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A FUNDAMENTAL ANLYSIS ON TOP 3 COMPANIES OF FMCG SECTOR IN INDIA

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Abstract

Investment decision is a very important decision of everyone's life. Some people often get confused as in which sector to invest or which company will give best returns in future. To solve this problem to an extent we have done the Fundamental Analysis of FMCG Sector. To carry out this research, We have chosen Top Three FMCG Companies based on their market capitalization and analyzed them over their past 5 years data, and interpreted whether the company is fundamentally strong or which company or a set of companies is best to invest your money. For the analyzing purpose We have chosen Ratio analysis because it simplifies complex accounting statements and financial data into simple and understandable ratios which makes it easy for investor to analyze the company and also helps management to identify problem related areas so that they can work on them. We have compared these 3 Companies over their 5 years past data and commented that which company is good and which is suitable for investments. This report also covers the overview of FMCG sector and its journey and its future prospects.

Key Words – FMCG Sector, Fundamental Analysis, Ratio Analysis, Market Capitalization, Complex Accounting.

Introduction

The fourth-largest industry in India is fast-moving consumer goods (FMCG), with 50% of revenues in this industry coming from domestic and personal care products. The primary growth factors for the industry have been greater awareness, better access, and shifting lifestyles. The largest contributor to the entire revenue produced by the FMCG sector in India (which accounts for a revenue share of about 55%) Is the urban segment. Yet, compared to urban India, the FMCG market has risen more quickly in rural India during the past few years. The semi-urban and rural populations are expanding quickly, and 50% of all rural expenditure is on FMCG products.

Consumer products that sell quickly and for a low price are known as fast-moving goods. Consumer-packaged goods are another name for these products.

Due to increased consumer demand (such as for soft drinks and confections) or the fact that they are perishable, FMCGs have a limited shelf life (e.g., meat, dairy products, and baked goods). These products are often purchased, quickly consumed, affordably priced, and widely dispersed. When they are on the store's shelf, they also experience a high rate of turnover.

The fourth-largest sector in India is fast-moving consumer goods (FMCG), and it has been growing steadily over time because of increased in disposable income, a growing youth population, and growing consumer brand awareness. In India, household and personal care products account for 50% of FMCG sales, making this sector a significant contribution to the country's GDP.

Due to its middle-class population, which is larger than the entire population of the United States, India is a country that no FMCG player can afford to ignore. As more people begin to climb the economic ladder and the public has access to the advantages of economic advancement, the FMCG market in India is expanding. More importantly, India's population is getting more consumerist due to rising aspirations, with a median age of barely 27. Government programs to broaden financial inclusion and create social safety nets have further contributed to this.

The primary growth factors for the industry have been greater awareness, better access, and shifting lifestyles. The largest contributor to the entire revenue produced by the FMCG sector in India (which accounts for a revenue share of about 55%) is the urban segment. Yet, compared to urban India, the FMCG market has risen more quickly in rural India during the past few years. The semi-urban and rural populations are expanding quickly, and 50% of all rural expenditure is on FMCG products.

Literature Review:

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 co. analysis done with the help of ratio analysis indicates that Colgate and HUL Companies are financially in satisfactory position during the study period.

Ranjit Kumar Paswan, (2013) found that ITC, Emami, Dabur, and Colgate has been able to repay its debt during the study period. DTR of Nestle and Colgate show the efficiency of debt management Debt to Total Asset Ratio

of Emami and Dabur shows that more asset of the co. is financed through debt.

Kumar et.al (2014) stated that the rural consumers are known to earn low income, have low level of literacy, asymmetric information, and low level of brand awareness, inadequate communication andtransportation facilities. The Rural markets and sub-urban markets are currentlyextending in Kerala with ever greaterpenetration index, as the development appears to be hindered in the urban markets. In this investigation, Rural & suburban areas of Ernakulam with a samplesize of 100 respondents. The investigation intends to recognize the level of influenceof various factors on the purchase ofFMCG products-soaps & detergentsamongst the rural/ semi urban consumers. The examination underscored that rural consumers gave more significance to the'quality' of the FMCG-personal care brands they purchased as opposed to the standardizing impacts or social appeal vide celebrity endorsements in the mass media.

Srivastava, et.al (2013) examined that FMCG sector is a vital contributor to India's Gross Domestic Product. It has been adding to the demand of lower and middle-income groups in India. Over 73 percent of FMCG products are sold to middle class households in which over 52 per cent is in rural India. Rural marketing has become the hottest marketing field for most of the FMCG companies. The rural India market is tremendous and the opportunities are boundless. After saturation and cutthroat competition in urban areas, presently numerous FMCG companies are moving towards the rural market and are making new plans for targeting the ruralconsumer. The Indian FMCG companies are presently busy in formulating new competitive strategies for this undiscoveredpotential market. Therefore, a comparative study is made on opportunity, growth, and challenges of FMCG companies in rural market. One of the most alluring reasons for companies to tap rural consumers is thatan individual's income is increasing in rural areas and purchasing power of lower and middle income groups is also increasing and they are anxious to spend money to improve their lifestyle. This research paper gives detailed analysis aboutthe contribution of FMCG industry in development of Indian rural market and intends to discuss about customer attitude towards better purchasing decision for FMCG products in rural market with developing awareness and brandconsciousness among individuals acrossvarious socio-economic classes in rural market.

According to Dr. G. Sudarsana Reddy, Associate Professor, Department of Studies Research in Commerce, Volume 4, Issue 1, January 2013, while taking the investment decision, the investor should take relevant information. The analysis like fundamental and technical are very important to make better decision of buying and selling shares. Investing in share market is risky and long term investment are always more preferable than short term investment so the investor should prefer long term investment like equity stocks

Ms. J. Hema and V. Ariram. (2016) found that Indian Pharmaceutical 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 Lupin and Torrent Pharma are financially in satisfactory position during the study period.

Amitesh Kapoor (2012), observed that fast moving consumer goods (BSE- FMCG), Consumer durable (BSE-CD), Health care (BSE – HC), Automobile (BSE- AUTO) Sectors have outperformed the benchmark as well as other sectors and have provided positive alpha.

