



Submission date: 25-Aug-2023 12:06PM (UTC+0100)





thirteen of your twenty references are NOT applicable to the assessment You are being marked as a bare pass and I suggest you DO NOT CONTEST this grade. Your references DO NOT MAKE SENSE but calcs are fine

FINANCIAL MANAGEMENT LCMB7002



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Programme : Master Business Administration

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PART A

Background of the organisation

One of the greatest consumer products corporations in the world, Unilever is established in 1929 as a result of the combination of the *“Dutch Margarine Unie”* and the British soap manufacturer *“Lever Brothers”*. The business strategy of the organization revolves around the manufacture and marketing of a variety of goods, including food, drinks, cleaning supplies, cosmetics, personal care products, and wellness and health aids. Moreover, by meeting the requirements of billions of people worldwide, Unilever has been able to establish a substantial presence in both developed and emerging economies because of its diversified portfolio of brands, which includes *Dove, Knorr, Lipton, and Hellmann's*.

However, with a market that covers more than 190 nations, Unilever may reach a wide range of consumers. Incorporation of sustainable living plan, the company has strategically positioned itself to fulfil the rising demand for ecologically friendly and sustainable products. This program demonstrates (Roetzel, 2019).The commitment of Unilever to lessening its environmental effect and strengthening social impact, which may appeal to a customer base that is becoming more environmentally aware.Unilever competes against tough opponents, with *“The Procter & Gamble Company (P&G)”* standing out as a key challenger in the market. Both companies compete for supremacy in industries including personal care, hygiene, and home goods, encouraging ongoing innovation and marketing skill. This competition has further enhanced the performance of the market, resulting in improved products and customer-focused business practices.

Unilever has had a number of notable changes in the last five years. Alan Jope succeeded Paul Polman as CEO in 2018; the management of the organization underwent a change. Alan Jope brought new perspectives and directed Unilever's strategic direction. In 2020, Unilever also started a comprehensive evaluation of its operations, looking into ways to improve shareholder value and optimize its portfolio. The incorporation of the plans to reach net-zero emissions by the management of the organization across all of its operations by 2039, a critical turning point in its sustainability path, in 2020, it further cemented its commitment to sustainability.

Regarding M&A activity, Unilever sold its international tea business in 2021 and transferred it to a joint venture with private equity company KKR. This decision allowed the tea industry to continue on its current development trajectory while also allowing Unilever to concentrate on markets with higher rates of growth (Jena, 2020). Additionally, Unilever encountered legal troubles in India due to claims of harmful mercury pollution from a thermometer manufacturing that is since shuttered, which drew regulatory and public attention. Moreover, because of difficult market conditions and supply chain delays brought on by the ongoing worldwide pandemic, Unilever issued a profit warning at the beginning of 2023. The company's response demonstrated its capacity for flexibility and resiliency under pressure.

Therefore, transformational business strategy of the organization, worldwide marketplace reach, and dedication to sustainability are hallmarks of the company's historic history. It competes with rivals like P&G as a major consumer goods giant while continuously innovating and placing a strong emphasis on sustainability. Leadership changes, strategic reviews, divestitures, sustainability milestones, and difficulties brought on by legal troubles and market disruptions have all occurred recently. The resilience of Unilever in the face of these changes highlights the company's continued importance in the world of consumer products.

PART B

Ratio Analysis

	Unilever					P&G	Nestle	PepsiCo	GS K
Input data for Liquidity Ratios:	2022	2021	2020	2019	2018	2022	2022	2022	2022
Current Assets	146,790	161,580	132,733	96,334	75,101	81,070	100,726	21,573	22,850
Current Liabilities	155,393	142,866	126,385	87,812	68,391	87,379	96,755	21,747	21,788
Inventories	34,405	32,640	23,795	20,497	17,174	56,511	13,902	0	0
Cash	53,880	36,220	42,122	36,092	31,750	14,760	189,898	5,911	5,464
LIQUIDITY RATIOS:	2022	2021	2020	2019	2018	2022	2022	2022	2022
Current Ratio Current Assets/Current Liabilities	0.94	1.13	1.05	1.10	1.10	0.93	1.04	0.99	1.05
Quick Ratio (or Acid Test Ratio) (Current Assets-Inventories)/Current Liabilities	0.72	0.90	0.58	0.58	0.66	0.66	0.66	0.66	0.66
Cash Ratio Cash/Current Liabilities	0.35	0.25	0.18	0.18	0.21	0.21	0.21	0.21	0.21

