

A Study on Fundamental Analysis of Selected Equity from FMCG Sector

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Abstract

The method of measuring the true market value of a stock is fundamental analysis. The purpose of this research is to conduct a fundamental examination of chosen Fast Moving Consumer Goods (FMCG) sectors. The goal of this research is to improve the fundamental analysis approach stock valuation model by evaluating theoretical foundations and literature reviews. The fundamental analysis is broken down into three sections. Gross Domestic Product, fiscal deficit, inflation and current account deficit are the elementary factors which are concerned to economic analysis. An examination of the industry the Indian FMCG sector is examined in terms of entry obstacles, industry type, government intervention and Porter's five force model. Finally, several factors such as dividend payout ratio, earning per share, price to earnings ratio and debt-equity ratio are employed in company analysis. It also focuses on calculating intrinsic share value and comparing it to market value. The share is considered to be undervalued when intrinsic value exceeds market value the share is said to be overvalued when intrinsic value exceeds market value.

Keywords: Economic Analysis, Industry Analysis, Company Analysis, Intrinsic Value, P/E Ratio, EPS

Introduction

Fast Moving Consumer Goods (FMCG) are consumable goods that are sold at a low cost. Food and beverages, toiletries, medications and other consumables are examples of FMCG products. These items are commonly available in supermarkets, convenience stores and other retail establishments. It is country's fourth-largest and expanding industry as a result of rising disposable income,

an ageing population and more consumer awareness about brand. The FMCG industry in India contributes significantly to the country's Gross Domestic Product (GDP), accounting for 50% of FMCG sales. Due to existence of multinational companies, domestic companies and unorganised sector, the industry is very aggressive. A major portion of the market is captured by unorganised players selling unbranded and unpackaged products. This has made the increase of localised brands which are offered in loose form in small towns and rural part where brand awareness is low. In last 10 years, domestic players are giving tough competition to multinationals (Patil, 2016) With the growing pace of pharmaceutical market FMCG players are interested to extend their portfolio to tap the market share. On the other hand strong supply chain network of FMCG industry makes the things easy for them and on which pharmaceutical players are having keen eye. Under this environment both industrialist and academicians are interested to explore the crossroads where both FMCG and pharmaceutical market intercepts (Sumit, 2017).

Literature Review

Mr. Harish Patel (Lecturer) and Prof. (Dr.) Vinod B. Patel (Professor & Dean) | "A Study on fundamental analysis of five selected companies in FMCG sector". "The study endeavours to analysis fundamental position of major listed FMCG companies using ratios. Fundamental analysis, the share price of a company is determined by all the fundamental factors. The purpose of study is HUL, ITC, NESTLE, DABUR, and P & G. were chosen, to analysis was done using past three year computed date of Net Profit Margin Ratio, Gross profit margin, Price to Earnings, Debt to equity ratio, Dividend pay-out ratio,

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Earnings per share starting April 2016 to March 2018. This study provides a precise presentation of data and guidelines that will help a fresh investor as well as a venture investor to know vital aspects of investing. This study helps to the investors to choose a safe investment and to identify the growth opportunities in the future” (Patel, 2018).

Prof. Ajay Shukla (Research Scholar, SSPU) and Dr. Shriram Nerlekar (Director, IMERT) “Fundamental Analysis of listed FMCG with the help of ratios”. “The study endeavours to analysis fundamental position of major listed FMCG companies using ratios. The purpose of study HUL, Godrej, ITC & Dabur was chosen, to analysis was done using past five year computed date of Net Profit Margin Ratio, Gross profit margin, Price to Earnings, Debt to equity ratio, Dividend pay-out ratio, Earnings per share starting April 2010 to March 2015.” (Shukla, 2018).

Dr. Somnath Das (Assistant Professor) | “Fundamental Analysis Using One Way Anova - A Study on Selected FMCG Companies in India”. “Which firm to invest in or buy stock in is a critical decision for any investor. Fundamental analysis can assist such investors in selecting companies in which to invest. The FMCG sector is the focus of this study. Seven top FMCG firms have been chosen for analysis. Britannia, Dabur, Godrej, HUL, ITC, Marico and Nestle are examples of such corporations. In this study, various profitability ratios such as Net Profit Margin, Total Asset Turnover Ratio, Operating Profit Margin, Earnings per share, Dividend per share, Dividend Pay-out Ratio, Return on Capital Employed, and Return on Equity were employed. ROE is calculated using Du Pont 5 points analysis to measure the joint effect of ratios.

