

## A Study of Fundamental and Technical Analysis of Companies in the FMCG Sector

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### ABSTRACT

*This research paper comprehensively examines the effective utilization of both fundamental and technical analysis for identifying lucrative investment opportunities within the FMCG sector. The study focuses on assessing the intrinsic value of the top ten FMCG companies listed with the National Stock Exchange. These companies are ranked based on their market capitalization, and the assessment is conducted through a meticulous analysis of ratio metrics, price multiples, and pivotal economic indicators. By utilizing these analytical tools, the research successfully identifies overvalued and undervalued stocks, guiding the strategic selection of companies for potential investments. In addition to fundamental analysis, the research integrates technical analysis to pinpoint opportune entry and exit points for profitable trades. Employing a multi-dimensional perspective, encompassing long-term, mid-term, and short-term horizons, the study utilizes candlestick patterns to discern crucial market trends and significant turning points. The synthesis of these comprehensive analyses offers a robust framework for making informed investment decisions in the FMCG sector. The findings of this study demonstrate the efficacy of both fundamental and technical analysis in identifying profitable investment opportunities in the FMCG sector. Nevertheless, the selection of the most suitable approach should be tailored to the individual risk tolerance and investment objectives of discerning investors.*

**Keywords:** FMCG, Fundamental analysis, Technical analysis, Investment opportunities

### INTRODUCTION

The Fast-Moving Consumer Goods (FMCG) sector in India stands as a pivotal catalyst in propelling the nation's economic growth, driven by its distinguishing characteristics of rapid product turnover and affordability, serving extensively to individual consumers. Demonstrating remarkable dynamism, the sector consistently achieves robust annual growth rates surpassing 10%, paving the way

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for FMCG companies to embark on further expansion endeavours. In 2022, the FMCG sector emerged as the fourth-largest sector in the Indian economy, with a market size of US\$ 307.2 trillion. Projections indicate a compound annual growth rate (CAGR) of 9.5% during 2023-2028, with the sector expected to reach US\$ 547.3 trillion by 2028.

This upward trajectory in the FMCG sector is attributed to various factors, including the rising affluence of Indian consumers, increasing urbanization, growing demand for packaged and convenient food products, and the adoption of modern retail channels. Segmented into three distinct categories, namely household and personal care, healthcare, and food and beverages, the FMCG sector in India is predominantly led by the household and personal care segment, succeeded by healthcare and food and beverages. Urban areas dominate the landscape, accounting for 55% of the overall sector's revenue, buoyed by the increasing purchasing power of the middle-income group, thus propelling the FMCG market's growth trajectory. The sector's progress is further bolstered by favourable government policies, such as the relaxation of licensing regulations and significant approvals for Foreign Direct Investment (FDI), with 51% allowed in multi-brand and 100% in single-brand retail. However, rural demand still holds untapped potential, which can be harnessed through awareness programs designed to spur growth in these regions.

Employing approximately 3 million individuals, constituting around 5% of the nation's total factory workforce, the FMCG sector offers substantial employment opportunities, making it an attractive prospect for new entrants. Projections for the FMCG market remain promising, with anticipated growth rates of 10-11% in 2023, wherein the urban and rural segments are projected to grow by 8% and 6%, respectively. Key drivers for this growth encompass increasing incomes, ongoing urbanization, and evolving lifestyles, collectively ensuring a bright and optimistic future for India's FMCG sector.

This research aims to contribute to the FMCG sector in several ways. First, it selects the top ten large-cap companies with a market capitalization of more than ₹ 8000 Cr. Second, it creates an index to monitor the sector's performance and individual companies. Third, it categorizes stocks as undervalued or overvalued based on their P/E ratio compared to the sector's average P/E ratio. Fourth, it selects value-picks and growth-picks from undervalued and overvalued stocks, respectively, using top-line (revenue), bottom-line (earnings), and PEG ratio

analysis. Finally, it calculates the Net Asset Value (NAV) to evaluate the sector fund's performance compared to the benchmark index.

The study also incorporates technical analysis to identify entry and exit points for profitable trades in the FMCG sector. It performs long-term, mid-term, and short-term technical analyses on the selected stocks, using candlestick patterns to determine potential buying and selling opportunities. The analysis offers valuable insights into price movements and signals significant turning points in the market.