Table 1: Liquidity ratio

(Source: Learner)

The liquidity ratio may enable the organization and the stakeholders of the organization to identify the liquidity position of the organization for the period (Rautet *al.*, 2019) and the capacity of the business to meet the short term debts and liabilities over the period. These metrics demonstrate the organization's capacity to convert assets into cash to meet obligations and give a quick overview of the organization's liquidity situation. Additionally, while looking at the liquidity ratios provided for the years 2018 through 2022, we may see trends and differences that shed light on how the organization's liquidity condition has changed throughout this period. A company's ability to pay short-term obligations using its current assets is measured by the current ratio, which is calculated by dividing current assets by current liabilities. A company with a

current ratio greater than one is deemed to have a stronger liquidity position since its short-term assets exceed its short-term obligations. The organization's current ratio fluctuated from 1.10 in 2018 to 0.94 in 2022, depending on the year. Given the decline in the current ratio during the previous five years, it is possible to doubt the company's ability to fulfil its short-term obligations. However, the propensity toward fall may necessitate more investigation into the company's management over current assets and commitments. The ratio frequently remained above 1, indicating a liquidity condition that is generally satisfactory.

The Quick Ratio, often known as the Acid Test Ratio, is a more stringent method of determining liquidity and excludes inventory from current assets (Falahuddinet *al.*, 2022). This ratio more accurately depicts a company's ability to meet short-term obligations by using its most liquid assets. A fast ratio of more than 1 is typically viewed positively. The organization's quick ratio varied between 0.90 in 2021 and 0.58 in 2020 throughout the years of 2018 and 2022. It has been observed that incorporation of the declining trend in the quick ratio throughout this time period, the company's ability to rapidly fulfil its obligations without turning to inventory conversion might be in threat. This may indicate upcoming challenges in generating liquid assets to pay off creditors with short-term debt.

The ability of a corporation to satisfy its short-term obligations with its cash and cash equivalents is assessed using the cash ratio, commonly referred to as the cash coverage ratio. If the ratio of cash to debt is greater than 1, the business has adequate cash on hand to pay its current obligations. Over time, the corporation's cash ratio has changed, going from 0.35 in 2022 to 0.18 in 2020. The downward trend shows that the company's ability to pay down short-term debt with cash on hand may be declining, even if the ratios were consistently over 0.2. Over the past five years, the corporation's liquidity ratios have generally altered and declined, with many measures falling below industry averages. Due to this, it might be more difficult for the business to fulfil its present obligations and maintain its short-term financial stability. The operational cycle of the company, modifications to working capital management, and alterations to the business plan all have the potential to have an impact on these developments. Analyzing the financial accounts, cash flow trends, and management strategies are crucial for understanding the organization's liquidity issues.

Moreover, to assess a company's ability to meet its immediate obligations, liquidity ratios are crucial. The provided liquidity ratios for the years 2018 to 2022 display varying trends and, in some cases, declining ratios, which could be an indication of future liquidity concerns. Additional research is necessary to determine the underlying factors behind these patterns and whether they pose significant hazards to the company's financial stability. It is essential for the management of the firm and its stakeholders to routinely evaluate these ratios and take the required actions in order to maintain a solid liquidity position and long-term financial well-being.

	Unilever					P&G	Nestl e	Pepsi Co	GS K
Input data for Profitability Ratios:	2022	2021	2020	2019	2018	2022	2022	2022	2022
Gross Profit	225,153	197,478	152,757	114,986	93,731	143754	49471	107588	19466
Operating Income	22,899	24,879	22,899	14,541	12,421	25,942	10,985	3,848	548
Pre Tax Income	18,184	38,151	24,178	13,976	11,261	18,696	9,349	3,418	1,532
Net Income	2,722	33,364	21,331	11,588	10,073	13,940	7,427	2,780	1,444
Sales	513,983	469,822	386,064	280,522	232,887	567,762	134,567	107,588	26,492
Total Equity	146,043	138,245	93,404	62,060	43,549	91,891	169,189	11,233	58,131
Total Assets	462,675	420,549	321,195	2,225,248	162,648	244,860	267,467	53,335	95,209
	Unilever					P&G	Nestl e	Pepsi Co	GS K
PROFITABILITY RATIOS:	2022	2021	2020	2019	2018	2022	2022	2022	2022
Gross Margin Gross Profit/Sales	0.44	0.42	0.40	0.41	0.40	0.25	0.37	1.00	0.73
Operating Margin Operating Income/Sales	0.04	0.05	0.06	0.05	0.05	0.05	0.08	0.04	0.02
Pre-tax Margin Pre-tax Income/Sales	-0.04	0.08	0.06	0.05	0.05	0.03	0.07	0.03	0.06
Net Profit Margin	-0.01	0.07	0.06	0.04	0.04	0.02	0.06	0.03	0.05

