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A STUDY ON EQUITY ANALYSIS OF FAST MOVING CONSUMER GOODS

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ABSTRACT

The fast-moving consumer goods (fmcg) sector encompasses a wide range of consumer products characterized by rapid turnover, low production costs, and frequent consumer purchase cycles. This sector includes goods such as food, beverages, personal care products, and household items, all of which play a crucial role in everyday consumer life. An equity analysis of the fmcg sector involves assessing the financial health, operational efficiency, market trends, and competitive landscape of companies within this space.

Key aspects of this analysis include evaluating revenue growth, profit margins, return on equity (roe), and earnings per share (eps). These metrics offer insights into the company's profitability, operational efficiency, and shareholder returns. Additionally, analyzing cash flow and dividend policies provides a deeper understanding of the stability and attractiveness of fmcg stocks for investors seeking reliable returns.

External factors also play a significant role in shaping the fmcg sector. These include consumer behavior trends, economic conditions, regulatory changes, and technological advancements. Companies with strong brand equity, robust distribution networks, and innovative products tend to perform well in this dynamic environment.

Equity analysis of the fmcg sector is crucial for investors looking to understand the investment potential and risks associated with these companies. By examining financial statements, industry trends, and competitive positioning, investors can make informed decisions about investing in the fmcg sector, balancing growth prospects with risk management.

INTRODUCTION

Introduction to equity analysis of fast-moving consumer goods (fmcg)

The fast-moving consumer goods (fmcg) sector is a vital segment of the global economy, encompassing products that are consumed daily and frequently replaced. This sector includes food and beverages, personal care products, household cleaning supplies, and other essential goods that cater to everyday consumer needs. Given its high-volume sales and fast-paced market dynamics, the fmcg sector is often considered a reliable investment domain with steady demand.

Equity analysis of the fmcg sector focuses on assessing the financial health and investment potential of companies operating within this industry. It involves a comprehensive examination of key financial metrics, market trends, and competitive landscapes to determine a company's value and prospects for growth. The primary goal is to understand how these companies generate revenue, maintain profitability, and create shareholder value over time.

A thorough equity analysis in this sector requires evaluating various financial indicators, such as revenue growth, profit margins, earnings per share (eps), and return on equity (roe). Additionally, factors like cash flow stability, dividend policies, and capital structure offer insights into a company's financial strength and long-term sustainability.

Beyond financial metrics, equity analysis also considers broader market trends and industry-specific factors that could influence a company's performance. These include consumer behavior changes, economic conditions, regulatory developments, and technological advancements. Companies in the fmcg sector that demonstrate strong brand equity, innovative products, and efficient distribution networks often show resilience in the face of market fluctuations and intense competition.

In summary, equity analysis of the fmcg sector is a multifaceted approach to understanding the financial and operational aspects of these companies. It helps investors identify investment opportunities, assess risks, and make informed decisions in a sector that forms the backbone of consumer goods markets.

RESEARCH DESIGN:

Research design is a framework of techniques and methods chosen by researcher to carry out his research in a logical manner so that he can handle the predefined research problem. In this research, i have used descriptive research design as in this research i gathered, analyzed and presented the collected data to show whether the company is fundamentally strong or not.

Sample design:

I have selected few major fmcg companies to do the fundamental analysis and i have selected them on the basis of their market capitalization.

Sample size:

I have chosen top 5 fmcg companies on the basis of their market capitalization.

Data collection:

The data collected for the analysis is through the secondary sources like company's annual report, various websites etc.

LIMITATION OF STUDY

The data collected is through the secondary sources hence the reliability of the data is not 100% and i have taken only past 5year financial information.

REVIEW OF LITERATURE

Before stepping into the empirical study, a quick look through the existing literature on the financial performance of fmcg companies seems desirable. The following paragraphs provide very brief explanation of some significant studies so far carried out in india on the issue.
Mallik and sur (1999) undertook a study on working capital management of hindustan lever ltd – a well-known fmcg company during the period from 1987 to 1996. With the help of relevant statistical techniques and tests the study showed a very high degree of positive relationship between liquidity and profitability.
Sur, d., chakraborty, k. And das, s. (2007) made a case study of colgate- palmolive (india) ltd. – a leading fmcg company in the indian healthcare industry for the period from 1980 to 2003-04 to analyze the efficiency of its asset management. For analyzing the data, the technique of ratio analysis, simple statistical tools like arithmetic mean and statistical techniques like analysis of kendall's coefficient of concordance, multiple regression analysis and multiple correlation analysis were used. The t- test, f test and chi-square tests were applied at appropriate places. The study revealed that the company failed to adapt itself to the challenging and competitive environment by lowering efficiency of its asset management during the post- liberalization era.