According to the findings of the study, Nestle, ITC, and HUL are profitable areas in which investors can invest” (Das, 2020).

Objectives of the Study

This project is to analyse the financial statements of different companies and identify the strengths and weaknesses of their financial performance. The analysis will enable investors to determine which stocks in the FMCG Sector offer the best potential for future growth and return on investment. The analysis will also include a comparison of the companies’ performance with their peers and the industry as a whole. Finally, the project will provide recommendations on which stocks are most attractive for long-term investments.

- To study the FMCG sector and its contribution to the Indian economy.
- To understand the company’s fundamentals, i.e., economic, industry and company analysis.
- To analyse intrinsic value and predict future value of selected equity stocks.
- To identify potential investment opportunities for investors.

Data Analysis

Economic Analysis

It uses variables like GDP, inflation rate, exchange rate, balance of payments, monetary policy and unemployment rate to find out how the economy is presently performing as a whole.

Table 1: Table Showing Economic Factors

Year	GDP Growth Rate	Inflation Rate (%)	Exchange Rate	Unemployment Rate (%)	Repo (In %)	Reverse Repo (In %)	Import of India (In USD Billion)	Export of India (In USD Billion)
2013	6.39%	10.02%	54.45	5.42%	7.75	6.75	38.27	23.2
2014	7.41%	6.67%	60.5	5.44%	8	7	34.21	28.2
2015	8.00%	4.91%	61.15	5.44%	6.75	5.75	35.21	26.2
2016	8.26%	4.95%	65.46	5.42%	6.25	5.75	32.1	21.98
2017	6.80%	3.33%	67.09	5.36%	6	5.75	28.5	23.32
2018	6.45%	3.94%	64.45	5.33%	6.5	6.25	37.05	28.84
2019	3.74%	3.73%	69.89	5.27%	5.15	4.9	33.1	33.12

Year	GDP Growth Rate	Inflation Rate (%)	Exchange Rate	Unemployment Rate (%)	Repo (In %)	Reverse Repo (In %)	Import of India (In USD Billion)	Export of India (In USD Billion)
2020	-6.60%	6.62%	70.49	8.00%	4	3.35	37.69	26.02
2021	8.95%	5.13%	73.2	5.98%	4	3.35	30.52	27.56
2022	7.00%	6.50%	74.42	8.30%	6.25	3.35	56.39	33.79

- India's economy has seen a period of growth and stability over the past decade, with the GDP growth rate being highest in 2021 at 8.95%.
- Inflation rate has decreased from 2012 to 2022, with the lowest rate being 3.33% in 2017. However, due to the COVID-19 pandemic, the inflation rate has increased again to 6.62%. Inflation is also affected by other global economic factors such as the exchange rate, monetary policy and the supply and demand of goods and services.
- Further, the Indian rupee's exchange rate against the US dollar has also appreciated over the years, with the exchange rate increasing from 54.45 in 2012–13 to 74.42 in 2021–22. This appreciation in the exchange rate is attributed to a number of factors, including improved macroeconomic stability, higher foreign direct investment inflows, sustained capital inflows and an increase in the country's foreign exchange reserves.
- The repo rate has risen by 2.25 basis points in the last three years. This means that commercial banks will have to pass on additional costs to customers in the form of higher loan interest rates. This prevents people from taking out loans, lowering the money supply in the economy and so helping to contain inflation.
- With \$56.39 billion in imports and \$33.79 billion in exports in 2022, India had its greatest imports and exports in the previous 10 years. The government of India is trying to reduce imports and increase exports by increasing customs duty on non-essential items to discourage imports and promote domestic production. Additionally, the Make in India programme was started to encourage domestic manufacturing and investments in India.

Company Analysis

Current Ratio: "It is a ratio used to know the company's ability to meet its short-term obligations".

