

# [The indian fast moving consumer goods sector](https://assignbuster.com/the-indian-fast-moving-consumer-goods-sector/)

Executive summary The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 13. 1 billion. FMCG market is expected to rise to 33. 4 Billion US$ till 2015. This report starts with a brief introduction of FMCG market along with industry Overview. It further state why FMCG sector us analyzed and why India. in this report three FMCG company “ HUL, Nestle India , and ITC” is analyzed there history their shareholding pattern with their product is being discussed. The company’s fundamental analysis is shown in the report.

An analysts evaluates the stocks based on different parameter like fundamentals of the company i. e. earnings of the company, P/E dividend yield and many more things. The report also include the distinguish feature of FMCG as compared to other sector and a well-defined conclusion OBJECTIVE OF STUDY \* To know about the FCMG industry and how it is contributing towards Indian economy \* To find out how the judgment is taken by the analyst on the basis of fundamental analysis of the company. \* To guide investors for selecting industry by which they can able to make returns from the amount invested in that company. To analyze the ratios of selected company to find out financial condition of selected companies RESEARCH METHODOLOGY Research methodology is a way to systematically solve the research problem. The research methodology is used to find out the solution of the research problem of analytical research methodology and some extend descriptive research methodology. \* Primary Data \* Primary data collect by discussing with my guide and other staff of the company. \*Observation\* Secondary Data The sources of secondary data to solve the problems are:- \* Company Annual Report Company Internal Data \* Internet-Websites Introduction of FMCG sector in India What is Fast Moving Consumer Goods (FMCG)? Products which have a quick turnover, and relatively low cost are known as Fast Moving Consumer Goods (FMCG). FMCG products are those that get replaced within a year. Examples of FMCG generally include a wide range of frequently purchased consumer products such as toiletries, soap, cosmetics, tooth cleaning products, shaving products and detergents, as well as other non-durables such as glassware, bulbs, batteries, paper products, and plastic goods.

FMCG may also include pharmaceuticals, consumer electronics, packagedfoodproducts, soft drinks, tissue paper, and chocolate bars. Subsets of FMCGs are Fast Moving Consumer Electronics which include innovative electronic products such as mobile phones, MP3 players, digital cameras, GPS Systems and Laptops. These are replaced more frequently than other electronic products. White goods in FMCG refer to household electronic items such as Refrigerators, T. Vs, MusicSystems, etc. In 2005, the Rs. 48, 000-crore FMCG segment was one of the fast growing industries in India.

According to the AC Nielsen India study, the industry grew 5. 3% in value between 2004 and 2005. INDIAN FMCG SECTOR The Indian FMCG sector is the fourth largest in the economy and has a market size of US$13. 1 billion. Well-established distribution networks, as well as intense competition between the organized and unorganized segments are the characteristics of this sector. FMCG in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the FMCG market will reach to US$ 33. 4 billion in 2015 from US $ billion 11. 6 in 2003.

The middle class and the rural segments of the Indian population are the most promising market for FMCG, and give brand makers the opportunity to convert them to branded products. Most of the product categories like jams, toothpaste, skin care, shampoos, etc. , in India, have low per capita consumption as well as low penetration level, but the potential for growth is huge. The Indian Economy is surging ahead by leaps and bounds, keeping pace with rapid urbanization, increased literacy levels, and rising per capita income. The big firms are growing bigger and small-time companies are catching up as well.

According to the study conducted by AC Nielsen, 62 of the top 100 brands are owned by MNCs, and the balance by Indian companies. Fifteen companies own these 62 brands, and 27 of these are owned by Hindustan Lever. Pepsi is at number three followed by Thums Up. Britannia takes the fifth place, followed by Colgate (6), Nirma (7), Coca-Cola (8) and Parle (9). These are figures the soft drink and cigarette companies have always shied away from revealing. Personal care, cigarettes, and soft drinks are the three biggest categories in FMCG. Between them, they account for 35 of the top 100 brands.

Exhibit I THE TOP 10 COMPANIES IN FMCG SECTOR IN INDIA SR. NO. | COMPANIES| 1| HINDUSTAN UNILEVER LTD. | 2| ITC ( INDIAN TOBACCO COMPANY)| 3| NESTLE INDIA| 4| AMUL| 5| DABUR INDIA| 6| ASIAN PAINTS ( INDIA )| 7| CADBURY INDIA| 8| BRITANNIA INDUSTRIES| 9| PROCTERAND GAMBLE HYGIENE ANDHEALTHCARE| 10| MARICO INDUSTRIES| | | The companies mentioned in Exhibit I, are the leaders in their respective sectors. The personal care category has the largest number of brands, i. e. , 21, inclusive of Lux, Lifebuoy, Fair and Lovely, Vicks, and Ponds. There are 11 HLL brands in the 21, aggregating Rs. , 799 crore or 54% of the personal care category. Cigarettes account for 17% of the top 100 FMCG sales, and just below the personal care category. ITC alone accounts for 60% volume market share and 70% by value of all filter cigarettes in India. The foods category in FMCG is gaining popularity with a swing of launches by HLL, ITC, Godrej, and others. This category has 18 major brands, aggregating Rs. 4, 637 crore. Nestle and Amul slug it out in the powders segment. The food category has also seen innovations like softies in ice creams, chapattis by HLL, ready to eat rice by HLL and pizzas by both GCMMF and Godrej Pillsbury.