Jain and Sharma (2012) in a research article on FMCG's touch every aspects of human life; it is as integral part of a consumer dominated market and a corner stone of the Indian economy. FMCG's give many opportunities to the marketer to give choices and comparative advantage to the consumers as well as their own venture.

Pradhan, (2009), states that a supermarket is large, low cost, low, margin high volume self service operations designed to meet the need for food and no food items controlling more than 30 % of the grocery markets in the world.

Sharma, (2006) has referred that evolution of diversity in the retail scene has provided Consumers with more choice. In old days, most consumers had access only to general stores for most products. Consumer-Service Brand Relationships Gradually in urban environment specialty and discount stores has evolved. Studying consumer-brand relationships in the context of consumer goods, Fournier (1998) proposed seven dimensions of brand relationships, identified through a text-based analysis of data. Namely: voluntary versus involuntary, positive versus negative, intense versus superficial, long-term versus short-term, public versus private, formal versus informal, and symmetric versus asymmetric. These seven dimensions describe the many relationship forms that exist between the consumers and their brands in the domainof consumer goods.

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.

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

Problem Statement:

Fundamental analysis on Top 3 Companies based on market capitalization with reference to FMCG (Fast moving Consumer Goods) sector.

OBJECTIVE:

1. To know about the FMCG industry and its contribution towards Indian economy.
2. To guide investor that in which company's stock to invest in.
3. To find out some ratios and analyze them for the purpose of investment.
4. To calculate the risk of the stocks.

Research Methodology:

Research Design: Descriptive research design, which is based on secondary data.

Sample Design: In this research, we have chosen the Non – Probability sampling.

Sample Size: We have chosen top 3 FMCG companies based on their market capitalization.

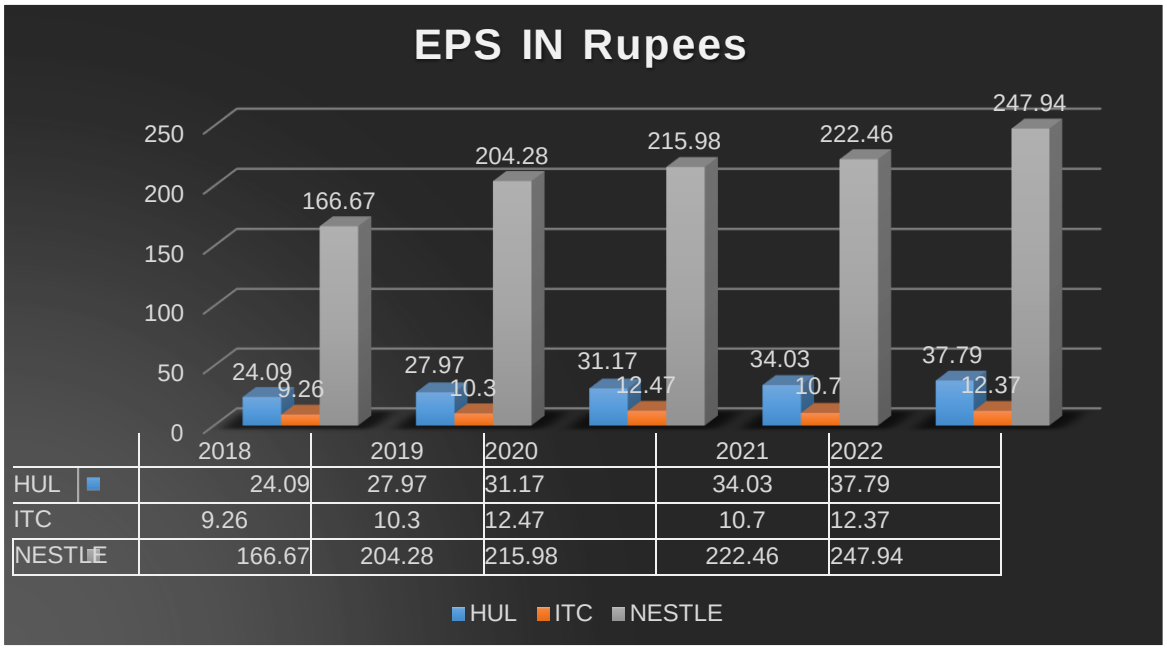
Data collection: The data collected for the analysis is through the secondary sources like company's annual report, various websites etc.

Research Tool: Analysis is done through ratio analysis.

Limitation of Study: The data collected is through the secondary sources hence the reliability of the data is not 100%, under this research we used ratio analysis, which changes time – to – time based on the stock price of the company.

Data Analysis:

1. Earnings per share=Total earning ÷ number of share



Interpretation

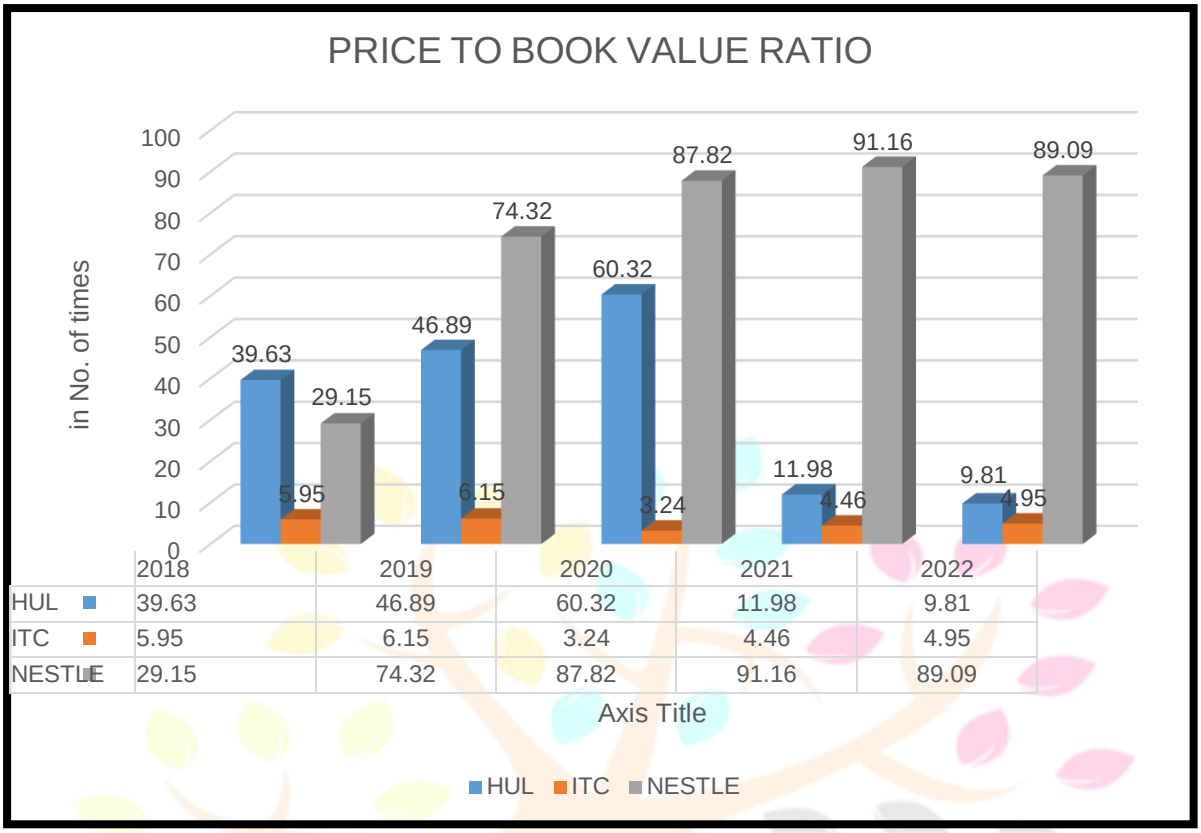
• EPS can be used to evaluate a company's financial performance and determine its value. With the help EPS we can know how much money earn by a company from its single share. In above cases the ESP of HUL will be continuous increase at the average rate of 11.4% in last five year and it grow from 24.09 to 37.79 in last five years.

