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A Study on Invest-Worthiness of Few Selected Indian FMCG Companies with Specific Emphasis on Their Financials and Capital Market Performances

Dr. Sujoy Kumar Dhar

A Study on Invest-Worthiness of Few Selected Indian FMCG Companies with Specific Emphasis on Their Financials and Capital Market Performances



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ABSTRACT

Different attributes of investment should be considered before investing in capital market such as risk, return, marketability, tax shelter, convenience etc. The proposed research work will discuss invest worthiness of few selected Indian FMCG companies such as Nestle, Hindustan Unilever, Godrej, ITC and Dabur. Invest worthiness of stock can be analysed after taking into account both financial as well as capital market performance. Five profitability ratios have been calculated to evaluate the extent of compliance to the shareholders' wealth maximisation goal of companies. Apart from computation of daily return and risk, coefficient of variation has also been taken into consideration to judge the risk per unit return generated by these stocks. The financial year 2019-20 has been taken into account for study.

Keywords: *Return, Risk, Coefficient of Variation, Gross Profit, Net Profit, Return on Equity.*

1. INTRODUCTION

Determination of invest worthiness of stock has become a key success variable while investing in equity share. The basic assumptions of Markowitz model are investors are risk averse and they prefer to invest in security where risk is less. But lower risk implies lesser return and vice versa. Hence, an optimal trade-off between risk and return has to be developed by computing coefficient of variation. The study will focus on capital market performance analysis of few selected Indian FMCG companies. Apart from that, financial performances of these companies will be evaluated on the basis of few selected profitability ratios.

2. RESEARCH GAP

Several literatures are available on financial performance analysis of Indian FMCG players. Multiple research outputs are there focusing on capital market performance of Indian FMCG players. There is hardly any work which combines both financial as well as capital market performance of selected FMCG stocks and rank the stocks on the basis of their invest worthiness.

3. OBJECTIVES OF THE STUDY

The objectives of the study are as follows -

- ☑ To analyse the capital market performances of selected FMCG companies
- ☑ To discuss financial performances of the selected FMCG companies and
- ☑ To judge the interdependence between financial and capital market performances of FMCG stocks.

4. RESEARCH DESIGN

It incorporates methodology, sample of the study, time period of the study and tools and techniques used.

- ☑ **Methodology** - The proposed study will combine explanatory and empirical research.
- ☑ **Sample of the study** - The analysis is done on five selected FMCG companies such as Nestle, Hindustan Unilever, Godrej, ITC and Dabur.
- ☑ **Time Period of the study** - The duration of the study is from 1st April, 2019 to 31st March, 2020.

- ☑ **Tool and Techniques used** - Different financial ratios (gross profit margin, net profit margin, return on asset, return on equity, return on capital employed) are taken into consideration. Apart from these, different capital market indicators have been computed such as daily return and coefficient of variation.

5. LIMITATIONS OF THE STUDY

The limitations of the study are -

The proposed study is based on secondary data only.

Only financial year 2019 - 20 has been taken into consideration.

Sample size has been restricted to five for the study.

6. FINANCIAL PERFORMANCE ANALYSIS

Financial performance analysis incorporates computation and interpretation that higher the gross profit ratio, company is doing better as it implies company has achieved excellence in managing cost of production. Higher the net profit ratio, company is in a financially robust position to overcome all the adversities in the environment. Higher return on asset shows effective utilization of asset. Higher return on equity implies the stock is giving good return to investors. Higher return on capital employed shows company is able to do justice to all its stakeholders such as debt and equity shareholders. Table 1 shows financial statement analysis of selected FMCG companies.

TABLE 1: FINANCIAL STATEMENT ANALYSIS OF SELECTED FMCG COMPANIES

Company	Net Profit Ratio	Rank	Gross Profit Ratio	Point	Return On Asset	Point	Return on Equity	Point	Return on Capital Employed	Point
Nestle	15.92	5	24.184	5	26.36	2	26.38	3	55.05	2
HUL	17.74	4	25.86	3	36.73	1	85.67	1	89.49	1
ITC	33.49	1	45.44	1	20.11	3	25.89	4	29.26	4
Godrej	21.48	2	27.05	2	17.289	5	22.93	5	27.94	5
Dabur	19.65	3	24.38	4	19.18	4	27.109	2	32.79	3

Source: Annual Reports of Nestle, Hindustan Unilever, Godrej, ITC and Dabur for the financial year 2019-20

Interpretation: ITC is enjoying first rank in net profit ratio and ITC is followed by Godrej and Dabur. ITC is enjoying first rank in gross profit ratio and ITC is followed by Godrej and Hindustan Unilever. Hindustan Unilever is enjoying first rank in return on asset and Hindustan Unilever is followed by Nestle and ITC.

Hindustan Unilever is enjoying first rank in return on equity and Hindustan Unilever is followed by Dabur and Nestle. Hindustan Unilever is enjoying first rank in return on capital employed and Hindustan Unilever is followed by Nestle and Dabur.

