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A study of financial performance of five selected FMCG companies in India

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***Abstract*---**In modern economy, performance appraisal is necessary in a capitalist firm and this is evaluated with respect to its assets and liabilities. The Fast-Moving Consumer Goods (FMCG) sector is one of our fastest-growing sectors which have shown more growth in rural areas for the past few years. COVID-19 epidemic has caused a slight shift in our perception about essentials which added hygiene goods to this category, whereas businesses such as apparel have shifted to discretionary category. This study aims to analyse the financial performance and price fluctuations of the selected Fast Moving Consumer Goods companies over the past five years using different financial ratios. As investors want more profit with less risk, the present study also relates the risk associated with the stocks of selected FMCG companies. Thus, it envisages providing an insight to the investors in choosing the companies for making a better portfolio.

***Keywords*---**Fast Moving Consumer Goods, Risk, Financial performance.

Introduction

Among the different sectors of Indian economy, the Fast-moving Consumer Goods (FMCG) is one of the fastest-growing sectors. It is currently the fourth largest economic sector in India. The sector is divided into three primary segments: Food and beverages account for 19% of the total, healthcare for 31%, and housing and personal care for the remaining 50%. Increased awareness, easier access, and changing lifestyles have all been major growth drivers for the industry.

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According to India Brand Equity Foundation (IBEF), (2021), the urban segment (which accounts for about 55% of revenue generated) is the most important contributor to the overall revenue earned by the FMCG sector. However, in recent years, rural Indian FMCG sector has developed at a faster pace than urban Indian FMCG sector. India's rural Fast-moving Consumer Goods market is predicted to increase from US$ 23.6 billion in FY18 to US$ 220 billion by 2025 as per IBEF analysis.

There is stiff competition in this industry between the organized and unorganized sectors in terms of low costs. This sector will develop in the future because factors such as inflation, changing preference, etc. are influencing the demand, supply, and prices of Fast-Moving Consumer Goods products.

The impact of Covid-19 pandemic, for a developing country like, India is significantly higher.

During this pandemic period, business of Fast-Moving Consumer Goods (FMCG), has undergone a drastic change. The major reasons include lack of labour, operations that limit production, an increased need for health and hygiene, which boosts demand for sanitizers, hand washes, tissue papers, face masks, and other products, and a shift in consumer preference for organic goods. As a result, the sector's contribution to Gross Domestic Product (GDP) has increased; it is vital to examine developments in the industry in order to avoid future complications. The influence of the Covid-19 pandemic may be seen when comparing statistics from before and after the crisis period.

Financial Evaluation

The financial performance of Fast-Moving Consumer Goods (FMCG) is determined by elements such as the cost of producing consumer durable products, as well as the revenue and profit created by the company. Ratio analysis can be used to assess the firm's financial performance. With the help of these ratios and the firm's financial facts and figures, we can assess the firm's earning capacity and how efficiently it is employing its resources in a given financial year.

There are earlier works that focused on the key metric of selected Indian FMCG companies' financial health and efficiency (Parmar, 2017). Their reports indicate that the Average Current Ratio, Average Quick Ratio and Average Debt Ratio were highest in Marico Ltd and lowest in Hindustan Unilever Ltd. The Average Working Capital Ratio, Average Debtor Turnover Ratio, Average Return on Capital Employed, Average Return on Current Assets Ratio, Average Return in Equity Ratio and Average Inventory Ratio was highest in Colgate Palmolive Ltd. Whereas the Average Assets Turnover Ratio, Average Equity Ratio and Average Collection Period Ratio were highest in Dabur India Ltd. The Hindustan Unilever Ltd had highest Average Interest Coverage Ratio and Average Return on Assets Ratio, but the Average Operating Profit to Sales Ratio was highest in Indian Tobacco Company.

Another study suggested that Colgate Palmolive Ltd and Hindustan Unilever Ltd, in order to meet their obligations, they need to improve their current ratio.

Another study in ITC, HUL and Britannia in terms of Margin Ratios, Liquidity Ratios, Composite Performance, and Structural Ratios including both Leverage as well as Coverage Ratios showed no statistically significant difference between the financial ratios (Chakraborty, 2017).

