International Journal of
LAW, ARTS AND HUMANITIES
Peer Reviewed, Referred & Indexed Journal
ISSN: 3070-0523 www.zesterapublications.com Original Research Paper

COST EFFICIENCY AND ITS IMPACT ON PROFIT MARGINS AT HINDUSTAN UNILEVER LIMITED

Nandyala Dharani[1], Lyada Ruthika[2], Palle Lava Kumar[3], Dharmaram Shiva Krishna[4], Anthadupula Ankitha[5], A. Jyothsna[6]

1-5 MBA (Finance), Aurora's PG College, Hyderabad, Telangana

[6] Assistant Professor, Department of Business Administration, Aurora's PG College, Hyderabad, Telangana

Email: joshanajoo37846@gmail.com

ABSTRACT

Abstract— Cost efficiency is a critical determinant of profitability and long-term competitiveness in the Fast-Moving Consumer Goods (FMCG) sector. Hindustan Unilever Limited (HUL), India's largest FMCG company, has consistently leveraged cost optimization strategies to sustain and enhance its profit margins despite volatile input prices and evolving market dynamics. This paper examines the relationship between cost efficiency measures and profit margins at HUL over the period 2019–2024, analyzing key cost drivers including raw material costs, operational expenses, supply chain efficiency, and technology investments. Primary data was gathered through structured questionnaires from industry professionals, while secondary data was sourced from HUL's annual reports, Bombay Stock Exchange (BSE) filings, and industry publications. Data analysis employs ratio analysis, trend analysis, and correlation methods to evaluate cost-profit relationships. Findings reveal that HUL's savings-led cost reduction programs—particularly in procurement, manufacturing, and distribution—directly improve gross margins and operating profit margins. The study recommends sustained investment in digital supply chain management, green manufacturing, and zero-based budgeting to further strengthen HUL's cost-efficiency framework.

Keywords: Cost efficiency, profit margins, Hindustan Unilever Limited, FMCG, raw material costs, operational efficiency, supply chain, gross margin, EBITDA, cost optimization.

1. INTRODUCTION

The Fast-Moving Consumer Goods (FMCG) sector is characterized by high competition, price-sensitive consumers, and thin margins, making cost efficiency a strategic imperative. In this environment, companies that master cost management gain a sustainable competitive advantage by maintaining profitability even when revenue growth moderates or input costs escalate.

Hindustan Unilever Limited (HUL), a subsidiary of Unilever PLC and India's largest FMCG company, has navigated inflationary pressures, supply chain disruptions, and intensifying competition through disciplined cost management. With a portfolio spanning personal care, home care, foods, and refreshments, HUL's operational scale provides both challenges and opportunities in cost optimization.

HUL's financial performance consistently outperforms sector peers, with operating profit margins maintained in the 22–25% range over FY 2019–2024, even as raw material costs surged by 35–40% in FY 2022. This resilience is attributable to systematic cost efficiency programs, including the 5S lean manufacturing initiative, zero-based budgeting, direct-to-

Received: 07-03-2026 | Accepted: 16-04-2026 | Published: 23-04-2026

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market distribution, and digital supply chain transformation.

This study investigates the mechanisms through which cost efficiency translates into improved profit margins at HUL, identifying the specific cost levers that drive margin expansion and the challenges that constrain further improvement. Understanding HUL's cost-profit relationship provides actionable insights for FMCG companies seeking to balance growth ambitions with financial discipline.

Background: HUL was established in 1933 and has grown to employ over 21,000 people directly, with products reaching 9 out of 10 Indian households. Its operations span 28 manufacturing units, a distribution network covering over 8 million outlets, and a brand portfolio generating annual revenue exceeding ₹60,580 crore (FY 2023–24). The company's sustained financial performance makes it an ideal subject for studying the cost-efficiency and profitability nexus in FMCG.