This category seems to have faster development than the stagnating personal care category. Amul, India's largest foods company has a good presence in the food category with its ice-creams, curd, milk, butter, cheese, and so on. Britannia also ranks in the top 100 FMCG brands, dominates the biscuits category and has launched a series of products at various prices. In the household care category (like mosquito repellents), Godrej and Reckitt are two players. Goodknight from Godrej is worth above Rs 217 crore, followed by Reckitt's Mortein at Rs 149 crore.

In the shampoo category, HLL's Clinic and Sunsilk make it to the top 100, although P; G's Head and Shoulders and Pantene are also trying hard to be positioned on top. Clinic is nearly double the size of Sunsilk. Dabur is among the top five FMCG companies in India and is an herbal specialist. With a turnover of Rs. 19 billion (approx. US$ 420 million) in 2005-2006, Dabur has brands like Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola and Real. Asian Paints is enjoying a formidable presence in the Indian sub-continent, Southeast Asia, Far East, Middle East, South Pacific, Caribbean, Africa and Europe.

Asian Paints is India's largest paint company, with a turnover of Rs. 22. 6 billion (around USD 513 million). Forbes Global magazine, USA, ranked Asian Paints among the 200 Best Small Companies in the World Cadbury India is the market leader in the chocolate confectionery market with a 70% market share and is ranked number two in the total food drinks market. Its popular brands include Cadbury's Dairy Milk, 5 Star, Eclairs, and Gems. The Rs. 15. 6 billion (USD 380 Million) Marico is a leading Indian group in consumer products and services in the Global Beauty and Wellness space.

Outlook There is a huge growth potential for all the FMCG companies as the per capita consumption of almost all products in the country is amongst the lowest in the world. Again the demand or prospect could be increased further if these companies can change the consumer's mindset and offer new generation products. Earlier, Indian consumers were using non-branded apparel, but today, clothes of different brands are available and the same consumers are willing to pay more for branded quality clothes.

It's the quality, promotion and innovation of products, which can drive many sectors. PERFORMANCE OF FMCG SECTOR IN INDIA Sector Funds or Thematic Funds – A lot of advisors are negative on sectoral funds, but I don’t know the reason why they are negative particularly in case of FMCG mutual funds. The Indian Fast Moving Consumer Goods (FMCG) sector is booming from last several years and given steady returns to its investors despite slowdown in the economy. The India Brand Equity Foundation (IBEF) estimates a total market size in excess of US$13. billion for FMCG industry in 2012. FMCG sector has several multinational players with strong presence in India such as Nestle, Procter and Gamble, Gillette, etc. There is stiff competition among domestic companies, unorganized segment and MNC companies to increase their sales year-on-year, due to which they operate on low operational cost and margins SENSEX vs. BSE FMCG Index FMCG sector is performing well due to strong characteristics and dependence on consumption in domestic market. The returns table (above) portraits that it registered lower drop in 2008 i. . during slowdown in the economy. The performance of FMCG sector was laggard in 2009 when economy was recovering and major sectors started performing well contributing to growth in SENSEX. However, performance of BSE FMCG index in 2010 was outstanding on back of fiscal stimulus but got hit again in 2011 due to European debt crisis and domestic reasons. In 2011, SENSEX was volatile and gave negative returns of -25% at end of year whereas; FMCG is the only sector which gave strong returns of 9% in 2011 Fundamental Analysis

Fundamental analysis is a method used to determine the value of a stock by analyzing the financial data that is 'fundamental' to the company. That means that fundamental analysis takes into consideration only those variables that are directly related to the company itself, such as its earnings, its dividends, and its sales. Fundamental analysis does not look at the overall state of the market nor does it include behavioral variables in its methodology. It focuses exclusively on the company's business in order to determine whether or not the stock should be bought or sold.

Critics of fundamental analysis often charge that the practice is either irrelevant or that it is inherently flawed. The first group, made up largely of proponents of the efficient market hypothesis, say that fundamental analysis is a useless practice since a stock's price will always already take into account the company's financial data . In other words, they argue that it is impossible to learn anything new about a company by analyzing its fundamentals that the market as a whole does not already know, since everyone has access to the same financial information.

The other major argument against fundamental analysis is more practical than theoretical. These critics charge that fundamental analysis is too unscientific a process, and that it's difficult to get a clear picture of a company's value when there are so many qualitative factors such as a company's management and its competitive landscape. However, such critics are in the minority. Most individual investors and investment professionals believe that fundamental analysis is useful, either alone or in combination with other techniques.