A study of major listed FMCG companies using various ratios covering a period of five years from 2010 to 2015, showed that Godrej and HUL had high Earnings Per Share, Dabur India and Godrej had high Debt to Equity Ratio, HUL has maintained a stable Pay-out Ratio, both ITC and HUL has maintained a descent Gross Profit Margin and a high Net Profit Ratio when compared to other companies. During this period of five years, Dabur India Ltd showed a high Price to Earnings ratio (Shukla & Nerlekar, 2016). According to another study, Return on Investment is impacted only by net profit ratios (Sharma & Grover, 2016).

Share Price Evaluation

The share price evaluation along with the risk analysis provides insight into the behaviour of the chosen shares, allowing investors to make informed decisions for trading shares.

Secondary data about share fluctuations of selected FMCG companies in NSE covering a period of 5 years from 2013 to 2018 showed a high Price to Earnings Ratio in Nestle India Ltd and the average of other ratios are better than others. This study indicated that the Nestle India Ltd is good for long-term investment and found that Godrej Industries Ltd can be a choice for short-term investment for investors who are willing to take high risk (Patil & Jadhav, 2019). In another study, the financial performance of two of the biggest companies showed that Dabur India continued to grow despite the unprecedented commodity price inflation by maintaining both short-term and long-term liquidity (Bagchi & Khamrui, 2012).

Methodology

Secondary data of share price fluctuations of five companies (Britannia Industries Limited, Dabur India Limited, Godrej Consumer Products Limited, Hindustan Unilever Limited and India Tobacco Company Limited) was collected for a period of five years (April 2016-17 – March 2020-21) from the financial annual reports as well as from financial market sites like money control, yahoo finance, and screener.in. To evaluate the financial performance of these companies, the solvency, liquidity and profitability ratios are taken. By examining the balance sheet and income statement of the selected organisations, various ratio analyses are performed in order to gain insight into the company's liquidity, operational efficiency, and profitability. The financial data of these firms have also been studied using statistical tools such as standard deviation, mean average and variance through MS Excel to analyse the risk involved in the trading of shares of these selected FMCG companies.

Result and Discussion

Current ratios of the selected companies are given in Table 1 and Fig.1. This ratio assesses a company's ability to meet its obligations, particularly those that are due within a year.

Table 1
Current Ratio of the selected FMCG companies

COMPANY NAME	2017	2018	2019	2020	2021	AVERAGE
Hindustan Unilever Limited	1.32	1.31	1.37	1.32	1.28	1.320
India Tobacco Company Limited	3.69	2.85	3.17	4.13	3.27	3.422
Britannia Industries	1.74	1.91	1.90	1.43	1.22	1.640
Godrej Consumers	1.31	1.24	1.20	1.06	1.08	1.178
Dabur India	1.40	1.41	1.35	1.98	1.63	1.554

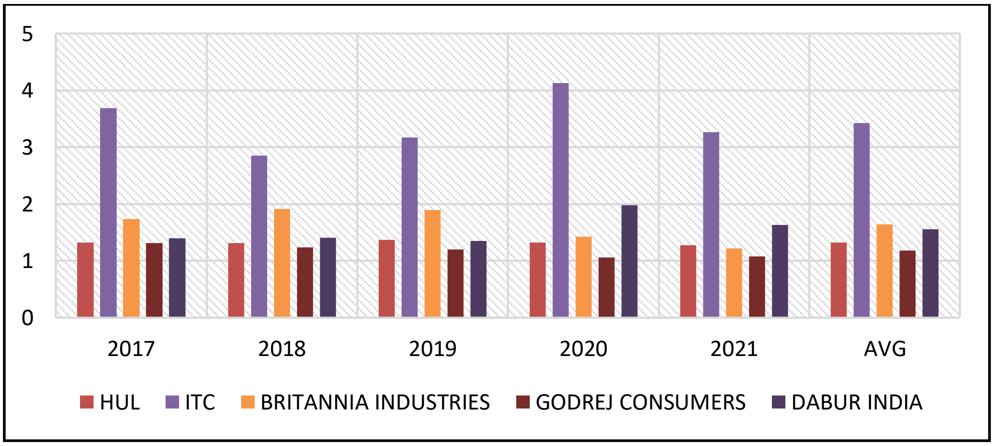

Fig. 1. Current Ratio of the selected FMCG companies

This ratio is in line with the industry average or a slightly higher value is also considered favorable. But very high ratio indicates that the management is not using the assets efficiently. This study shows that Dabur India (1.554) and Britannia Industries (1.64) have favorable current ratio.

