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A Study on Equity Research of Selected FMCG Companies Listed on NSE

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ABSTRACT

A Fast Moving Consumer Goods (FMCG) sector is an escalating sector among all other growing sectors in India. It is the fourth largest sector in India. Changing lifestyles, growing awareness and easier access are the major drivers for the growth of the FMCG sector. The government's growing focus on agriculture, health care, infrastructure and employment in the union budget is expected to directly influence the FMCG sector. FMCG sector consists of a huge number of companies servicing the society by proving various kinds of goods and services which fulfill the growing needs of the society. The FMCG sector in the last few years has shown more growth in rural areas as compared to urban areas. It is projected that the FMCG sector will continue to grow by 13-14 percent in the next 5-10 years and is likely to become a $220-240 billion industry by 2025. Among the various companies the most rapidly growing companies like Marico Ltd, Godrej Industries Ltd, Dabur India Ltd, Emami Ltd, and Nestle India Ltd listed on the National Stock Exchange (NSE) have been studied for getting an idea about their performance. For the purpose of analyzing the companies, various parameters have been used to compare the growth performance of the companies. The ratios like Price/ Earnings ratio, Total/Debt to equity ratio, Return on Equity ratio and Dividend yield ratio are calculated to compare the performance of the companies which also gives the further idea about the financial position of the selected companies. The focus of this paper is on giving the idea to investors about how the companies and their stocks are to be chosen which will benefit them in the long term and will grow their investments.

KEYWORDS: *FMCG, NSE, Price/ Earnings ratio, Total Debt to equity ratio, Return on Equity ratio, Dividend yield ratio*

1. INTRODUCTION

Fast Moving Consumer Goods (FMCG) sector is one of the fastest growing sectors among all the sectors in the Indian economy. At present, the FMCG is in the fourth position. As the consumer's tastes, lifestyle, knowledge, accessibility to goods and services is increasing there is a noticeable change in their buying behavior. As an effect to it, the companies in the FMCG sectors are making profits and are growing their investments. Fast Moving Goods and Services have actually reduced the gap between the rural and urban areas. Rural areas population is one the major contributors to the consumption of the goods and services provided by the FMCG companies due to their changing income patterns and their buying behavior.

One of the majorly growing food services consumers are the youth population of India which is the most huge part of the urban population, changing lifestyles and their consumption habits leads to an increase in the demand for FMCG products.

Fast moving consumer goods are having low-profit margin but if their cumulative profit is seen then it is the most profitable sector in the coming years. It is predicted that the rural FMCG sector will grow to the US $220 till 2025. It includes goods like packed food items, toiletries, candies, cleaning products, soft drinks etc.

This sector is stiffly influenced by Multinational Companies existence and a strong distribution channel. The trend for this sector is also changing as these products are also available online and in nearby departmental stores so accessibility to goods is far easier as those are available under one roof. In this sector, there is severe competition among the organized and unorganized sectors relating to the low cost. The sector will see growth in coming near future because various factors like inflation, changing preferences etc. are influencing the demand, supply, and prices of such products.

Every company in the FMCG sector is specific and master in their area of serving. In the equity analysis of the five FMCG companies listed on the NSE has been selected to study those companies are Godrej Industries Ltd, Emami Ltd, Nestle India Ltd, Dabur India Ltd, Marico Ltd.

National Stock Exchange (NSE)

National Stock Exchange which is located in Mumbai (Maharashtra) is one of the leading stock exchanges in India and it is on 11th position in the world. It was incorporated in November 1992 as a tax- compensating company, started its operations from 1994. Firstly it had introduced the Cash Market Segment and then Wholesale Debt Market.

2. STATEMENT OF PROBLEM

The FMCG sector has witnessed drastic changes since the last 10 years, mostly because of the changing consumption pattern, lifestyle of living, easy acceptance and accessibility of products etc. The focus of this study is on the relationship between the Nifty Index and the share prices of the selected companies. There are various studies relating to the same basis but they differ at the different points of period and nature of the study. This study majorly gives emphasis on the financial position of the selected companies and risk involved with the shares of those selected companies.