If you decide that fundamental analysis is the method for you, you'll find that a company's financial statements (its income statement, its balance sheet and its cash flow statement) will be indispensable resources for your analysis . And even if you're not totally sold on the idea of fundamental analysis, it's probably a good idea for you to familiarize yourself with some of the valuation measures it uses since they are often talked about in other types of stock valuation techniques as well. Fundamental analysis serves to answer questions , such as: Is the company’s revenue growing? \* Is it actually making a profit? \* Is it in a strong – enough position on beat out its competitors in the future? \* Is it able to repay its debts? \* Is management trying to cook the books ? These are very involved questions, and there are literally hundreds of others we might have about a company. It all really boils down to one question: is the company’s stock a good investment? Think of fundamental analysis as a toolbox to help answer this question. The term fundamental analysis is used most often in the context of stocks, ut we can perform fundamental analysis on any security, from a bond to a derivative. As long as we look at the economic fundamentals, we are doing fundamentals analysis. For the purpose of this project fundamental analysis is referred to in the context of stocks. Fundamentals: Quantitative and Qualitative We could define fundamental analysis as “ researching the fundamentals”, but that doesn’t tell us a whole lot unless we know what fundamentals are. As mentioned in the introduction, the big problem with defining fundamentals is that it can include anything related to the economic well-being of a company.

Obvious items include things like revenue and profits, but fundamentals also include everything from company’s market share to the quality of its management. Quantitative meets Qualitative: Neither Qualitative nor Quantitave analysis is inherently better than the other. Instead, many analysts consider qualitative factors in conjunction with the hard, quantitative factors. Take the coca-cola company, for example. When examining its stock , an analyst might look at the stock’s annual dividend payout, earnings per share, P/E ratio and many other quantitative factors.

However, no analysis of coca-cola would be complete without taking into account its brand recognition. Anybody can start a company that sells sugar and water, but few companies on earth recognized by billions of people. It’s tough to put our finger on exactly what the coke brand is worth, but we can be sure that it’s an essential ingredient contributing to the company’s ongoing success. RATIO VALUATION Financial ratios are mathematical calculations using figures mainly from the financial statements, and they are used to gain an idea of a company’s valuation and financial performance.

Some of the most well-known valuation are price to earning and price to book. Each valuation ratio uses different measures in its calculations. For example, price to book compares the price per share to the company’s book value. The calculations produced by the valuation ratios are used to gain some understanding of the companyls value. The ratios are compared on an absolute basis. In which there are threshold values. For example, in price-to-book, companies trading below ‘ 1’ are considered undervalued.

Valuation ratios are also compared to the historical values of the ratios for the company, along with comparisons to competitors and the overall market itself. INDIAN TOBACCO COMPANY ITC Ltd. is the largest tobacco company in India. It enjoys theleadershipposition in the Indian cigarette market with a market share of 80% in terms of value. It is the owner of several renowned brands like Bristol, India Kings, Classic, Gold Flake, Navy Cut, Berkeley and Insignia. The company has over the last few years taken steps to establish itself in other FMCG categories.

It has expanded its presence to foods, personal care and lifestyle retailing spaces. It also owns the second largest hotel group in India, accounting for 3000 rooms in the luxury segment. Further, it is also present in Paper and paperboard, and agri-business segments which provide backward integration benefits for its other businesses. The table given below gives the 5 broad business segments of the companies As seen from the graphs given below, Cigarettes contribute close to 65% of ITC’s total gross revenues however owing to the high incidence of taxes, this segment amounts to ~50% of the revenue on a net basis.

FMCG others segment has gradually increased its contribution over the years and is expected to be a major growth driver in the coming years. PROFIT AND LOSS STATEMENT OF COMPANY Performance of business segments ITC dominates the cigarette market with close to 80% market share in terms of value and around 70% market share by volume. The nearest competitor is Godfrey Phillips with a 10% value market share and VST Industries with a 5% market share. It owns some of the most popular and valuable brands like Wills Filter, Gold Flake Filter, Classic, India Kings, Scissors, Capstan and Bristol present across the different cigarette segments.

