

A Study on Fundamental Analysis in FMCG Sector

Divya Tellakula¹, Dr. P. Jaya Rami Reddy²

¹MBA, ²Professor,

^{1,2}Department of Management & JNTU, Anantapur, Andhra Pradesh, India

ABSTRACT

Every individual always wishes to get a decent return on his/her investments. Among the various schemes of investment, the equity market is considered to be the one of the most rewarding avenues even though it involves more risk. Since the risk is very high in equity investment, the investors need to make equity analysis, which is used to analysis the risk and return characteristics involved in such equity shares and the related industries. In this outlook a study has been undertaken to analyze the equity shares of companies in IT industry of Indian stock Market. It Industry in India is the one of the fastest growing industry. So, the study on equity analysis in this industry would help the investors to take investment decisions. The study is conducted for a period of one year covering from February 2019 to January 2020 and the study includes only 5 companies in NIFTY IT. From the analysis it is found that among all the companies TCS would be the best company to invest because of having low beta value and fundamentally strong.

KEYWORDS: Equity, Fundamentals, ratios, Returns, Risk

How to cite this paper: Divya Tellakula | Dr. P. Jaya Rami Reddy "A Study on Fundamental Analysis in FMCG Sector" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-4 | Issue-6, October 2020, pp.1664-1666, URL: www.ijtsrd.com/papers/ijtsrd33641.pdf



IJTSRD33641

Copyright © 2020 by author(s) and International Journal of Trend in Scientific Research and Development Journal. This is an Open Access article distributed under the terms of the Creative Commons Attribution License (CC BY 4.0) (<http://creativecommons.org/licenses/by/4.0>)



1. INTRODUCTION

Fundamental Analysis is an evaluation of information about the past performance and expected future performance of companies before taking an investment decision. Such evaluation or analysis is called "Fundamental Analysis".

Fundamental analysis is the method of finding out the future price of share which an investor wishes to buy.

2. Review of Literature

A. T. Mallikarjunappa and Shaini Naveen (2016)

They conducted a study on Comparative analysis of Risk and Return with reference to stocks of CNX Bank Nifty. This study analyzes the risk and returns in the banking sector

B. Dr. S. Krishnaprabha and Mr. M. Vijaykumar (2015)

They conducted a study on Risk and Return Analysis of selected stocks in India. Risk and Return analysis plays an important role in the decision making.

C. Dr. M. MuthuGopalkrishnan and Mr. Akarsh P K

They conducted a study on equity analysis of Automobile Industry in Indian Stock Market. The study includes 8 companies stocks in automobile sector.

Objectives

- To ascertain the risk & returns for the selected companies
- To analyze the intrinsic value for the selected companies.
- To analyze the profitability ratios for the selected companies

3. Research Methodology

For this paper we have used the secondary data for collecting information. The sources used mainly are the published trade journals, various associations solicitous with business and finance, stock markets, E- Newspapers, Articles, Research thesis and papers etc.. The Input data includes annual profits of the selected companies and variables to measure the financial performance like Net EPS ratio, P/E ratio, Sharpe Ratio, beta values collected mainly from the websites like Money Control, NSE India.

Selected Companies:

In NIFTY IT index as on 05thFebruary 2020, there are 10 IT companies. The study takes 50% of the companies that forms a sample size of 5 companies. They are

1. ITC
2. NESTLE
3. P&G
4. BRITANNIA
5. HUL

Tools & Techniques

- Earnings Per Share (EPS)
- Profit Earning Ratio (P/E)
- Dividend Payout Ratio
- Intrinsic Value

Limitations

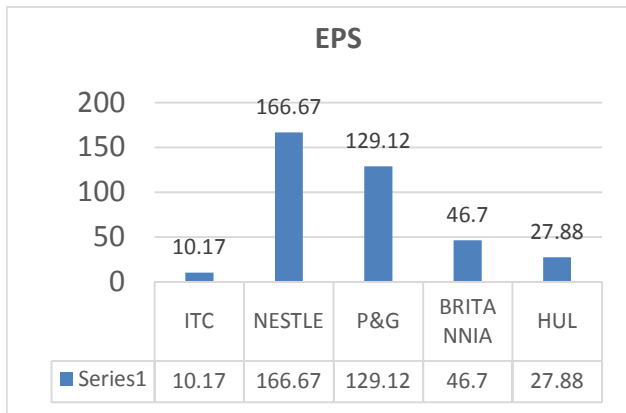
- The study is confined to Monarch Network Capital. Ltd., Anantapur only.
- The study is limited for a period of one year (February 2019-january 2020)

➤ The study is confined to five selected companies only.

