Corporate Decisions and Stock Price Movements: The Case of HUL in India

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Abstract

Corporate decisions are vital for the survival and growth of any business. As businesses seek to attain wealth maximisation, they should maximise profits and also the market price of shares, wealth maximisation is the basic objective of business. Stock price movements are sensitive to financial market developments. These include major corporate decisions, like, those on business consolidations, new ventures, financial decisions etc. This paper seeks to analyse whether the major corporate decisions of HUL (Hindustan Unilever Ltd.) have influenced its stock prices. It make suggestions for HUL's sustained growth in this era of ESG and extensive ICT adoption.

Keywords: *Wealth maximisation, Corporate decisions, Stock price movements, ESG, ICT.*

1. Introduction

Corporate decisions are vital for the survival and growth of any business. As businesses seek to attain wealth maximisation, they should maximise profits and also the market price of shares. Higher market price of shares means higher market capitalisation for the company. Wealth maximisation is assumed to be the basic objective of business. As per the literature, corporate decisions, risk appetite of investors etc. could attract the interest of researchers worldwide since long. It is widely recognised that corporate decisions are very sensitive. Share price movements are sensitive to financial market developments like corporate decisions. Economic environment of business in Indian economy in general and Indian stock market in particular is noted to be very sensitive and volatile over the last so many years due to globalisation pressures. Corporate decisions could add to the sensitivity in the stock market by influencing share price movements. So, this study aims to analyse how the corporate decisions influence the share prices of HUL (Hindustan Unilever Ltd.), a major corporate group functioning in India since 1931. For this study, secondary data relating to HUL are collected and analysed, HUL being one of the most noticeable corporates in Indian capital market, going by market capitalisation as per Sensex data. For this study, HUL's corporate decisions are recorded manually and HUL's share prices are analysed in order to arrive at meaningful conclusions that facilitate informed policy decisions.

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2. Significance of the Study

HUL is one the oldest and most prominent corporate houses in India having its presence since 1931 in various names; like, during 1931 to 1956 as Indian Vanaspati Manufacturing Company, during 1933 to 1956 as Lever Brothers India Limited, during 1935 to 1956 as United Traders Limited, and for 1956 to 2007 as Hindustan Lever Limited. In June 2007 HLL became HUL (Hindustan Unilever Limited) after another name change. Since June 2007 HLL functions as HUL. This British-owned Indian company is in the consumer goods business. Headquartered in Mumbai HUL produces foods, cleaning agents, water purifiers, beverages, personal care goods, and different kinds of fast-moving consumer goods (FMCGs). Given its vast presence in India, the stock market reactions to its corporate decisions need a closer look.

3. Research Problem

The research problem is that of a critical study of the impact of HUL's corporate decisions on its share price movements, and hence assess the impact of its decisions on its market performance.

4. Objectives

(i)   To study the performance of HUL and its consistency over the period, FY 2019-FY 2022.

(ii)   To study the influence of corporate decisions on the share price movements of HUL.

(iii)   To suggest strategies for HUL's sustained growth and profitability based on this study and also considering the global ESG imperative as well as the need for extensive ICT adoption.

5. Hypotheses

(I)   There exists no significant difference between HUL's stock prices before pronouncement of 'acquisition/amalgamation/merger' decisions and after pronouncement;

(II)   There exists no significant difference between HUL's stock prices before pronouncement of 'new ventures/initiatives/developments' decisions and after pronouncement;

(III)   There exists no significant difference between HUL's stock prices before pronouncement of 'financial' decisions and after pronouncement.

6. Materials and Methods

Three main corporate decisions chosen for this study are: (i)'Acquisition/amalgamation/merger' decisions (ii) 'New ventures/initiatives/developments' decisions, and (iii) 'Financial' decisions. Secondary data on the financials of HUL, like, those on corporate decisions and stock prices, have been collected from authentic sources. These data are analysed using common statistical tools like paired-sample t-test, for the purpose of interpretation and hypothesis-testing. HUL's stock prices and the influence of corporate decisions on HUL's stock prices have been studied.

