



# Influence Of Advertising Intensity On Firm Valuation Hindustan Unilever Ltd

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**Abstract** – This research report examines the influence of advertising intensity on firm valuation in the case of Hindustan Unilever Limited (HUL), a leading Indian fast-moving consumer goods (FMCG) company. Operating in a high-rivalry sector, HUL treats advertising as an economic investment to shape consumer preference, premium pricing, and long-term brand equity. Using a secondary-data approach covering the period FY2016 to FY2023, the study compiles financial and operating data from annual reports and market-capitalization history. The report calculates advertising intensity—advertising and promotion expenditure relative to sales—alongside profitability ratios and market-based valuation indicators. The analysis reveals that while HUL’s absolute advertising spend increased substantially over the decade, advertising intensity did not rise uniformly; it often declined during years of sharp revenue expansion. Empirical findings suggest the relationship between advertising intensity and valuation is not strongly linear in a same-year sense. Correlation between current intensity and market-capitalization-to-sales ratios is weak, though lagged relationships appear somewhat more positive. The study concludes that advertising intensity influences firm valuation indirectly and cumulatively by reinforcing brand strength and earnings quality. Valuation appears to depend on a broader integrated system including profitability, scale, and investor expectations rather than isolated expenditure ratios. For a mature market leader, optimal advertising productivity within a coherent strategic model is more vital than simply maximizing the intensity ratio.

**Keywords-** Advertising Intensity, Firm Valuation, Brand Equity, FMCG, Hindustan Unilever Limited.

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## I. INTRODUCTION

In contemporary corporate strategy, the relationship between marketing expenditure and shareholder value is a critical intersection of marketing and finance. While traditional accounting treats advertising as a period expense, strategic scholarship views it as an investment generating future economic benefits. This is particularly vital for FMCG companies like HUL, where competitive strength depends on brand salience, household penetration, and consumer trust.

Advertising intensity refers to the magnitude of advertising and promotion expenditure relative to sales. It is commonly measured as advertising and promotion spending divided by revenue, expressed as a percentage.

This ratio provides a more meaningful basis for comparison than absolute spending alone because it normalises expenditure by company size. A firm may spend large sums on advertising simply because it is large; the intensity measure reveals how aggressively management chooses to support demand relative to the scale of operations. In marketing-finance research, advertising intensity has been linked to sales growth, market share, brand equity, stock returns, firm risk, and market valuation. Yet the relationship is rarely simple. Higher advertising intensity may signal confidence and growth orientation, but it can also indicate a defensive response to competitive pressure or demand weakness. Similarly, lower advertising intensity may reflect operational efficiency, better distribution productivity, or

an expanding sales base that reduces the ratio even when absolute brand support remains high.

The Indian FMCG sector offers an excellent setting for examining this issue. India is one of the world’s most dynamic consumer markets, characterised by population scale, rising aspirations, an urban-rural demand divide, digital media acceleration, value-conscious consumption, and intense rivalry across categories such as soaps, detergents, skin care, tea, coffee, packaged foods, oral care, and household cleaning. In this setting, firms must continuously reinforce brand memory and relevance. Advertising, trade promotion, product innovation, packaging, and distribution all operate together, but advertising remains one of the most visible and strategically debated outlays. Investors frequently monitor such expenditure because it may provide insight into whether management is protecting franchise value, pursuing market share, or defending profitability against competition.

Within this sector, Hindustan Unilever Limited occupies a uniquely important position. HUL is among India’s largest and most widely held FMCG companies, with a portfolio that spans daily-use products across home care, beauty and personal care, and foods and refreshments. The company’s brands are deeply embedded in Indian households and its scale, distribution reach, and parentage through the global Unilever system make it a rich subject for value-creation analysis. HUL’s long operating history and extensive public disclosures also enable meaningful longitudinal study. Over the last decade, the firm has experienced multiple strategic transitions: demand fluctuations between



urban and rural markets, commodity inflation, digital transformation in consumer communication, portfolio restructuring, merger-driven scale expansion, and evolving competitive pressure from multinational, domestic, and direct-to-consumer players. These forces may all influence both advertising choices and valuation outcomes.

The term firm valuation in this report is used broadly to refer to how the capital market values HUL relative to its scale and resources. While valuation can be examined through sophisticated discounted cash flow, enterprise value, or residual income techniques, this study focuses on practical market-based indicators such as market capitalisation, market-capitalisation-to-sales ratio, and related trend measures. These indicators are useful because they capture what investors are willing to pay for the company at a given point in time in relation to current business output. If advertising intensity contributes to stronger future expectations, lower perceived risk, higher growth prospects, or superior brand durability, this should in principle be reflected in valuation metrics. However, because capital markets incorporate many other signals—margins, return ratios, category growth, management guidance, macroeconomic trends, and risk sentiment—the measured relationship between annual advertising intensity and valuation may be noisy.

Finally, the topic is significant for Indian capital markets. As India’s consumer economy expands, firms with strong brands are likely to command sustained investor attention. Understanding how markets interpret advertising intensity in such firms can improve investment analysis. It can also help domestic companies communicate more effectively with investors by framing marketing expenditure not simply as a cost, but as part of the engine that sustains category leadership and long-term returns.

Hindustan Unilever Limited (HUL), a subsidiary of Unilever, is one of India’s largest FMCG companies with a presence spanning over nine decades.