Table 2
Debt to Equity Ratio of the selected FMCG companies

COMPANY NAME	2017	2018	2019	2020	2021	AVERAGE
Hindustan Unilever Limited	0.04	0	0.01	0	0	0.010
India Tobacco Company	0	0	0	0	0.01	0.002

Limited						
Britannia Industries	0.05	0.06	0.04	0.35	0.60	0.220
Godrej Consumers	0.76	0.56	0.47	0.45	0.19	0.486
Dabur India	0.20	0.17	0.13	0.08	0.07	0.130

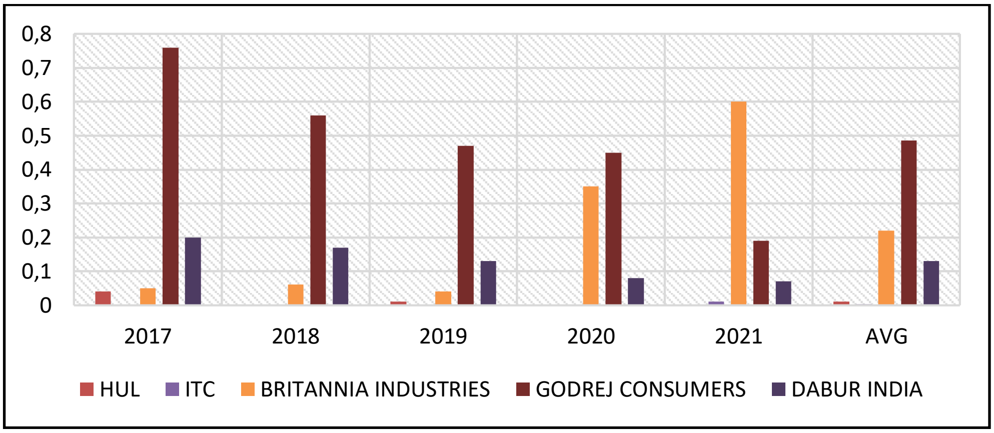

Fig. 2. Debt to Equity Ratio of the selected FMCG companies

Debt to Equity Ratio of the selected companies is given in Table 2 and Fig.2. The debt equity ratio is a solvency ratio that indicates how much a firm relies on debt to fund its operations. A company with a higher debt equity ratio poses a greater risk to its investors. In the case of Dabur India, the ratio has shown a steady decline for the period 2016-2021. The debt equity ratio of Dabur India in 2021 was 0.07 compared to 0.2 in 2017 which indicates a solid performance in this area.

Table 3
Return on Equity Ratio of the selected FMCG companies

COMPANY NAME	2017	2018	2019	2020	2021	AVERAGE
Hindustan Unilever Limited	67.43	74.54	80.01	83.95	28.62	66.910
India Tobacco Company Limited	23.45	23.20	22.80	24.82	21.18	23.090
Britannia Industries	36.94	32.90	30.17	32.20	46.55	35.752
Godrej Consumers	27.34	28.27	31.52	19.74	19.85	25.344
Dabur India	28.39	25.73	25.51	23.66	23.76	25.410