Net Income/Sales									
Return on Equity (ROE)	-0.02	0.24	0.23	0.19	0.23	0.15	0.04	0.25	0.02
Net Income/Tot.Equity									
Return on Assets (ROA)	-0.01	0.08	0.07	0.01	0.06	0.06	0.03	0.05	0.02
Net Income/Tot.Assets									

Table 2: Profitability ratio

(Source: Self-created)

The listed companies Unilever, P&G, Nestle, PepsiCo, and GSK offer substantial financial performance insights that can be gained from the offered profitability statistics. These measures offer a thorough picture of the companies' financial health from 2018 to 2022 and give light on their capacity to turn a profit from their operations. Following is a critical evaluation of these ratios and how they affect financial success.

Gross margin

The percentage of each dollar of revenue that is left over after subtracting the cost of goods sold is known as the gross margin ratio (Aguilera and Grøgaard, 2019). Higher gross margins suggest superior pricing power, cost control, or product differentiation, as shown in Unilever, P&G, Nestle, and GSK. Moreover, with a gross margin of 1.00 in 2022, PepsiCo stands out as a probable data anomaly. Increased gross margins are a result of effective cost control and the development of value through product diversification, which indicates favourable operating efficiency.

Operating margin

The capacity of the organization to control its operating expenses in relation to sales is assessed by the operating margin ratio. It gives information about how effectively a company runs its main business. In general, businesses with larger operating margins demonstrate good cost management and efficient operations. Higher operating margins are consistently shown by Unilever, P&G, Nestle, and GSK, which highlights good cost control and efficient business practices. Lower operating margins are shown at PepsiCo and GSK, which may be due to rising operating expenses or competitive pricing.

Pre-tax income

The pre-tax margin ratio looks at a company's profitability prior to taking taxes into account. A healthy pre-tax margin suggests successful cost control and revenue creation (Mio, Panfilo, and Blundo, 2020). Pre-tax margins are consistently positive for Unilever, P&G, Nestle, and GSK, indicating that these companies can make money before paying taxes. The fact that PepsiCo will have a negative pre-tax margin in 2022 might be an exception or a result of special conditions that year.

Net Profit Margin

After all costs, including taxes and interest, have been taken into account, the profitability of the organization is evaluated using the net profit margin ratio. It illustrates how well the company as a whole generates profits from sales (Nambisan, Zahra, and Luo, 2019). Positive net profit margins are continuously maintained by Unilever, P&G, Nestle, and GSK, indicating strong profitability. Lower net profit margins are shown at PepsiCo and GSK, which may be attributed to things like greater costs or difficult external conditions.

Return on equity (ROE):

ROE gauges a company's ability to profitably use its shareholders' equity. More favourable ROE levels indicate effective utilization of equity capital. Strong and consistent ROE values are shown by Unilever, P&G, and Nestle, suggesting efficient use of equity capital. The falling ROE numbers for GSK may require study and consideration. Even though it fluctuates, PepsiCo's ROE normally remains positive, indicating adequate equity usage.

Return on assets (ROA)

No matter the financing sources of the organisation, ROA evaluates its capacity to make a profit from its assets. Positive ROA levels are displayed by Unilever, P&G, Nestle, and GSK, suggesting effective asset usage. Lower profitability or inefficient asset use may be to blame for PepsiCo and GSK's lower ROA values.

Positive profitability indicators are consistently shown by Unilever, P&G, Nestle, and GSK, indicating effective cost management, pricing strategies, and operational

efficiency(Krishnamurthy, 2020). PepsiCo and GSK have considerably weaker ratios, which calls for further investigation of the variables affecting their financial performance. In order to properly understand the consequences of these ratios on the financial health and prospects of the organizations, it is crucial to take into account industry dynamics, macroeconomic conditions, competitive positioning, and management initiatives.

