RISK AND RETURN ANALYSIS OF SELECT FMCG COMPANIES

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ABSTRACT

Risk and return analysis plays a key role in most individual decision making process. Every investor wants to avoid risk and maximize return. In general, risk and return go hand. If an investor wishes to earn higher returns, The investor will only achieve it by accepting a commensurate increase in risk. Based on risk and return analysis, high risk gives high returns with low risk gives to low return. This study is also creating awareness about stocks among the investors to invest in particular company in this FMCG sectors. The risk and return relationship is fundamental concept in not only financial analysis but in every aspect of life. It is necessary that every individual or institutions consider the combined influence of risk and return. The scope of the study has been limited to the select three FMCG stocks – Dabur India Limited, Hindustan Unilever Limited (HUL) and Indian Tobacco Company (ITC). The study covers five year period from 2013-14 to 2017-18. The data collected was analysed with the help of mean, beta, alpha and correlation. While taking decision, the investor should take relevant information. This study helps the potential investors to make informed and rational investment decision.

Introduction:

Fast moving consumer goods (FMCG) sector in India is the fourth largest in the economy and is one of the sectors in the country which has successfully mitigated the rural-urban divide. There is an enormous growth potential for all the FMCG companies; the per capita consumption of most of the products in the country is amongst the lowest in the world. The demand could be increased further if these companies can change the consumer's mindset and offer new generation products. Earlier, Non-branded apparel were preferred by consumers, but today, clothes of different brands are available and the same consumers are willing to pay more for branded quality clothes. It is the quality, promotion and innovation of products, which can drive many sectors. FMCG products are sold out quickly at comparatively low cost. Risk and return play an important role in making an investment decision. One basic premise regarding risk and return is that investors prefer returns to risk. People invest in riskier assets provided that to receive more than average return. It is an attempt to analyze the opportunities that are available for investors as far as returns are concerned and the involvement of risk. Risk and return in any business are influenced by certain decision and non-decision variables. The decision variables are those on which investors can take decision. The non-decision variables are those which are imposed on investors and on which they have no control.

OBJECTIVE OF THE STUDY

- To identify the risk and return of select FMCG companies.
- To provide suitable suggestion.

RESEARCH METHODOLOGY

The study is based on secondary data and uses five year data from 2013-14 to 2017-18.

TOOLS USED FOR ANALYSIS

- Risk
- Return
- Skewness
- Kurtosis
- Correlation and coefficient

LIMITATION

- The study relies on five years data to analyse the risk and return of FMCG companies, this result cannot be generalized for all FMCG companies.
- Risk cannot be accurately measured because the market condition is always fluctuating and uncertain.

REVIEW OF LITERATURE

Shaini Naveen and T. Mallikaryunappa (2016) have made study on Risk and Return analysis of banking sector taking NIFTY bank index and 5 years secondary data have been collected from 2011 to 2015 data have been analyzed using mean, standard deviation and correlation. The study compares the performance of 12 listed banks in NSE. Based on the analysis, it is found that all the banks have positive beta values and Indusland bank has earned highest return whereas bank of India has earned lowest return when analyzed.

Shobha CV and Navaneeth K (2017) have scrutinized Risk and Return analysis of selected stocks on NSE, with the objective to compare selected public bank and private sector bank. Secondary data have been used for this study. Average return, standard deviation and capital asset pricing model have been used for analysis for the period 1January 2010 to 31 December 2010. It is concluded that all 5 bank showed arc effect.

MuthuGopala Krishnan and Amal Vijay AK (2018): have made study on Risk and Return analysis of pharmaceutical industries stock in India, with objective to compare the risk and return of selected companies listed in NSE. The study is based on secondary data, stocks selected for this study were analyzed using mean, standard deviation and coefficient of variation for period of 5 years from 2012-13 to 2016-17. It is concluded sun pharmaceutical gives higher return and risk with high volatility of return.

RISK AND RETURN

Table – 1

Calculation of Risk and Return for period from 2013-14 to 2017-18

COMPANY	RISK	RETURN
ITC LTD	18.04	5.71

HUL LTD	28.26	28.26
DABUR INDIA LTD	14.70	20.81

Source: Secondary Data *- (yahoo finance/money control)*

Interpretation

The above table1 interprets that the risk of investments in HUL is highest and lowest in DABUR for period of five years. As for returns, HUL has shown highest return and ITC has lowest returns. It can be said that HUL and ITC investments are risky than DABUR.