• In above chart `the EPS of ITC company will increase in last 3 year at the average rate of 11.56 % from 9.26 to 12.47 but it will be decline in 2021 at a rate of 14.19% it is not good sign for company because it show company face problem in generating profit from its business. EPS of ITC will grow at the average rate of 6.72% in last five year and it grow from 9.26 to 12.37 rupees.

• The EPS of NESTLE will continuously grow in last five year at the average rate of 9.75 %, which is good sign for the company, and its stakeholders and it grow from 166.67 to 247.94 rupees in last five year.

• The EPS of HUL, ITC, and NESTLE will grow at the average rate of 11.4%, 6.72%, 9.75% respectively from this we can say that the HUL company is better than the othercompany.

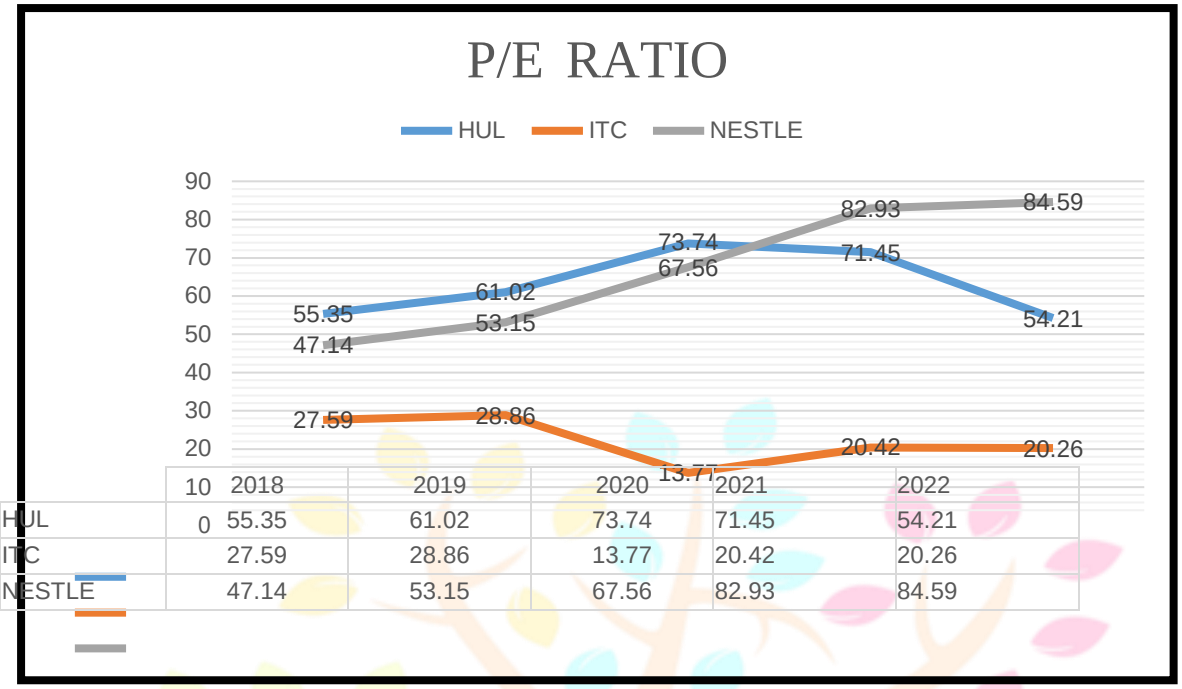
2. Price to book ratio= CMP of share ÷ book value of share



Interpretation

- The book value ratio is use to determine whether a company's stock is undervalue or over value by the market. A book value ratio greater than 1 indicate that the market is valuing the company higher than its book value, which may suggest that the company is overvalued.
- The price to book value ratio of HUL in last 3 year 2018 to 2020 get higher valuation by the market which is good sign to the shareholders because they receive higher valuation on its share but in 2021 and 2022 the price to book value of HUL will fall from 62.32 to 9.81times.
- The price to book value ratio of ITC is very low as compare to HUL and NESTLE it show the stock price of ITC is undervalue as compare to HUL and NESTLE, it is giveopportunity to buy stock at a lover valuation.
- Price to book value ratio of NESTLE is higher as compare to HUL and ITC it show the stock price of NESTLE is overvalue so it is not suitable to stock at a current market price.