Reddy, g.s. (2010) studied the impact of dividends announcement on stock price of the selected fmcg companies. With the use of convenience sampling, the researcher selected four companies such as itc ltd, godrej consumer products ltd., procter & gamble and hul. The data required for the study was obtained from the bse and nse websites and company websites for a period of five years starting from 2002-03and ending with 2006-07. The study was exploratory in nature. The collected data was analyzed with the help of statistical tools – trend analysis, moving average and correlation. The study concluded that as a whole the fmcg industry showed the increasing trend in the stock prices after the declaration of dividend according to trend analysis.

Boardman and vinning (1989), commander, fan and schaffer (1996) and la porta and lopez-de silanes (1997). In the historical approach, exante and ex post privatization performance of the same enterprise is compared. Malik and sur (1998) examined the working capital management of hul, a well known fmcg company, during the period 1987-1996 using relevant statistical techniques and tests. The results reveal a very high degree of positive relationship between liquidity and profitability.

Nash and randenborgh (1998) , earle and estrin(1999) and dewenter and malatesta(1999) beginning with beaver's(1998) contended that standard financial ratios can predict the financial performance of firms, many subsequent studies have attempted to demonstrate the predictive value of various techniques for estimating actual business performance.

Lermack, (2003) the benifits of financial ratios analysis. Financial ratios are an important and well established technique of financial analysis.

Lasher, (2005) dept ratios show how effectively the organization uses other people's money and whether it is using a lot of borrowed money.
Sur et al.(2007) studied the case of colgate- palmolive(india) ltd. A leading fmcg company in the indian health care industry for the period 1980-2004 using simple statically tools like arithmetic mean, techniques like ratio analysis, analysis of kendall's coefficient of concordance, multiple regression analysis and multiple and statically tests like t- test, f-test and chi-square test at appropriate places to analyze the efficiency of the company's asset management.

Ross et.(2007) expressed most researchers divide the financial ratios into four group. Profitability, solvency, liquidity and activity ratios.

Brigham and ehrhardt(2010) stated the financial ratios are designed to help evaluate financial statements. Financial ratios are used as a planning and control tool. Financial ratio analysis is used to evaluate the performance of an organization.

Bagchi and khamrui(2012) evaluated the financial performance of the two leading fmcg companies, britannia industries and dabur india, over a period of 10 years(2000-2010) using various accounting ratios and statically tools.

R. Amsaveni and s. Gomathi(2013) found that through economic analysis the gnp, interest rate, exchange rate, fer, agriculture production, govt. Receipts and expenses has a growth rate during the study period. The company analysis done with the help of ratio analysis indicates that colgate and hul companies are financially in satisfactory position during the study period.

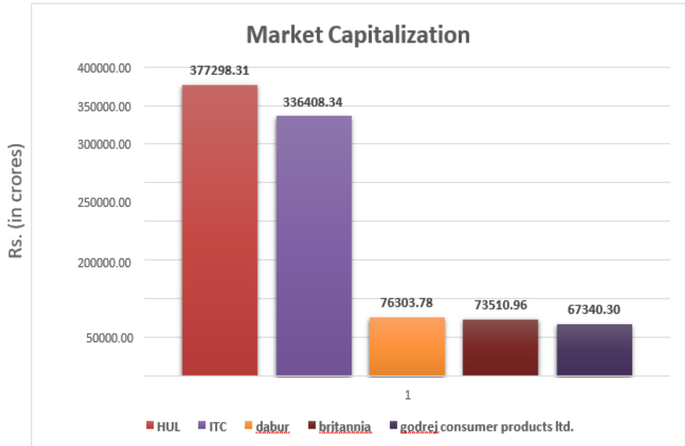
Ms. J. Hema and v. Ariram(2022) found that indian fmcg industry has a high growth rate and its sales and net profit also shows increasing trend and the company analysis revealed that its financial performance through the financial ratio, which indicates that hul is financially in satisfactory position during the study period.