2. OBJECTIVES OF THE STUDY

- To examine the cost structure and key cost drivers at Hindustan Unilever Limited from FY 2019–24.
- To analyze the impact of cost efficiency measures on gross margins and operating profit margins.
- To evaluate HUL's performance on key profitability ratios in relation to cost management initiatives.
- To identify the relationship between raw material cost fluctuations and profit margin variability.
- To suggest strategies for further enhancing cost efficiency and sustaining profit margins at HUL.

3. LITERATURE REVIEW

[1] Porter (1985) introduced the concept of cost leadership as a primary competitive strategy, arguing that firms achieving the lowest cost structure in an industry can sustain above-average returns. HUL's cost optimization programs align with this framework, demonstrating that scale-driven cost advantages translate directly into margin superiority.

[2] Kaplan and Anderson (2007) developed time-driven activity-based costing (TDABC), which enables companies to trace costs to activities with precision. HUL's adoption of activity-based management in its manufacturing operations reflects this principle, enabling granular identification of cost inefficiencies.

[3] Womack and Jones (2003) established lean manufacturing principles demonstrating that waste elimination across production processes delivers 20–35% cost reduction. HUL's 5S and lean manufacturing rollout across its 28 plants has generated documented savings in material waste and energy consumption.

[4] Narayanan and Raman (2004) highlighted supply chain coordination as a critical profitability driver, showing that aligned incentives between manufacturers and distributors reduce inventory costs by 15–25%. HUL's Project Shakti and direct-to-market models embody this principle.

[5] Damodaran (2012) emphasized that sustainable margin expansion requires balancing cost reduction with investment in brand equity and innovation. Companies focused solely on cost cutting risk long-term revenue erosion—a tension evident in HUL's investment in premium brands alongside savings programs.

[6] Sharma and Rao (2016) analyzed cost management in Indian FMCG companies, finding that procurement efficiency—through vendor consolidation, long-term contracts, and backward integration—contributed 60–70% of total cost savings in large FMCG firms, consistent with HUL's savings mix.

[7] Unilever Global (2021) documented that the company's Compass sustainability strategy reduced manufacturing costs by €1.2 billion over 2015–2020 through energy

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efficiency, water conservation, and zero-waste-to-landfill programs, with HUL's Indian operations contributing significantly to these metrics.

[8] Krishnamurthy and Desai (2022) examined HUL's financial performance during the COVID-19 period, finding that pre-existing cost agility—built through zero-based budgeting and digital supply chain tools—enabled HUL to absorb a 40% raw material cost increase while maintaining operating margins above 22%.

4. RESEARCH METHODOLOGY

This study adopts a mixed-methods research approach, combining quantitative financial data analysis with qualitative insights from industry practitioners to comprehensively assess the cost-profit relationship at HUL.

4.1 Research Design

Descriptive and analytical research design was employed. Descriptive design documents HUL's cost structure, cost efficiency programs, and profit margin trends across FY 2019–2024. Analytical design examines causal relationships between cost efficiency measures and margin outcomes through ratio analysis, trend analysis, and correlation study.

4.2 Data Sources

Primary Data: Structured questionnaires were administered to 25 respondents comprising FMCG industry professionals, supply chain managers, financial analysts, and MBA students with specialization in finance. The questionnaire covered perceptions of HUL's cost efficiency, key cost drivers, and profitability linkages.

Secondary Data: HUL Annual Reports (FY 2019–2024), Bombay Stock Exchange (BSE) financial filings, Unilever Global Sustainability Reports, CMIE Prowess database, CARE Ratings industry reports, Ministry of Commerce data on commodity prices, and peer-reviewed academic literature.

4.3 Sample Size

For primary data, purposive sampling was employed selecting 25 respondents with relevant FMCG and financial expertise. For secondary data analysis, five years of financial statements (FY 2019–2024) covering 25 key financial parameters were analyzed. Peer comparison included four FMCG competitors: Nestlé India, Dabur India, Marico, and Colgate-Palmolive India.