3. SCOPE OF THE STUDY

The study is mainly concerned with the fundamental and technical analysis of the Godrej Industries Ltd, Emami Ltd, Nestle India Ltd, Dabur India Ltd, and Marico Ltd where companies positions and their share price relation is been analyzed. The study covers a period of five years. It briefs the study is undertaken to analyze the risk involved and for the best investment option selection.

4. OBJECTIVES OF THE STUDY

- To study the share price fluctuations of Selected FMCG companies in NSE (National Stock Exchange).
- To analyze the risk involved in the share prices of selected FMCG companies.
- To suggest a suitable company from selected FMCG companies in NSE to add in the portfolio of investors.

5. MATERIAL AND METHODS:

5.1 Research Methodology.

The current study of selected FMCG's is an analytical and systematical one. The purpose is to predict the future performance of companies and accordingly inform prospective investors. For this purpose, fundamental analysis has been done to see analyze companies' future performance based on current trends and future predictions. Fundamental Analysis is done to see how the companies' assets are valued and have an opportunity to grow.

For the purpose of Valuation, we have also analyzed companies that may not be regarded to be very big now but may grow up to great heights in the future.

5.1.1 Sample Size

There are many numbers of companies in the FMCG Sector in India. They are HUL (Hindustan Unilever Ltd), Colgate-Palmolive, ITC Limited, Nestle Ltd, Parle Agro Ltd, Britannia Industries Ltd, Marico Ltd, Procter and Gamble, Godrej Industries, Amul. For this study mainly five FMCG companies are selected they are as follows Godrej Industries Ltd, Emami Ltd, Nestle India Ltd, Dabur India Ltd, and Marico Ltd.

5.2 Data Sources

5.2.1 Secondary Data:

This Study is wholly dependent on the secondary data. The needed data for this study is been collected from various websites, online published articles.

5.2.2 Data Collected:

Data for the entire study is been collected from the official website of Value research online and Money control for the purpose of gaining share prices of selected companies.

5.3 Period of Study

The study covers the five year period of study starting from 2013 to 2018.

6. REVIEW OF LITERATURE:

6.1 C. Boobalan (2014), article entitled "Technical Analysis in Select Stocks of Indian Companies", the study has purposed that the technical analysis helps in forecasting the future prices of the shares based on past prices. Technical analysis does not provide an accurate share price but it just gives the idea that what can be the share price in the future. It also helps the investors to anticipate the possibility over what can happen to the share price in near future. By forecasting the share prices the investors can decide when to enter the market and at what time investor can exit the market so that ultimately he will not in the loss. The indicators in the stock market help the investor to identify the turning point of the shares, this helps in understanding the share price behavior on which the further decision is taken. (Boobalan, 2014)

6.2 Mrs. Vimala, Mrs. Saranya P. B., Ms. Saranya. R (2014), in their article, "A Study on Analysis of Equity Share Price Behavior of the Selected Industries", this paper analyses the fluctuations of share prices of the Selected Industry in India. The economy of India is based on the developer of the corporate sector. Capital Market also evaluates the trend and finance elaborated in the investment of the stock. Here the simple moving average model is used which gives the idea to investors in regard to the buying or selling of the shares. There is risk involved in the speculation activities which consists of the higher returns as well but here it is studied that investments are less risky and which also gives fair returns. An investor can make a profit in the share market only when his investments are wisely dome. The investor should always watch the happing and situations of the market price, company progress, returns, risk involved and changes in the economic factors. This study helps the investors in taking those decisions which will keep them in the profits. (Mrs. Vimala, 2014)

6.3 S. Dharchana, Dr. P. Kanchana Devi (2017), in their article, "a study on equity analysis of selected FMCG companies listed on NSE", The study says that it has focused on the relationship between all the five companies share prices and the Nifty index. For the purpose of risk analysis, they have used various tools like correlation, standard deviation, beta, and kurtosis. The study has covered all the leading five companies based on their share prices and equity analysis. The five companies selected are as follows GlaxoSmithKline.con, KRBL, Britannia, Kwality, and Nestle. The reason for selecting the equity analysis is that it gives the idea about the movement of the share market which helps the investors to take a decision regarding buying or selling of securities. (S.DHARCHANA, 2017)