According to dr. Pramod h. Patil, assistant professor, school of management sciences, sub-centre latur, volume:5, issue:2, february 2022, fmcg sector is recession proof and have created huge employment opportunities in india, hence becoming one of the key pillars of indian economy. He says that competition coming from the unorganized sector can be overcome by increasing brand awareness and reducing cost through sharing resources such as distribution network and the future of fmcg sector is bright as favorable movements in demand and supply side of this sector.

DATA REPRESENTATION & ANALYSIS

Data representation and interpretation

The study will provide a precise presentation of data and guidelines that will help an investor to finalize his investment decision i have chosen top 5 companies as my sample. These 5 companies are the biggest in the fmcg sector based on their market capitalization. These 5 companies are hindustan unilever, itc, dabur, britannia and godrej consumer products ltd. I am going to analyze their financial statements using ratios and will comment on them whether the company is fundamentally strong or not.



P/e ratio

Price to earnings ratio known as p/e ratio is used for valuing a company that measures its current share price relative to its earning per share (eps). This ratio is generally computed to compare different companies of same industry or same company with its past records. A **company with a high p/e ratio** usually indicated positive future performance and investors are willing to pay more for this company's shares.

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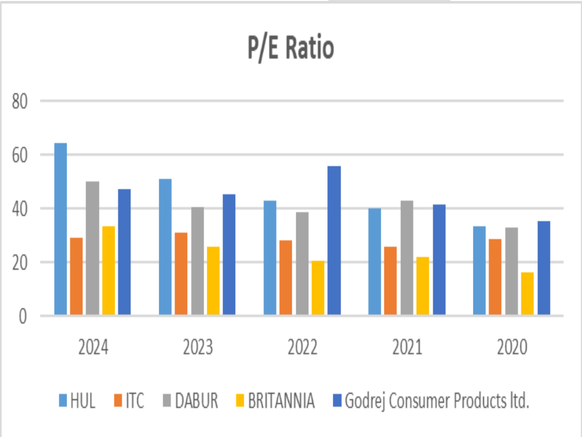
Formula to calculate P/E Ratio:

P/E Ratio= Market Value per Share/Earning per Share

Companies	2024	2023	2022	2021	2020
HUL	64.61	51.03	43.05	40.32	33.24
ITC	29.11	31.05	28.36	25.84	28.64
DABUR	50	40.73	38.54	43.04	33.08
BRITANNIA	33.48	25.74	20.77	21.83	16.08
Godrej Consumer Products ltd.	47.03	45.43	55.76	41.61	35.27



Interpretation:

Hul: as we can see from the chart the p/e ratio of hul keeps on increasing over the years and it is the only company among my sample taken that has a positive growth of p/e ratio. This is a favorable situation for the investors. The p/e ratio of hul is nearly doubled over 5 years.

Itc: the p/e ratio for itc is rather fluctuating over the years. Like in the 2021 it declined by 3 points then for two consecutive years it rose than after this in 2024 it again declined and it is not good for a company who is trying to retain its shareholders.

Dividend payout ratio

Dividend payout ratio or dpr is the total amount of dividends the company is paying out to the shareholders relative to its net income. It is the percentage of total earnings paid to the shareholders in the form of dividend. This ratio indicates that how much the company is paying to the shareholders and how much it is retaining with itself.

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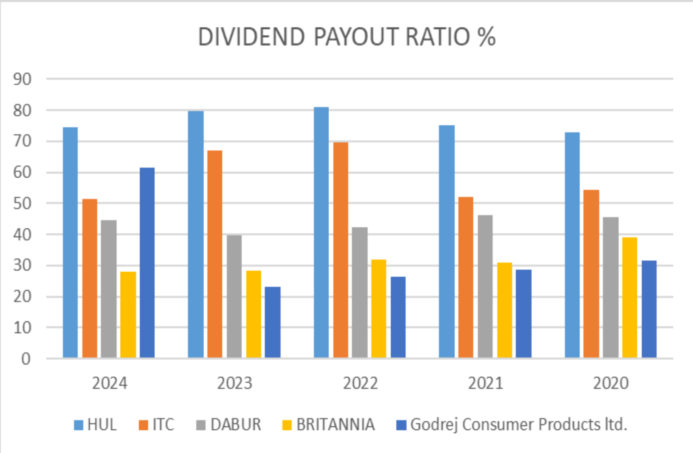
Formula to calculate Dividend payout ratio

Dividend payout Ratio = Dividend per Share / Earning per Share

DIVIDEND PAYOUT RATIO					
Companies	2024	2023	2022	2021	2020
HUL	74.39	79.53	81.07	75.2	72.69
ITC	51.41	67.05	69.48	52.14	54.31
DABUR	44.49	39.7	42.12	46.06	45.4
BRITANNIA	27.86	28.44	32.03	30.82	38.91
Godrej Consumer Products ltd.	61.31	23.09	26.47	28.61	31.632



Interpretation:

Hul: hul pays a good percentage of dividend to its shareholders i.e. 74.39% in 2024 and it is more or less constant over the years which is a very good sign for shareholders because to pay dividend you have to earn profits and cash. Paying dividends mean the company is earning good money.

