AN ANALYSIS OF RISK AND RETURN OF SELECT FMCG COMPANIES

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ABSTRACT

Stock market is considered to be one of the most rewarding avenues of investment among the various investment alternatives. When the return is high, the risk associated with such return is also high. So before investing in equity market one should come to know the risk return characteristics of those stocks and those industries in which they intends to invest. In this perspective, a study has been undertaken to analyse the risk return relationship of selected companies in FMCG sector of Indian stock market. The industry is said to be the desired sector for lot of investors. Fast moving consumer goods (FMCG) sector is the fourth largest sectorin Indian economy. FMCG stocks are considered as the safe bet because they hardly get influenced by themarket movement. But, there are instances FMCG stock price also has fallen downeven though their financial performance is satisfactory. The investors must be aware of the risk and return involved in the investment. This study helps the potential investors to make informed and rational investment decision, and 2013-14 to 2017-18 data have been taken for this study. The study has attempted to find the risk return characteristics of select FMCG companies in Indian stock market. The scope of the study has beenlimited to the select three FMCG stocks – Dabur India Limited, Hindustan Unilever Limited (HUL) and IndianTobacco Company (ITC).

Key words: *FMCG, Risk, Return etc.*

Introduction:

Fast moving consumer goods (FMCG) sector in India is the fourth largest in the economyand is one of the sector in the country which has successfully mitigated the rural-urban divide. The performance of leading players in FMCG sector was above par in the second half with almost all of them experiencing double digit growths. The outlook for Indian FMCG is positive because of growing sales, strong financials of leading players and ever increasing urbanisation. The FMCG sector is an important contributor to India's GDP and it is the fourth largest sector in the Indian economy with household and personal care of FMCG sales in India. FMCG market has grown at a faster pace in rural India compared with urban India. Risk in investment exists because of the inability to make prefect or accurate forecast. It is defined as the variability that is likely to occur in future cash flows from an investment. Return is the amount actually earned by the investors.The risk and return trade off says that the potential return rises with a rise in risk. It is important for an investor to decide on a balance between the need for the lowest possible risk and highest possible return.

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OBJECTIVES OF THE STUDY

- To identify the risk on investment in select FMCG companies.
- To provide suitable suggestion.

RESEARCH METHODOLOGY

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

TOOLS USED FOR ANALYSIS

- Risk
- Return
- Alpha
- Beta
- Correlation

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 a study on Risk and Return analysis of banking sector taking NIFTY bank index and 5 years secondary data from 2011 to 2015. Data have been analyzed through 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.

Poorima S and Swathiga (2017)have scrutinized Risk and Return analysis of selected stocks on NSE, with the objective to rank companies on the basis of risk and return. Secondary data have been used for this study. Average return, standard deviation and capital asset pricing model have been used for analysis of selected stocks for the period of 5 years from 2012 to 2017. It is concluded that IT sector has negative average return and oracle is ranked 5th place with lowest return and higher risk.

Laxman Raj Kandel (2018)have made study on Risk and Return analysis of Commercial banks of Nepal, with the objective to identify the proportion of systematic and unsystematic risk of common stock. The study is based on secondary data, NABIL and NIBL bank stock have beenselected for this study by using expected return, standard deviation and coefficient of variation for the period of 5 years from 2012-13 to 2016-17. The study shows both the banks have high proportion of unsystematic risk. It is concluded that all the commercial banks are very much risky and the common stock of NABIL seems very much volatile than NIBL.

RISK AND RETURN

Table – 1

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

COMPANY	RISK	RETURN
ITC LTD	67.69	12.42
HUL LTD	103.45	1.81
DABUR INDIA LTD	24.46	5.69

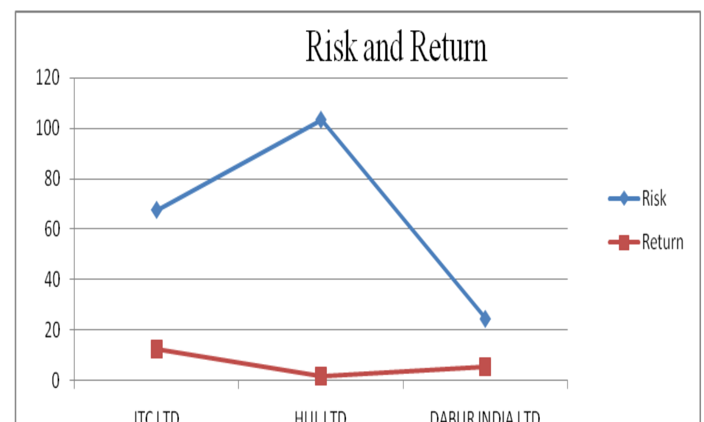
Source: Secondary Data -*(yahoo finance/money control)*

Interpretation

The above table1 interprets that the risk of investments in HUL (103.45) is highest and lowest in DABUR for period of five years. As for returns, ITC has shown highest return and HUL has lowest returns. It can be said that HUL investments are risky than ITC and DABUR.

Chart -1

Risk and Return of select FMCG Companies



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

COMPANY	BETA	ALPHA
ITC	2.74	0.136
HINDUSTAN UNILEVER	2.35	0.116
DABUR INDIA	-1.14	-0.056

Table – 2

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

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

Interpretation

The above table 2 interprets that the beta value of both ITC and HUL are more than 1, which indicates that the security price is more volatile than market. Whereas DABUR has negative beta which means that the stock is inversely correlated to the market benchmark trend and also has a negative alpha indicating the underperformance of the stock. The positive alpha of ITC and HUL depicts that they have managed to perform better than expected return based on the risk measured by beta.

Table – 3

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

COMPANY	CORRELATION COEFFICIENT
ITC & HUL	0.044
ITC & DABUR	0.0043
HUL & DABUR	0.53

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

Interpretation

The above table 3 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.

FINDINGS

- Risks in investments are higher in HUL and ITC compared to DABUR and as for returns ITC has earned higher returns followed by DABUR.
- HUL and DABURhave lower return with higher risk.
- HUL 2.35 and ITC 2.74 have high volatility and also possibility of high return.
- It is found all the stock have positive correlation coefficient indicating a strong relationship between the stocks as for their movements.
- When compared the relationship between HUL & DABUR 0.53 is highly positive than others indicating stocks moving 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 ITC LTD and DABUR INDIA LTD.
- The investors who are more risk seekers can invest in HUL LTD.

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