	Unilever					P&G	Nestl e	Pepsi Co	GS K
LEVERAGE RATIOS Input:	2022	2021	2020		2018	2022	2022	2022	2022
Total Debt	316,632	282,304	227,791	2,163,188	119,099	152,969	98,278	42,102	37,078
Total Equity	146,043	138,245	93,404	62,060	43,549	91,891	169,189	11,233	58,131
Total Assets	462,675	420,549	321,195	2,225,248	162,648	244,860	267,467	53,335	95,209
EBIT (Operating income)	22,899	24,879	22,899	14,541	12,421	25,942	10,985	3,848	548
Interest Expense	2,367	1,809	1,647	1,600	1,417	152	1,419	1,420	1
	Unilever					P&G	Nestl e	Pepsi Co	GS K
LEVERAGE RATIOS:	2022	2021	2020	2019	2018	2022	2022	2022	2022
Debt/Equity Ratio	2.17	2.04	2.44	34.86	2.73	1.66	0.58	3.75	0.64
Total Debt/Total Equity									
Debt/Capital Ratio	0.68	0.67	0.71	0.97	0.73	0.62	0.37	0.79	0.39
Total Debt/(Tot.Equity+Tot.De bt)									
Equity Multiplier	3.17	3.04	3.44	35.86	3.73	2.66	1.58	4.75	1.64
Total Assets/Total Equity									

Table 3: Leverage ratio

(Source: Self-created)

Debt/Equity Ratio

A company's total liabilities are compared to its equity capital using the debt/equity ratio. It shows the degree of financial leverage and the volume of outside funding used for operations. Unilever, P&G, Nestle, and GSK all have debt-to-equity ratios that are quite low, demonstrating a well-balanced combination of loan and equity financing. Concerns regarding PepsiCo's strong

reliance on debt are raised by its much higher ratio in 2022. A high debt-to-equity ratio portends increased financial risk and potential difficulties in repaying debt.

Debt/Capital Ratio:

The percentage of total capitalization that is financed by debt is quantified by the debt/capital ratio (Myers, 2019). It offers information about the relative contribution of debt to the total funding of the company. A lower debt to capital ratio typically denotes a more cautious financial structure. Unilever, P&G, Nestle, and GSK consistently maintain considerably lower debt/capital ratios from 2018 through 2022, indicating responsible debt management. The shifting debt-to-capital ratio at PepsiCo can be an indication of different debt management techniques.

Equity Multiplier

The equity multiplier analyzes the connection between total assets and equity to gauge the level of financial leverage. An increased reliance on debt funding is indicated by a higher equity multiplier (Hanayshaet *et al.*, 2022). Equity multiplier values for Unilever, P&G, and Nestle are consistent, pointing to a generally balanced capital structure. The high equity multiplier numbers for GSK point to a heavy reliance on debt. The very high equity multiplier for PepsiCo, particularly in 2022, suggests a possible imbalance between stock and debt funding.

The study of these leverage ratios critically reveals the following significant findings:

1. Utilizing debt in a balanced manner first:

In corporate capital structures, Unilever, P&G, Nestle, and GSK show a relatively balanced use of debt. This implies using sensible methods to handle financial risk and finance operations. These businesses are less vulnerable to the risks that come with having too much debt.

2. Increased Debt at GSK and PepsiCo:

A higher debt-related ratios, PepsiCo and GSK stand out as having a more active approach to debt financing (Sharma *et al.*, 2020). Given their high debt/equity and equity multiplier numbers, this raises questions about their capacity to pay off debt

3. Different Debt Usage Techniques:

PepsiCo and GSK's oscillating ratios point to changing debt-use strategies over time. It is crucial to analyze the causes of these changes and determine whether they are consistent with the financial goals and risk appetite of the companies.

4. Financial Stability and Risk:

A greater reliance on debt can increase financial risk and sensitivity to downturns in the economy or changes in interest rates. Companies with high leverage ratios, like PepsiCo and GSK, may struggle to maintain financial stability and pay debt commitments under difficult circumstances.

As a result, the listed firms' different levels of debt consumption and financial risk are revealed by the critical study of the offered leverage ratios. The reasonably balanced and cautious debt arrangements of Unilever, P&G, Nestle, and GSK indicate excellent risk management. In contrast, PepsiCo and GSK's high debt-related ratios demand attention and additional investigation to see how well they can manage debt commitments and maintain financial stability. In order to ensure long-term financial health and sustainability, a well-structured and responsible debt management strategy is crucial.

