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Study on FMCG Sector – Capital Gains & Earnings

Dr Hanif Kanjer 1, Charmi Shah 2
1 (Dean, Rustomjee Business School, Mumbai University, India)
2 (Finance, Rustomjee Business School, Mumbai University, India)
Correspondence Author: Dr Hanif Kanjer

ABSTRACT : *FMCG stocks have been steadily bid up in the uneven markets of the past five years, based mainly on vigorous fundamentals. Leading companies in the sector have displayed pricing power and delivered predictable sales and profit growth, at a time when much of corporate India was struggling with both. With low leverage, the sector also managed to stay immune with profit margins and returns for most companies.*
Shareholder return is based on appreciation in the value of share price i.e. capital gain and the dividend received for the stock. It could alternately be defined as the return from all cash flows investment. This research paper reviews the Returns or Capital Gains across all the major FMCG Companies through the share prices of top 8 fast moving consumer goods (FMCG) companies and the Earnings per share for all the major FMCG Companies will help to understand the overall FMCG sector returns during the time when other major sectors were crashed.

Keywords – FMCG, Capital Gain, Earning

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I. INTRODUCTION

The fast moving consumer goods (FMCG) segment is one of the largest sector in the Indian economy. The market size of FMCG in India is expected to grow from US$ 30 billion in 2011 to US$ 74 billion in 2018 and USD 100 billion by the year 2025.

The FMCG sector in India generated revenues worth US$ 34.8 billion in 2011, a growth of 15.2 per cent as compared to the previous year. The sector's revenues posted a compound annual growth rate (CAGR) of 17.3 per cent. Household and Personal care are the leading segment, accounting for 50 per cent of the overall market. Hair care (23 per cent) and Food and Beverages (19 per cent) are the other leading segments.

Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the sector. The demand has been increased in Rural as well as urban area with the rising disposable income, greater awareness of brands and Government initiatives via different schemes.

II. OBJECTIVES

To review the performance of the major FMCG companies during past 5 years to understand and analyze the shareholders' returns and also the Earnings per share of these top 8 FMCG Companies. It's a known fact that there are very few sectors which are doing well these days and FMCG is one of them. This research paper would make this topic even more interesting to know further about the reasons behind this scenario. The main objective is To guide investors for selecting industry by which they can able to make returns from the amount invested in that company in other words to help out the investors whether they should invest in the FMCG segment, will they earn approximately the same returns across all the FMCG companies or not, and whether the earnings per share are similar across all the top players in the FMCG segment.

III. RESEARCH METHODOLOGY

The research methodology is used to find out the solution of the research problem of analytical research methodology and some extend descriptive research methodology. The mentioned quarterly data is been collected from March 2013 to March 2017 for the share prices of major FMCG companies. Also the data for 5-year EPS trend is collected from 2013 to 2017 for these major players in FMCG segment. The FMCG companies taken as sample are as follows:

- ITC Ltd
- Hindustan Unilever Ltd
- Godrej Consumer Products Ltd
- Dabur India Ltd

- Colgate Palmolive
- Marico Ltd
- Emami Ltd
- P&G

IV. MEASUREMENT TECHNIQUE USED

The raw data of the top 8 FMCG companies (ITC Ltd., HUL, Godrej Consumer Products Ltd., Dabur India Ltd., Colgate Palmolive, Marico Ltd., Emami, and P&G) has been analyzed using the following statistical tools –

- Excel based technique is used to come up the solution.
- One-way ANOVA test to check whether all the companies have similar returns or capital gains in the FMCG sector and EPS across the sector in past 5 years.
- T-test - to determine whether there is a statistically significant difference between the Earnings per share of all the companies

V. MAJOR FINDINGS

HYPOTHESIS TESTS CONDUCTED ON THIS RESEARCH PROJECT
Hypothesis 1 - One-way Anova
Returns across all the major FMCG Companies are the same
Hypothesis 2 - One-way Anova & t-test
Earnings for all the major FMCG Companies are the same

HYPOTHESIS: 1

Following hypothesis is conducted to evaluate whether the returns across all the major FMCG Companies are the same. One-way Anova is used as a tool to analyze this particular objective.

N - Null Hypothesis (μ=μ=μ=μ)	Ho : Returns across FMCG companies are same
A - Alternate Hypothesis	Ha : Returns across FMCG companies are **NOT** same
(At least one of the means is different)	
T - Test	One-way Anova
A - Alpha	0.05
R - Rejection Region	Alpha = 0.05 (5%)
P - P-value	0.79
A/R - Accept/Reject the null	**Accept** the Null Hypothesis
Reasons:	P-value > Alpha (0.79 > 0.05) so accept the Null Hypothesis
	Fobserved < Fcritical (0.55 < 2.09) so accept the Null Hypothesis

Table 1 Anova: Single Factor						
SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
ITC Ltd	16.00	0.70	0.04	0.02		
HUL	16.00	0.77	0.05	0.01		
Godrej Consumer Products Ltd	16.00	2.01	0.13	0.02		
Dabur India Ltd	16.00	0.63	0.04	0.03		
Colgate Palmolive	16.00	1.12	0.07	0.02		
Marico Ltd.	16.00	1.38	0.09	0.01		
Emami	16.00	1.59	0.10	0.07		
P&G	16.00	1.45	0.09	0.03		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	0.10	7.00	0.01	0.55	**0.79**	2.09
Within Groups	3.23	120.00	0.03			
Total	3.33	127.00				

CONCLUSION: Here, P-value is more than Alpha which is 0.79 < 0.05 and
Fobserved is less than Fcritical i.e. 0.55 < 2.09, which means the null hypothesis is accepted and the alternate hypothesis statement is rejected. This means where ever you invest Returns across FMCG companies are the same.