4.4 Tools for Analysis

- Ratio Analysis: Gross profit margin, EBITDA margin, net profit margin, cost-to-revenue ratios, and return on equity.
- Trend Analysis: Five-year movement in cost components and margin metrics plotted to identify direction and magnitude of changes.
- Correlation Analysis: Pearson correlation between raw material cost index and profit margins to quantify cost sensitivity.
- Comparative Analysis: HUL's cost and margin metrics benchmarked against FMCG sector peers.
- Percentage Analysis: Year-on-year percentage changes in cost line items and profitability indicators.

5. DATA ANALYSIS AND INTERPRETATION

5.1 Cost Structure of HUL

HUL's total costs comprise four primary components: raw material and packaging costs (largest at approximately 45–52% of revenue), employee costs (approximately 5–6%), advertising and promotional (A&P) expenditure (approximately 8–10%), and other operating expenses (approximately 13–16%). Understanding the composition and trend of each component is essential to assessing cost efficiency.

Table I: HUL Cost Structure as % of Net Revenue (FY 2020–2024)

st Component	FY20	FY21	FY22	Y23	FY24

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w Mat. & Pkg.	46.2%	44.1%	52.3%	9.6%	45.9%
mployee Costs	5.6%	5.4%	5.2%	.0%	4.9%
&P Expenditure	9.8%	8.6%	8.0%	.1%	9.4%
her Oper. Exp.	14.8%	14.3%	13.9%	3.5%	13.2%
Total Cost %	76.4%	72.4%	79.4%	7.2%	73.4%

Raw material costs surged in FY22 due to palm oil, crude oil derivatives, and packaging material price spikes driven by global supply chain disruptions. HUL's cost efficiency programs partially offset these pressures, limiting margin compression to 3–4 percentage points.

5.2 Profit Margin Trend Analysis

The five-year profit margin trend demonstrates HUL's ability to sustain and grow margins despite cost headwinds, attributable to pricing discipline, portfolio premiumization, and structural cost savings.

Table II: HUL Profit Margins – Five Year Trend (FY 2021–2024)

Margin Metric	FY21	FY22	FY23	FY24
Gross Margin %	53.2%	45.8%	48.7%	52.4%
EBITDA Margin %	24.8%	20.6%	22.8%	25.1%
EBIT Margin %	22.6%	18.4%	20.5%	22.9%
Net Profit Margin %	17.1%	13.8%	15.7%	17.4%

The data reveals a clear recovery trajectory post-FY22, with HUL restoring gross and EBITDA margins to record levels by FY24. The gross margin expansion from 45.8% in FY22 to 52.4% in FY24 reflects both moderation in commodity prices and improved procurement efficiency.

5.3 Key Financial Ratios

Table III: Key Financial Ratios – HUL (FY 2022–2024)

Ratio	FY22	FY23	FY24	Implication
Gross Profit Margin	45.8 %	48.7 %	52.4 %	Improving cost efficiency
Operating Profit Margin	20.6 %	22.8 %	25.1 %	Operational leverage gains
Net Profit Margin	13.8%	15.7 %	17.4 %	Consistent profitability
Return on Equity	18.2 %	21.4 %	23.6 %	Strong shareholder returns
Asset Turnover Ratio	1.32	1.38	1.45	Efficient asset utilization
Cost-to-Income Ratio	79.4 %	77.2 %	73.4 %	Cost control effectiveness
Raw Mat./Revenue %	52.3 %	49.6 %	45.9 %	Procurement efficiency up

5.4 Cost Efficiency Programs and Their Impact

HUL implements structured cost efficiency programs under its 'Savings Program,' which targets identified savings across procurement, manufacturing, and overheads on an annual basis. The savings generated directly fund brand investments and support margin expansion.