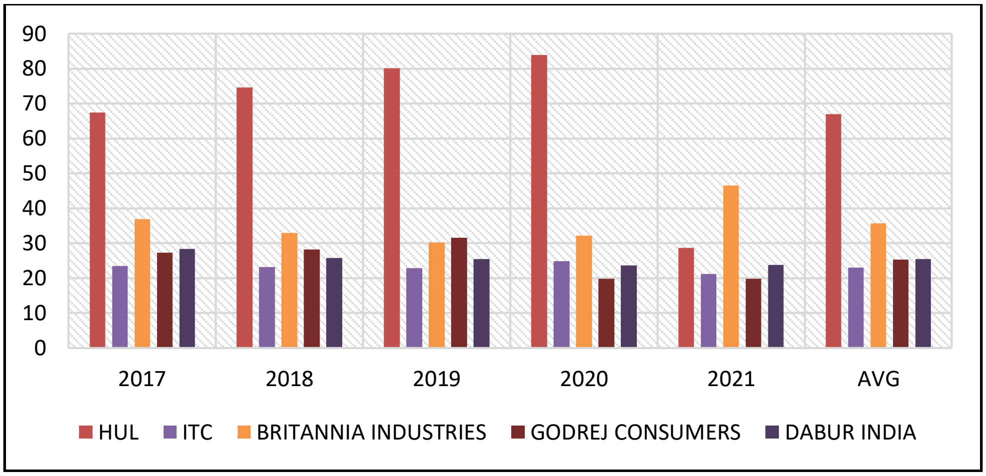

Fig. 3. Return on Equity Ratio of the selected FMCG companies

Return on Equity Ratio of some selected FMCG companies is shown in table 3 and fig. 3. The return on equity (ROE) is an indicator that shows a company's profitability and efficiency in profits. The average return on equity of ITC LTD (23.09%) for the last five years in comparison to HUL (66.91%), Britannia Industries (35.752%), Godrej Consumers (25.3%) and Dabur India (25.41%) is comparatively less.

Table 4
Price to Earnings Ratio of the selected FMCG companies

COMPANY NAME	2017	2018	2019	2020	2021	AVERAGE
Hindustan Unilever Limited	44.09	55.35	61.02	73.74	71.45	61.130
India Tobacco Company Limited	32.98	27.59	28.86	13.77	20.42	24.724
Britannia Industries	22.89	29.71	63.95	46.08	46.82	41.890
Godrej Consumers	70.86	54.99	30.60	17.25	54.90	45.720
Dabur India	38.26	42.70	50.04	55.02	56.42	48.488

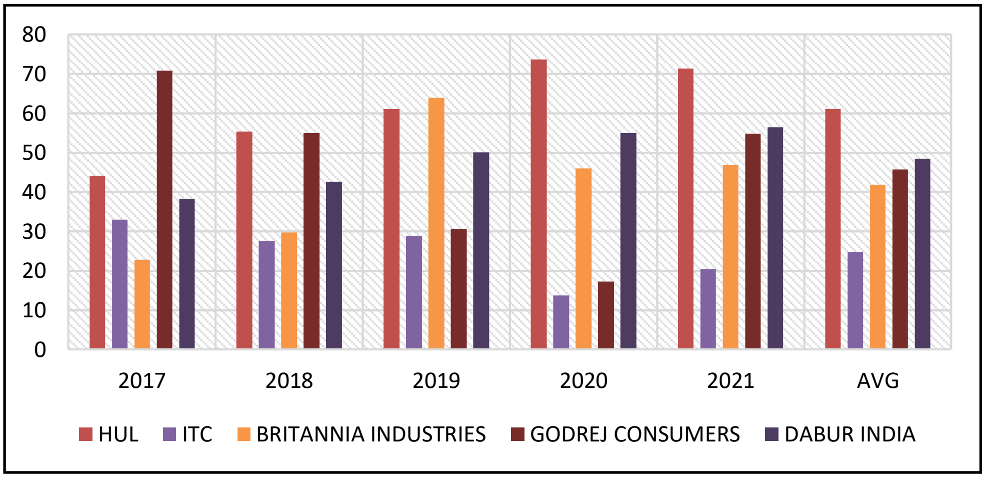

Fig. 4. Price to Earnings Ratio of the selected FMCG companies

Table 4 and fig.4 shows the Price to Earnings Ratio of the selected FMCG companies. The P/E ratio compares an organization's share price to the earnings per share. A higher P/E ratio indicates that the organization is expecting higher growth rate in the future. In the present study HUL (61.13) and Dabur India (48.48) have the highest average price to earnings ratio for the period 2016-2021 which indicates future growth. Godrej Consumers and Britannia Industries have moderate average P/E ratio which suggests neither high nor low future earnings.