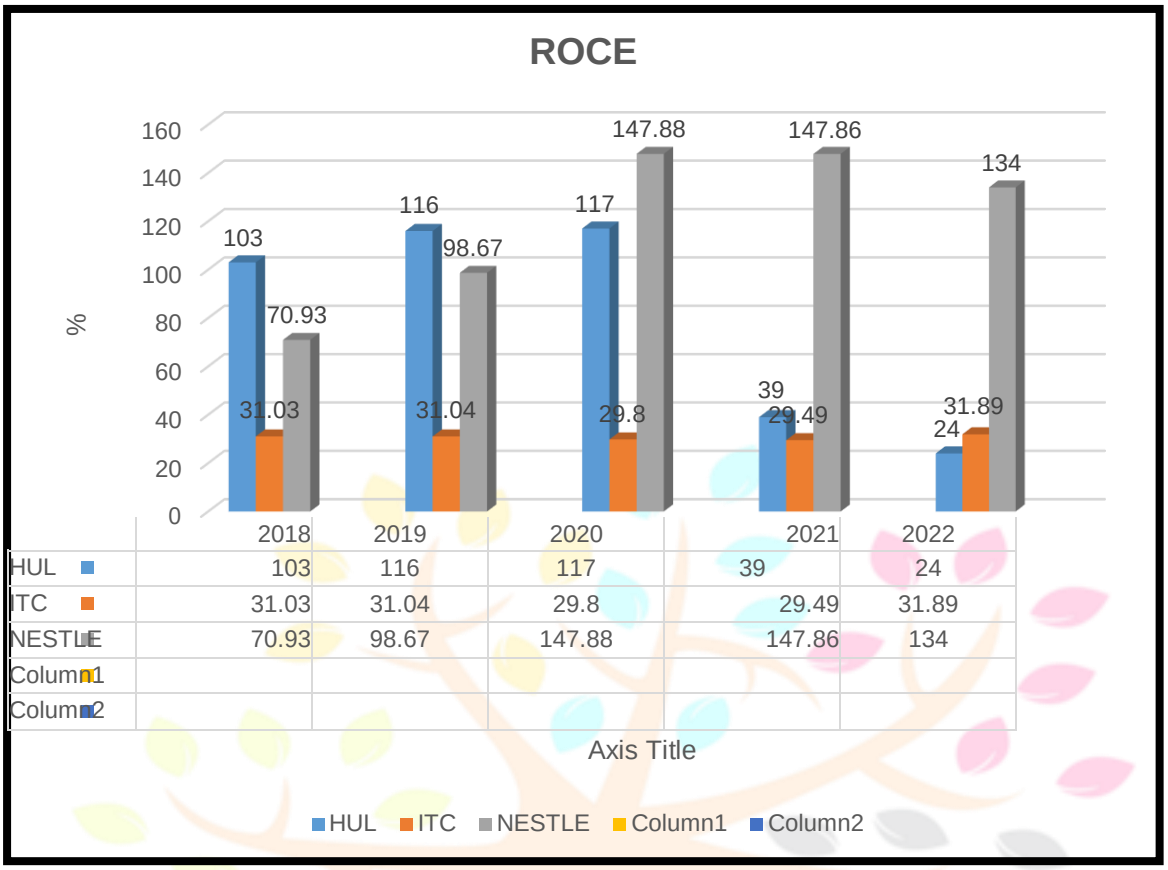
3. P/E Ratio = current market price ÷ EPSSECTOR P/E= 45.52



Interpretation

- A high P/E ratio indicate that investor have high expectation for future growth in earnings, while a low P/E ratio may suggest that the market is skeptical about a company's prospects.
- A P/E ratio of HUL will continuously from 2018 to 2020 which is indicate that investor have high expectations for future growth in earnings but in financial year 2021 and 2022 the P/E ratio will be decline at the average rate of 26.5 % which is show that the investor expectation for future growth will be decrease.
- A P/E ratio of ITC will be lowest as compare to its peers. The stock price of ITC traded since last five at the average P/E ratio of 22.18 which is so lowest as compare to HUL and NESTLE. In addition, there is a low growth prospect and stock is available at a low P/E ratio.
- A P/E ratio of NESTLE is continuously increase year by year since last five year and it is available at all time high that is 84.59 which is indicate high growth expectation in future earnings of NESTLE INDAI which is good for the existing shareholders because they receive high valuation on its share.

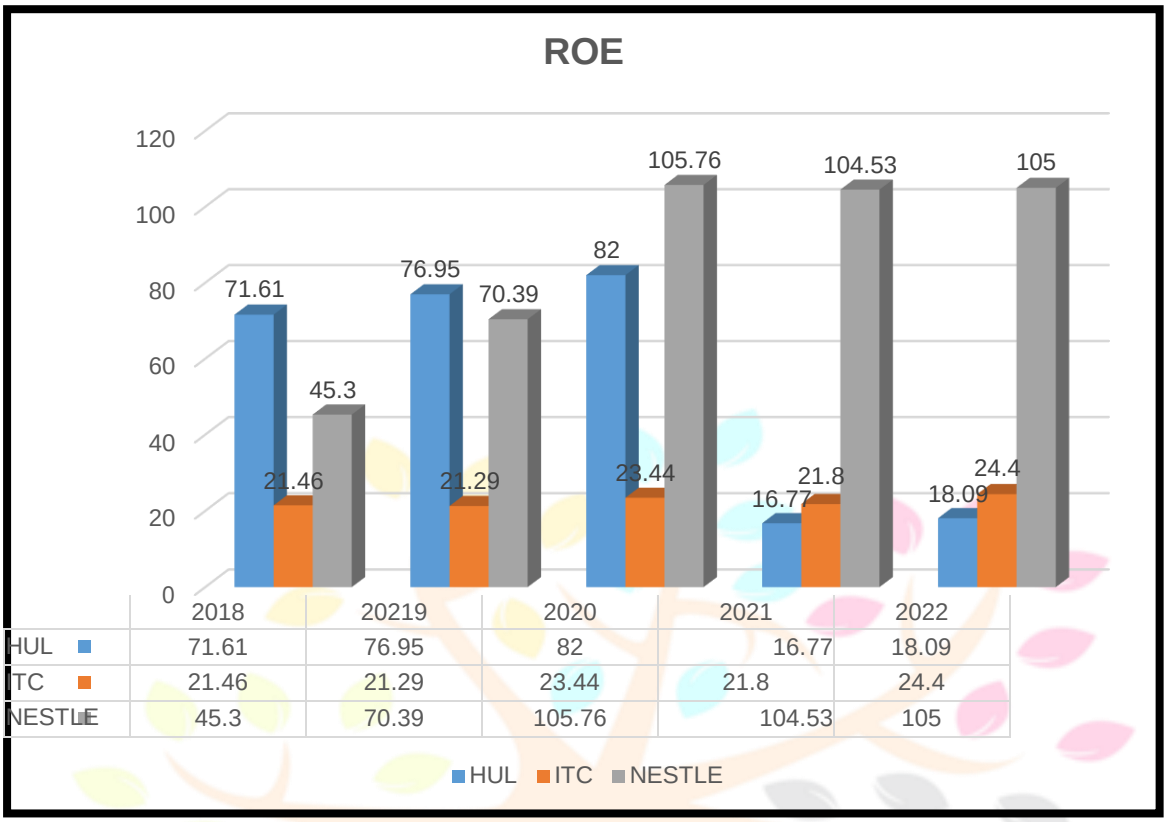
4. Return on capital employed = operating profit ÷ capital employed × 100