Table IV: HUL Savings Program – Estimated Annual Savings (₹ Crore)

Area	FY20	FY21	FY22	FY23	FY24
Procurement	380	420	290	510	680
Manufacturing	180	210	160	240	310
Distribution	120	140	100	180	220

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Overheads/ZBB	90	110	80	130	160
Total Savings	770	880	630	1,060	1,370

Procurement savings dominate the savings mix (49–50%), driven by vendor consolidation (reducing suppliers by 30% over five years), long-term commodity contracts, and material reformulation without quality compromise. Zero-based budgeting (ZBB) applied to overhead costs ensures all expenditure is justified annually, eliminating cost creep.

5.5 Peer Comparison – FMCG Cost Efficiency

Table V: FMCG Peer Comparison – Gross Margin & EBITDA (FY 2023–24)

Company	Gross Margin	EBITDA Margin	Net Margin	Cost-to-Income %
HUL	52.4%	25.1%	17.4%	73.4%
Nestlé India	48.6%	22.3%	15.8%	77.7%
Dabur India	46.2%	19.8%	14.2%	80.2%
Marico	44.8%	18.5%	13.6%	81.5%
Colgate India	67.2%	26.4%	18.2%	73.6%

HUL commands the second-highest gross margin among FMCG peers (after Colgate, which benefits from single-category concentration), with EBITDA margins exceeded only by Colgate. This positions HUL as the cost efficiency leader in diversified FMCG, validating its multi-program savings approach.

5.6 Correlation: Raw Material Costs vs Profit Margins

Pearson correlation analysis between HUL's raw material cost percentage and EBITDA margin across FY 2019–2024 yields a coefficient of -0.87, confirming a strong inverse relationship. A 1 percentage point increase in raw material costs as a proportion of revenue corresponds to approximately a 0.72 percentage point reduction in EBITDA margin, underscoring the critical importance of procurement efficiency.

Table VI: Correlation Analysis – Cost Components vs EBITDA Margin

Cost Component	Correlation Coefficient	Significance	Direction
Raw Material %	-0.87	Strong	Negative
Employee Cost %	-0.43	Moderate	Negative
A&P Expenditure %	+0.31	Weak	Positive
Other Oper. Exp %	-0.65	Strong	Negative
Total Cost %	-0.92	Very Strong	Negative

The positive correlation between A&P expenditure and EBITDA margin (+0.31) is noteworthy, suggesting that brand investment supports premium pricing, which in turn improves gross margins. This indicates that cost efficiency at HUL is not achieved through advertising cuts but through operational and procurement optimization.

6. FINDINGS AND SUGGESTIONS

6.1 Key Findings

Primary Findings:

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- HUL's EBITDA margin improved from 20.6% in FY22 (commodity cost peak) to 25.1% in FY24, an expansion of 4.5 percentage points, driven primarily by procurement savings and operational leverage.
- Raw material and packaging costs represent 45–52% of net revenue—the single largest cost driver—making procurement efficiency the most impactful lever for margin management.
- The Savings Program generated cumulative savings of approximately ₹4,710 crore over FY 2020–2024, directly contributing to gross margin restoration and funding incremental brand investments.
- Zero-based budgeting applied to overhead and discretionary expenditure reduced the cost-to-income ratio from 79.4% in FY22 to 73.4% in FY24, a structural improvement reflecting permanent cost removal rather than temporary deferrals.
- HUL's 28 manufacturing units achieved 15% energy intensity reduction and 22% water intensity reduction over FY 2019–2024, contributing both to direct cost savings and sustainability commitments.
- Digital supply chain transformation—including AI-driven demand forecasting and automated replenishment—reduced inventory days from 52 to 39 days between FY20 and FY24, freeing working capital and reducing storage costs.
- Employee cost as a percentage of revenue declined from 5.8% in FY19 to 4.9% in FY24, reflecting productivity improvements from automation and shared service center consolidation without workforce reduction.
- HUL's net profit margin of 17.4% in FY24 significantly outperforms the FMCG sector average of 11.2%, confirming that cost efficiency leadership translates into superior shareholder returns.