4. Data Analysis and Interpretation

Fundamental analysis: It includes the analysis of various ratios like EPS, P/E ratio, Dividend Payout Ratio, Intrinsic value, Sharpe ratio.

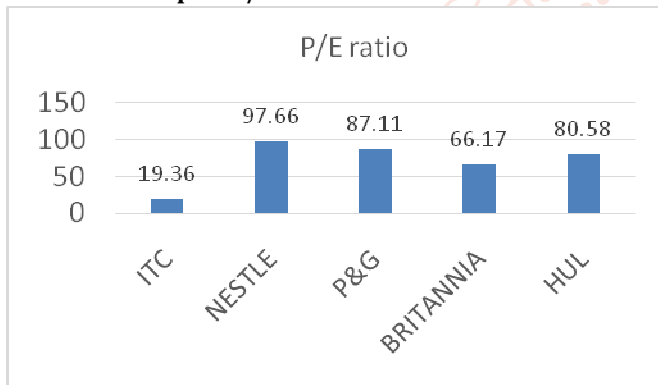
Graph1 Earnings Per share of FMCG Sector



Source: compiled and calculated

Graph1: From the graph, Nestle is having a highest EPS (166.67) and ITC is having a lowest EPS (10.17)

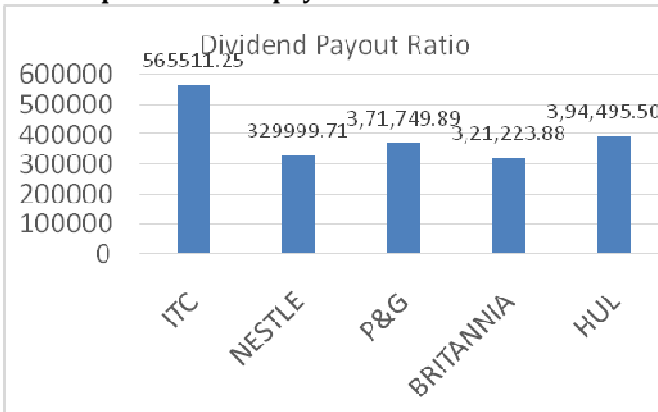
Graph2 P/E Ratio of FMCG Sector



Source: compiled and calculated

Graph2: From the above graph Nestle is having a highest P/E ratio (97.66) and ITC is having a lowest P/E ratio (19.36)

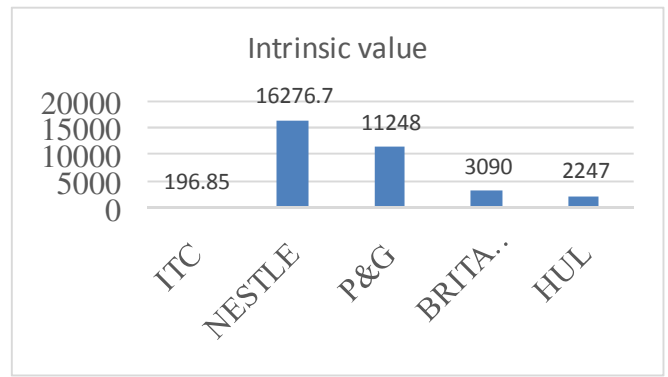
Graph3 Dividend payout ratio of FMCG sector



Source: compiled and calculated

Graph3: From the above graph ITC is having the highest Dividend payout ratio (565,511.25) and Britannia is having a lowest Dividend payout ratio (321,223.88)