Leadership position and strong brands have enabled the company to pass on the excise duty hikes carried out by the government to its customers. Over the past eight years, ITC has raised its gross realization per stick by 10. 8% CAGR, ahead of excise duty increase of 7. 1% CAGR. KEY FINANCIAL RATIOS Particulars| Mar’ 12| Mar’ 11| Mar’10| INVESTMENT VALUATION RATIOS| | | | Face Value| 1| 1| 1| Dividend Per share| 4. 50| 4. 45| 10| | | | | Profitability Ratios| | | | Operating profit margin ( % )| 35. 55| 34. 08| 33. 02| Net profit Margin| 23. 97| 22. 91 | 21. 30| Return on Net worth| 32. 88| 31. 36| 28. 98| | | | |

Liquidity Ratios| | | | Debt Equity Ratio| ------------| 0. 01| 0. 01| | | | | Management Efficiency Ratios| | | | Inventory Turnover Ratio| 6. 53| 6. 05| 6. 04| Debtors turnover Ratio| 26. 50| 23. 91| 24. 31| Working Capital Turnover Ratio| | 25. 78| -26. 29| | | | | | | | | Cash Flow Indicator Ratio| | | | Dividend Payout Ratio| 0. 57| 0. 69| 0. 94| Sales Growth %| 15. 06| 16. 04| 13. 56| Earnings Per share| 7. 88| 6. 45| 10. 64| | | | | | | | | | | | | HINDUSTAN UNILEVER LIMITED Hindustan Unilever (HUL) is the largest fast moving consumer goods (FMCG) company, a leader in home & personal care products and foods & beverages.

HUL's brands are spread across 20 distinct consumer categories, touching lives of every 2 out of 3 Indian. It has employee strength over 15000 ; 1200 managers. It has created widespread network through its 2000 suppliers ; associates. There 75 manufacturing locations in India itself. It caters its wide range of products to 6. 3million outlets. It has market capitalization of 11. 5billion. Brands Home ; personal care:- Under this it has brands that caters to every income segment of population. In this segment it has brands like Lakme, Axe, Pepsodent, Surf Excel, Wheel, Lux, Dove, Fair ; Lovely ; many more.

Foods ; Beverages:-Under this segment it has brand like Kissan, Knnor Soups, Annapurna, Kwality Walls, Brooke Bond ; Lipton. It has also launch water purifier with the name Pureit. The FMCG market is set to treble from $11. 6 billion in 2003 to $33. 4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash, etc in India is low indicating the untapped market potential. Companies present in FMCG segment like HUL, Dabur, ITC, Godrej ; many more have potential to acquire market share. KEY FINANCIAL RATIOS PARTICULARS| Mar’12| Mar’11| Mar’10|

INVESTMENT VALUATION RATIOS| | | | Face Value| 1| 1| 1| Dividend Per Share| 7. 5| 6. 5| 6. 5| | | | | PROFITABILITY RATIOS| | | | Operating Profit Margin ( %)| 14. 88| 13. 53| 15. 74| Net profit Margin (%)| 12. 01| 11. 56| 12. 29| Return on Net Worth (%)| 76. 61| 87. 57| 85. 25| | | | | LIQUIDITY RATIO| | | | Debt Equity Ratio| | | | | | | | MANAGEMENT EFFICIENCY RATIOS| | | | Inventory Turnover Ratio| 9. 21| 7. 91| 8. 99| Debtors Turnover Ratio| 27. 27| 24. 28| 29. 24| Working Capital Turnover Ratio| | -17. 98| -15. 91| | | | | CASH FLOW INDICATOR RATIOS| | | | Dividend Payout Ratio| 0. 60| 0. 61| 0. 64| Sales Growth %| 12. 4%| 11. 57 %| -15. 80 %| Earnings Per Share| 12. 45| 10. 68| 10. 09| NESTLE INDIA Nestle India is a subsidiary of Nestle S. A. , headquartered at Vevey, Switzerland. Globally, Nestle (website: www. nestle. com) is a leading nutrition, health and wellness company. The original parent company was founded in 1905 as a result of a merger of two companies namely – ‘ Anglo-Swiss Milk Company’ for milk products and the ‘ Farine Lactee Henri Nestle Company’. The former of the two was established in 1866 by the Page Brothers in Cham, Switzerland and the later was established in 1866 by Henri Nestle to provide an infant food product.

Even during the early 1900s ‘ The Nestle Anglo-Swiss Condensed Milk Company (Export) Limited’ used to import products to India but the formal journey of Nestle India started only in 1959. Today with popular brands like NESCAFE, MAGGI, MILKYBAR, MILO, KIT KAT, BAR-ONE, MILKMAID and NESTEA under its belt Nestle is a well-known name in India. Nestle India is a subsidiary of Nestle S. A. of Switzerland. Nestle India manufactures a variety of food products such as infant food, milk products, beverages, prepared dishes ; cooking aids, and chocolates ; confectionary.

Some of the famous brands of Nestle are NESCAFE, MAGGI, MILKYBAR, MILO, KIT KAT, BAR-ONE, MILKMAID, NESTEA, NESTLE Milk, NESTLE SLIM Milk, NESTLE Fresh 'n' Natural Dahi and NESTLE Jeera Raita. Nestle was founded in 1867 in Geneva, Switzerland by Henri Nestle. Nestle's first product was " Farine Lactee Nestle", an infant cereal. In 1905, Nestle acquired the Anglo-Swiss Condensed Milk Company. Nestle's relationship with India started 1912, when it began trading as The Nestle Anglo-Swiss Condensed Milk Company (Export) Limited, importing and selling finished products in the Indian market.