Table 2: Table Showing Current Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	0.99	1.32	0.82	1.5	1.14
2013-14	1.03	1.71	0.9	1.73	0.72
2014-15	1.05	1.45	1.19	1.25	0.89
2015-16	1.03	1.68	1.06	1.32	1.01
2016-17	1.31	2.01	1.84	1.48	1.04
2017-18	1.29	2.64	2.03	1.59	1.26
2018-19	1.36	2.55	1.94	1.4	1.12
2019-20	1.31	1.78	1.45	2.26	1.2
2020-21	1.26	1.68	1.21	1.39	1.55
2021-22	1.34	1.05	0.93	1.14	2.62

Debt-Equity Ratio: "It is a financial ratio that assesses the proportion of a company's assets financed by debt and equity. It measures a company's financial leverage by dividing total liabilities by stockholders' equity".

Table 3: Table Showing Debt-Equity Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	0.18	0.58	0.66	1.39	0.09
2013-14	0.09	0.5	0.2	0.02	0
2014-15	0.05	0.01	0.16	0.06	0
2015-16	0.06	0.01	0.13	0.03	0
2016-17	0.01	0.01	0.06	0.08	0.03
2017-18	0.02	0.01	0.04	0.07	0
2018-19	0.02	0.01	0.03	0.03	0
2019-20	0	0.03	0.32	0.02	0.06
2020-21	0	0.02	0.59	0.03	0
2021-22	0	0.02	0.91	0.09	0

Return on Equity: "It is a financial ratio that assesses a company's profitability in relation to its shareholders' equity".

Table 4: Table Showing Return on Equity Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	141.98%	59.38%	36.75%	33.91%	18.50%
2013-14	118.02%	47.16%	43.33%	35.33%	18.68%
2014-15	115.85%	41.76%	50.37%	32.64%	19.34%
2015-16	110.71%	19.99%	44.90%	32.72%	19.35%
2016-17	69.18%	30.51%	32.68%	27.29%	19.28%
2017-18	74.02%	35.82%	29.30%	25.36%	21.54%
2018-19	78.81%	43.74%	27.78%	31.86%	35.63%
2019-20	83.90%	102.58%	34.72%	25.59%	23.01%
2020-21	16.77%	103.12%	53.02%	25.63%	19.25%
2021-22	18.08%	102.90%	66.73%	24.44%	18.84%

Inventory Turnover Ratio: “It is measured to know how efficiently a company can manage its inventory, or how many times goods is sold or used in a given time”.

Table 5: Table Showing Inventory Turnover Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	10.8	11.14	16.79	8.7	6.68
2013-14	10.76	12.31	16.99	8.7	8.27
2014-15	12.57	11.62	20.54	9.84	9.05
2015-16	13.61	9.62	20.49	9.32	8.66
2016-17	14.6	9.98	14.24	8.96	9.06
2017-18	14.93	11.23	15.61	7.96	9.29
2018-19	15.78	11.62	14.45	8.56	9.23
2019-20	14.71	9.58	17.08	7.8	8.32
2020-21	13.6	9.38	12.22	6.45	8.9
2021-22	13.16	9.26	10.52	6.61	8.79

PE Ratio: “The PE Ratio, which stands for Price/Earnings Ratio, is a ratio used to determine the relative value of a company’s shares”.

Table 6: Table Showing PE Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	26.6	47.67	13.41	40.39	17.28
2013-14	33.86	55.11	13.67	46.61	17.26
2014-15	43.8	47.43	20.8	61.17	18.05
2015-16	46.09	103.19	21.51	46.79	21.19
2016-17	43.95	75.79	23.99	48.94	22.38
2017-18	55.11	87.23	31.48	53.96	49.69
2018-19	61.21	88.72	66.07	57.11	39.96

Year	HUL	Nestle	Britannia	Dabur	Godrej
2019-20	73.85	90.08	43.56	67.95	45.13
2020-21	71.82	91.24	49.61	69.13	60.94
2021-22	54.58	88.14	48.17	66.15	51.66

Dividend Payout Ratio: “Dividend payout ratio is the ratio of a company’s declared dividend to its overall earnings. It is an important ratio for determining how much profit a corporation is willing to share with its shareholders”.