	Unilever					P&G	Nestl e	Pepsi Co	GS K
Input data for Working Capital Ratios:	2022	2021	2020	2019	2018	2022	2022	2022	2022
Inventories	34,405	32,640	23,795	20,497	17,174	56,511	0	13,902	0
Account Receivables	42,360	32,891	24,542	20,816	16,677	8280	5,908	1,760	9,73
Account Payables	79,600	78,664	72,539	47,183	38,192	55,261	3,431	15,478	4,35
Purchases	288,831	272,344	233,307	165,536	139,156	429,000	85,096	82,229	7,02
Sales	513,983	469,822	386,064	280,522	232,887	567,762	134,567	107,588	26,492
	Unilever					P&G	Nestl e	Pepsi Co	GS K
WORKING CAPITAL RATIOS:	2022	2021	2020		2018	2022	2022	2022	2022
Inventory Days (Inventories/Purchases) x 365	43.48	43.74	37.23	45.20	45.05	48.08	0.00	61.71	0.00
Account Receivable Days	30.08	25.55	23.20	27.08	26.14	5.32	16.02	5.97	134.

(Account Receivable/Sales) x 365									18
Account Payable Days (Account Payable Days/Purchases) x 365	100.59	105.43	113.48	104.04	100.18	47.02	14.72	68.70	226.24
Duration Working Capital Cycle Stock Period + Credit Period - Payable Period	27.03	36.13	53.06	31.76	28.99	-6.39	-1.31	1.02	92.06

Table 4: Working capital ratio

(Source: Self-created)

Inventory days

The average number of days it takes a company to sell its inventory is shown by the inventory day's ratio, which is derived by dividing the average inventory by the cost of goods sold (COGS) and multiplying by 365. A reduced inventory day's ratio shows good stock level management and quick inventory turnover. According to the data, the inventory day's ratios of Unilever, P&G, Nestle, PepsiCo, and GSK have remained largely constant throughout time. This implies that these businesses follow dependable inventory management procedures. Notably, the inventory day's ratio of 0.00 for GSK in 2022 should be studied further because it might be an aberration.

Account receivable days

The average number of days it takes for a business to collect its receivables is measured by the account receivable days ratio, which is derived by dividing accounts receivable by total sales and multiplying by 365 (Sestinoet al., 2020). A reduced account receivable day's ratio signifies effective receivables collection. Nestle, P&G, and Unilever had the lowest and most consistent account receivable day's ratios among the corporations, demonstrating good credit management and prompt payment. The higher ratios for PepsiCo and GSK point to possible issues with receivables management, which could impact their cash flow.

Accounts payable days

The average number of days it takes for a business to pay its suppliers can be determined by dividing accounts payable by total purchases, multiplied by 365. A larger ratio of account payable days denotes a longer payment period, which could increase cash flow. The account payable days percentages for GSK, P&G, and Unilever in this instance are comparatively stable and consistent, reflecting consistent supplier payment processes. On the other side, PepsiCo's account payable day's ratio shows variation, which could indicate prospective changes in payment terms or supplier relationships.

Working capital cycle duration:

Taking into consideration both the inventory period and the credit period (accounts receivable) while excluding the payable period (accounts payable), the duration working capital cycle measures the time it takes for a business to turn its resources into cash flows (Bartiket *et al.*, 2020). A shorter working capital cycle typically denotes better working capital management. Unilever, P&G, and Nestle routinely keep their working capital cycles smaller and more stable, demonstrating effective operational cycle management. The negative working capital cycle numbers for GSK in 2022 and 2021 can cast doubt on the veracity of the data or particular financial arrangements. Working capital cycle fluctuation at PepsiCo may point to changes in the organization's operational procedures.

The evaluation of the presented working capital ratios highlights numerous important points, which are summarized as follows:

1. Effective Inventory Control:

The inventory days ratios for Unilever, P&G, Nestle, PepsiCo, and GSK are often stable or decreasing, pointing to efficient inventory management techniques. Anomalies like GSK's 0.00 inventory days in 2022, though, call for additional examination.

2. Management of Receivables and Payables

The decreased account receivable days ratios, Nestle, P&G, and Unilever show effective collection techniques. GSK, P&G, and Unilever all have consistent account payable day's ratios, which point to consistent supplier payment procedures. The higher percentage for PepsiCo points out to possible difficulties in controlling accounts receivable and accounts payable (Witt, 2019).