Chart -1

Risk and Return of select FMCG Companies

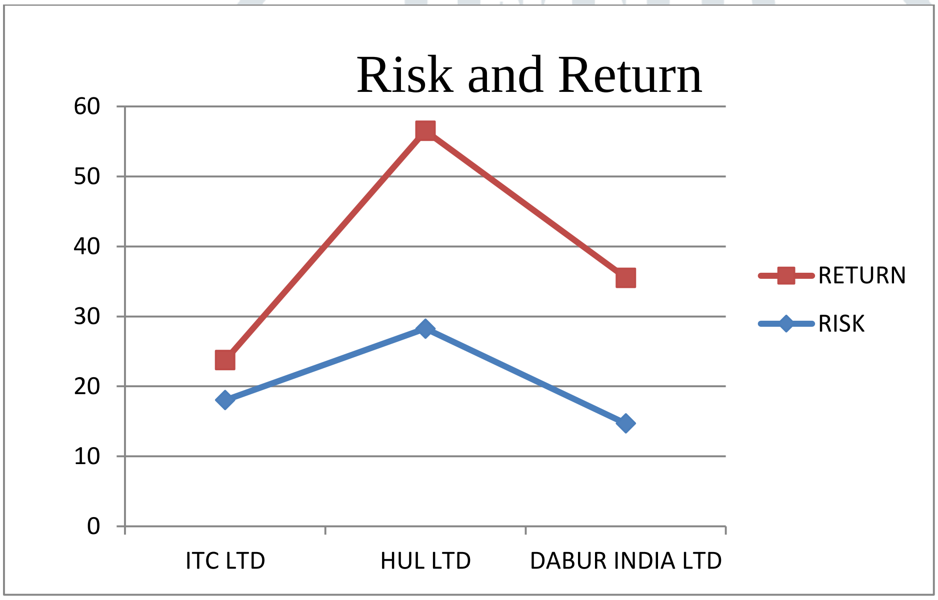

Table – 2

Calculation of Beta and Alpha for period 2013-14to 2017-18

COMPANY	SKEWNESS	KURTOSIS
ITC	0.6	-0.21
HINDUSTAN UNILEVER	1.21	2.6
DABUR INDIA	-0.16	1.89

Source: Secondary Data *- (yahoo finance/money control)*

Interpretation

The above analysis has depicted that ITC shares are volatile and positively skewed (0.6) and has negative kurtosis, HUL has positive values for both skewness and kurtosis. DABUR INDIA is negatively skewed and also has extreme return or risk that is positive kurtosis.

Table – 2

Calculation of correlation coefficient for period 2013-14to 2017-18

COMPANY	CORRELATION COEFFICIENT	COVARIANCE
ITC & HUL	0.044	314.68
ITC & DABUR	0.0043	7.19
HUL & DABUR	0.53	1335.57

Source: Secondary Data **-** *(yahoo finance/money control)*

Interpretation

The above table 2 depicts the correlation coefficient of the select FMCG companies, this measures the nature and extent of relationship between the stock return in a particular period. Correlation coefficient should lie between -1 to +1. On an overall HUL and DABUR shows more positive correlation. All the stocks have positive correlation. Thus, the stock return of ITC, HUL and DABUR moves in same direction with slight deviation as stock selected. Covariance is measures the directional relationship of two stocks. As the covariance is positive for all the stock it means that the stock returns move together. HUL and Dabur have highest covariance.

FINDINGS

- It is found all the stock have positive correlation coefficient indicating a strong relationship between the stocks as for their movements.
- HUL 2.35 and ITC 2.74 have high volatility and also possibility of high return.
- When compared the relationship between HUL & DABUR 0.53 is highly positive than others indicating stocks moving in same direction.
- All the covariance is positive all the stock tend to move in same direction.

SUGGESTIONS

- Fundamental details of the stocks listed and set for trade should be available to all investors easily and quickly.
- As observed from the study the investors who is risk averse can invest in Dabur LTD.
- The investors who are more risk seekers can invest in HUL and ITC Ltd.

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