Table 7: Table Showing Dividend Payout Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	105.37%	43.79%	43.43%	44.24%	33.31%
2013-14	72.70%	41.86%	38.91%	45.40%	31.64%
2014-15	75.20%	51.27%	30.83%	46.07%	28.62%
2015-16	84.81%	83.02%	32.03%	42.13%	26.48%
2016-17	81.94%	60.66%	31.29%	39.70%	60.25%
2017-18	82.66%	67.68%	31.67%	123.23%	61.33%
2018-19	78.90%	69.00%	32.12%	38.42%	87.37%
2019-20	110.84%	167.53%	56.70%	45.30%	69.31%
2020-21	91.57%	92.60%	215.55%	60.75%	0.00%
2021-22	90.59%	89.91%	84.89%	64.16%	0.00%

EPS: “EPS is acronym for earnings per share. It is a financial ratio that calculates the amount of profit generated by a company for each share of its stock”.

Table 8: Table Showing EPS Ratio

Year	HUL	Nestle	Britannia	Dabur	Godrej
2012-13	17.56	110.76	19.57	3.39	15.01
2013-14	17.88	115.86	30.84	3.85	16.59
2014-15	19.95	122.87	51.91	4.34	19.22
2015-16	18.87	58.42	63.66	5.34	21.72
2016-17	20.75	103.86	70.31	5.67	24.9
2017-18	24.19	127.07	78.99	6.09	14.67
2018-19	27.88	166.66	46.7	7.16	17.17
2019-20	31.13	204.15	61.64	6.62	11.54
2020-21	33.85	215.97	73.09	7.82	11.97
2021-22	37.53	222.45	66.69	8.11	14.46

Intrinsic Value

The apparent or estimated worth of a business, stock, currency, or item is known as intrinsic value. A firm or

asset's intrinsic worth is determined by an underlying sense of its genuine value. Intrinsic value is used to determine if a stock is overvalued or undervalued in the market, and then make a decision to buy, sell or hold the security. Intrinsic value can also be used to decide when to enter and exit a position in the market.

If the intrinsic value is more than market price:

- Buy the stock.

If the intrinsic value less than market price:

- Sell or short sell the stock.

Estimation of intrinsic value:

- Estimate the expected EPS.
- Projected PAT is divided by the total number of outstanding shares to arrive at the expected EPS.
- Establish a PE ratio.
- Intrinsic value = Expected EPS * PE ratio

Table 9

Company	Projected EPS	PE Ratio	Intrinsic Value	Market Price
HUL	42.96	54.6	2344.78	2648
Nestle	232.23	88.1	20468	19004
Britannia	69.91	48.2	3367.84	4628
Dabur	8.99	66.2	594.56	533
Godrej	16.24	51.7	839.14	935

Findings

- The current ratio assesses a company's capacity to repay its short-term debts. A greater current ratio shows that a company can able to meet its short-term obligations. Nestle has the highest current ratio in most of the years, followed by Dabur. HUL and Godrej had relatively lower current ratios in most of the years. In 2021–22, Godrej had the highest current ratio, followed by HUL and Dabur.
- Debt-to-equity ratio is used to analyse the capital structure. Godrej has maintained a zero debt-to-equity ratio in most of the years. This indicates that Godrej is a relatively low-debt company compared to other companies. Even HUL and Nestle have maintained their debt-to-equity ratio below 1. This indicates that Godrej, HUL and Nestle have a very prudent capital structure. The low Debt-to-Equity

ratio implies that the company is in good financial condition and does not rely substantially on debt. This also indicates that the company is well-positioned to handle any financial shocks. Among the five companies, Britannia has the highest debt-to-equity ratio.