7. Previous Studies

Chen et, al. (1986) in their paper, 'Economic forces and the stock market' have observed that two measures of the quantity of private news available in corporate statements (ie. part-owner price non-synchronicity and a chance of well-defined trading). These factors exert profound supporting influence upon sensitivity (volatility) of corporate investments, to the statement of being part-owner price. Jorion (1991) in his paper, 'The pricing of exchange rate risk in the stock market' has studied the pricing aspect of exchange rate risk in the US stock market using two diverse models. It has been remarked that though the Dollar value changes systemically across industries, the association of share returns with dollar value is insignificant. Thus, although finance managers can hedge against exchange rate risk, the cost of capital is not greatly changed by this behaviour. Randall Woolridge and Clarles C Snaw (1990) in their study, 'Stock Market to Strategic Investment Decisions' has studied the reaction of the stock market when corporate decisions on investments are announced. Decisions which can influence the company (like, joint venture, diversification into new products or markets, research and development, and capital expenditures) are studied. Testing of alternative hypotheses is done to find how US stock market reacts to such decisions, by analysing 767 decisions on investments by 248 corporates across 102 diverse industries over 3 years. It is found that stock market reacts positively to investment announcements. Levine & Zervos (1996) in their paper, 'Stock market development and long-run growth' have suggested some meaningful recommendations that can improve business value and address relevant questions like, 'Is the money business system important for the goods growth?' Chung et. al. (1998) in their paper, 'A study on investment opportunities and market reaction to capital expenditure decision' have noted share prices react positively to a firm's decision to spend capital in response to good investment opportunities. So, when companies announce increase or decrease in their capital expenditure that could affect their share prices. The stock prices of companies without investment opportunities will decrease (increase) when announcements are made regarding greater (lower) capital expenditure. Empirical evidence from this study could generally support this conjecture. Nonetheless, quality of the current avenues for investment dictate of a corporate dictates that entity's stock price reactions to its own corporate decisions.

Hanna and Chen (1998) in their paper, 'A study on subjective and objective risk tolerance: implication for portfolios' have stated that most of the good selection groups of part-ownership in firms were formed for one, five, and 20-year money put into the business sky-line for the major in money business of property groups. Steindel and Ludvigson (1999) in their study, 'How important is the stock market effect on consumption' has analysed as to the importance of the stock market's effect on consumption. It is observed that the propensity to consume using the aggregate household wealth is stable during post-war scenario. Consumption growth has shown a dynamic response against unexpected change in wealth that is only temporary. Besides, the impact of a wealth shock on the consumption growth has been uncertain also. Mitchell and Stafford (2000), in their research paper, 'Managerial Decisions and Long Term Stock price Performance' have noted a significant influence of management's decisions on long-run share price movements. A fast growing body of literature claims not to accept the efficient market hypothesis by assuming huge sums of long-term abnormal returns after some major corporate events. After controlling the positive cross-correlation of event company outliers, the authors have found almost no evidence of a reliable outlier performance for the samples they studied.

Morck et. al.(2000) in their article, 'A Study on The Information Content of Stock Markets: Why do Emerging Markets Have Synchronous Stock Price Movements' have noted that in poor economies, stock prices and corporate decisions move together more than in rich economies. They have pointed out that this happens not because markets are bigger in poorer countries, but mainly because of a higher correlation between stocks and

other assets. But, property rights play a vital role. The higher variation in returns in the stock markets in advanced economies is coupled with stronger public investor property rights. Gilchrist et. al. (2005), in their paper, 'A study on doing stock price bubbles influence corporate investments' have observed the great distribution in all directions if money is put into business belief. Short-selling forces to limit can lead the state of being part of owner market turns into liquid balls with air inside.