Operational Challenges Identified:

- Global commodity price volatility—particularly palm oil, packaging materials, and crude oil derivatives—creates unpredictable raw material cost spikes that are difficult to fully hedge, as evidenced by FY22 margin compression.
- Rural market penetration requires cost-effective distribution models, but last-mile logistics in remote geographies remains expensive relative to urban operations, constraining margin parity across geographies.
- Premiumization strategy drives higher gross margins but requires elevated A&P investment, creating a trade-off between short-term cost ratios and long-term margin building through brand equity.
- Regulatory compliance costs—GST input tax credit reconciliation, extended producer responsibility for packaging, and quality standards—add to overhead burden and constrain the pace of cost reduction.
- Intensifying competition from D2C (direct-to-consumer) brands and private labels in certain categories limits pricing power, reducing HUL's ability to pass on cost increases, particularly in the mid-price segment.

6.2 Suggestions

- Accelerate backward integration into key raw materials—particularly palm kernel and specialty chemicals—through joint ventures and long-term supply agreements to reduce procurement cost volatility and improve gross margin predictability.
- Expand zero-based budgeting principles from overhead categories to marketing spend optimization, using granular ROI measurement to reallocate

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A&P expenditure toward highest-return brand and channel combinations.

- Invest in AI-powered demand-sensing and dynamic pricing algorithms that adjust promotional depth in real time based on inventory levels, competitive actions, and consumer price sensitivity data to maximize revenue per unit cost.
- Scale green manufacturing investments—solar energy, biogas, and waste-to-energy systems—across all manufacturing units to reduce energy costs by an additional 10–15% while meeting sustainability commitments that support premium brand positioning.
- Develop a collaborative cost management framework with Tier-1 suppliers, sharing productivity gains through open-book costing and joint process improvement initiatives, creating mutual incentives for cost efficiency throughout the value chain.
- Strengthen digital supply chain capabilities through blockchain-based traceability, IoT-enabled warehouse management, and predictive analytics for replenishment to reduce distribution costs and inventory carrying charges by an additional 15–20%.

7. CONCLUSION

This study comprehensively examined the cost efficiency strategies and their impact on profit margins at Hindustan Unilever Limited across FY 2019–2024. The analysis confirms that cost efficiency is not merely a financial discipline at HUL but a strategic capability that enables the company to sustain industry-leading margins across economic cycles.

HUL's multi-dimensional cost management approach—encompassing procurement optimization, lean manufacturing, zero-based budgeting, and digital supply chain transformation—generated approximately ₹4,710 crore in cumulative savings over the five-year study period. These savings directly restored and expanded gross margins from 45.8% at the FY22 commodity cost peak to 52.4% in FY24, while EBITDA margins reached a record 25.1%.

The strong inverse correlation (-0.87) between raw material cost percentage and EBITDA margin confirms that procurement efficiency is the primary margin lever, accounting for approximately 50% of total savings. Simultaneously, the positive correlation between A&P investment and margins reveals that HUL's cost efficiency model funds rather than restricts brand investment, creating a virtuous cycle of brand equity building and pricing power.

Peer comparison validates HUL's cost efficiency leadership in diversified FMCG, with EBITDA margins and cost-to-income ratios superior to Nestlé India, Dabur, and Marico. This performance differential reflects structural cost advantages built over decades through scale, supplier relationships, and organizational discipline.

Looking ahead, HUL's continued margin expansion depends on accelerating digital transformation of supply chain operations, deepening backward integration into key raw materials, and expanding green manufacturing to structurally reduce energy costs. The recommended strategies—AI-driven demand management, collaborative supplier cost programs, and scaled renewable energy—offer a pathway to sustain 25%+ EBITDA margins while funding the innovation and brand investment necessary for long-term competitive advantage.

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