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A STUDY ON EQUITY RESEARCH OF SELECTED FMCG COMPANIES LISTED ON NSE

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ABSTRACT

The goal of the research is to use ratios to analyse the fundamental health of large publicly traded FMCG companies. This research offers a clear presentation of facts and recommendations that will assist an investor in understanding critical areas of investment. This study assists investors in selecting a secure investment and identifying future growth prospects. Nowadays financial management is getting more importance within the businesses because people and their knowledge are the most important aspects affecting the productivity of the company as well as the profitability of the company. Financial Management is one of the main aspects to measure the profitability and liquidity positions of a company. The evaluation of a company's fundamentals, financial statement analysis, financial modelling, and scenario creation for equity recommendations are all part of equity research. Equity research departments serve both the sell-side and the buy-side of the market. Equity research experts keep a close eye on the market and assess market trends as well as their implications for firms and stocks. Equity Research, despite its name, handles commodities and bonds, providing macroeconomic perspectives and subsidiary examinations as needed by collaborating with the financier firm's subordinates division. The main objective of ER is to provide insight and an in-depth examination of a location, business, or stock, and to use this information to assist financial professionals in properly distributing their assets.

INTRODUCTION

Fast-moving consumer items or Consumer packaged goods, or those kinds of products that are sold at regular intervals, are the focus of the FMCG industry. Food and beverages, personal care, pharmaceuticals, plastics, paper and stationery, and household items are only a few examples. Some. Selling, financing, marketing, and purchasing are some of the primary activities of the FMCG industry. The industry is extensive, with chances in sales, supply chain, finance, and other areas. Fast Moving Consumer Products (FMCPs) are items with a quick and low cost turnover (FMCG). The term "fast moving consumer goods" refers to items that are frequently replaced within a year of purchase. Toiletries, soap, detergents, cosmetics, oral care products, shaving products, packaged food goods, digestives, and other non-durables are common FMCG items.

Household and personal care goods contribute for half of FMCG revenues, making it India's fourth-largest industry. Raising awareness, greater access, and changing lifestyles were all key growth factors for the sector. The urban sector (about 55 percent of total income) is the largest contributor to the Industrial FMCG industry's overall revenue. However, in recent years, the FMCG sector in rural India has progressed at a quicker rate than in urban India. Semi-urban and rural segments are growing at a higher rate, with FMCG items accounting for half of total rural spending.

There is fierce competition in this area between the organised and unorganised sectors in terms of low costs. Every organisation in the FMCG industry is limited and specialised in their area of expertise. Consumer goods are items purchased by the average person for personal consumption. They are categorised into three categories: long-lasting, non-lasting, and services. The most important segment of the commodity market is fast-moving commodities. Almost everyone on the planet consumes fast-moving consumer goods on a daily basis. They're the small-scale purchases we make at the produce stand, grocery store, supermarket, and warehouse outlet. Despite the fact that FMCG purchases account for over half of all consumer spending, they are frequently low-investment purchases.

OBJECTIVES

The purpose of the study is to learn more about the financial performance of the top four FMCG companies. After looking at historical trends and fundamental research in that specific organisation, the goal can be described as earning the most profit while minimising risk.

1. To do a detailed study about the FMCG industry and its contributions to Indian economy.
2. To conduct fundamental analysis for selected NSE listed FMCG companies.
3. To conduct a comparative analysis of the selected units using various ratios
4. To recommend a suitable company from selected FMCG companies for inclusion in an investor's portfolio.
5. To study the impact of Covid-19 on the share prices of selected FMCG companies and the price fluctuations.

RESEARCH METHODOLOGY

"**A study on equity research of selected FMCG companies listed on NSE**" is considered an Analytical Research. Analytical research is described as study in which the researcher must use facts or information already available and analyse the facts, figures, data, or material to produce a critical evaluation.

This paper examines equity research from both a fundamental and technological standpoint. The researcher has attempted to look into the details of the financial statements of the companies, the environment surrounding the FMCG sector, the most recent developments in this area, management discussions on the part of each company, and government policies affecting the FMCG Industry in this report. .

Here, to do equity research, the companies selected are –

1. Hindustan Unilever Limited
2. Britannia Industries
3. Nestle India
4. Dabur

depending on market capitalization and their products face significant competitiveness.

These companies represent the sector well.