Interpretation

- ROCE is a financial ratio that measures a company's efficiency in generating profit from the capital it has invested in its business operations. A higher ROCE indicates that a company is able to generate more profit from the capital it has employed, while lower ROCE suggests that the company is not using its capital as effectively as it could.
- A ROCE of HUL is slightly increase from 2018 to 2020, which is good sign for its performance but in last two year ROCE, will be decrease, which is not good sign for its performance.
- ROCE of ITC is low as compare to HUL and NESTLE INDIA, which is show that company is not using its assets in effectively as compare to its peers and there is no any improvement in ROCE since last five year.
- ROCE of NESTLE INDIA is continuously increase from 2018 to 2021, which is Show Company's ability to use its capital efficiently to generate profit. Higher ROCE is good because it generate more profit by using its capital.

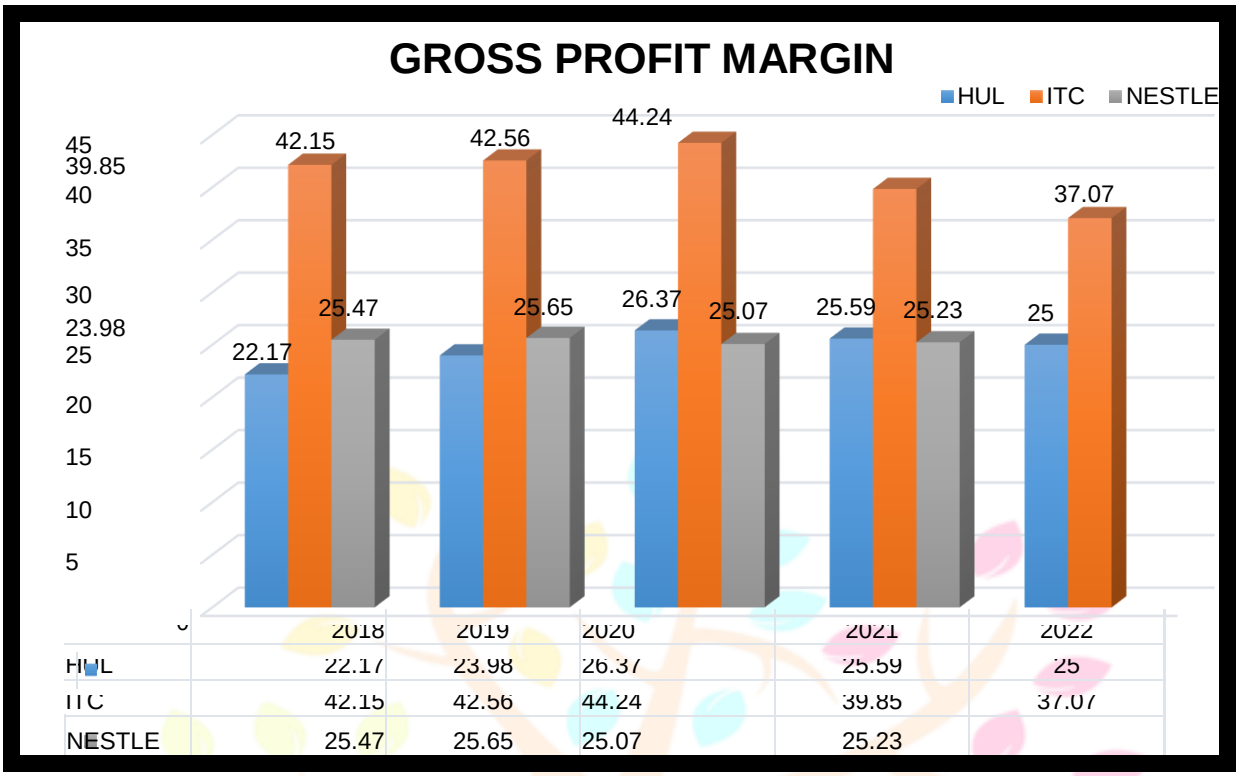
5. Return on equity= PAT÷ shareholders fund



Interpretation

- In general, a high ROE indicate that a company is generating more profit from the money invested by its shareholders. This is often, seen as a positive sign for investors, as it suggests that the company is making efficient use of its resources to generate profits.
- A ROE of HUL continuously increase since 2018 to 2020 from 71.61 to 82, which is a good sign for the company because it generate more profit by making efficient use of it resources to generate profits. But in financial year 2021 and 2022 ROE will be suddenly fall by average rate of 38.9% , which is not good sign for its investors because it show inefficient in making profit by using its resources.
- A ROE of ITC is a low as compare to its peers, its return on ROE at the average rate return22.48%
- A ROE of NESTLE INDIA is continuously increase since 2018, which is a good sign for its shareholder it give more return by using its shareholders equity effectively and give higher return as compare to its peers.