After independence, in response to the then economic policies, which emphasized local production, Nestle formed a company in India, namely Nestle India Ltd, and set up its first factory in 1961 at Moga, Punjab, where the Government wanted Nestle to develop the milk economy. In Moga, Nestle educated and advised farmers regarding basic farming and animal husbandry practices such as increasing the milk yield of the cows through improved dairy farming methods, irrigation, scientific crop management practices etc. Nestle set up milk collection centres that ensured prompt collection and paid fair prices.

Thus, Nestle transformed Moga into a prosperous and vibrant milk district. In 1967, Nestle set up its next factory at Choladi (Tamil Nadu) as a pilot plant to process the tea grown in the area into soluble tea. Nestle opened its third factor in Nanjangud (Karnataka) in 1989. Thereafter, Nestle India opened factories in Samalkha (Haryana), in 1993 and two in Goa at Ponda, and Bicholim in 1995 and 1997 respectively. Nestle India is now putting up the 7th factory at Pant Nagar in Uttarakhand. Today, Nestle is the world's largest and most diversified food company.

It has around 2, 50, 000 employees worldwide, operated 500 factories in approximately 100 countries and offers over 8, 000 products to millions of consumers universally. Nestle India Ltd, one the biggest players in FMCG segment, has a presence in milk & nutrition, beverages, prepared dishes & cooking aids & chocolate & confectionery segments. The company is engaged in the food business. The food business incorporates product groups, such as milk products and nutrition, beverages, prepared dishes and cooking aids, chocolates and confectionery.

Nestle India manufactures products under brand names, such as Nescafe, Maggi, Milkybar, Milo, Kit Kat, Bar-One, Milkmaid and Nestea. The company has also introduced products of daily consumption and use, such as Nestle Milk, Nestle Slim Milk, Nestle Fresh 'n' Natural Dahi and Nestle Jeera Raita. The company's brands include milk products and nutrition, prepared dishes and cooking aids, beverages, and chocolates and confectionery. Their milk products and nutrition includes Nestle Everyday Dairy Whitener, Nestle Everyday Ghee, Nestle Milk, Nestle Slim Milk and Nestle Dahi.

Beverages Include Nescafe Classic, Nescafe Sunrise Premium, Nescafe Sunrise Special and Nescafe Cappuccino. Nestle India is a subsidiary of Nestle S. A. During the year, Maggi further leveraged their strengths to drive affordable nutrition and launched two new products, namely, Maggi Rasile Chow and Maggi Masala-ae-Magic. They launched Nestle Kitkat in a new unique single finger format and Nestle Much Guru pack at the higher price point. The company acquired the Healthcare Nutrition business of Speciality Foods India Pvt Ltd with effect from January 1, 2010.

In the year 2010, the company expanded the installed capacity of Milk Products and Nutrition by 3, 983 MT to 147, 546 MT. Also, they increased the installed capacity of Prepared Dishes ; Cooking aids by 14, 028 MT to 205, 017 MT. In the year 2011, the company increased the installed capacity of Milk Products ; Nutrition by 14, 561 MT to 162, 107 MT, Prepared dishes ; Cooking aids by 21, 430 MT to 226, 447 MT and Chocolate ; Confectionery by 3, 283 MT to 36, 052 MT. KEY FINANCIAL RATIOS Particulars| Dec 11| Dec 10| Dec09| INVESTMENT VALUATION RATIOS| | | | Face value| 10| 10| 10| Dividend per share| 48. 5| 48. 5| 48. | | | | | PROFITABILITY RATIOS| | | | Operating Profit Margin ( % )| 20. 53 %| 19. 91 %| 19. 74 %| Net profit Margin| 12. 75 %| 13 %| 12. 67 %| Return on net worth| 75. 47 %| 95. 70%| 112. 68 %| | | | | LIQUIDITY RATIOS| | | | Debt Equity Ratio| 0. 76| --------| ---------| | | | | MANAGEMENT EFFICIENCY RATIO| | | | Inventory Turnover Ratio| 11. 6 | 12. 33| 11. 61| Debtors Turnover Ratio| 83. 83| 98. 22| 93. 68| Working Capital Turnover | -8. 47| -9. 53| -8. 60| | | | | CASHFLOW INDICATORS RATIOS| | | | Dividend payout ratio | 0. 05| 0. 06| 0. 07| Sales growth| 19. 66| 21. 75| 18. 79| Earnings Per Share| 99. 3| 84. 91| 67. 94| Price to earnings Ratio ( P/E)| | | | Price To book value ( P/ B ratio )| | | | DATA ANALYSIS PLEASE NOTE THAT Nestle India closes its Financial Statements on 31st Dec every year. So the date which is collected of nestle is from period of January to December Profitability Ratio 1) Operating Profit Margin Operating margin is a measurement of what proportion of a company’s revenue is left over after paying for variable costs of production such as wages, raw material, etc. A healthy operating margin is required for a company to be able to pay for its fixed costs, such as interest on debt.