Table 5
Dividend Yield Ratio of the selected FMCG companies

COMPANY NAME	2017	2018	2019	2020	2021	AVERAGE
Hindustan Unilever Limited	1.87	1.50	1.29	1.09	1.67	1.484
India Tobacco Company Limited	1.69	2.01	1.94	5.90	4.92	3.292
Britannia Industries	0.65	0.50	0.49	1.30	4.69	1.526
Godrej Consumers	0.90	1.37	2.18	1.54	0	1.198
Dabur India	0.81	2.29	0.67	0.67	0.88	1.064

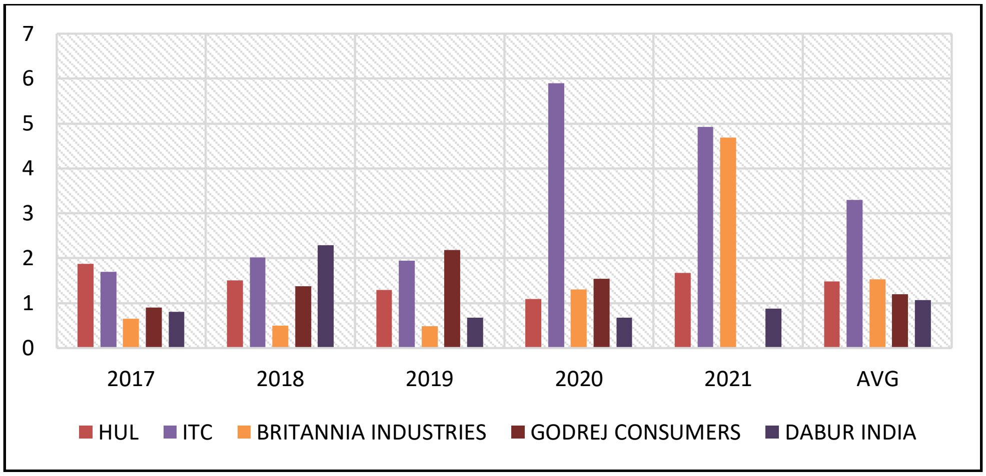

Fig. 5. Dividend Yield Ratios of the selected FMCG companies

Dividend Yield Ratio of the selected FMCG companies is shown in table 5 and fig. 5. The dividend yield ratio measures how much a firm pays out in dividends each year in relation to the price of its stock. Higher dividend yields aren't always indicative of good investing opportunities, as a stock's dividend yield might rise as a result of a stock's price falling. From the above analysis Dabur India and Godrej Consumers seem to have moderate average return when compared to its peers.

Table 6
Average, Variance & Standard Deviation on stock returns of the selected companies

COMPANY NAME	AVERAGE	VARIANCE	STANDARD DEVIATION
Hindustan Unilever Limited	0.020401866	0.003207949	0.056638758
India Tobacco Company Limited	0.004493338	0.004184556	0.064688145
Britannia Industries	0.012037948	0.005320969	0.072944975
Godrej Consumers	0.019078231	0.004325016	0.065764856
Dabur India	0.014095954	0.002958957	0.05439630

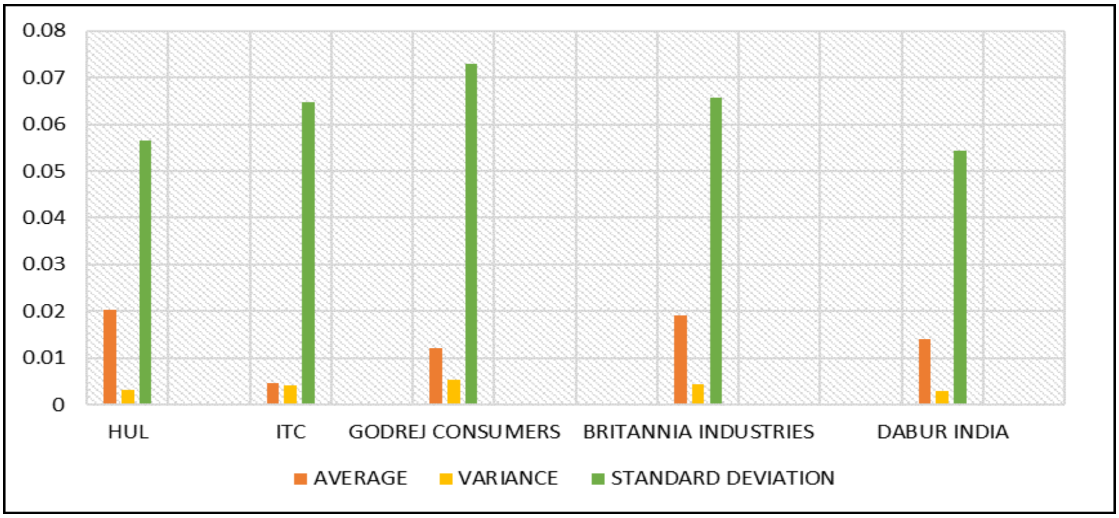

Fig. 6. Average, Variance and Standard Deviation on stock returns of the selected companies