- **Portfolio:** HUL manages over 50 brands across Home Care, Beauty & Personal Care, and Foods & Refreshment.
- **Strategic Assets:** Its greatest assets are its brand architecture and "route-to-market" capability, reaching millions of retail outlets across urban and rural India.
- **Value Proposition:** The market values HUL at a premium due to its cash-flow resilience and the durability of its brand franchises. Advertising is not a "discretionary luxury" but a core component of this leadership model.

## II. REVIEW OF LITERATURE

The literature on advertising and firm valuation spans several research streams, including signaling theory and brand equity.

- **The Marketing-Finance Interface:** Srinivasan and Hanssens (2009) argue that marketing actions influence firm value by increasing cash flows, accelerating growth, and lowering volatility.
- **Direct and Indirect Effects:** Joshi and Hanssens (2010) highlight that advertising’s impact often occurs through intermediate variables like sales and customer-based outcomes, rather than just direct valuation spikes.
- **Risk Reduction:** Tripathi, Misra, and Siddiqui (2020) found that higher advertising intensity in Indian consumer goods firms is associated with lower market risk, indicating a stabilizing role.
- **Contextual Moderation:** Edeling et al. (2021) emphasize that these effects are context-dependent, mediated by industry maturity and firm strategy.

Table 1: Selected Literature Summary

Study	Key Insight
Graham & Frankenberger (2000)	Changes in ad spend contribute to earnings and market value.
Joshi & Hanssens (2010)	Advertising has both direct and indirect effects on firm value.
Du & Osmonbekov (2020)	Analyst coverage moderates the impact of ad spend on value.
Tripathi et al. (2020)	High ad intensity reduces market risk in Indian FMCG.

## IV. RESEARCH METHODOLOGY

The study utilizes a descriptive and analytical research design based entirely on secondary data from FY2016 to FY2025.

- **Variables:** The primary independent variable is Advertising Intensity ((A&P / Sales) x 100). The dependent variable is Firm Valuation, proxied by Market Capitalization and the Market Cap-to-Sales ratio.



- **Tools:** Analysis includes trend analysis, ratio analysis, correlation, and simple regression models.
- **Hypothesis:** The study considers that advertising intensity has a positive, likely lagged, association with firm valuation.

## V. DATA ANALYSIS AND INTERPRETATION

The following table and charts consolidate the empirical findings for HUL over the decade.

Table 2: HUL Empirical Dataset (FY2016-FY2025)

Year	Sales (₹ Cr)	A&P (₹ Cr)	Ad Intensity %	Net Profit (₹ Cr)	Market Cap (₹ Cr)	Mcap/Sales
2016	32,186	3,600	11.18%	4,151	178,800	5.56
2017	33,162	3,470	10.46%	4,490	295,100	8.90
2018	35,545	4,105	11.55%	5,227	393,500	11.07
2019	39,310	4,552	11.58%	6,060	416,300	10.59
2020	39,783	4,686	11.78%	6,756	562,300	14.13
2021	47,028	4,737	10.07%	7,999	554,400	11.79
2022	52,446	4,718	9.00%	8,892	601,800	11.47
2023	60,580	4,859	8.02%	10,143	626,500	10.34
2024	61,896	6,489	10.48%	10,282	552,600	8.93
2025	63,121	6,199	9.82%	10,671	536,600	8.50

### Trends and Insights

- **Spending vs. Intensity:** While absolute A&P spend rose from ₹3,600 Cr to over ₹6,000 Cr, advertising intensity fluctuated and actually declined during years of sharp revenue expansion (e.g., falling to 8.02% in 2023). This indicates scale leverage; HUL did not need to raise the spend ratio to sustain growth.
- **Valuation Multiples:** The Market Cap-to-Sales ratio peaked in FY2020 (14.13) but moderated in later years despite higher absolute spending.
- **Correlation:** The correlation between ad intensity and the market-cap-to-sales ratio is nearly zero. This suggests that investors value HUL's broader brand-and-profit system rather than the annual spending ratio alone.

## VI. FINDINGS

- **Strategic Commitment:** HUL maintains high absolute A&P spending regardless of margin pressure, treating it as a non-negotiable strategic input.
- **Scale Leverage:** Sales expanded faster than advertising spend, allowing HUL to derive greater productivity from its accumulated brand equity.

- **Non-Linear Valuation:** There is no simple, contemporaneous linear relationship between ad intensity and valuation.
- **Lagged Influence:** Lagged models suggest advertising intensity may influence future valuation more than current-year metrics, supporting the "brand-building" theory.
- **Defensive Role:** In difficult years (like FY2024), increased ad intensity likely served a defensive purpose to protect market share rather than to drive immediate stock re-rating.

## VII. CONCLUSION

Advertising intensity does influence firm valuation at HUL, but the effect is indirect, cumulative, and context-sensitive. While absolute spend and market value both trended upward over the decade, the annual intensity ratio is an incomplete predictor of value. Investors reward the results that advertising helps produce—durable brands, pricing power, and resilient earnings—rather than the expenditure itself. For a mature leader like HUL, advertising acts as a pillar that quietly sustains competitive advantages which the market ultimately capitalizes.

## VIII. RECOMMENDATIONS

1. Productivity over Intensity: Focus on the quality of targeting and media mix rather than indiscriminately increasing the ad-to-sales ratio.
2. Protect Core Support: Avoid deep cuts to brand support during downturns, as this spending preserves demand and long-term brand salience.
3. Improved Communication: Management should clarify for investors whether spend increases are for innovation launches, market-share defense, or premiumization to prevent misinterpretation as "inefficiency".
4. Internal Segmentation: Distinguish between long-term brand-building and tactical sales promotions in internal scorecards to better align with valuation goals.

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