If a company’s margin is increasing, it is earning more per Rupee of sales. The higher the margin, the better. Formula of operating profit margin = operating income / net sales X 100 Operating Profit Margin| Particulars| March’12| March’11| March’10| ITC| 35. 55 %| 34. 08 %| 33. 02 %| HUL| 14. 88| 13. 53| 15. 74| NESTLE INDIA| 20. 53%| 19. 91%| 19. 74%| ANALYSIS Operating profit margin shows how much a company makes (before interest and taxes) on each rupee of sales. We can see that HUL and ITC have almost same % change in operating profit, but Nestle India is behind in operating profit.

Normally company thinks to maintain operating margin of 30 %, because after calculating operating profit company have to cut the expenses from operating profit. So if operating profit is less than 30 % so it will automatically reduce the net profit margin 2) Net profit Ratio Net profit ratio is the ratio of net profit (after Tax) to net sales. It is expressed as percentage. The two basic components of the net profit ratio are the net profit and sales. The net profit is obtained after deducting income-tax and, generally, non-operating expenses and incomes are excluded from the net profit for calculating this ratio.

Thus, income such as interest on investment outside the business, profit on sales of fixed assets and losses on sales of fixed assets, etc. are excluded. NP ratio is used to measure the overall profitability and hence it is very useful proprietors. The ratio is very useful as if the net profit is not sufficient, the firm shall not be able to achieve a satisfactory return on its investment. Formula of Net profit Margin Net Profit Ratio = (net Profit / Net sales) X 100 NET PROFIT RATIO| PARTICULARS| Mar’12| Mar’11| Mar’10| ITC| 23. 97 %| 22. 91 %| 21. 30 %| HUL| 12. 01 % | 11. 56 %| 12. 09 %| NESTLE INDIA| 12. 75%| 13. 00%| 12. 67%|

ANALYSIS:- Net profit shows that situation of overall profit of the company. In above calculation, net profit ratio of HUL is slightly increasing in the year 2012by 0. 45%, and in Nestle it’s decreasing by 0. 25 %. In case of ITC its NP ratio is constantly increasing which shows the company is good position compared to its competitors and reserve is the cease with HUL and Nestle its NP is not increasing much lesser than expected. Here ITC is leading in NP ratio compared to its counterparty which is good sign for that company is growing much faster. 3) Return on net worth Ratio:- It is the ratio of net profit to shareholder’s investment.

It is the relationship between net profit (after interest and tax) and shareholder’s / proprietor’s fund. The two basic components of this ratio are net profits and shareholder’s fund shareholder’s fund includes equity share capital, (preference share capital) and all reserves and surplus belonging to shareholders. Net profit means net income after payments of interest and income tax those will be the only profits available for shareholders. Formula of Return on Net worth Ratio = [net profit (after tax and Pref. dividend) / shareholder’s fund] X 100 Where; shareholder’s fund = equity + reserves

RETURN ON NET WORTH RATIO| Particulars| Mar’12| Mar’11| Mar’10| ITC| 32. 88 %| 31. 36 %| 28. 98| HUL| 76. 61 %| 87. 57 %| 85. 25 %| NESTLE INDIA| 75. 47%| 95. 70%| 112. 68%| ANALYSIS:- This ratio is of great importance to the present and prospective shareholders as well as the management of the company. Here we can see that RON 87. 57 % in the year 2010-11 which is declined to 76. 61 % in last financial year . which is not good for any company in retaining its shareholders. On the other hand ITC has is constantly increasing its RON from year 2009-10 to 2011-2012 which is a good sign for shareholders.

Whereas Nestle’s RON drastically fell in year 2010 from 112. 68 to 95. 70 and further it has fallen to 75. 47 in year 2011 which is not good for shareholders. From the above table we still say that HUL is giving highest return to the shareholders on their Net worth in company compared to its competitors that is the reason HUL is the leader FMCG sector. Liquidity and solvency Ratio 1) Debt Equity Ratio Debt-to-equity ratio indicates the relationship between the external equities or outsiders fund and the internal or shareholders fund.