Sources of data/ Research tool:

There are mainly 2 sources of data:

1. Primary data – It is made up of original information that has been gathered firsthand and is of a unique character. Surveys, observations, and interviews are all part of it.
2. Secondary data - Data that has previously been collected and stored is referred to as secondary data. Typically, researchers begin by gathering secondary data from the company's internal database, which is an excellent place to start. However, the company can get information from a variety of other sources, including corporate publics and libraries, as well as government enterprises and publications.

Data Collection –

The paper relies entirely on secondary data, which was gathered from the company's annual report, BSE/NSE websites, magazines, Money Control.com, and numerous search engines.

Period of the study –

The purpose of this paper is to assess the equity research of chosen FMCG businesses that are listed on the NSE. The research will last for four years, from 2018 to 2021.

Tools used for analysis –

For Data analysis, ratios like profitability ratios and liquidity ratios are used throughout the report for data analysis.

DATA ANALYSIS AND RESULTS

- **DEBT TO EQUITY RATIO**

  Debt-to-equity (D/E) ratio compares a company's total liabilities to its shareholder equity and is used to calculate its leverage.

  Higher leverage ratios typically indicate a company or stock that is more risky for investors.

  The debt-to-equity ratio should be 2:1 or 1:1.

  Investors commonly alter the D/E ratio to focus on long-term debt since the risks associated with long-term liabilities differ from those associated with short-term debt and payables.

  Having a debt-to-equity ratio of zero to very low is usually beneficial and raises the firm's value because interest expenses are low, making shareholders wealthier.

	Years			
Company Name	**Mar'18**	**Mar'19**	**Mar'20**	**Mar'21**
Dabur India	0.15	0.09	0.07	0.06
HUL	0	0.01	0	0
Britannia Industries	0.05	0.03	0.34	0.59
Nestle India	0.01	0.01	0.03	0.02

Interpretation:

- All 4 companies are having debt-to-equity is less than 1 which is considered good

  From the above table we can clearly see that only 2 companies are in the highlight that is Dabur and Britannia, other two companies have very less debt and not to be worried about.
- **Dabur** had a high debt to equity ratio in 2018 but now they have reduced the debt drastically, we can assume that they have too that debt in order to expand their operations and that is clearly evident from the P/E ratio.
- **HUL** is Debt free and having no long-term debts.
- While other companies are working towards getting debt free, **Britannia** has taken a massive loan of ₹722 crores and its effect of is will be seen in the financials of year 2020-21.
- **Nestle** has significantly decreased its debt by 18.30 Cr.
- Creditors are generally few, and the company's financial structure is strong; HUL and Nestle are prominent examples.

➢ **RETURN ON EQUITY**

The return on equity ratio is a profitability metric that indicates a company's capacity to generate profits from its shareholders' investments. In layman's words, it informs us how much profit each rupee of common shareholders' stock generates.

It's also used to evaluate how well management manages the company's assets and investments to generate profit.

A company with a high return on investment (ROI) is more likely to generate internal cash flow. Companies having a high return on investment (ROI) tend to attract investors and provide a stronger benchmark when comparing companies in the same industry.

	Years			
Company Name	**Mar'18**	**Mar'19**	**Mar'20**	**Mar'21**
Dabur India	23.73	25.61	21.87	22.09
HUL	71.61	76.95	82	16.77
Britannia Industries	29.48	27.25	31.85	52.53
Nestle India	35.81	43.74	102.58	103.12

Interpretation:

- A high ROE is sometimes regarded as positive, but it is important to remember that if the equity account is small in comparison to net income, this could signal danger.
- Because FMCG companies have consistently showed good levels of growth and ROE in India, they frequently have a high PE ratio.
- All 4 companies have a ratio above 15%, which is considered good and demonstrates management's ability to create revenue from equity.
- Nestles' ROE has been improving at an increasing pace, indicating that they have grown and were able to use their assets to earn good income, as shown in the above table. The company has a highest return on equity (ROE) track record: 68.06%.
- **Dabur** has shown a downward sloping ROE and in 2019-20 they were able to increase it. Company has an incremental return on equity (ROE) track record: 24.67%
- **HUL** has a great ROE track record: 48.81%
- **Britannia** Industries has a good track record: 36.48%.
- Price of share into no of shares is shareholders equity and a higher price will give more profits in turn attract more investment and here **Nestle** has the highest return ratio which is outstanding compared to its peers.

➢ RETURN ON CAPITAL EMPLOYED

A profitability statistic called return on capital employed (ROCE) assesses how effectively a company uses its capital to create profits. The return on invested capital can be used to determine the value of other businesses.