HYPOTHESIS: 2

Following hypothesis is conducted to evaluate whether the Earnings for all the major FMCG Companies are the same. One-way Anova is used as a tool to analyze this particular objective.

N - Null Hypothesis (μ=μ=μ=μ)	Ho : Earnings for all the FMCG Companies are the same
A - Alternate Hypothesis	Ha : Earnings for all the FMCG Companies are **NOT** the same
(Atleast one of the means is different)	
T - Test	One-way Anova
A - Alpha	0.05
R - Rejection Region	Alpha = 0.05 (5%)
P - P-value	0.00
A/R - Accept/Reject the null	**Reject** the Null Hypothesis
Reasons:	P-value < Alpha (0.00 < 0.05) so **reject** the Null Hypothesis
	Fobserved > Fcritical (100.31 > 2.31) so **reject** the Null Hypothesis

Table 2 Anova: Single Factor - SUMMARY						
Groups	*Count*	*Sum*	*Average*	*Variance*		
ITC Ltd	5.00	43.01	8.60	2.48		
HUL	5.00	59.96	11.99	11.11		
Godrej Consumer Products Ltd	5.00	60.55	12.11	23.11		
Dabur India Ltd	5.00	18.07	3.61	1.04		
Colgate Palmolive	5.00	151.42	30.28	31.66		
Marico Ltd.	5.00	23.44	4.69	2.73		
Emami	5.00	89.34	17.87	12.91		
P&G	5.00	275.42	55.08	32.84		
ANOVA						
Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Between Groups	10,347.03	7.00	1,478.15	**100.31**	**0.00**	**2.31**
Within Groups	471.54	32.00	14.74			
Total	10,818.57	39.00				

CONCLUSION: Since P-value is less than Alpha which is 0.00 < 0.05 and Fobserved is more than Fcritical i.e. 100.31 < 2.31, which means the null hypothesis is rejected and the alternate hypothesis statement is accepted which means that the Earnings for all the FMCG Companies are NOT the same. So now to find which companies has different earnings per share one more test is conducted which is T-Test.

T-Test: 1

T-Test for the randomly selected companies out of the sample of major companies is conducted. First let us find whether the earnings for Dabur India Ltd. & Earnings of Marico Ltd. are same or different.

Earnings of Dabur India Ltd	**Earnings of Marico Ltd.**
5.67	6.55
5.34	5.44
4.35	8.45
3.85	8.95
3.39	6.69

Table 3 t-Test: Paired Two Sample for Means		
	Dabur India Ltd	***Marico Ltd.***
Mean	4.52	7.22
Variance	0.94	2.10
Observations	5.00	5.00
Pearson Correlation	(0.53)	
Hypothesized Mean Difference	-	
df	4.00	
t Stat	(2.83)	
P(T<=t) one-tail	0.02	
t Critical one-tail	2.13	
P(T<=t) two-tail	0.05	
t Critical two-tail	2.78	

Randomly, two companies i.e. Dabur India Ltd and Marico Ltd. were selected to check whether the earnings of these companies are same or not. Since the P-value < alpha i.e. 0.02 > 0.05, it means that the earnings are not same for both the companies. Also Hindustan Unilever Ltd. and Godrej Consumer Products Ltd have same earnings per share of 12.

T-Test: 2

T-Test for the randomly selected companies out of the sample of major companies is conducted. First let us find whether the earnings for Emami Ltd. & Earnings of P&G are same or different.

Earnings of Emami	Earnings of P&G
15.26	133.31
14.44	130.37
20.78	106.63
17.55	93.04
21.4	62.61

Table 4 t-Test: Paired Two Sample for Means		
	Emami	*P&G*
Mean	17.89	105.19
Variance	9.90	846.88
Observations	5.00	5.00
Pearson Correlation	(0.82)	
Hypothesized Mean Difference	-	
df	4.00	
t Stat	(6.15)	
P(T<=t) one-tail	0.00	
t Critical one-tail	2.13	
P(T<=t) two-tail	0.00	
t Critical two-tail	2.78	

Randomly, two companies i.e. Emami Ltd. and Earnings of P&G were selected to check whether the earnings of these companies are same or different. But since the P-value < alpha i.e. 0.00 < 0.05, it means that the earnings are NOT same for both the companies. Similar results were found for the companies like Colgate Palmolive, Godrej Consumer Products Ltd, Emami Ltd. and P&G which means that these companies have different earnings when compared to each.

VI. CONCLUSION

Fast Moving Consumer Goods (FMCG) sector will continue to see growth as it depends on an ever-increasing internal market for consumption, and demand for these goods remains more or less constant, irrespective of recession or inflation. Hence this sector will grow, though it may not be a smooth growth path, due to the world-wide economic condition, rising inflation and fall of the rupee. This sector will see good growth in the long run and hiring will continue to remain robust.

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