7. DATA ANALYSIS

Table No 7.1 Price to Earnings Ratio

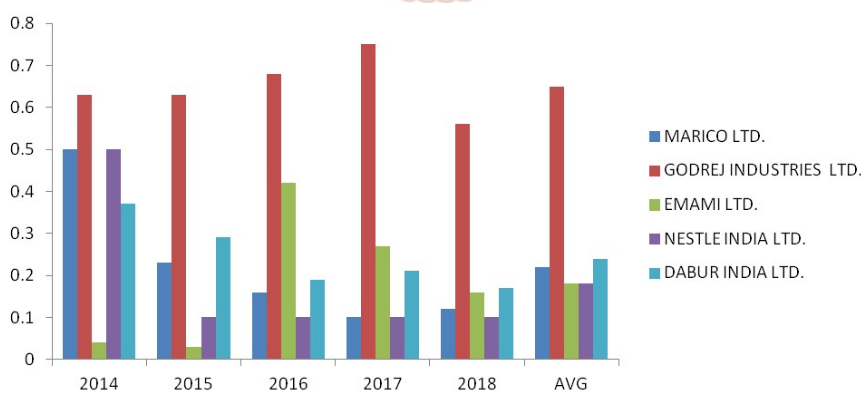
COMPANY NAME	2014	2015	2016	2017	2018	AVG
MARICO LTD.	27.85	43.58	43.97	47.57	51.68	42.93
GODREJ INDUSTRIES LTD.	38.16	39.06	56.75	43.62	45.55	44.62
EMAMI LTD.	25.54	46.99	58.12	70.33	78.92	55.98
NESTLE INDIA LTD.	45.72	51.92	99.07	58.06	61.74	63.30
DABUR INDIA LTD.	34.26	43.75	35.03	38.23	42.53	38.76

Graph No 7.1

The above table and graphs show the Price to Earnings ratio for all selected FMCG companies for the study. In our case, NESTLE INDIA LTD (63.30) and EMAMI LTD (55.98) is having the highest average P/E (Price/Earnings) ratio in the last five years which suggests higher earnings growth in the future. MARICO LTD (42.93) is having a moderate P/E ratio which suggests neither high nor low earnings growth in the future.

Table No 7.2 Total Debt to Equity Ratio

COMPANY NAME	2014	2015	2016	2017	2018	AVG
MARICO LTD.	0.50	0.23	0.16	0.10	0.12	0.22
GODREJ INDUSTRIES LTD.	0.63	0.63	0.68	0.75	0.56	0.65
EMAMI LTD.	0.04	0.03	0.42	0.27	0.16	0.18
NESTLE INDIA LTD.	0.50	0.10	0.10	0.10	0.10	0.18
DABUR INDIA LTD.	0.37	0.29	0.19	0.21	0.17	0.24



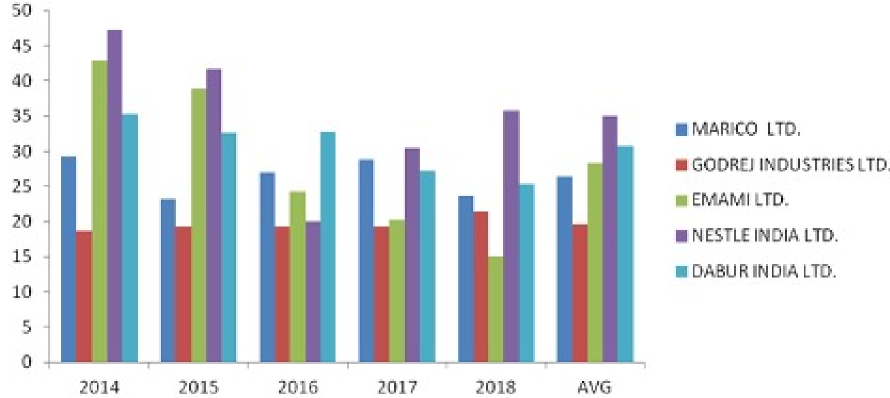
Graph No 7.2

The above table and graphs show the Total Debt to Equity Ratio for all selected FMCG companies for the study. In the case of MARICO LTD from the year 2014-2018, the ratio shows the declining trend. In 2017 the ratio is the lowest in the study period. The ratio indicates less risk. The debt to equity ratio for MARICO LTD. is 0.12 in 2018, compared to the baseline of 0.50 in 2014 indicates a solid performance in this area for the company.