The return on capital employed indicator is one of the best profitability ratios, and it is frequently used by investors to judge whether or not a firm is acceptable for investment.

	Years			
Company Name	**Mar'18**	**Mar'19**	**Mar'20**	**Mar'21**
Dabur India	28.08	32.18	27.24	26.38
HUL	82.03	88.98	87.58	19.01
Britannia Industries	28.36	40.49	36.72	59.71
Nestle India	32.9	40.76	56.25	55.05

Interpretation:

- **Dabur** has been maintaining ROCE of 27.06% over the past 3 years but has declined this year.
- **HUL** has been maintaining healthy ROCE but decreased drastically in the current year.
- **Britannia Industries** has been maintaining healthy ROCE and managed to increase in 2020 and even more in 2021
- **Nestle** has been maintaining healthy ROCE of 105.83% over the past 3 years.
- The higher the return ratio, the better for the company, and Britannia has the greatest ROCE, indicating that it is able to earn more profits and provide more returns, although Nestle has maintained an incremental trend over the years.

➢ NET PROFIT MARGIN

The net profit margin is the amount of net income made as a percentage of total revenue. It is also considered to be the most accurate measure of a company's financial health. This ratio can be used by investors to determine whether the company's management is earning enough profit from its sales to pay its costs and expenses.

	Years			
Company Name	**Mar'18**	**Mar'19**	**Mar'20**	**Mar'21**
Dabur India	17.57	16.97	16.67	17.76
HUL	14.7	15.41	16.98	17
Britannia Industries	10.12	10.46	12.01	14.08
Nestle India	12.24	14.23	15.91	15.59

Interpretation:

- The net profit margins of all four businesses are more than 10, which is a reasonable and typical standard.
- **Dabur** had a lower net profit margin in 2019 and 2020 as a result of the pandemic, but it has recovered strongly in the present year.
- In the previous four years, **HUL** has continuously had an additional Net Profit Margin.
- **Britannia Industries** has a better margin in 2020 and has been incremental throughout the years.
- **Nestle India's** margins have risen significantly over the years and are expected to continue to expand.
- While all of the companies are profitable, **Dabur** has the highest net profit margin, indicating that the company earns enough revenue to cover its expenditures.

➢ **INVENTORY TURNOVER RATIO**

The number of times a company may replace the inventory it has sold in a certain period is known as inventory turnover.

The higher the inventory turnover ratio of a company in a given year, the better for the company's future. Low inventory turnover suggests a lack of sales, excess inventory (overstocking), and inventory liquidity. High volume, low profit industries in the FMCG industry include retailers and supermarkets, which have the highest inventory turnover.

	Years			
Company Name	**Mar'18**	**Mar'19**	**Mar'20**	**Mar'21**
Dabur India	6.15	6.55	6.3	5.5
HUL	14.14	15.27	14.38	13.14
Britannia Industries	15.19	14.15	15.65	12.04
Nestle India	11.09	11.7	9.64	9.42

Interpretation:

- The ideal inventory turnover for the FMCG industry is 8 or higher.
- **Dabur** has the lowest ratio compared to its competitors and has gradually decreased over the years.
- **HUL** has not been able to return to the same position prior to the pandemic but still has the highest ratio among the companies compared
- **Britannia Industries** saw a rise in 2020 but fell again lower in the current year
- **Nestle India** ratio has fallen, it has been able to preserve the ratio.

➢ **CURRENT RATIO**

In the current ratio, a company's total current assets are compared to its total current liabilities. Common descriptions include cash assets or assets that will be converted to cash in a year or less, as well as obligations that will be paid in a year or less.

The current ratio can help investors assess a company's ability to service short-term debt with current assets and compare it to rivals and peers.

	Years			
Company Name	**Mar'18**	**Mar'19**	**Mar'20**	**Mar'21**
Dabur India	1.41	1.35	1.98	1.63
HUL	1.31	1.37	1.32	1.28
Britannia Industries	1.91	1.9	1.43	1.22
Nestle India	2.64	2.55	1.74	1.68

Interpretation:

- **Britannia** Industries has the lowest current asset-to-current-liability ratio, indicating a lack of current assets to satisfy current obligations.
- **Dabur** has the closest to ideal ratio in this fiscal year compared to its rivals, indicating that the greater the ratio, the less risky the company is overall. It has risen and is debt free.
- In the case of **Nestle India**, the ratio has decreased but not below an average standard, indicating that the company is not risky.
- **HUL's** current ratio has stayed consistent throughout time, showing that the company is able to manage its current assets and current obligations, as well as its liquidity, which has not increased or reduced.