Chakravarthi (2006) in her study, 'Stock market and macroeconomics behaviour in India' has analysed the relation of share prices with selected economic parameters in India during the period 1991-2005 by the use of monthly time series data. It is noted that Index of Industrial Production (IIP) as well as inflation can Granger-cause the share prices. But, share prices can not cause IIP, nor it can cause inflation. So, it is established that a unidirectional causal relationship exists between share prices and money supply, but the causal relationship between share prices and exchange rate is not unidirectional. Beer & Hebein (2008) in their study, 'An Assessment of The Stock Market and Exchange Rate Dynamics in Industrialized and Emerging Markets' has used EGARCH method to compute the relation between share prices and rates of exchange in 2 types of nations, viz. emerging nations and developed nations. Ahmed (2008), in his paper, 'Aggregate economic variables and the stock market in India' has examined the association existing within key indicators of the economy in India and the share prices for 4 years and has observed differential links between aggregate economic indices and the long run share prices. However, share prices in the short run have been noted to be moving conforming to actual and expected economic performance. Precisely, interest rate has been the key driver of stock prices.

Decamps et. al. (2011) in their study, 'A Study on Free Cash Flow, Issuance Costs, and Stock Prices' have recommended a dynamic model of an entity that faces agency costs from free cash flows. Cost of external funding is developed and a solution is derived for gaining optimal balance sheet dynamics for the firm. It predicts that marginal value of cash changes indirectly with share prices and directly volatility of share prices. It shows how various factors affect stock price volatility. Esqueda et. al. (2012) in their paper, 'Financial globalization and stock market risk' has studied how stock market volatility is impacted by factors: size, turnover, and real growth. It has noted that financial integration could reduce stock market volatility in some nations, even though this is not always the case with industrialised nations. The study has noted that stock volatility is influenced by feedback loops. So, lower stock volatility results in lower turnover rates. Monica and Manoj (2014) have studied the determinants of valuation in Indian Mutual Fund industry due to mergers and acquisitions, by analysing factors like asset mix, global economic factors etc. Suriani et. al. (2015) in the paper, 'Impact of exchange rate on stock market' has noted that globally share market and the exchange market are two vital financial markets, and that worldwide these two are vital for international businesses. It is crucial to know the relation between them to make prudent investment decisions. No relationship is noted to link the share market with the rate of exchange; and these two variables are mutually independent.

Paramati & Gupta (2011), in their study, An Empirical Analysis of Stock Market Performance and Economic Growth: Evidence from India has examined whether share market performance has impact on economic growth, using the data on IIP (Index of Industrial Production) and GDP estimates over 10 consecutive years. It is noted that there is a short-run association of share market performance with GDP, but no such long run relationship could be noted. Thus, the authors have pointed out that the demand for the stock is driven primarily by the economic growth, not the other way round. A study, 'A study on Financial Literacy, Risk Tolerance, and Stock Market Participation' by Mishra (2018) has analysed how financial literacy impacts risk perceptions, how investment decisions are affected by self-assessed money business knowing, reading and writing, investment awareness, and hence share market participation. Escobari and Jafarinejad

(2019) in the study, 'Investors' uncertainty and stock market risk' has examined the investor uncertainty and stock market risk, and have proposed a new method to assess the investors' uncertainty. Their findings suggest that uncertainty of the investors is more in times of economic slump, and uncertainty is associated with poorer investor sentiments. Prevalence of a positive association of sentiments of investors with stock returns is noted in the above research study. Many studies have noted the vital need for ICT-integration and ESG compliance for sustainability and competitiveness of firms, including giants like HUL, RIL, etc.

Based on the foregoing analysis, it is observed that empirical studies focusing on stock market responses (like, change in share prices) as a result of major corporate decisions are scarce in the recent years, especially in the Indian context. Hence this paper aims to fill this research gap by way of an empirical analysis with reference to HUL (using data till FY 2022) with a view to find whether the major corporate decisions of HUL have had significant impact on its stock prices. For this the stock prices before and after HUL's major decision have been analysed.