By combining fundamental and technical analysis, this research provides a comprehensive understanding of the FMCG sector and aids in making informed investment decisions.

## **REVIEW OF LITERATURE**

The research paper emphasizes that the combination of fundamental and technical analysis is essential for evaluating the FMCG sector and making well-informed investment decisions. Through fundamental analysis, investors can assess financial performance and intrinsic value, while technical analysis provides insights into market behaviour and future trends based on historical price movements. This balanced approach helps investors identify growth and value opportunities and construct a well-balanced investment portfolio in the FMCG sector.

Sri Ayan Chakraborty (2017), conducted a study to know the financial performance of leading FMCG companies in India and the study was based on six leading companies in FMCG sector, as per the study financial ratio analysis plays a significant role in evaluating the performance of a Company.

Pooja Sharma & Abhay Grover (2016), conducted a study on financial performance of FMCG companies using different ratio and found that ITC is was the most profitable company among the selected sample of companies. The study was based on top five companies.

Bagchi, B. and Khamrui, B. (2012), conducted a study which focused on comparative analysis of two companies and the study was also conducted based on accounting ratios. Therefore, accounting ratios are an important tool to analyse the financial performance of companies.

Shivanisinh Shailesh Kumar Parmar (2017), conducted a study to know the financial efficiency of select FMCG companies using accounting ratios.

Alpa Joshi (2013) conducted a study to know the profitability performance of FMCG companies and used accounting ratios like net operating profit ratio, profit after tax ratio, net profit margin to analyse the financial performance of these companies. All these studies have used accounting ratios for analysing financial performance of FMCG companies. Be it for liquidity, profitability or efficiency accounting ratios provide an easy way of understanding the performance of a business.

## **FUNDAMENTAL ANALYSIS AND TECHNICAL ANALYSIS**

Fundamental analysis, in the context of the FMCG sector, involves evaluating a security by thoroughly examining its underlying fundamentals, including financial performance, future earnings potential, and the overall industry outlook. It encompasses both financial and non-financial aspects, such as assessing the economy, industry scenario, company management, and financial position. This form of analysis scrutinizes a company's primary ratios to assess its financial well-being and potential valuation. By employing fundamental analysis, one gains valuable insights to make informed investment decisions, considering factors such as revenue, asset management, business production, and interest rates.

On the other hand, technical analysis is a method of forecasting future price movements in the financial markets. It relies on the belief that past price movements can predict future ones. Technical analysts utilize various tools and indicators, such as charts, moving averages, oscillators, and volume, to analyse price data. The fundamental tenets of technical analysis are centred around the principles that price movements are driven by supply and demand, leading to trends that repeat themselves. This approach allows investors to predict potential price movements based on historical market psychology.

While fundamental analysis adopts a top-down approach, examining the economy, company, and sector, technical analysis focuses on historical price data to anticipate future trends.

## **OBJECTIVES OF THE STUDY**

- To conduct a comprehensive analysis of the top 10 FMCG companies based on the parameters of profitability, valuation, and growth prospects.

- To identify the value-pick and growth-pick stocks among the top 10 FMCG companies using fundamental and technical analysis.
- To identify and test technical indicators that can be used to develop a trading strategy with a high probability of success.
- To identify the best performing companies among the selected companies.

## **RESEARCH METHODOLOGY**

### **Research Design**

The research methodology employed in this study is descriptive, encompassing both fundamental and technical analyses of FMCG companies. The study utilizes a combination of quantitative and qualitative data, collected from secondary sources like websites, company balance sheets, and annual reports. For technical analysis, charts and live trading with oscillators and intraday strategies were utilized. Additionally, ratio analysis was employed to gauge the profitability, efficiency, sustainability, and creditworthiness of the businesses. The data was sourced from day-to-day trading activities related to FMCG companies.

### **Size of sample: Top 10 Large Caps Companies**

1. Hindustan Unilever Limited
2. Imperial Tobacco Company
3. Nestle India Limited
4. Britannia Industries Limited
5. Godrej Consumer Products Limited
6. Dabur India Limited
7. Marico Limited
8. Adani Wilmar
9. P & G Healthcare
10. Colgate Palmolive Limited

## **FINDINGS OF THE STUDY**

In this study (Table No.1), we evaluated the P/E ratios of 10 companies and compared them to the sector's average P/E ratio of 61.50. Companies with P/E ratios higher than the sector's average, namely Nestle India Ltd., Godrej consumer products Ltd., Adani Wilmar Ltd., and P & G Hygiene and Healthcare Ltd., were

classified as overvalued, while companies with lower P/E ratios, such as Hindustan Unilever Ltd., I.T.C Ltd., Britannia Industries Ltd., Dabur India Ltd., Marico Ltd., and Colgate Palmolive Ltd., were deemed undervalued.

