Security analysis of fmcg sector essay

NESTLE during the time of recession performs well as compare to all other food company. The profit for the company jumps by 69.

4% as compare to the last year. Nestle stock prices remains constant during the time of recession. The stock price are nearly Rs585 and therefore the variance and the risk involve in this particular security is zero. Nestle although survives well during the disastrous global downturn. The bulk of the shares of this company is holded by the foreign investors and due to the recession this all impact the stock price of the security.

The board is liberal to dividend. An eps of Rs 68/share in 2009 were mostly matched with dps of Rs 48. 5/share. BRITANNIA beta value increases during the time of recession shows that it is the highly volatile security w.

r. t. the market. Small change in market value could change this at a countable rate. Britannia was hit by the collapse of U.

S. firm Lehman Brothers. The company has invested euro 57. 4 million in the same financial giants. Britannia at the same time reveal that it had to pay euro 19.

8 million to the financial service corporation(FSC).

This might have change the rate of return of the security which dipped by 0. 163%. Britannia also says that it is going for merger with CFS(co-operative financial services). The news might have effect on the security and therefore the risk on the security increases to 0. 122%.

STOCK ANALYSIS AT THE TIME OF RECOVERY(MAY 2009 ONWARDS):- After the global downturn Indian economy starts to rebound and the stock has raised the rate of return and turn it as 1. 82%. The company ITC & Dabur has rebounded and there rate of return reach at the ever higher return of 4. 211 & 4. 27% respectively.

But the risk involved in the rate of return increase for ITC, while it decreases for Dabur and dips near about 3.

5 points. But the risk is more in comparison to that of the market. For Britannia and Nestle the rate of return also increases and the risk indulge in this is less as comparison to the market and also with other securities in the portfolio. Beta turns out negative for HUL & Nestle shows that yhe market have negligible impact on this securities, while the beta increases for the ITC proving it as the volatile or aggressive security. HUL goes for various merger during the later half of 2009.

HUL has budgeted a buyback capping the amount at 25% of the equity share capital and free reserves.

It will buy the shares paying upto Rs 280/share. Nestle reported net profit of Rs 160 crore in Q1 of 2009-2010. There is total increase in income by 16. 8%. As we are coming back from the global downturn the impact of recession is less in India as comparison to other capitalist economy because of the regulatory body in India and also the various number of securities to invest.

Therefore there is less risk is involved during the investment in FMCG securities.

For describing the portfolio we have taking five securities in different weights HUL, ITC, DABUR, BRITANNIA & NESTLE. In this part we will calculate the Expected rate of return and Beta.

HULITCDABURBRITANNIANESTLEBETAEXPECTED RATE OF RETURN(%) WEIGHTW1W2W3W4W5 PORTFOLIO10.

60. 10. 10. 10. 10.

39221. 43 PORTFOLIO2 0. 50. 20. 10.

10. 10. 39592. 0679 PORTFOLIO30. 40.

20. 20. 10. 10. 35332.

842 PORTFOLIO40. 30. 20. 20. 20. 11.

15922. 0432 PORTFOLIO50. 30. 30. 20.

10. 10. 78353. 4809 PORTFOLIO60. 40. 30.

10. 10. 11. 5872.

7062 PORTFOLIO70. 20. 50. 10. 10.

11. 1953. 977

PORTFOLIO80. 10. 20.

20. 20. 31. 46022. 886 PORTFOLIO90.

30. 10. 40. 10. 11.

4733. 754 PORTFOLIO100. 20. 20. 20. 20.

20. 32182. 847 When we look at the portfolio when we have find that as we are decreasing the weight of the HUL the expected rate of return for the portfolio is increasing first but as we look on the 5th portfolio when we have given the equal weight to ITC also our expected rate of return increases and its maximum when the weight of ITC is maximum i. e.

portfolio 7th. But as soon as we are increasing the weight of other securities the value of beta is also ncreasing and it is maximum in portfolio 6. From this we can conclude that as our ITC weight is increasing the rate of return as well as value of beta is changing, and hence the volatility also increasing. From the above portfolio we see that that when we are giving equal weightage to all the securities our rate of return is alsogood and the value of beta is also far less then any other portfolio. So we can conclude that the 10th portfolio is better option for the investor to invest with having handsome expected rate of return with less volatile portfolio.