8. Analysis and Discussion

Going by the first objective of this research study, let us first have a look into the overall picture regarding the financial performance of HUL over the last few years (FY 2019 to FY 2022):

Table I: Financial Highlights of HUL (FY 2019 to FY 2022) (Rs. in Crores)

Particulars	2021-'22	2020-'21	2019-'20	2018-'19
Equity Capital (Cr)	235.00	235.00	216.00	216.00
Reserves and Surplus (Cr.)	48,525.00	47,199.00	7,815.00	7,443.00
Total Shareholders' Funds (Cr.)	48,760.00	47,434.00	8,031.00	7,659.00
Total Capital and Liabilities (Cr)	69,737.00	68,116.00	19,602.00	17,865.00
Fixed Assets	51,935.00	51,650.00	5,569.00	4,716.00
Total Non-Current Assets	55,090.00	54,476.00	7,694.00	6,491.00
Total Income	51586.00	46509.00	39518.00	38888.00
Total Expenses	38690.00	34672.00	29185.00	29587.00
Profit After Tax (PAT) (Cr.)	8818.00	7954.00	6738.00	6036.00
Bonus Equity Share Capital	131.69	131.69	131.69	131.69
Equity Dividend Rate	3400.00	3100.00	3450.00	2200.00

Source: Audited Financial Statements of HUL for FYs 2019 to FY 2022.

From Table I, it may be noted that HUL, as a prominent player in the Indian stock market, could exhibit commendable financial performance even while facing severe adversities like the global pandemic Covid-19.There has been steady and consistent growth in the business income and profit after tax (PAT) of HUL over the last few years, and so also in the equity dividend rate. Figure I shows the growing trend in PAT (Crores) and Equity Dividend Rate of HUL.
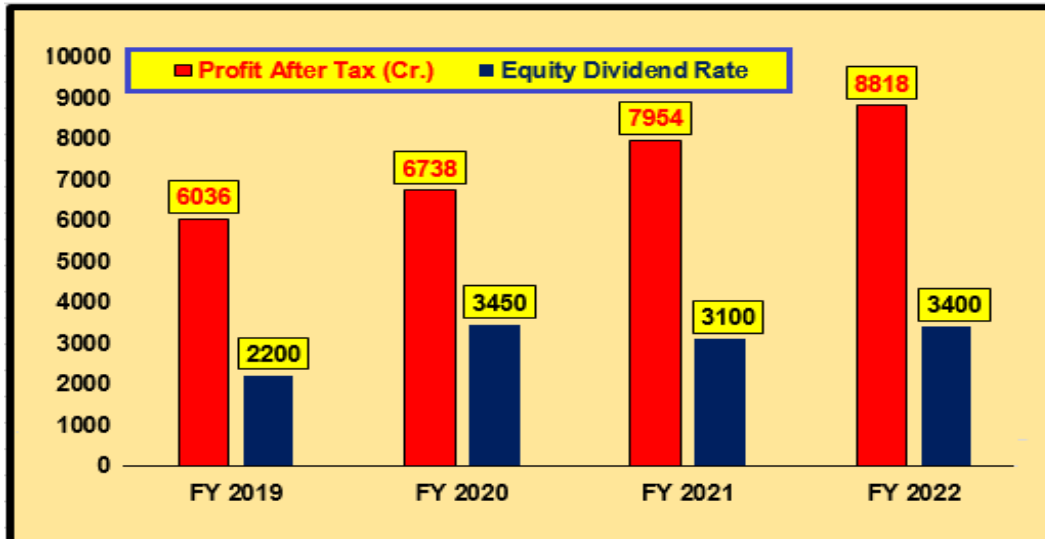
Figure I: PAT (Crores), EPS (Rs) and Dividend (%) of RIL (FY 2019 to FY 2022)