**Table No. 1**

Sr. No.	Company Name	P/E Ratio	Category
1	Hindustan Unilever Ltd.	60.3	Under-Valued
2	ITC Ltd.	28.64	Under-Valued
3	Nestle India Ltd.	86.61	Over-Valued
4	Britannia Industries Ltd.	47.34	Under-Valued
5	Godrej Consumer Products Ltd.	61.84	Over-Valued
6	Dabur India Ltd.	55.03	Under-Valued
7	Marico Ltd.	52.42	Under-Valued
8	Adani Wilmar Ltd.	106.13	Over-Valued
9	P&G Hygiene and Healthcare Ltd.	75.67	Over-Valued
10	Colgate Palmolive Ltd.	41.07	Under-Valued
<b>Average of P/E Ratio</b>		<b>61.5</b>	

*Source: www.moneycontrol.com*

In table no.2 and table no.3, the undervalued stocks were meticulously chosen for further evaluation through a thorough analysis of their revenue and profit metrics, leading to the selection of Hindustan Unilever Ltd., I.T.C Ltd., Britannia Industries Ltd., Dabur India Ltd., Marico Ltd., and Colgate Palmolive Ltd. for further consideration.

**Table No. 2**

Sr. No.	Revenue	Profit	Outcome
1	Increased	Increased	} SELECTED
2	Increased	Decreased	
3	Decreased	Increased	
4	Decreased	Decreased	REJECTED

**Table No. 3**

Sr. No.	Under – Valued Companies	Comparison of Revenue of 2022-2023	Comparison of Profit of 2022-2023
1	Hindustan Unilever Ltd.	Increased	Increased
2	I.T.C Ltd.	Increased	Increased
3	Britannia Industries Ltd.	Increased	Increased
4	Dabur India Ltd.	Increased	Decreased
5	Marico Ltd.	Decreased	Increased
6	Colgate Palmolive Ltd.	Increased	Increased

In table no. 4, the PEG ratio analysis was performed for the overvalued companies, and none of them satisfied the criteria of having a PEG ratio between 0-1.5 thereby, making them ineligible for further analysis.

**Table No. 4**

Sr. No.	Over- Valued Companies	PEG Ratio
1	Nestle India Ltd.	4.2
2	Godrej Consumer Products Ltd.	-13.9
3	Adani Wilmar Ltd.	-3.6
4	P & G Hygiene & Healthcare Ltd.	-35.1

*Source: www.moneycontrol.com*

In this study (Table No.5), the selected companies were ranked based on five crucial ratios, namely current ratio, quick ratio, inventory turnover ratio, return on asset ratio, and return to net worth ratio, which are considered significant for assessing the FMCG sector.

**Table No. 5**

SN	Company Name	Current Ratio	Quick Ratio	Inventory Turnover Ratio	Return on Asset Ratio	Return on Net Worth Ratio
1	Hindustan Unilever Ltd.	1.38	1.03	4.86	13.86	19.83
2	I.T.C Ltd.	2.84	1.98	1.92	22.35	27.74
3	Britannia Industries Ltd.	1.15	0.87	6.09	24.76	67.24
4	Dabur India Ltd.	0.85	0.38	2.83	14.68	21.84
5	Marico Ltd.	2.18	1.12	3.85	23.16	32.06
6	Colgate Palmolive Ltd.	1.43	1.5	4.31	36.32	61

*Source: www.valueresearchonline.com*

Colgate Palmolive (India) Ltd., Marico Ltd., Britannia Industries Ltd., I.T.C Ltd., Hindustan Unilever Ltd., and Dabur India Ltd. were sequentially ranked from first to sixth, respectively, as a result of this comprehensive evaluation (Table No.6).