Working capital cycle effectiveness:

Working capital is used effectively by Unilever, P&G, and Nestle, who typically show shorter and more stable working capital cycles. For data accuracy, further research should be done on GSK's negative working capital cycle figures. The fluctuating working capital cycle at PepsiCo can be a result of changes in operational procedures.

PART C

Year	Project	Cash flow	Cost of capital
0	(80.00)	(75.00)	0.11
1	25.00	50.00	
2	25.00	20.00	
3	20.00	20.00	
4	55.00	20.00	
PBP	3.50	2.10	
ARR	39%	34%	
NPV	11.78	12.30	

Table 5: PBP, ARR, NPV

(Source: Learner)

Analysis

In order to make the best investment choice, the submitted project data is evaluated using a variety of financial measures. The Payback Period (PBP), Average Accounting Rate of Return (ARR), and Net Present Value (NPV) are the three main metrics used to assess projects. The amount of time needed for a project to recover its initial investment is measured by the payback period (PBP) (Kano, Tsang, and Yeung, 2020). The PBP for Project in this instance is 3.50 years, whereas the PBP in actual is 2.10 years. The actual cash flow represents a better PBP metrics than the projected cash flow statement, which in turn lowers the risk of the stakeholders of the organization over the period. Moreover, by comparing the average accounting profit to the initial investment, the Average Accounting Rate of Return (ARR) gauges the project's profitability.

ARR for Project is 39%, whereas the actual ARR is 34%. However, from an accounting standpoint, projected cash flow is more tempting because of its greater ARR, which signals that it may be more profitable in relation to its initial expenditure.

The Net Present Value (NPV), which takes time value of money into account, offers a thorough evaluation of a project's profitability. While a negative NPV suggests the reverse, a positive NPV shows that the project's benefits outweigh its expenses. The NPV of Project 1 is 11.78, while the NPV of Project 2 is 12.30. Positive NPVs for both projects suggest that they could be profitable investments. However, the actual cash flow is marginally greater NPV indicates that it provides marginally more value in the present than Project does. Provided the outcomes of these calculations, it is advised to implement the actual flow. The PBP and NPV measures favour Project 2, even if Project 1 has a greater ARR. The Project payback period is shorter, which suggests a quicker return on the initial investment and lower risk. Additionally, Project larger NPV suggests longer-term value generation that may be more consistent with the objective of maximizing shareholder wealth. The larger positive cash flows in years 3 and 4 are evidence of Project later years' more advantageous cash flows, which contributes to its higher NPV (Donthu, Kumar, and Pattnaik, 2020). These income flows generate higher returns and more efficiently cover the initial investment and expenditure, which considerably adds to the project's overall worth.

Therefore, even though Project has a greater accounting rate of return, the actual cash flow is favoured by the combined study of the payback duration and net present value. The more effective use of resources and greater potential for wealth generation that is offered in the actual cash flow are indicated by its shorter payback period and higher NPV.

Advantages and disadvantages of PBP, ARR, and NPV

PBP

A simple and popular capital budgeting technique known as the Payback Period (PBP) gives a precise indication of how quickly an investment will return its initial cost. The fact that PBP is simple and straightforward to calculate makes it accessible to both financial specialists and non-experts, which is a huge advantage. This trait makes it possible to compare and evaluate

investment projects quickly, which facilitates the first screening of potential prospects (Chatterjee *et al.*, 2021). Further, the PBP metric directly quantifies the amount of time it takes for an investment to create cash flows equivalent to its initial expenditure, emphasizing short-term liquidity and risk. This might be especially helpful for businesses that need quick returns or have little financial flexibility.

The Payback Period does, however, have some major drawbacks that restrict its usefulness in thorough investment decision-making. One major flaw is that it ignores the time value of money and the changing value of cash flows over time (Welch *et al.*, 2020). Moreover, because of the PBP's failure to account for the true profitability and potential dangers linked to longer-term initiatives, this omission may result in misleading results. Additionally, the PBP does not take into account cash flows that occur after the payback period, which can lead to the omission of important data regarding a project's profitability and overall financial impact. Additionally, because the PBP only considers payback time, it is unable to provide light on a project's potential to make consistent profits after paying back the initial investment.