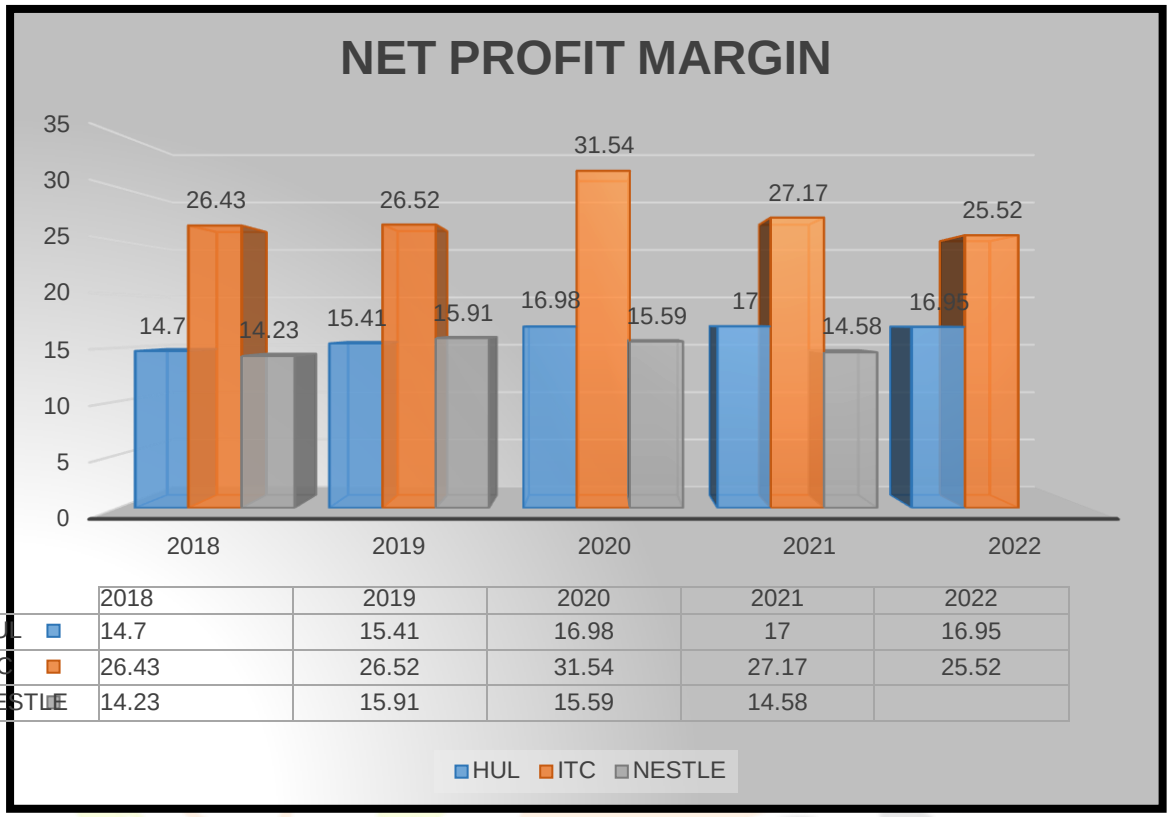
6. Gross profit margin= Gross profit÷ Net Sales *100



Interpretation

- Gross profit margin is a financial metric that represent the percentage of revenue that remains after deducting the cost of goods sold (COGS). A higher gross profit margin indicate that the company is generating more profit ad is able to cover its operating expenses more effectively.
- Gross profit margin of HUL in last five year is average percentage of 24.6%, since 2019, gross profit margin of HUL is above 25%, which is show stabilities in its revenue and generate more profit from the business.
- Gross profit margin of ITC is good as compare to its peers and it generate average 41.17% of gross profit margin since last five year, which is show stronger financial position as compare to its peers.
- Gross profit margin of NESTLE INDIA is above 25% in last five and it is never goes below 25 %, which is good sign for its revenue that the company retain as gross profit.

7. Net Profit margin= PAT ÷ Net sales

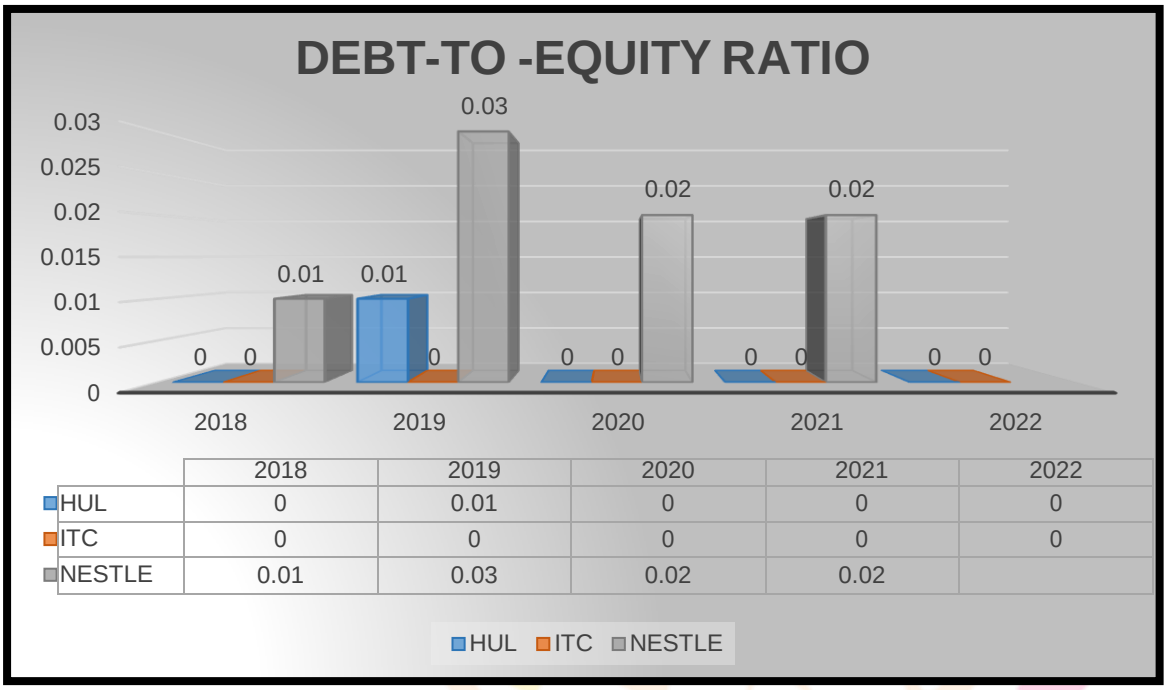


	2018	2019	2020	2021	2022
HUL	14.7	15.41	16.98	17	16.95
ITC	26.43	26.52	31.54	27.17	25.52
NESTLE	14.23	15.91	15.59	14.58	

Interpretation

- Net profit margin is a financial ratio that measures a company's profitability by expressing its profit as a percentage of its revenue. A higher net profit margin indicate that a company is more profitable, as it is earning more money from each dollar of revenue.
- Net profit margin of HUL is continuously increase from last five year that is good sign for the company it show the consistency of firm's growth.
- Net profit margin of ITC will be increase in financial year 2018 to 20220 but after 2020, it will be decrease, which is not good sign for the company.
- Net profit margin of NESTLE INDIA is maintain average percentage of 15, which is lowestfrom its peers.