Table No 7.3 Return on Equity Ratio

COMPANY NAME	2014	2015	2016	2017	2018	AVG

MARICO LTD.	29.25	23.26	27.01	28.81	23.61	26.38
GODREJ INDUSTRIES LTD.	18.67	19.34	19.34	19.38	21.54	19.65
EMAMI LTD.	42.88	38.90	24.25	20.22	15.07	28.26
NESTLE INDIA LTD.	47.16	41.75	19.98	30.47	35.81	35.03
DABUR INDIA LTD.	35.33	32.64	32.71	27.29	25.36	30.66

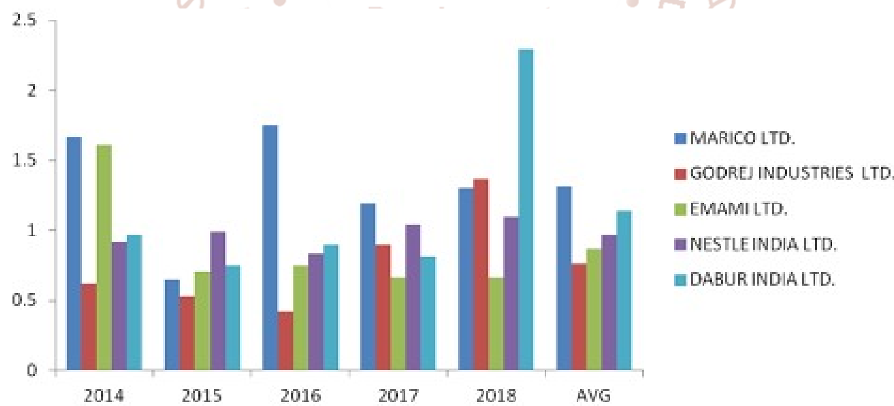


Graph No 7.3

The above table and graph show the Return on Equity ratio for the year 2014-2018. In the case of MARICO LTD average return on equity ratio of the last five is 26.38 %, but compare to NESTLE INDIA LTD (35.03 %), DABUR INDIA LTD (30.66%) and EMAMI LTD (28.26%) this return is low.

Table No. 7.4 Dividend Yield Ratio

COMPANY NAME	2014	2015	2016	2017	2018	AVG
MARICO LTD.	1.67	0.65	1.75	1.19	1.30	1.31
GODREJ INDUSTRIES LTD.	0.62	0.53	0.42	0.90	1.37	0.76
EMAMI LTD.	1.61	0.70	0.75	0.66	0.66	0.87
NESTLE INDIA LTD.	0.92	0.99	0.83	1.04	1.10	0.97
DABUR INDIA LTD.	0.97	0.75	0.90	0.81	2.29	1.14



Graph No. 7.4

The above table and graphs show the Dividend Yield Ratio for all selected FMCG companies for the study. In the case of MARICO LTD average return on dividend ratio of last five years is 1.31%, compared to other four FMCG's Dabur India Ltd (1.14%), NESTLE INDIA LTD (0.97 %), EMAMI LTD (0.87%) and GODREJ INDUSTRIES LTD (0.76%) this return is high. But MARICO LTD Dividend Yield Ratio shown continuous falling down for the last five years except in the year 2018 it is slightly improved.