- Nestle, Britannia and Godrej have seen an increase in their ROE over the past decade, while HUL's ROE has decreased. Dabur's ROE has remained relatively stable. When compared between the five companies, Nestle is giving the highest ROE while HUL has given the lowest return; this is because the company's share capital has grown.
- For the majority of the companies, the inventory turnover has dropped during the past five years. However, when compared, HUL has the highest turnover followed by Britannia, while Nestle, Dabur and Godrej have comparatively lower inventory turnover ratios in comparison to HUL and Britannia.
- The industry P/E ratio for the FMCG sector is 59.4. The greater the P/E ratio, the more costly the stock is in comparison to its earnings. Among the five companies, Nestle has the highest P/E ratio, followed by Dabur, while HUL, Godrej and Britannia's have lower ratios than the sector.
- Free cash flow measures free cash available with the company for operations of the business. HUL has the highest free cash, followed by Nestle, Britannia, Dabur and Godrej. In 2019–20, Britannia has the lowest figure as the company invested more on fixed assets.
- FMCG companies have seen an increase in their EPS over the last 10 years. Nestle has seen the highest growth with a 111.69% increase in EPS, followed by Britannia with a 47.12% increase. HUL has seen growth with a 20.97% increase in EPS. Dabur and Godrej have seen an increase of 4.72% and -0.55% respectively.
- HUL and Nestle have consistently had the highest dividend pay-out ratios in the past few years, while Godrej has consistently had the lowest. In 2021–22, HUL had the highest dividend pay-out ratio of 90.59%, while Godrej again had the lowest ratio at 0.00%. This suggests that HUL is more committed to rewarding shareholders through dividends, while Godrej is focusing more on reinvesting profits for growth.

Suggestions

- Before making any investment decision, every investor should conduct a thorough research of the capital market, the firm and the industry.
- It is important to keep your portfolio diversified in order to spread out your risk and minimise potential losses. This means investing in a range of different asset classes, including stocks, bonds, cash and other investments. Diversification also helps to ensure that you are not overly reliant on any one asset or sector.
 - In FMCG sector, Nestle and Britannia stocks are recommended to the investors for a longer duration, i.e., more than a year.
- It is also important to keep track of the stock market news and developments related to the company and industry. This will help investors stay informed and make better investment decisions.

Conclusion

The study of fundamental analysis of the FMCG sector was started with the objective of analysing the sector's fundamentals, which includes economic, industry and company analysis, in order to identify a potential stock for investors that could provide fair returns. Furthermore, the study also aimed to determine the intrinsic value and predict the future value of equity stocks.

The Indian FMCG sector has seen steady growth over the past decade and is expected to continue to grow in the future. The sector has benefited from the government's initiatives to increase the ease of doing business and to promote the Make in India programme. The sector has seen an increase in foreign direct investment and an appreciation in the exchange rate of the Indian Rupee. The rise in unemployment rate due to the pandemic has been a major challenge, but the government's efforts to stimulate the economy have helped the sector to recover.

Overall, the Indian FMCG sector has seen steady growth over the past decade and is expected to continue to grow in the future. The government's initiatives to promote the sector have helped the companies to become more competitive, and the sector is well positioned to take benefit of the opportunity presented by the digital revolution.

Table 10: 1 Being the First Choice and 2 Being the Second

	1	2
Current Ratio	Nestle	Dabur
Debt to Equity ratio	Nestle	HUL
ROE	Nestle	Britannia
Inventory Turnover ratio	HUL	Britannia
PE ratio	Britannia	HUL
Free Cashflow	HUL	Britannia
EPS	Nestle	Britannia
Dividend Pay-out Ratio	HUL	Nestle
CAGR	Britannia	Nestle

- Thus, Nestle performs better than other companies in current ratio, debt to equity ratio, ROE, inventory turnover ratio, EPS and DPS. Whereas Britannia performs better than other companies in PE ratio, free cashflow, ROE, inventory turnover, EPS and CAGR.
- The estimated intrinsic value of Nestle is Rs 20,468 and current market price is Rs 19,004. Which means existing market price is less than the intrinsic value. Therefore, Nestle Company is suggested for buying
- However, because valuation is fundamentally an unpredictable and imperfect endeavour, relying on a single point intrinsic value estimate would be naive. Hence, it might be more logical to speak about an intrinsic value range as a result. The value range is Rs 18,350–Rs 20,468.
- The estimated intrinsic value of Britannia is Rs 3,367.84 and current market price is Rs 4,628. Which means current market price is higher than the intrinsic value. Therefore, the investor should wait for the stock correction and buy when it is below the intrinsic value. The value range is Rs 3,100–Rs 4,800.

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