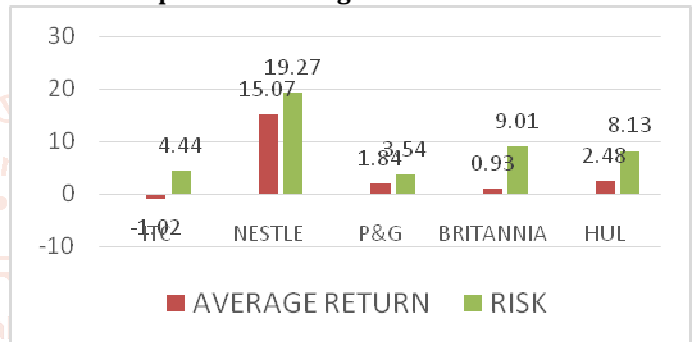
Graph4 Intrinsic value of FMCG sector



Source: compiled and calculated

Graph4: From the above graph, Nestle is having a highest intrinsic value (16276.7) and ITC is having the lowest intrinsic value (196.85)

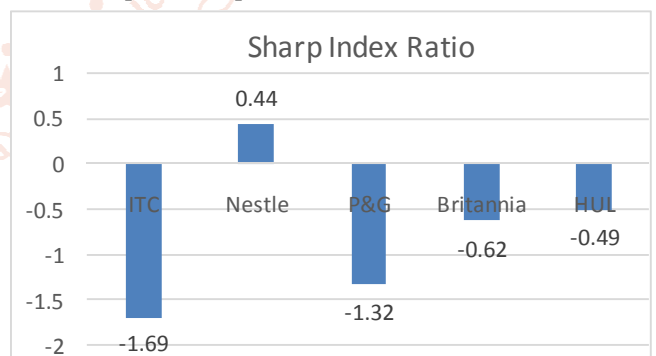
Graph5 The Average Risk and Return



Source: Share price values are taken from NSE India website

Graph5: From the above graph Nestle is having the highest risk and return and ITC is having the low risk and return

Graph6 Sharp Index ratio of FMCG Sector



Graph: From the above graph Sharp Index Ratio the combined risk and return are in positive side of Nestle(0.44) and the in BRITANNIA(-0.62), P&G(-1.32), HUL(-0.49) and ITC(1.69) are in the negative side.

FINDINGS

From the EPS ratio Point of view:

Nestle is having a high profitability with the ratio of (166.67), next is P&G(129.12) followed by Britannia(46.7), HUL (27.88) & last is ITC(10.17).

From the P/E ratio Point of view:

Nestle is having a high bullish nature with the ratio of (97.66), next is P&G(87.11) followed by HUL(80.58), Britannia(66.17) & last is ITC(19.36).

From the Dividend payout ratio of view:

ITC stood first with high percent sharing of dividends, next is HUL following by P&G, Nestle & last is Britannia.

From the Intrinsic Value of view:

Nestle is having the highest share value in the market, next is P&G followed by Britannia, HUL and the last is ITC.

From the Sharpe ratio point of view:

Nestle stood first in the ratio (0.44) next HUL (-0.49), followed by Britannia (-0.62) P&G (-1.32) and the last (-1.69)

SUGGESTIONS

- Every investor is recommended to make a thorough analysis of the capital market, about the company & industry before making any investment decisions
- Investing in multiple or diversified shares reduces the risk and provides the stable returns.
- The DP Ratio shows the distribution of declared dividend is also diminishing. So the companies could increase the DPS for filling the gap between the DPS and EPS.
- Picking stocks with market prices below their intrinsic value can help in saving money when building a portfolio.

5. CONCLUSIONS

- In order to achieve the objectives of maximizing returns and to predict the future performance of companies, the investors need to consider risk factors and return potential of various companies. Equity analysis is one of the most important techniques used to evaluating risk and return factors of different equities of various companies.
- Fundamental analysis aims at finding the true worth of a security by analyzing macroeconomic, industry scenario and company financial position and so on.
- Though a company is good at fundamental and technical analysis but news (bad or good) regarding to a company may change investor's prediction over a particular company.
- The fundamental analysis calls upon the investor to make his buy or sell decisions based on the detailed analysis of the information available.
- This study focuses on fundamental analysis using various tools which help in trading for risk reduction and maximization of return.

REFERENCES

- [1] Security analysis and portfolio management by S. KEVIN
- [2] National institutes of stock Markets published by SEBI