Source: Audited Financial Statements of HUL for FYs 2019 to FY 2022 as in Table I

HUL could exhibit high resilience to global pandemic like Covid-19. HUL has accorded high priority for ICT-integration, digital adoption, hyper-personalisation and ESG-adoption for its sustained growth and competitiveness in this Digital India era. ESG imperative is fully recognised in HUL's ESG policy, and so also it has accorded top priority for ICT adotion. These two are key for sustainability and competitiveness in this digital era. HUL's steady improvement in performance over the years in PAT, Equity Dividend rate etc. (Table I and Figure I), let us try to address the second objective of the paper viz. Whether the major corporate decisions of HUL on 'Acquisition/Amalgamation/Merger' (Table II) have influenced the stock prices of HUL.

Table II: 'Acquisition/ Amalgamation/Merger' Corporate Decisions of HUL.

No	Date	Corporate Decision made by HUL
1	01 April 2020	This news reports that GlaxoSmithKline consumer healthcare Ltd has merged with HUL and that this marks a fresh landmark in the history of nutrition in India
2	08 April 2020	HUL joined with the UNICEF to shore up the fight of India against Corona virus
3	02 July 2020	HUL's flagship skincare brand, fair & lovely will be renamed glow & lovely
4	09 Sept.2020	HUL along with UNDP successfully implemented a model for management of plastic wastes that helps to reduce quantity of plastic waste that is created.
5	01 Oct. 2020	SBI and HUL are joining forces to develop a digital payment system for retailers
6	06 Nov. 2020	HUL, Xynteo, Govt. of Maharashtra launched of "Waste No More"–an initiative aimed at reducing the waste produced in Maharashtra by 50 percent by 2020.
7	09 March2021	HUL says No to Normal with new positive beauty vision
8	22 March2021	HUL has partners with Invest India and launches 'Grand water saving challenge'.
9	08 April 2021	HUL, Google & My Gov. India announced that they are hosting an AI for agricultural hackathon.
10	10 May 2021	HUL and Portea are partnering to help drive mission hope

Source: Official sources of HUL.

Hypothesis (I): There exists no significant difference between HUL's stock prices before pronouncement of 'acquisition/amalgamation/merger' decisions and after pronouncement;

Table III: Share Prices of Hindustan Unilever Ltd.

Date	Pre-Decision	Post-Decision
01-04-2020	2211.15	2179.25
08-04-2020	2325.00	2372.90
02-06-2020	2180.00	2154.45
02-07-2020	2186.00	2172.30
09-10-2020	2159.95	2134.55
06-11-2020	2080.00	2132.90
09-03-2021	2212.00	2227.95
22-03-2021	2181.00	2337.40
08-09-2021	2788.00	2798.70
02-12-2021	2334.30	2343.10

Source: Official data from the Stock Market

Table IV: Statistics of t-Test (Paired Sample)

	Mean	N	Standard Deviation	Standard Error Mean
Before	2265.74	10	198.163	62.66
After	2285.35	10	202.124	63.92

Source: Computed based on data given in Table III

Table V: Significance Levels and Limits of t-Test (Paired Sample)

Paired Differences					Value of 't'	d.f	Significance (2-tailed)
Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval of the Difference				
			Lower Limit	Upper Limit			
-19.610	56.429	17.844	-59.977	20.757	-1.10	9	0.300

Source: Computed based on data given in Table III

The t-test shows the p-value as 0.300, which is more than the significance limit of 0.05. Hence, Null Hypothesis holds good, as there exists no significant difference in HUL's share prices before pronouncement of Acquisition/Amalgamation/Merger' corporate decision and after pronouncement of the said decision.

Table VI: 'New ventures/ Initiatives/Developments' Corporate Decisions of HUL.

