



Fundamental Analysis of Selected Indian Fmcg Companies Listed in Nse of India Limited

KEYWORDS

FMCG, EPS, P/E, CAGR

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ABSTRACT FUNDAMENTAL ANALYSIS OF SELECTED INDIAN FMCG COMPANIES LISTED IN NSE OF INDIA LIMITED". This study attempts to apply fundamental analysis on six selected scrips from FMCG industry from 2004-05 to 2014-15. It is the attitude of people to look for either capital appreciation or regular income for their investment. In order to attain that objective, one of the best way to get higher return in long term, is obviously stock market. Investors cannot get higher rate of return in all the companies in various sectors of stock market. Sustainability of pricing of the scrips are not depend on the euphoria built among the market participants but the valuation of the securities and market perfectly. To value the market properly, fundamental analysis has to be done. The main focus of this study is to value the share prices of the selected FMCG companies through fundamental analysis.

INTRODUCTION

The scenario of economic progress and productive efficiency of an economy is governed to a large extent by the effective mobilization and distribution of savings into productive channels of investment. The securities market, by providing fair and active prices to diverse types of instruments, tries to suit to varying notions and whims of a vast majority of savers taking into consideration the liquidity, profitability and risk elements in their investments.

Stock prices change in stock markets on a daily basis. This means that stock prices are determined by supply and demand forces. There is no foolproof system that indicates the exact movement of stock prices. However, the factors behind increase or decrease in the demand and/or supply of a particular stock could include company fundamentals, external factors, and market behavior. Company fundamental factors influencing stock prices might include performance of the company, a change in board of directors, appointment of new management, and the creation of new assets, dividends, earnings, etc. External factors might include government rules and regulations, inflation, and other economic conditions, investor behavior, market conditions, money supply, competition, uncontrolled natural or environmental circumstances directly affecting the production of the company, strikes, etc. Moreover, the behavior of market participants could be an important influencing factor of stock price. But research studies have revealed that corporate fundamental factors are the most important determinants of share price and stock return over a period of time.

OBJECTIVES OF THE STUDY

- The Primary objective of the study is to do fundamental analysis of selected FMCG companies listed on NSE India Ltd.,
- To predict the compound annual growth rate for market price of scrips' and EPS for the companies.
- To rank the selected FMCG companies on the basis of the fundamental ratios.
- To forecast the future market price of the selected scrips' by framing the new model called BMW (Best, Moderate and Worst)..

- To ascertain the Altman Z-Score to unveil their solvency status of the companies.

SCOPE OF THE STUDY

This study confines to fundamental analysis of selected six companies from FMCG sector for the period of eleven years from 2004-05 to 2014-15.

RESEARCH DESIGN

Analytical Research Design study is used to conduct the study. The top six FMCG companies are selected which are listed on NSE based on their total asset greater than Rs.1000 cr and net profit of above Rs.300 cr for the year ended March 2015. The companies selected for the study are:-

- Dabur
- Emami
- Godrej Consumer
- HUL
- Marico
- P&G

DATA COLLECTION

The secondary data collected for eleven years from 2004-05 to 2014-15 through various websites and Prowess software.

TOOLS USED FOR ANALYSIS

- CAGR
- Ratio Ranking
- BMW Model
- Altman Z Score

ANALYSIS & INTERPRETATION

The average of all the twenty three fundamental ratios calculated for the selected companies during the study period are given below in Table No.1.