It is also known as external internal equity ratio. It is determined to ascertain soundness of the long term financial policies of the company. Formula of debt equity ratio Debt Equity Ratio= Long term Debts / Shareholders’ Fund Where, long term debts = secured and unsecured loans DEBT EQUITY RATIO| Particulars| Mar’12| Mar’11| Mar’10| ITC| ---------| 0. 01| 0. 01| HUL| ---------| -------| --------| NESTLE INDIA| 0. 76| --------| ---------| ANALYSIS:- This ratio shows the relative amount of funds supplied to co. by outsiders and by owners. It also indicates the extent to which co. as to depend upon outsiders for its financial requirement in long terms. Generally acceptable debt–equity ratio is 1: 1. Here the ratio for Nestle is 0. 76: 1 which shows that company is not much financially strong to its competitors. MANAGEMENT EFFICIENCY RATIO 1) Inventory Turnover Ratio Inventory turnover is the ratio of cost of goods sold to average inventory. It is an activity / efficiency ratio and it measures how many times per period, a business sells and replaces its inventory again. Inventory turnover ratio is used to measure the inventory management efficiency of a business.

In general, a higher value indicates better performance and lower value means inefficiency in controlling inventory levels. A lower inventory turnover ratio may be an indication of overstocking which may pose risk of obsolescence and increased inventory holding costs. However, a very high turnover may result in loss of sales due to inventory shortage. Inventory turnover is different for different industries. Businesses which trade in perishable goods have very higher turnover with comparison to those dealing in durables. A comparison would be fair only if made between businesses of same industry. Formula

Inventory Turnover = Cost of Goods Sold / Average Inventory Average Inventory is calculated as the sum of the inventory at the beginning and at the end of the period divided by 2. INVENTORY TURN OVER RATIO| Particulars| Mar’12| Mar’11| Mar’10| ITC| 6. 53| 6. 05| 6. 04| HUL| 9. 21| 7. 91| 8. 99| NESTLE INDIA| 11. 60| 12. 33| 11. 61| ANALYSIS:- High inventory ratio is more preferable for consumer goods. Here inventory ratio for HUL decreased in the year 2010-11 but in last financial year it has been increased in well manner , but still the ratio for Nestle is high compared to its competitors is has high turnover of 11. 0 in Dec’2011 . 2) DEBTORS TURNOVER RATIO Accounts receivable turnover is the ratio of net credit sales to average accounts receivable. It is an activity or efficiency ratio and it measures average number of times a business collects its receivables during a period usually a year. Formula Accounts receivable turnover is calculated using the following formula: Receivables = Net Credit Sales Turnover / Average Accounts Receivable In the above equation average accounts receivable figure is calculated by dividing the sum of beginning and ending accounts receivable by 2.

The beginning and ending accounts receivable can be found on balance sheet of the first and the last day of the respective period. Net credit sales figure is on the income statement of the period. Accounts receivable turnover is usually calculated on annual basis, however for the purpose of creating trends, it is more meaningful to calculate it on monthly or quarterly basis. DEBTORS TURNOVER RATIO| Particulars| Mar’12| Mar’11| Mar’10| ITC | 26. 50| 23. 91| 24. 31| HUL| 27. 27| 24. 28| 29. 24| NESTLE INDIA| 83. 83| 98. 22| 93. 68| ANALYSIS:- Its shows the rate of which cash ie generated by the turnover of debtors.

Here , Debtors turnover Ratio for Nestle is quite impressive it has high turnover ratio of 83. 83 in Dec2011 which shows the management is strict towards its debtors in collecting amountmoneyfrom them Whereas ITC and HUL is way behind of Nestle in terms of Recovery from the Debtors. 26. 50 and 27. 27 is DTR of ITC and HUL respectively CASH FLOW INDICATORS 1) Earnings per Share (EPS) Earnings per share ratio (EPS) is a small variation of return on equity capital ratio and is calculated by dividing the net profit after taxes and preference dividend by the total number of equity shares.

The earnings per share is a good measure of profitability and when compared with equity shares. The earnings per share is a good measure of profitability and when compared with EPS of similar companies, it gives a view of the comparative earnings power of the firm. EPC ratio calculated for a number of years indicates whether or not the earning power of the company has increased. Formula of EPS = net profit- Pref. dividend) / No. of Equity Shares EARNING PER SHARE| particulars| Mar’12| Mar’11| Mar’10| ITC| 7. 88| 6. 45| 10. 64| HUL| 12. 45| 10. 8| 10. 09| NESTLE INDIA| 99. 73| 84. 91| 67. 94| ANALYSIS:- From the above table you can clearly see that there is not much earning per share in ITC. Rs. 7. 88 in ITC is indicating that an investor who have invested Rs. 1 then he will get Rs. 7. 88 in the financial year 2011-12. But it’s pretty good performance by HUL show that investors get Rs. 12. 45 for there every single rupee, which is very good news for them. Whereas ITC has Fluctuating EPS one year decreasing and in the other year it is increasing which is not good for any company.

On other hand EPS of Nestle is continuously increasing year on year which is very good for the company. Here, Nestle is much strong in EPS compared to other companies which are good for company. 2) DIVIDEND PAYOUT RATIO Dividend payout ratio is calculated to find the extent to which earnings per share have been used for paying dividend and to know what portion of earnings has been retained in the business. It is an important ratio because plugging back of profits enables a company to grow and pay more dividends in future. Dividend payout ratio is the ratio of dividend per share divided by earnings per share.