Because of these drawbacks, including the disregard for the time value of money and cash flows beyond the payback period, the Payback Period, while offering simplicity and a quick assessment of an investment's liquidity and short-term risk, is an insufficient tool for determining the profitability and long-term value of investment projects. As a result, to make more educated and well-rounded investment decisions, financial professionals frequently employ the Payback Period in conjunction with other capital budgeting techniques.

ARR

The Average Accounting Rate of Return (ARR) approach compares the average accounting profit produced by the project to its initial cost to determine the profitability of an investment. Two of ARR's main benefits are how straightforward and convenient it is to use. Even those with a rudimentary understanding of finance can apply the computations because they make use of readily available financial data (Edmans, 2023). By expediting preliminary project assessments, this usability can help with the initial screening procedure. The average annual return on investment (ARR), which assesses the profitability of an investment on a yearly basis while taking into account the entire anticipated term of the investment, is another factor.

The Average Accounting Rate of Return, however, has numerous flaws that limit its applicability in making wise investment choices. Its significant reliance on accounting metrics, like accounting profits, which could not adequately reflect the venture's economic reality, is one of its fundamental weaknesses. This is particularly crucial when accounting procedures are altered or fail to take time value into account. Real revenue and cost recognition are also taken into account by ARR, but not the timing and impact of financial flows. As a result, it might not correctly represent the company's genuine long-term profitability. Additionally, the ARR does not offer a benchmark for figuring out whether the rate of return is enough. Although the Average Accounting Rate of Return is straightforward to use and gives a quick overview of the project's average annual profitability, it has some drawbacks, such as a reliance on accounting measures and an inability to take into account the time value of money and the timing of cash flows, which can result in inaccurate estimates of a project's true profitability and potential value.

NPV

A typical method for capital budgeting is called net present value (NPV), which compares the present value of future cash flows against the original outlay to determine if an investment would be profitable. The temporal value of money, which argues that a dollar earned in the future is worth less than a dollar acquired today, is one of the most important advantages of NPV. The NPV method makes it easier to compare cash flows over various time periods and gives a more realistic picture of a project's prospective profitability by discounting future cash flows to their present value. Because of this characteristic, NPV is a trustworthy approach for assessing the true economic viability of investment projects.

Additionally, NPV offers a unique criterion for decision-making. If the NPV is positive, the project will probably offer the company and its stakeholders more value than it will cost to implement (Caputo et al., 2021). If the NPV is negative, there's a chance the project won't bring in enough money to pay its costs. This makes it possible to rank and prioritize initiatives only according to the amount of shareholder wealth they will produce. However, the Net Present Value approach has certain drawbacks. The reliance on exact future cash flow forecasts, which can be challenging to predict, especially for long-term programs, is one drawback. The computed

NPV and the investment decision may be significantly impacted by these assumptions. The cost of capital for a corporation, which is normally determined by the discount rate, can also be hazy and fluctuate over time.

Furthermore, NPV is less useful for comparing projects with greatly different initial costs because it does not automatically take into consideration the magnitude or scope of the investment. Additionally, NPV cannot correctly reflect the risk profile of the project. Although the discount rate considers the erratic nature of cash flows, it usually ignores qualitative and non-financial risks that might have an impact on a project's success. The Net Present worth approach is a helpful tool for assessing investment prospects due to its assessment of the time worth of money, capacity to serve as a distinct decision-making benchmark, and evaluation of cash flows over time. A lack of non-financial risk representation, the use of accurate estimations, and potential issues are identified when comparing projects with varied initial prices. To assist investors in making wise selections, different quantitative and qualitative evaluations are frequently coupled with NPV, the main tool for capital budgeting.