Itc: itc is not much constant rather it is fluctuating when it comes to paying dividend. This doesn't surely means that company is not making profits or earning money but it can also be the case that the company is earning money but saving it for the future projects and because of it not giving out dividends. This will make some shareholders upset.

Dabur: dividend payout ratio of dabur in 2020 was 45.4% and in 2024 it is 44.49% and there has been little ups and downs in between. The company has almost a constant dividend payout ratio which is good for shareholders who are looking for a steady income.

FINDINGS, SUGGESTIONS AND CONCLUSION

FINDING

The present study deals with the evaluation of financial performance of the selected fmcg firms in india (itc & hul).the liquidity position of the firm has been analyzed with the help of the current ratio and quick ratio. The solvency position of the selected firms has been analyzed with the help of debt-equity ratio while for the profitability analysis, return on assets has been used. The study also revealed the impact of sales on liquidity, solvency and profitability of selected fmcg firms with the help of simple regression analyses. The main findings of the study and the conclusion drawn can be summarized as follows. 1. The mean value of profitability of selected fmcg firms during the study period was 25.36 indicating sound return for the shareholder of the company or satisfactory profitability position. 2. Liquidity ratios i.e. Quick ratio and current ratio has been a little lower than the standard norms but still firms had a satisfactory liquidity position and have been able to meet short term obligations. 3. Debt-equity ratio of the selected firms has revealed that the firms have made no use of or a little use of debt in their capital structure. The firms were not trading on equity else they would have further increased their profitability. 4. There has been a strong positive relation of sales with liquidity and profitability of firms with increase in the sales. 5. Sales of the selected fmcg firms have significantly impacted liquidity and profitability of the selected firms. However, sales had no significant impact on their solvency.

SUGGESTIONS

Based on findings of the study and conclusion drawn some critical points emerge which are presented in the form of suggestions to improve the financial position of the selected firms.

1. Profitability of the selected firms has been satisfactory during study period. This trend of profitability should be maintained in the future.
2. The current ratio and quick ratio may further be improved by increasing current assets & quick assets or by decreasing current liabilities and the firm should try to maintain the liquidity ratio near the standard level.
3. Selected firms have not used much debt in their capital structure during study period. It is suggested that firms should add more debt in their capital structure or should trade on equity to increase the profit of the companies which in turn shall result in the availability of more profit for the shareholders or owners of the companies.

It is suggested that the selected firms should try to increase their sales with the help of various promotional activities by widening their distribution channels and providing proper training to their salesman.

CONCLUSION

Fundamental analysis can be important to investor when they are looking to invest in company. If they find the financials of the company strong enough then they will invest in that company.

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As per the analysis fmcg sector is booming with all the factors favoring it. It has a revenue of $68.4billion in 2018 and projected revenue for 2020 is $103 billion. The retail market in india is estimated to reach us$ 1.1 trillion by 2020 from us$ 840 billion in 2017, with modern trade expected to grow at 20 per cent - 25 per cent per annum. Government initiatives are helping the fmcg sector in every way possible like government has allowed 100 per cent foreign direct investment (fdi) in food processing and single-brand retail and 51 per cent in multi-brand retail which would bolster employment and supply chain and also implementation of gst proved to be a boon for fmcg industry

I have done the analysis of 5 top companies of fmcg sector and came up with the result that hul is the best stock according to some ratios that are: p/e ratio, return on equity ratio and dividend payout ratio but when i calculated ev/ebitda of the companies given, godrej consumer group was the clear winner and according to net profit margin ratio, an investor should invest into itc. Well clearly 3 major ratios are telling us that hul is best but rest two ratios i.e. Ev/ebitda and net profit margin ratio tells us some different story and hence cannot be ignored as these are two important ratios. So according to me hul is a good stock to pick as it pays good returns on equity and highest dividend payout ratio in the industry and also this company comes under the good brand name i.e. Unilever. If one is looking for couple

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