It is a measure of how much earnings a company is paying out to its shareholders as compared to how much it is retaining for reinvestment. Formula Dividend Payout Ratio = Dividend per Share /Earnings per Share Dividend payout ratio can also be calculated as total dividends divided by net income. DIVIDEND PAYOUT RATIO| Particulars| Mar’12| Mar’11| Mar’10| ITC| 0. 57| 0. 69| 0. 94| HUL| 0. 60| 0. 61| 0. 64| NESTLE INDIA| 0. 05| 0. 06| 0. 07| ANALYSIS:- Dividend payout ratio is indicator of the amount of earnings that have been ploughed back in the business.

In HUL there is higher payout ratio which indicates the company is paying more to its shareholders and lower amount of earnings are ploughed back in the business. Same is the case with ITC which is not good strong financial condition of both the companies. Whereas in Nestle Company the payout ratio is low that means the higher amount of earnings are ploughed back into the business, which is good for strong financial condition. Comparatively Nestle is good because it uses whole fund for his strong purpose. 3) Sales growth

Formula of sales growth = [(sales current year – sales previous year)/ sales previous year] X 100 SALES GROWTH| Particulars| Mar’12| Mar’11| Mar’10| ITC| 15. 06 %| 16. 03%| 13. 56 %| HUL| 12. 54 %| 11. 57 %| -15. 80%| NESTLE INDIA| 19. 66 %| 21. 75 %| 18. 79 %| ANALYSIS:- Sales growth of ITC is low as compared to Mar’11 while HUL sales Growth has been increased to 12. 53 % in Mar’ 12 as compared to 11. 57 % in Last year i. e. Mar, 11. ITC made huge growth in the year 2010-11 but failed to capitalize that growth in last financial year.

Normal growth rate that very good company always wants to get at least is 15%. Whereas Nestle India’s growth rate is fluctuating year by year , in the year 2009 it was 18. 79 which was increased to 21. 75 in 2010 and again its decreased to 19. 66 in the year 2011. But still growth is quite high as compared to HUL and ITC 4) Price to Earnings Ratio In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. However, the P/E ratio doesn't tell us the whole story by itself.

It's usually more useful to compare the P/E ratios of one company to other companies in the same industry, to the market in general or against the company's own historical P/E. It would not be useful for investors using the P/E ratio as a basis for their investment to compare the P/E of atechnologycompany (high P/E) to a utility company (low P/E) as each industry has much different growth prospects. A valuation ratio of a company's current share price compared to its per-share earnings. Formula:- P/E RATIO| Particulars| Mar’12| Mar’11| Mar’10| ITC| 28. 81| 28. 06| 12. 59| HUL| 32. 93| 26. 69| 23. 89| NESTLE| 41. 83| 44. 9| 37. 50| Price to earning ANALYSIS:- It clearly indicates that in ITC investor getting their returns of Rupee 1 after spending Rs. 28. 81 which is very lower as compared to HUL and Nestle India. But if u looks at anti-smokingregulation of govt. which might affect the growth of ITC, and P/E of Nestle is on higher side. That is why HUL is on safer side. RANKING:- particulars| ITC| HUL| NESTLE| RETURN ON NET WORTH| 3| 1| 2| INVENTORY TURNOVER RATIO| 3| 2| 1| DEBTORS TURNOVER RATIO| 3| 2| 1| WORKING CAPITAL TURNOVER RATIO| 2| 1| 3| EARNINGS PER SHARE| 3| 2| 1| SALES GROWTH| 3| 1| 2| P/E RATIO| 1| 2| 3| RECOMMENDATION FMCG Sector is the safest bet because even in recession times, the demand for household commodities doesn’t fall much so profits and balance sheet of FMCG is hardly affected. \* Investor must invest in FMCG Sector because there are many other sectors which indices gave negative returns in last one year. \* Current market price of HUL is Rs. 430 and it may give return around 25 % - 30% return in next one year. \* Based on the research analysis the investor should go for HUL in long term, this company is growing at faster rate compared to others. BIBILOGRAPHY http://www. chillibreeze. com/articles\_various/fmcg-in-india. sp http://stockshastra. moneyworks4me. com http://www. economictimes. timesofindia. com http://accountingexplained. com/financial/ratios http://www. moneycontrol. com/financials/itc/ratios/ITC#ITC http://www. moneycontrol. com/financials/hindustanunilever/profit-loss/HU#HU http://www. moneycontrol. com/financials/hindustanunilever/ratios/HU http://www. accounting4management. com/earnings\_per\_share\_ratio. htm http://tnmg4u. com/nestle-india/ http://www. indiainfoline. com/MarketStatistics/Sector-Performance/NSE-FMCG-Sector http://www. ninemilliondollars. com/2012/05/why-you-should-invest-in-fmcg-sector-funds/