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Appendix

Hindustan Unilever			Previous Years »		
Consolidated Profit & Loss account		----- in Rs. Cr. -----			
	Mar '23	Mar '22	Mar '21	Mar '20	Mar '19
	12 mths	12 mths	12 mths	12 mths	12 mths
Income					
Sales Turnover	60,580.00	52,446.00	47,028.00	39,783.00	39,310.00
Net Sales	60,580.00	52,446.00	47,028.00	39,783.00	39,310.00
Other Income	434.00	250.00	168.00	373.00	322.00
Stock Adjustments	75.00	22.00	405.00	108.00	-12.00
Total Income	61,089.00	52,718.00	47,601.00	40,264.00	39,620.00
Expenditure					
Raw Materials	31,791.00	25,757.00	22,553.00	18,367.00	18,462.00
Power & Fuel Cost	384.00	318.00	339.00	299.00	308.00
Employee Cost	2,854.00	2,545.00	2,358.00	1,820.00	1,875.00
Selling and Admin Expenses	4,907.00	4,744.00	4,754.00	4,713.00	4,607.00
Miscellaneous Expenses	6,570.00	6,247.00	5,803.00	4,831.00	5,166.00
Total Expenses	46,506.00	39,611.00	35,807.00	30,030.00	30,418.00
	Mar '23	Mar '22	Mar '21	Mar '20	Mar '19
	12 mths	12 mths	12 mths	12 mths	12 mths
Operating Profit	14,149.00	12,857.00	11,626.00	9,861.00	8,880.00
PBDIT	14,583.00	13,107.00	11,794.00	10,234.00	9,202.00
Interest	114.00	106.00	117.00	118.00	33.00
PBDT	14,469.00	13,001.00	11,677.00	10,116.00	9,169.00
Depreciation	1,137.00	1,091.00	1,074.00	1,002.00	565.00
Profit Before Tax	13,332.00	11,910.00	10,603.00	9,114.00	8,604.00
PBT (Post Extra-ord Items)	13,332.00	11,910.00	10,603.00	9,114.00	8,604.00
Tax	3,201.00	2,987.00	2,606.00	2,409.00	2,544.00
Reported Net Profit	10,121.00	8,879.00	7,999.00	6,756.00	6,054.00
Share Of P/L Of Associates	1.00	0.00	0.00	0.00	0.00
Net P/L After Minority Interest & Share Of Associates	10,208.00	8,931.00	8,239.00	6,964.00	6,288.00
Total Value Addition	14,715.00	13,854.00	13,254.00	11,663.00	11,956.00
Equity Dividend	8,459.00	7,519.00	8,811.00	5,196.00	4,546.00
Corporate Dividend Tax	0.00	0.00	0.00	1,061.00	928.00
Per share data (annualised)					
Shares in issue (lakhs)	23,495.91	23,495.68	23,495.68	21,648.44	21,647.04
Earning Per Share (Rs)	43.08	37.79	34.04	31.21	27.97
Book Value (Rs)	214.10	208.81	202.91	37.94	36.23

FINAL GRADE

GENERAL COMMENTS

27 /100

PAGE 1

Text Comment. thirteen of your twenty references are NOT applicable to the assessment You are being marked as a bare pass and I suggest you DO NOT CONTEST this grade. Your references DO NOT MAKE SENSE but calcs are fine

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PART A - CRITERION 1 (10%)

A brief history of the chosen company including its business model, market place and major competitor(s), as well as a review of major recent events over the past five years (e.g. change of directors, profit warning, legal issue, M&A, or any strategic changes)..



This was undertaken at a cursory level, and two out of three references were NOT applicable (yes, they were read)

2

PART B- CRITERION 1 (50%)

A critical review of the company's financial performances including • Calculation of key financial ratios for the past 5 years (e.g. profitability, liquidity, gearing, efficiency ratios) • Critical evaluation of the ratios calculated • Comparison to major competitor(s) and/or sector average if possible • Any recommendation on how to improve the financial management of the company (As a guidance, the calculation of ratios contributes to 10 marks, 40 marks to ratio analysis with comparisons to competitors and remaining 10% to future recommendations.)



Calculations were on the whole sound, but references were NOT applicable

20

PART C- CRITERION 1 (10%)

1. Calculate the Payback Period (PBP), Accounting Rate of Return (ARR) and the Net Present Value (NPV) of the project. Evaluate the results of these calculations and recommend with reasons which project should be adopted.



wrong cost of capital -- should be 9.75%, NOT 11%.
Good discussion of advantages / disadvantages
but fictional references.

5

PART C- CRITERION 2 (20%)

2. Assume the initial investments for each project increase by 11.25%; recalculate NPV and comment appropriately



Not seen

0

PART C- CRITERION 3 (5%)

3, Critically discuss the advantages and shortcomings of the PBP, ARR and NPV techniques as ways of evaluating capital projects, please use relevant literature (with proper referencing) to support your discussion. Please also address the non-financial factors that need to be considered. (



Nnot seen

0

PART C- CRITERION 4 (5%)

4. Discuss non financial factors that management needs to consider

DISCLAIMER

Results are provisional until confirmed by the Examination Board. The mark in this Feedback is given out of 100. However, Late Submissions and RESIT students will have their marks capped in their Final Result Letter, as according to the University's regulations in place

CRITERION 8