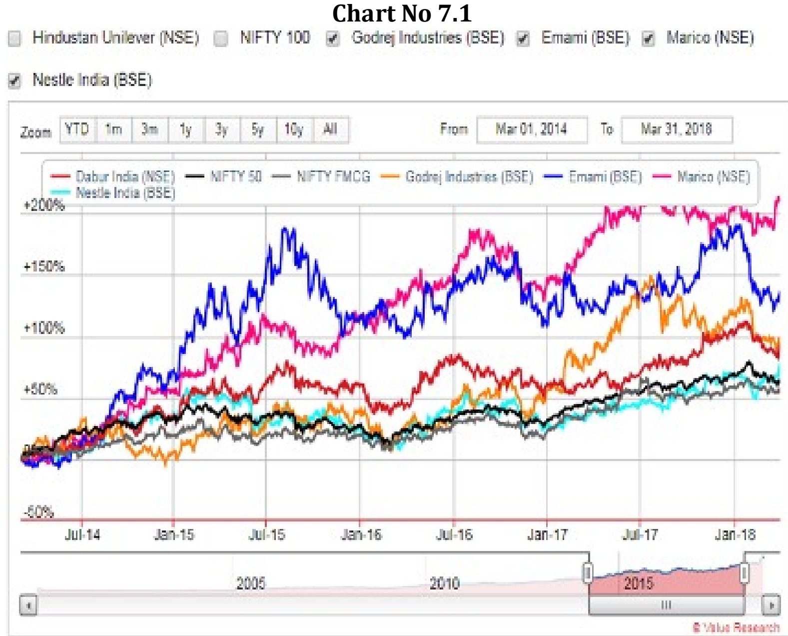
Table No. 7.5

Companies	Average	Variance	Standard Deviation
MARICO LTD	0.02251%	0.06237%	2.49737%
GODREJ INDUSTRIES LTD	0.14972%	0.10393%	3.22375%
EMAMI LTD	0.15102%	0.08978%	2.99629%
NESTLE INDIA LTD	-0.59082%	0.05473%	2.33938%
DABUR INDIA LTD	-0.49686%	0.04292%	2.07168%

Graph No. 7.5

The above table and graph show the average, variance and standard deviation for all five companies. As considering standard deviation and variance are low for the Dabur Ltd Company that means the shares of the Dabur Ltd Company is less volatile that means low risk. After Dabur Ltd, the next company is Godrej Industries Ltd whose standard deviation and variance are low followed by Nestle India Ltd, Marico Ltd, and Emami Ltd.

Chart No 7.1



Source: 1

By comparing all the companies it can be concluded that the MARICO LTD Company gives the highest return in the period from 2017 to 2018. The later good return giving company is EMAMI LTD followed by the GODREJ INDUSTRIES LTD and then DABUR INDIA LTD. The NESTLE INDIA LTD is the only Company giving poor returns when compared to other companies for the period 2015 to 2018.

8. FINDINGS

Share Market is highly volatile in nature in spite of its volatility the investor can make profits by analyzing the share by trend analysis and for those who want a long term profit can do the fundamental analysis as well. From the selected companies the company which is favorable for the long term investment is the Nestle India Ltd because Price to Earnings Ratio is high and also its average of other ratios are also better than compared to others selected FMCG's.

High risk generally is related to high returns in short term. In our study, we found that Godrej Industries Ltd share prices are more volatile because its variance is 0.10393% and this is highest compared to other selected FMCG's share prices, therefore, those investors who are having high risk-taking appetite goes with such shares.

9. CONCLUSION

FMCG sector is the most emerging sector in India because in India domestic market demand is very high compared to other developers and developing countries. FMCG sector in India is having a positive growth in the coming few years because changing rules, regulation and guidelines of the FSSAI (Food Safety and Standards Authority of India) has given the sector boost in order to trade more effectively. The products like Consumer Food Services, Soft drinks, Toiletries, Personal care, and Household products are now more demanded as it is also available online and reach ability to such products is easy and it is also beneficial in the reduction of cost and time.

Increasing demand from the rural areas is another major factor for the growing FMCG sector in India that is because nearly about 66% of the total Indian population accounts for the rural area segment so it is having a wider scope for its growth.

Therefore FMCG's Equity analysis guides the investor in making buy or sell decisions as it gives a clear idea about returns from the shares in which the investor is willing to invest. So in this study, we have safely concluded that Marico Ltd. A company is very well preferred in selected FMCG's companies for this study. Marico Ltd. return is overall high and the risk involved is also moderate in comparison to the other companies. So investors can choose Marico Ltd. to get more returns from his investment.

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