The above graph displays the average, variance and standard deviation on stock returns of the selected companies in the FMCG sector. In case of Dabur India the standard deviation and variance are low which indicates that the shares of Dabur India are less volatile which means low risk. After Dabur India, the next company with low standard deviation and variance is HUL followed by ITC and Britannia Industries.

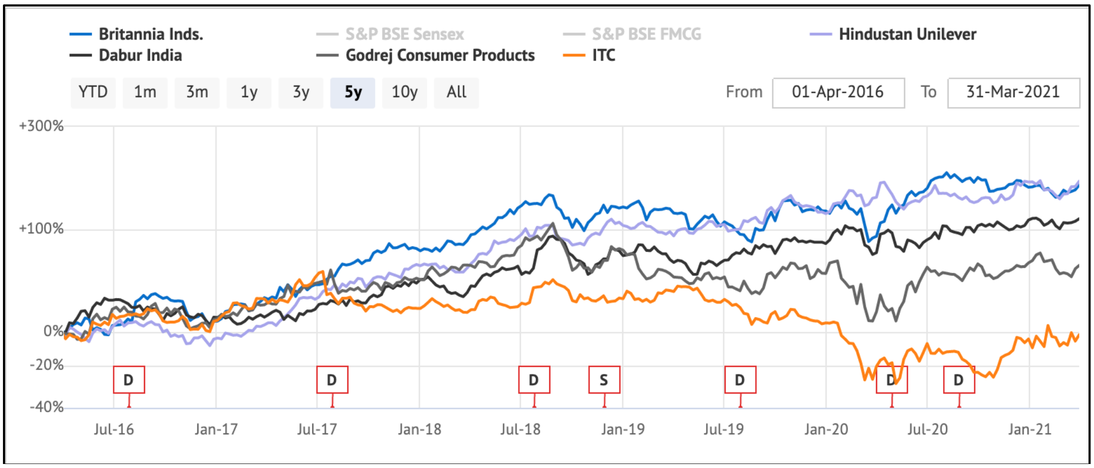

Fig. 7. Share price fluctuations of the selected FMCG companies

The above graph displays the share price fluctuations of the selected companies. On comparison of values between the selected companies, it can be inferred that Dabur India Company gives modest returns for the period 2016-2021 followed by Godrej Consumers, HUL and Britannia Industries.

The FMCG sector is the most rapidly growing sector in the country because India's domestic market demand is so strong compared to other developed and developing countries. The FMCG market in India is expected to grow in the coming years as the Food Safety and Standards Authority of India (FSSAI) modifies its laws, regulations, and guidelines, allowing the sector to trade more effectively. Consumer food services, soft drinks, toiletries, personal care, and household products are now in more demand as these products are also available online. Access to such things is simple, and it is also beneficial in cost reduction and saves time. Increasing demand from rural areas is another major factor driving India's developing FMCG sector. Since rural areas account for almost 66% of the country's population, the rural area segment has more scope for growth. Thus, a study on the financial performance of FMCG companies help investors to make buy or sell decisions because it provides a clear picture of the returns on the investable shares.

Despite the fact that the stock market is highly volatile, investors can take profit by evaluating the stock by using trend and ratio analysis. Trend analysis allows looking at the entire stock market for signals of possible trend shifts while profitability and solvency ratios assist to measure a company's entire performance. It also aids in determining whether the business is over or under leveraged. In this study it is shown that, among the selected companies, for favorable long-term investment, Dabur India is the ideal choice as the company has a decent financial performance in comparison to its peers. It is also seen that the shares of Dabur India are less volatile indicating low risk in terms of market fluctuations. In general, high risk is associated with high returns in the short run. In the present study, it is shown that share prices of Britannia Industries Ltd are more volatile than the other selected FMCG's. Investors with high risk-taking appetite can invest in such shares. The present study shows that the ratio analysis of financial parameters of the companies can help the investors to invest in shares in a better way than speculation.

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