TABLE NO.1: AVERAGE OF FUNDAMENTAL RATIOS

Ratios	Name of the Company					
	D A B U R	EM A M I	G O D R E j	H U L	M A R I C O	P & G
■ Profitability Ratios						
Operating Profit Margin (%)	17	21	18	15	13	22
PBIT Margin (%)	15	16	16	13	11	19
Gross Profit Margin (%)	15	16	16	13	11	21
Net Profit Margin (%)	13	17	14	13	8	17
RoCE (%)	40	34	38	106	30	45
RoNW(%)	44	37	55	94	37	35
Return on Long Term Funds (%)	47	36	39	109	42	45
Liquidity and Solvency Ratios						
Current Ratio	1	2	1	1	1	2
Quick Ratio	1	2	1	0	1	2
Debt Equity Ratio	0	0	1	0	1	0
Long Term Debt Equity Ratio	0	0	1	0	0	0
Debt Coverage Ratios						
Interest Cover	31	36	20	566	18	--
Total Debt to Owners Fund	0	0	1	0	1	0
Financial Charges Coverage Ratio	26	43	18	607	20	--
Management Efficiency Ratios						
Inventory Turnover Ratio	9	13	8	9	8	17
Debtors Turnover Ratio	17	15	17	28	24	32
Investments Turnover Ratio	9	13	8	9	8	18
Fixed Assets Turnover Ratio	4	4	6	6	6	5
Total Assets Turnover Ratio	3	2	10	7	3	2
Asset Turnover Ratio	3	2	3	7	4	2
Cash Flow Indicator Ratios						
Dividend Pay-out Ratio Net Profit	44	39	46	90	32	50
Earning Retention Ratio	56	56	52	0	67	44
Cash Earning Retention Ratio	61	67	57	9	74	50

Weightage have been given for above ratios in Table No.2 as per the performance of each ratio. Finally, weightage have been added and rank has been given based on the total weightage secured by the companies.

TABLE NO.2: WEIGHTAGE FOR VARIOUS RATIOS

Ratios	Name of the Company					
	D A B U R	EM A M I	G O D R E J	H U L	M A R I C O	P & G
■ Profitability Ratios						
Operating Profit Margin (%)	3	5	4	2	1	6
PBIT Margin (%)	3	4	5	2	1	6
Gross Profit Margin (%)	3	5	4	2	1	6
Net Profit Margin (%)	3	5	4	2	1	6
RoCE(%)	4	2	3	6	1	5
RoNW(%)	4	2	5	6	3	1
Return on Long Term Funds (%)	5	1	2	6	3	4
Liquidity and Solvency Ratios						
Current Ratio	2	5	3	1	4	6
Quick Ratio	2	5	3	1	4	6
Debt Equity Ratio	3	4	1	5	2	6
Long Term Debt Equity Ratio	5	4	1	2	3	6
Debt Coverage Ratios						
Interest Cover	3	4	2	5	1	6
Total Debt to Owners Fund	3	4	1	5	2	6
Financial Charges Coverage Ratio	3	4	1	5	2	6
Management Efficiency Ratios						
Inventory Turnover Ratio	3	5	1	4	2	6
Debtors Turnover Ratio	2	1	3	5	4	6
Investments Turnover Ratio	3	5	1	4	2	6
Fixed Assets Turnover Ratio	2	1	6	4	5	3
Total Assets Turnover Ratio	3	2	6	5	4	1
Asset Turnover Ratio	4	2	3	6	5	1
Cash Flow Indicator Ratios						
Dividend Pay-out Ratio Net Profit	3	2	4	6	1	5
Earning Retention Ratio	4	5	3	1	6	2
Cash Earning Retention Ratio	4	5	3	1	6	2
Total	74	82	69	86	64	108
Rank	4	3	5	2	6	1

From the above table, P&G secured first rank with highest score of 108, followed by HUL with the score of 84. Marico had the least score of 64.

BMW (Best, Moderate, Worst) Model

BMW model is a new approach in which the future market price of the shares can be predicted by using the EPS and P/E. EPS are projected through CAGR for future period. The market price for the future period is arrived by multiplying the EPS with three probable P/E ratio like Best, Moderate and Worst under various business environments.