8. Debt to equity ratio = Total liabilities ÷ Total Shareholder's equity

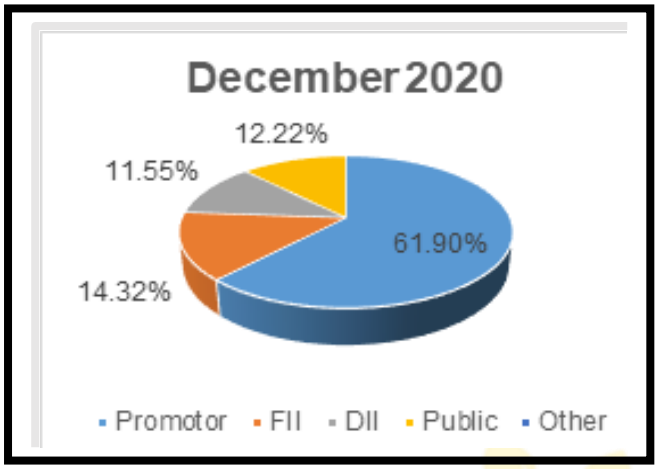


	2018	2019	2020	2021	2022
HUL	0	0.01	0	0	0
ITC	0	0	0	0	0
NESTLE	0.01	0.03	0.02	0.02	

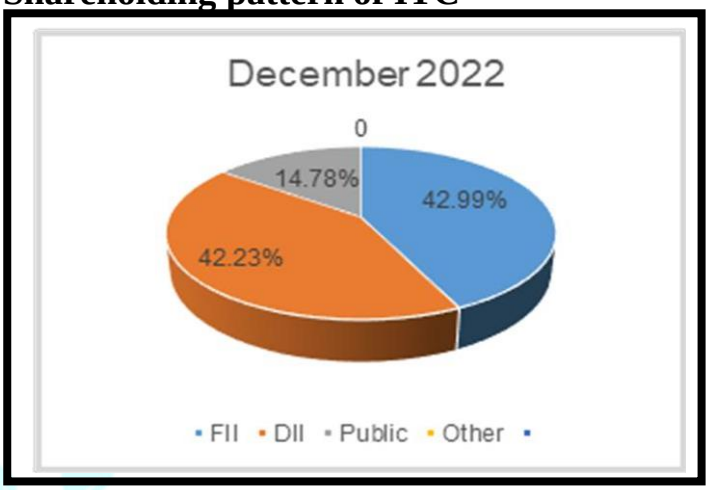
Interpretation

- The debt to equity ratio provide insights into a company's financial health and risk profile a high debt to equity ratio suggests that a company has a significant amount of debt relative to its equity, which may indicate that it is highly leverage and may be at a higher risk of defaulting on its debt.