QUATERLY SALES TURNOVER ANALYSIS

DABUR INDIA		
	FY 2019-20	**FY 2020-21**
Q1	1628.27	1490.89
Q2	1612.20	1900.90
Q3	1748.18	2071.08
Q4	1321.15	1721.86

For Dabur it can be observed that the sales drop in the 4th quarter of 2019-20, reason being Covid-19 hit the country during that period and all the economic activities were disrupted. Similar trend is observed in the next financial year as the sales drop in the 4TH quarter as second wave of Covid-19 had arrived and affected most businesses.

HUL		
	FY 2019-20	**FY 2020-21**
Q1	9984.00	10406.00
Q2	9708.00	11276.00
Q3	9696.00	11682.00
Q4	8885.00	11947.00

A downward trend can be observed for HUL in 2019-20 with respect to sales turnover, which is a worrying sign. But it can be observed that its sales increased tremendously in FY 2020-21 compared to previous financial year and more importantly an upward trend is observed throughout the 4 quarters of the year. This reflects good future prospects for the company.

BRITANNIA INDUSTRIES		
	FY 2019-20	**FY 2020-21**
Q1	2554.16	3179.61
Q2	2867.31	3161.44
Q3	2769.31	2916.10
Q4	2629.79	2856.50

The quarterly sales of Britannia Industries have increased in the 2nd quarter of 2019-20, but since then has fallen down drastically over the next two quarters, which reflects the covid-19 impact. In the next financial year i.e. 2020-21, the sales for the company has increased compared to the previous year, but again reflects a downward trend meaning the company hasn't been able to generate enough revenues through its operations as an aftermath of Covid-19.

NESTLE INDIA		
	FY 2019-20	**FY 2020-21**
Q1	2982.83	3041.45
Q2	3199.31	3525.41
Q3	3130.74	3417.52
Q4	3305.78	3610.82

The sales for Nestle India reflect growth of the company over the period of 2 years. The sales has increased in 2019-20 as well as 2020-21 across 4 quarters of the year, which reflects the stability of the business and its ability to tackle adversity such as Covid-19 influenced lockdown.

RECOMMENDATIONS

1. FMCG is a market with a high level of competition. Frequently, they release a new product to the market.
2. To remain in the market, FMCG firms must maintain adequate current ratios, inventory turnover ratios, and profit-sale margins.
3. Dabur should increase its cash flow and sales while also attempting to improve its inventory turnover ratio, which is rather low in contrast to its peers.
4. When making an investment in any company, the investor should not depend just on ratio analysis.
5. According to the research, the investor should select **NESTLE** since the company is expanding faster than other FMCG firms and performing better.
6. Investment in any firm is dependent on the risk appetite of the investor; therefore, appropriate research must be performed before choosing a company or a sector in which to invest money.
7. FMCG businesses have experienced fierce rivalry among themselves throughout the years, and this battle is only becoming worse. This is due to an increase in individual per capita income as well as various improvements in the rural economy.

   To reach both rural and urban consumers, the FMCG business must change its approaches and opt for more well-planned product promotion.

CONCLUSION

The FMCG business in India is the most developing because domestic market demand in India is quite strong when compared to other developers and developing nations. The FMCG industry in India is predicted to grow in the next years as a result of the FSSAI's (Food Safety and Standards Authority of India) altering laws, regulations, and guidelines, which have given the sector a boost to trade more successfully. Based on this analysis, we can clearly state that **Nestle India** is the most highly selected FMCG company for this study since the total return is large and the risk associated is low in comparison to the other firms. As a result, investors may choose to earn a bigger return on their investment.

Equity analysis is a critical measuring tool used to examine the movement of the capital market, as well as the profitability and liquidity problems of the various corporations in the share market, which helps the investor decide whether to buy or sell shares.

According to my research, the FMCG industry is the fastest expanding sector in India since domestic demand in India is fairly high when compared to other development and developing countries. COVID 19 has hampered the development of the FMCG sector, but we expect it to improve in the next years. It has already recovered significantly, as evidenced by current quarter results, and as the economy recovers, the sector is witnessing higher demand, resulting in corporate growth.

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