TABLE NO.3: PROJECTED MARKET PRICE BY BMW MODEL

C O M P A N Y	Projected market Price for forthcoming periods				
	Date	EPS\PE	Best	Moderate	Worst
D A B U R	Mar-15	6.10	65	37.6	20
	Mar-16	6.21	404	234	124
	Mar-17	6.32	411	238	126
	Mar-18	6.44	418	242	129
	Mar-19	6.55	426	246	131
	Mar-20	6.67	434	251	133
E M A M I	Mar-15	21.30	82.2	48	31.2
	Mar-16	26.41	2171	1268	824
	Mar-17	32.75	2692	1572	1022
	Mar-18	40.61	3338	1949	1267
	Mar-19	50.36	4139	2417	1571
	Mar-20	62.44	5133	2997	1948
G O D R E J	Mar-15	27.16	69.1	36.6	17.8
	Mar-16	32.18	2222	1176	572
	Mar-17	38.14	2634	1394	678
	Mar-18	45.19	3121	1652	803
	Mar-19	53.56	3698	1957	952
	Mar-20	63.46	4382	2320	1128
H U L	Mar-15	18.01	56	34.2	24.1
	Mar-16	20.28	1136	694	489
	Mar-17	22.83	1279	781	550
	Mar-18	25.71	1440	879	620
	Mar-19	28.95	1621	990	698
	Mar-20	32.60	1826	1115	786
M A R I C O	Mar-15	8.80	52.80	33.12	22.50
	Mar-16	10.08	532	334	227
	Mar-17	11.54	609	382	260
	Mar-18	13.21	698	438	297
	Mar-19	15.13	799	501	340
	Mar-20	17.32	914	574	390
P & G	Mar-15	100.7	71.80	37.24	15.80
	Mar-16	114.3	8206	4256	1806
	Mar-17	129.7	9314	4830	2050
	Mar-18	147.2	10572	5482	2326
	Mar-19	167.1	11999	6223	2640
	Mar-20	189.7	13619	7063	2997

From the table, market price of the Scrips Dabur, Emami, Godrej Consumer, HUL, Marico and P&G will be in 2020 may reach up to Rs.434, Rs.5133, Rs.4382, Rs.1826, Rs.914 and Rs.13619 in best scenario and it may reach the bot-

tom price of Rs.133, Rs.1948, Rs.1128, Rs.786, Rs.390 and Rs.2997 respectively in case of worst business environment.

FINDINGS AND SUGGESTIONS

The CAGR of EPS at 24.02 % for emami, which is high when compared to the peers in the industry so the company has to maintain the current EPS growth rate. The EPS growth rate of Dabur is 1.79% which is low hence the company has to improve their EPS to compete with their peers.

The CAGR of market price is high for Godrej Consumer at 21.52 %, so the active investors can invest in Godrej Consumer and Dabur may be avoided by the aggressive investors because of it low CAGR in their market price at 8.47%.

The overall fundamental score of P&G is very high with the score of 108 when compared to the peers so the fundamental investor may choose P&G for investment. The overall fundamental score is not up to the mark for Marico during the study period while compared with their peers because of their lowest interest coverage ratio and high debt burden. So the management may think on reducing their debt burden so that fundamental soundness of the company may be improved in future.

The long term investors can invest boldly in the scrips' of P&G and HUL whenever the P/E ratio is low (may come down during worst situation) during the period of turbulence and turmoil prevailing the stock market.

Altman Z Score is used to find out the solvency ratio of the company. If the company's Z-score is less than 1.8, in future company may become insolvent and if greater than 3 then the company has no chance to become insolvent in future. If the Score is from 1.8 to 3 then the company is in Stable position. In this study, no company has Z-score of less than 3, so all the companies in the study is in stable position. Out of the selected companies, the financial soundness is very high for P&G which reflects the solvency and sustainability of the company in the long run. The overall ranking of the mean ratios and the financial soundness is good for P&G.

Every company should focus on improving their EPS so that automatically their market price would be mounted. But the right valuation of the scrip should be done by comparing the market price, earnings per share and its prevailing price earnings ratio.

CONCLUSION

It is very important to analyze the fundamental of the company because the fundamental acts as the base for the company. The more number of rooms can be constructed when the foundation for a building is strong. Like that when the foundation of the company is strong then the performance of the company will be everlasting nature. If the fundamental goes wrong then the investor's wealth creation will gets affected due to sustainable survival of the company. Pricing of the scrips' do not depend on the euphoria built among the market participants, but the valuation matters. To value the market properly, fundamental analysis has to be done. It was found that while the ranking through fundamental ratio analysis, P&G comes first followed by HUL and Emami. Hence investors are suggested to trade and invest in these kinds of scrips' so that their return would be maximized as well as their risk would be minimized. The scrip of P&G stands first in terms of its

solvency position as well as in terms of average of fundamental ratios and hence from the safety perspective one can invest in the scrip P&G without any panic. It is better to trade and invest with the scrips which are fundamentally sound in nature.

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