresented while shaping the consensus of a large organization. This is due to the unequal influence of the different groups involved in formulating the law. Such unequal influence is commonly found in the formulation of tax legislation, where the laws are skewed in favor of a particular class of society.

2. The turn of the new millennium saw the world economies slump. Many industries faced the heat of recessionary trends in the world economy. This has compelled many businesses to retrench or layoff people. Many businesses did not have the expertise to handle the issue of retrenchment and ended up in sullying their corporate image. In times of recession, it has become common for businesses to reduce their size and overhead costs by discharging some of the employees, and creating a "lean and mean" style of management. Organizations usually resort to downsizing in response to an increase in competitive pressures. < TOP >

   Firing

   Employers at times include an "at-will" clause in the employment contract that enables them to fire their employees "at-will" or for a "cause." Firing may have a devastating effect on employee morale, but it is considered ethical when the dismissal is aimed at maximizing long-term owner value. Firing, to be ethical, should be honest, fair, legal and without coercion or physical violence. In fact firing is a critical decision, which affects the reputation of the business.

   Many organizations follow arbitrary firing practices and the reputation of such organization will suffer if word gets out that the organization is discriminatory, unfair, or vindictive in its hiring and firing practices. Arbitrary firing practices like firing "at will" or for unjust reasons are considered to be unethical, as it will lower the morale of the remaining employees, and result in decreased long term owner value.

   Firing at will for unjust reasons has a devastating impact on the performance of an organization. It is very difficult to measure the negative effect of firing on the basis of "at-will" clause in an employment contract. But, clearly, when esprit de corps declines, productivity will inevitably be affected. Thus, firing at-will for unjust reasons do not serve the purpose of enhancing long-term owner value, as it will create an atmosphere off ear and uncertainty. It is unethical as it depletes the trust, which is essential for business to survive and make profits.

   Firing is considered to be ethical when it is a result of a particular cause. This cause may be related to a worker's poor performance, acts of sabotage, dishonesty or misuse of authority, which are considered to have an effect on the long-term owner value.

   Organizations come under criticism when they opt for layoffs, right-sizing, downsizing or delayering. An organization can answer it critics effectively when it makes it clear to them that the purpose of business is to enhance the long-term owner value. In difficult times who should be fired first? This is a difficult question because the decision whether or not to fire an employee has nothing to do with his age or years of association with the organization. The ethical decision would be to fire the employees who are least productive or those who contribute the least towards long-term owner value.

   Even though dismissing employees is correct according to law, when it is not carried out in the right manner would result in spread of fear in the employees. This atmosphere of fear and mistrust within an organization would make it difficult for the organization to attract fresh talent and retain the experienced employees. Thus, it is very important for business to adopt and practice ethical retrenchment that is directed towards enhancing the long-term owner value.

Section B

3. Brand building and extensive distribution network is a key factor of an FMCG company. A successful brand is a precious asset, which could fetch a price many times the cost of assets required to make the product. A study reflects that the share of branded goods is high for a number of daily used products, and the share of unbranded products is shrinking, albeit slowly. The basic strategy of an FMCG company should be to design a product, its delivery format, pricing and communication. A company builds strong brand image either by providing good quality products over a period of time or by innovating a product that offers superior functional attributes supported by strong advertising and sales promotion campaigns. < TOP >

The FMCG industry is volume driven and is characterized by low margins. Their products are branded and backed by marketing, heavy advertising, slick packaging and strong distribution networks. The growing Indian population, especially the middle class and rural segments, provides the manufacturers of branded products an opportunity to expand.

The bulk of the effort and money is devoted to branding, especially in the personal care segment. A strong brand is the most vital ingredient of success in this industry, followed by distribution. A strong distribution network helps the product to grow volumes through increased penetration levels. Any company, which wants to establish in a big country like India, must establish a wide distribution network. Given that the market is fiercely competitive, functional attributes alone are not sufficient to develop consumer loyalty and sales growth; these may be achieved only by a strong brand.

4. a. **Analysis of FMCG sector** < TOP >

Strengths

- Low operational cost

Presence of established distribution networks in both urban and rural areas

Presence of well-known brands in FMCG sector

Weaknesses

- Lower scope of investing in technology and achieving economies of scale, especially in small sectors

Low exports levels

Unorganized players ("Me-too" products), which illegally mimic the labels of the established brands. These products narrow the scope of FMCG products in rural and semi-urban market.

Opportunities

- Untapped rural market for branded products

Rising income levels, i.e. increase in purchasing power of consumers leads to high consumer goods spending

Large domestic market- a population of over one billion.

Export potential

Threats

- Entrance of international players resulting in replacing of domestic brands

Tax and regulatory structure

b. One of the key factors that seem to have a major say on stock price movements of FMCG companies is GDP growth rate. There are various factors which affect the growth rate of FMCG sector and in turn their stock prices, some of them are discussed below:

Financial position - Companies with strong cash flows can strengthen their position by making acquisitions to complement their present product range as well as they can incur more money on advertisement and can make a foray into less penetrated categories leading to further strong cash flows.

Income levels of consumers- Strong GDP growth and rising income levels have been boosting demand in India. Revival in the sector is led by growth in per capita income which shifted back to higher consumption of consumer non durables. Growth in household income drives demand and improves value growth.

Interest rates - Growth of FMCG sector is highly dependent on interest rates prevailing in the economy. Growth in the sector can be slipped despite a rise in incomes mainly due to greater investments in other avenues (consumer durables, vehicles, housing) in view of lower interest rates and a shift in consumer aspirations.

Inflation rate - Higher crude oil prices pose a threat to input costs mainly in detergents where prices were raised by an average of 8%. However, higher input prices can be offset by price hikes as with revived demand, pricing power is expected to have returned to the sector.