No	Date	Corporate Decision made by HUL
1	23 Mar. 2020	HUL plans to acquire V wash in order to expand its product line up
2	27 Aug. 2020	HUL plans to completely get rid of the fossil fuel used in its Cleaning Products by the year 2030
3	14 Sept. 2020	HUL announced that boost is expanding its operations in India
4	23 Nov. 2020	HUL's Mouthwash Product incorporates a Technology that has now proved to help in reducing the viral load of SARS Covid-19 virus by 99.9 per cent.
5	21 Jan. 2021	Unilever has pledged to help build a more inclusive society, aiming to reduce the barriers that prevent people from accessing opportunities and improving the lives of all

Source: Official sources of HUL.

Hypothesis (II): There exists no significant difference between HUL's stock prices before pronouncement of 'new ventures/initiatives/developments' decisions and after pronouncement.

Table VII: Share Prices of HUL.

Date	Pre-Decision	Post-Decision
23-03-2020	1846.00	2028.75
27-10-2020	2184.00	2152.15

14-09-2020	2125.00	2124.75
23-11-2020	2140.00	2157.20
21-01-2021	2364.10	2408.75

Source: Official data from the Stock Market

Table VIII: Statistics of t-Test (Paired Sample)

	Mean	N	Standard Deviation	Standard Error Mean
Before	2131.82	5	186.067	83.212
After	2174.32	5	140.881	63.004

Source: Computed based on data given in Table VII

Table IX: Significance Levels and Limits of t-Test (Paired Sample)

Paired Differences					Value of 't'	d.f	Significance (2-tailed)
Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval of the Difference				
			Lower Limit	Upper Limit			
-42.500	83.172	37.196	-145.772	60.772	-1.143	4	0.317

Source: Computed based on data given in Table VII

The t-test shows the p-value as 0.317. As this exceeds the significance limit of 0.05, Null Hypothesis holds good; no significant difference exists in HUL's share prices before and after the pronouncement of 'New Ventures/Initiatives/Developments' corporate decisions.

Table X: 'Financial' Corporate Decisions of Hindustan Unilever Ltd.

No.	Date	Corporate Decision made by HUL
1	17 Jan. 2019	HUL's Corporate Results (Quarter ended 31.12.2018)
2	3 May 2019	HUL's Corporate Results (Quarter ended and year ended 31.03.2019)
3	23 July 2019	HUL's Corporate Results (Quarter ended 30.06.2019)
4	14 Oct. 2019	HUL's Corporate Results (Quarter ended 30.09.2019)
5	31 Jan. 2010	HUL's Corporate Results (Quarter ended 31.12.2019)
6	30 April 2020	HUL's Corporate Results (Quarter ended and year ended 31.03.2020)
7	21 July 2020	HUL's Corporate Results (Quarter ended 30.06.2020)
8	20 Oct. 2020	HUL's Corporate Results (Quarter ended 30.09.2020)
9	27 Jan. 2021	HUL's Corporate Results (Quarter ended 31.12.2020)
10	29 April 2021	HUL's Corporate Results (Quarter ended and year ended 31.03.2021)
11	22 July 2021	HUL's Corporate Results (Quarter ended 30.06.2021)
12	19 Oct. 2021	HUL's Corporate Results (Quarter ended 30.09.2021)

Source: Official sources of HUL.

Hypothesis (III): There exists no significant difference between HUL's stock prices before pronouncement of 'financial' decisions and after pronouncement.

Table XI: Share Prices of HUL.