**Table No. 6**

Company Name	Current Ratio	Quick Ratio	Inventory Turnover Ratio	Return on Asset Ratio	Return on Net Worth Ratio	Sum of Rank	Ranking of sum	} Lowest Sum is Ranked First
Hindustan Unilever Ltd	4	4	2	6	6	22	5	
I.T.C Ltd.	1	1	6	4	4	16	4	
Britannia Industries Ltd	5	5	1	2	1	14	2	
Dabur India Ltd.	6	6	5	5	5	27	6	
Marico Ltd.	2	3	4	3	3	15	3	
Colgate Palmolive Ltd.	3	2	3	1	2	11	1	

As shown in table no. 7, an investment fund of 10 crores was allocated among the selected stocks based on their rankings. Colgate Palmolive (India) Ltd. was allotted the highest asset of 3 crores, followed by Marico Ltd. with 2.5 crores, Britannia Industries Ltd. with 2 crores, I.T.C Ltd. with 1.5 crores, Hindustan Unilever Ltd. with 80 lakhs, and Dabur India Ltd. with 20 lakhs.

**Table No. 7**

Rank	Company Name	Price [02-05-2023]	No. of Share	Asset Allocation
1 <sup>st</sup>	Colgate Palmolive (India) Ltd.	1609.55	18639	3.0 Cr. [30%]
2 <sup>nd</sup>	Marico Ltd.	549.2	45521	2.5 Cr. [25%]
3 <sup>rd</sup>	Britannia Industries Ltd.	4654.15	4297	2.0 Cr. [20%]
4 <sup>th</sup>	ITC Ltd.	443.4	338230	1.5 Cr. [15%]
5 <sup>th</sup>	Hindustan Unilever Ltd.	2711.05	2951	80 L. [8%]
6 <sup>th</sup>	Dabur India Ltd.	557.2	3590	20 L. [2%]
<b>Total</b>				<b>10 Cr. [ 100% ]</b>

In this study, the fundamental analysis revealed Colgate Palmolive (India) Ltd. as the foremost investment choice, receiving a 3-crore asset allocation due to its strong fundamentals. Conversely, Dabur India Ltd. exhibited comparatively weaker fundamentals, resulting in a modest 20-lakh allocation as an investment option.

Table no. 8 shows the evaluation of technical indicators led to the recommendation that investors should avoid using the Central Pivot Range indicator due to its lower probability of success. Instead, the Aroon indicator, the Stochastic - RSI indicator, and the Bollinger Band indicator exhibited higher probabilities of success. The backtesting results particularly highlighted the Aroon indicator as the most reliable for Hindustan Unilever Limited, offering a notably higher probability of success at 42.64%. Additionally, the stochastic RSI showed a respectable probability of success at 42.27%, while the Bollinger Bands demonstrated a probability of success at 42.10%. Consequently, it stands out as a favourable choice for investors seeking higher success rates in their trading decisions.

**Table No. 8**

Sr. No.	Name of Indicator	Total Win Probability	Total Loose Probability	Rank
1	Aroon Indicator	42.64%	57.36%	1 <sup>st</sup>
2	Stochastic - RSI Indicator	42.27%	57.73%	2 <sup>nd</sup>
3	Bolinger Bands Indicator	42.10%	57.90%	3 <sup>rd</sup>
4	Central Pivot Range Indicator	38.10%	61.90%	4 <sup>th</sup>

*Source: www.streak.tech*

## CONCLUSION

Overvalued stocks such as Nestle India Ltd., Godrej consumer products Ltd., Adani Wilmar Ltd., P&G Hygiene and Healthcare Ltd. are not good investment opportunities due to their high P/E ratios.

Undervalued stocks such as Hindustan Unilever Ltd., I.T.C Ltd., Britannia Industries Ltd., Dabur India Ltd., Marico Ltd., and Colgate Palmolive Ltd. are more attractive investment opportunities due to their lower P/E ratios and growth potential.

Use the following financial ratios to assess FMCG companies: current ratio, quick ratio, inventory turnover ratio, return on asset ratio, return to net worth ratio.

Rank the FMCG companies based on the financial ratios and allocate investment funds accordingly.

Colgate Palmolive (India) Ltd. is the best investment choice, while Dabur India Ltd. is a less attractive investment opportunity.

Use the Aroon, Stochastic - RSI, and Bollinger Band indicators for trading decisions. Avoid the Central Pivot Range indicator.

The Aroon indicator is the most reliable technical indicator.

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