Urban growth - Growth in FMCG is primarily driven by urban demand, which in turn led by growth in organized retailing and consistent growth in incomes arising from growth in services and industrial production, this fuel growth in FMCG due to the better product mix. Additionally growing urbanization and rising aspirations aid growth in FMCG.

Agricultural growth - During past years, FMCG's growth continued as rural demand also started participating in the overall sector growth on the back of favorable agricultural growth.

Competition - Level of competition among the various players plays an important role in the sector. In the past years, prices were reduced in order to cope with competition and to spur demand and due to this price reduction, the net profit margin of companies get hurt.

Others - With 45% of the Indian population estimated to be below 20 years of age, willing to spend more with rising disposable incomes, growth in consumer demand is expected to accelerate. Improving literacy rates (from 52% to 66%) will raise demand for branded products.

5.

< TOP >

Months	HUL (Rs.)	BSE	Return of HUL (Y) (%)	Return of Sensex (X) (%)	$\boxed{Y - \bar{Y}}$ (a)	$\boxed{X - \bar{X}}$ (b)	a x b	b x b	a x a
Jan-07	208.2	14090.92							
Feb-07	176.15	13938.09	-15.39	-1.08	-15.97	-4.63	73.99	21.47	255.01
Mar-07	205.25	13072.1	16.52	-6.21	15.94	-9.76	-155.65	95.29	254.23
Apr-07	199.4	13872.37	-2.85	6.12	-3.43	2.57	-8.82	6.62	11.73
May-07	203.5	14544.46	2.06	4.84	1.48	1.30	1.92	1.68	2.19
Jun-07	188.85	14650.5	-7.20	0.73	-7.77	-2.82	21.92	7.95	60.44
Jul-07	206.35	15550.99	9.27	6.15	8.69	2.60	22.58	6.75	75.54
Aug-07	208.6	15318.6	1.09	-1.49	0.52	-5.04	-2.60	25.43	0.27
Sep-07	219.35	17291.1	5.15	12.88	4.58	9.33	42.70	87.01	20.96
Oct-07	207.6	19837.19	-5.36	14.72	-5.93	11.18	-66.30	124.91	35.19
Nov-07	207.15	19363.1	-0.22	-2.39	-0.79	-5.94	4.70	35.26	0.63
Dec-07	213.9	20286.99	3.26	4.77	2.68	1.22	3.28	1.50	7.20
Total			6.33	39.03			-62.26	413.87	723.39
Average			0.58	3.55					

Covariance $_{(i,s)}$ = -62.26/10 = -6.26(%)^2

Variance of market = 413.87/10 = 41.39(%)^2

Variance of HUL = 723.39/10 = 72.34(%)^2

Beta $_{(i,s)}$ = -6.26/41.39 = -0.15

Systematic risk = $\boxed{Beta^2 \ X \ \sigma^2_m} = \boxed{-0.15^2 x 41.39}$ = 0.9313(%)^2

Unsystematic risk = 72.34 – 0.9313 = 71.41(%)^2

6. (Rs.) < TOP >

Years	Growth Rate	DPS	Discount rate @ 15%	Present Value	Total
0		8.98			
1	0.3	11.67	0.8696	10.1517	
2	0.3	15.18	0.7561	11.4747	
3	0.3	19.73	0.6575	12.9719	
4	0.3	25.65	0.5718	14.6654	
5	0.3	33.34	0.4972	16.5777	
6	0.15	38.34	0.4323	16.5759	
7	0.15	44.09	0.3759	16.5753	
8	0.15	50.71	0.3269	16.5768	
Terminal value	0.11	1407.20	0.3269	460.0145	575.5839

Terminal value = $\frac{50.71(1.11)}{0.15 - 0.11} = 1407.2025$

Discount rate = risk free rate + risk premium = 7+8 =15%

As the current market value of the company is Rs.213.90 and its intrinsic value is Rs.575.57, hence the company's stock is undervalued. Therefore, investing in the company at this point of time is advisable.

7. HUL, being an MNC operating in India, HUL is more conservative in its strategies than its Indian counterparts. Moreover, given increasing competition, it faces the risk of being overtaken by domestic players in various categories. Prolonged inflation may lead to margin contraction, in case HUL is not able to pass on this burden to consumers. The company's large size also poses a problem, since it does not give HUL the agility to address the competition it faces from national and regional players. < TOP >

HUL recognizes the importance of risk and introduced a risk based control system. . For this purpose HUL appointed various risk officers at all company locations. It identified the key areas of risks and appropriate tools and steps to mitigate them.

Brand Equity Risks: Like any other FMCG company with long-term market standing and high brand equity, even HUL is exposed to Brand equity risk. Media and competition are the linked issues to this risk. The main threat to the company's brand equity and revenue is the counterfeits and spurious products filled in the market. In addition to this, new products constantly launched by HUL bring in the associated inherent risks. But in order to mitigate these risks, HUL is taking necessary steps and following appropriate systems as a result of which the new products have a high success rate which initiates and sustains the revenue growth.

Finance and Treasury Risks: besides its regular risks like authorization risk, reporting risk and exposure risk, as a company with increasing international presence, HUL is exposed to the risks inherent to with the foreign exchange transactions. In addition to this HUL is also exposed to the risks associated to the economic and political uncertainty like any other company.

Supply Chain and Procurement Risks: Companies planning to take positions go for the group dynamics with its inputs leading to these kinds of risks. In case of procurement and production planning, HUL is following necessary system to enhance transparency and scientific decision-making. Generally many of the HUL's inputs are herbs and plant extracts wherein some are endangered. Thus, HUL is promoting contract farming of such inputs as a system of backward integration.

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