Date	Pre-Decision	Post-Decision
17/01/2019	1781.20	1743.70
03/05/2019	1754.00	1672.35
23/07/2019	1724.70	1728.00
14/10/2019	1995.00	2063.35
31/01/2020	2074.00	2178.50
30/04/2020	2310.00	2195.70
21/07/2020	2340.00	2248.20
20/10/2020	2155.00	2163.40
27/01/2021	2421.00	2303.60
29/04/2021	2372.00	2353.85

22/07/2021	2445.00	2359.25
19/10/2021	2648.00	2479.40

Source: Official data from the Stock Market

Table XII: Statistics of t-Test (Paired Sample)

	Mean	N	Std. Deviation	Std. Error Mean
Before	2168.33	12	304.36	87.86
After	2124.11	12	269.84	77.90

Source: Computed based on data given in Table XI

Table XIII: Significance Levels and Limits of t-Test (Paired Sample)

Paired Differences					Value of 't'	d.f	Significance (2-tailed)
Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval of the Difference				
			Lower Limit	Upper Limit			
44.217	80.717	23.301	-7.069	95.502	1.898	11	.084

Source: Computed based on data given in Table XI

The t-test shows the p-value as 0.084 which exceeds the significance limit of 0.05. Hence the Null Hypothesis holds good, and no significant difference exists in HUL's share prices before pronouncement of HUL's corporate financial results (disclosures) and after such disclosures.

9. Major Findings of the Study and Discussion

The major findings are: (i) 'Acquisition/Amalgamation/Merger' (AAM) corporate decisions of HUL do not influence the share price movements, (ii) 'New Ventures/ Initiatives/Developments' (NVID) corporate decisions of HUL do not influence the share price movements, and (iii) 'Financial' corporate decisions of HUL do not influence the share prices. The findings of this study suggests that stock market investors are not significantly influenced by corporate decisions of a very reputed company viz. HUL. Impulsive decisions by the investors in stock market based on sensitive information (like, major corporate decisions) is not supported by stock price data relating to HUL. That is, rather than the technicalities associated with corporate decisions and their implications, stock market investors go by the fundamentals of the respective stocks. This in turn suggests that companies like HUL should focus on its inherent strengths and use them for utilizing opportunities in the business world environment, and for defending against threats as well as to make good for its weaknesses. HUL must start from a SWOT analysis. HUL can attain better results and can further improve its inherent (fundamental) strengths and competitiveness.

Here, besides the empirical evidence on stock market responses to major corporate decisions of HUL, it is relevant to look into other considerations that drive the sustainability and competitiveness of giant corporate entities like HUL. The first and foremost among these is ESG compliance. From HUL's published reports it is noted that HUL has fully subscribed to various ESG principles. HUL is bound to abide by these principles fully. ESG being a global imperative its compliance by a corporate giant like HUL will add up to its reputation and brand equity. ICT adoption is another major area that can ensure the sustained performance, cost competitiveness, and high quality customer service. In this aspect also HUL is ahead as it seeks to extensively adopt ICT for hyper-personalisation of its servises as well as speeding up its digital capabilities. Given vast empirical evidence supporting the great potential of ICT for enhanced service quality in diverse fields like banking (Neeraja & Manoj, 2014), CRM (Vasantha, Manoj & Joju, 2015), marketing (Manoj, 2016) and even in women empowerment, financial inclusion,

and rural development (Pickens, 2009) (Manoj, 2012) etc. it follows that HUL's policy on ESG and ICT are in the right direction, from a broader perspective. This will ensure long term sustainability of this corporate giant. From the specific area of corporate decisions and stock market performance, there is no empirical evidence in the case of HUL, as already pointed out.

10. Suggestions and Concluding Remarks

In view of the foregoing, it may be suggested that (i) HUL should focus on building up its inherent strengths further, because its customers are not carried away by impulsive information based on its major corporate decisions; (ii) HUL should continue with its policies on ESG and ICT, as both these would fetch the company long term results, sustainability in earnings and competitiveness. To sum up, it may be concluded that HUL's corporate policy as well as its major decisions have so far been quite matured, well thought-out and also in the right direction. The company could exhibit high level of resilience even in times of global pandemic like Covid-19, and there has been steady growth in its financials over the years. Its investors customers are not carried away by impulsive information, like, rapid responses to its major corporate decisions. All these suggest the strong fundamentals of HUL and also investors' confidence and faith in it.

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