TABLE 2: OVERALL RANKING OF SELECTED FMCG COMPANIES ON THE BASIS OF FINANCIAL PERFORMANCES

Company	Net Profit Ratio	Point	Gross Profit Ratio	Point	Return On Asset	Point	Return on Equity	Point	Return on Capital Employed	Point	Total	Rank
Nestle	15.92	100	24.184	100	26.36	400	26.38	300	55.05	400	1300	4
HUL	17.74	200	25.86	300	36.73	500	85.67	500	89.49	500	2000	1
ITC	33.49	500	45.44	500	20.11	300	25.89	200	29.26	200	1700	2
Godrej	21.48	400	27.05	400	17.289	100	22.93	100	27.94	100	1100	5
Dabur	19.65	300	24.38	200	19.18	200	27.109	400	32.79	300	1400	3

Source: Annual Reports of Nestle, Hindustan Unilever, Godrej, ITC and Dabur for the financial year 2019-20

Interpretation: Rank 1 has been allotted 500 points, rank 2 has been awarded 400 points, rank 3 has been provided 300 points, rank 4 has been awarded 200 points and rank 5 has been given 100 points. The total score is nothing but the sum total of scores obtained on the basis of these five ratios. Higher the total score company is doing well and vice versa. As per the financial performance of these selected companies, HUL has the highest score and so is ranked 1st. ITC is allotted 2nd rank. Dabur has been allotted 3rd rank.

7. CAPITAL MARKET PERFORMANCE ANALYSIS

Capital market performance analysis incorporates computation and interpretation of different indicators

such as return and coefficient of variation. Rational investors prefer to sacrifice current conspicuous consumption and block their hard-earned money in different equity shares to derive a higher rate of return. Higher the return, security is doing well and vice versa. Return is normally measured by arithmetic mean. Coefficient of variation is a measure of relative measure of dispersion. It is used to compute risk per unit of return from the stock. Lower the CV, stock is doing good and vice versa. If investors have to choose between few stocks on the basis of their invest-worthiness stocks will least CV should be selected as it ensures minimum risk per unit of return. Table 3 shows capital market performance analysis of selected FMCG companies.

TABLE 3: CAPITAL MARKET ANALYSIS OF SELECTED FMCG COMPANIES

Company	Return	Rank	CV	Rank
Nestle	0.000820039	2	1941.931	2
HUL	0.000873	1	1615.49	1
ITC	(-0.000346141)		(5431.799)	
Godrej	(-0.000183732)		(14116.140)	
Dabur	0.000544411	3	2845.428	3

Source: BSE Stock Price data of Nestle, Hindustan Unilever, Godrej, ITC and Dabur for the financial year 2019-20

Interpretation: Hindustan Unilever is enjoying first rank in return followed by Nestle and Dabur. Similarly, Hindustan Unilever is enjoying first rank in coefficient of variation followed by Nestle and Dabur. No rank has

been allotted to ITC and Dabur as these are providing negative return. Table 4 shows overall ranking of selected FMCG companies on the basis of capital market performances.

TABLE 4: OVERALL RANKING OF SELECTED FMCG COMPANIES ON THE BASIS OF CAPITAL MARKET ANALYSIS

Company	Return	Score	CV	Score	Total Score	Rank
Nestle	0.000820039	400	1941.931	400	800	2
HUL	0.000873	500	1615.49	500	1000	1
ITC	(-0.000346141)		-5431.799			
Godrej	(-0.000183732)		(-14116.140)			
Dabur	0.000544411	300	2845.428	300	600	3

Source: BSE Stock Price data of Nestle, Hindustan Unilever, Godrej, ITC and Dabur for the financial year 2019-20

Interpretation: Rank 1 has been allotted 500 points, rank 2 has been awarded 400 points, rank 3 has been provided 300 points. The total score is nothing but the sum total of scores obtained on the basis of these two ratios. As per the capital market performance of these selected companies, Hindustan Unilever has the highest score and so is ranked 1st. Nestle is allotted 2nd rank. Dabur has been allotted 3rd rank.

CONCLUSION

Hindustan Unilever has been allotted 1st rank and Dabur is allotted 3rd rank on the basis of their financial performances. Hindustan Unilever has been allotted 1st rank and Dabur has scored 3rd positions on the basis of their capital market performances. ITC and Godrej are providing negative return in capital market so these two companies will not be considered for investment. Therefore, investors can invest their hard-earned money in the stocks of Hindustan Unilever and Dabur without any ambiguity. Both the companies are doing well in terms of financial as well as capital market performance. It can also be concluded that there is a strong interdependence between financial and capital market performance of the companies. Companies having good financials are outperforming in capital market and vice versa. Hence, investor should take into consideration the financial as well as capital market analysis before judging invest-worthiness of a stock.

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Kolkata Bidhannagar Society for Academic Advancement

Kolkata Bidhannagar Society for Academic Advancement (hereinafter referred to as the '**KBSAA**') established in the year 2022 as a registered Society under the West Bengal Societies Registration Act (West Bengal Act XXVI) of 1961 bearing Registration No. S0025851 of 2021-2022.

KBSAA is a non-profit seeking Society for Promotion and Advancement of Learning and Research in the field of Social Sciences and other allied areas.

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