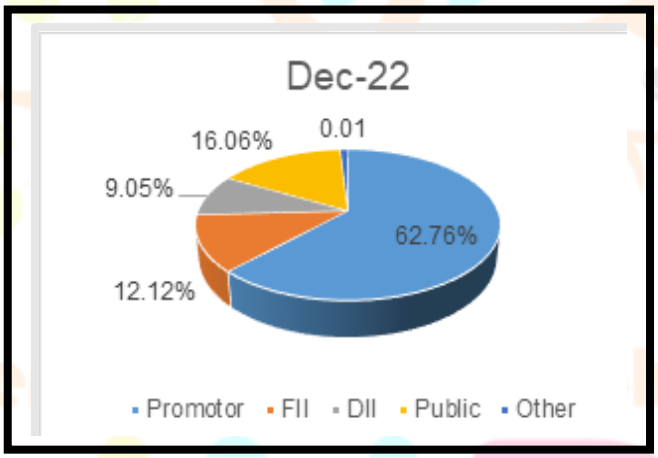
Shareholding pattern of HUL



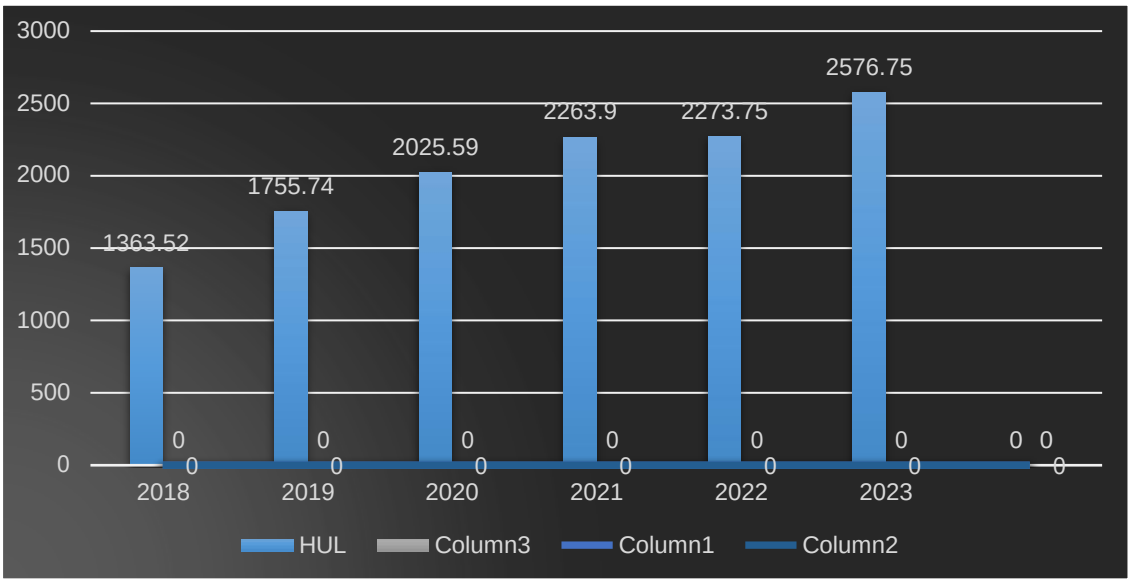
Shareholding pattern of ITC



Shareholding pattern of NESTLE

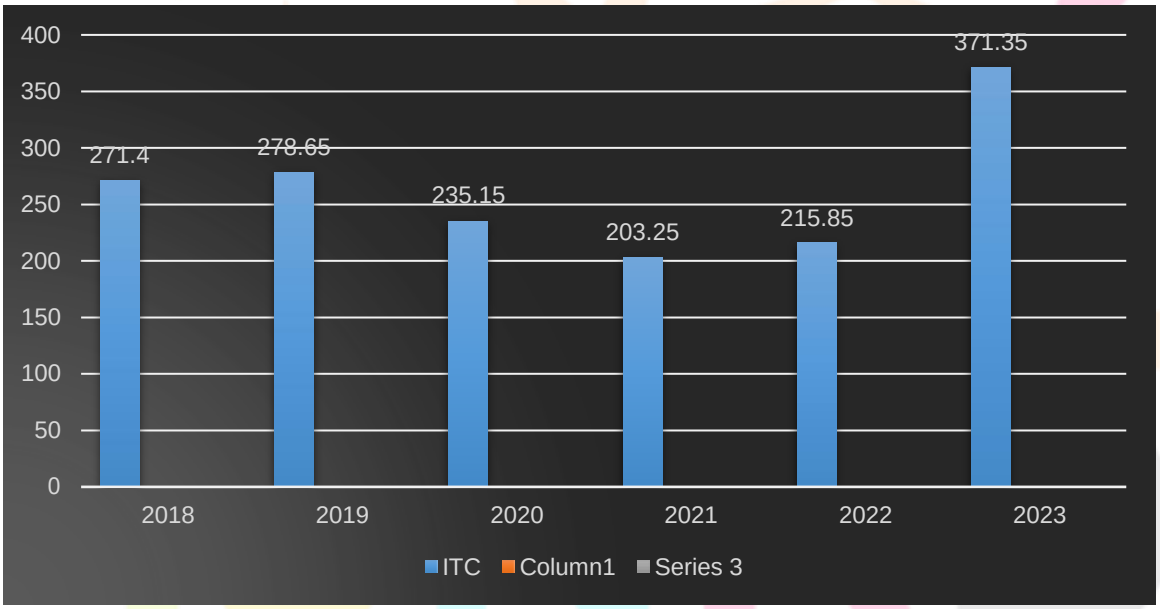


- **Stock price of HUL in last 5 year's**



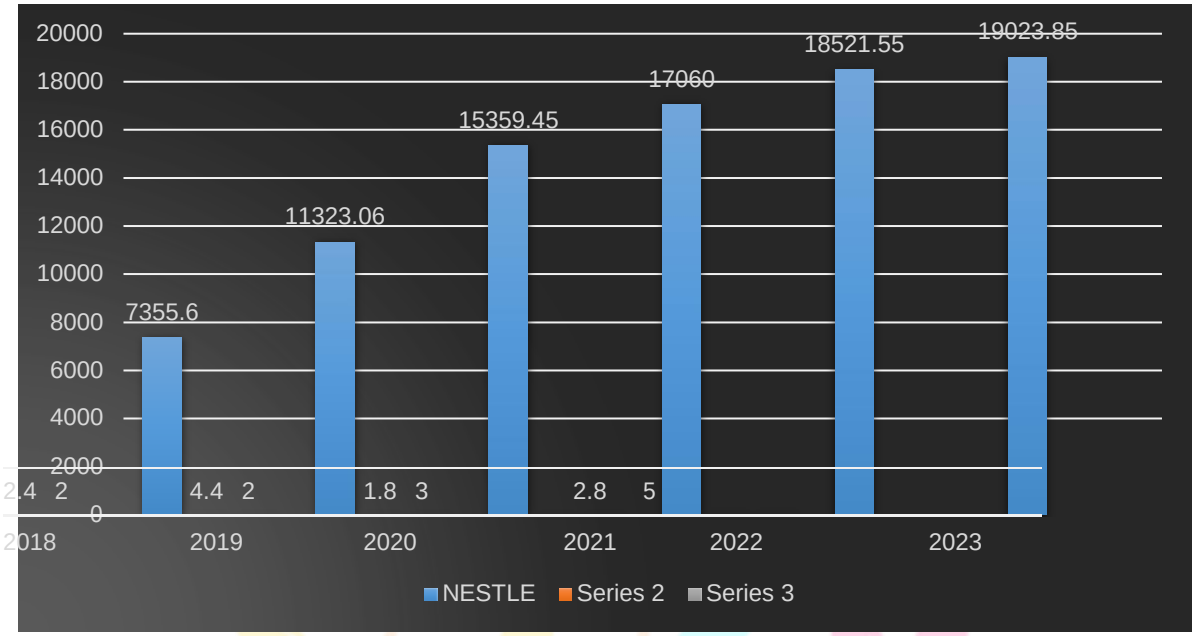
5 year CAGR return=14%

- **Stock price of ITC in last 5 year's**



5 year CAGR return= 7%

➢ **Stock price of Nestle India in last 5 last**



5 year CAGR stock return=22%

Conclusion based on the above interpretation ratios of the Top 3 ThreeCompanies

➢ ITC share is available at 23.8P/E ratios along with price to book ratio at 4.95, which is cheaper as compare to other company, so that it is advisable to invest money in ITC Company.

➢ Nestle India is almost debt free company and maintain good sales growth with return on equity for the last 4 year, but it is available at 87.85 P/E ratio as well as price to book ratio at 91.16, which is much more expensive as compare to another company. Therefore, that it is not advisable to invest money in Nestle India at present valuation.

➢ The P/E ratio of Nestle India > HUL along with it available at higher price to book value ratio as compare to HUL. Therefore, that it is advisable to invest money in HUL rather than Nestle India.

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