

Earnings per share in FMCG sector of India

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Abstract

In this research paper author have attempted to measure the profit available to the Equity Shareholder of growing FMCG sector of India during 2004-05 to 2013-14 by taking a sample of 14 FMCG companies listed on BSE or NSE or both which are functioning in the India. Then the researcher have collected 10 years Earning Per Share Ratios of 14 companies for the period 2004-05 to 2013 -14 and found out composite Earning Per Share ratios using 'paid-up share capital' as weight and found out weighted mean of these ratios for the FMCG Sector of India. Researcher have applied Mann- Kendall Trend detection test for testing the hypothesis. The study concluded that as far as Earnings per share ratio is concerned, there is no trend in the series of Earnings Per Share ratio. The study concluded that from 2004-05 to 2008-09, EPS has increased from Rs.8.60 to Rs.12.07. However, after that it has declined and reaches to Rs.7.59 in 2010-11 and then after again it has reached to Rs.13.11 in 2012-13. EPS has fluctuated during the decade, which is not desirable from the viewpoint of equity shareholders.

Keywords: FMCG sector, composite earning per share ratios, weighted mean, trend analysis, Mann-Kendall test, profitability

1. Introduction

Fast-moving consumer goods (FMCG) are products that are sold quickly and at relatively low cost. FMCG include non-durable goods such as soft drinks, toiletries, OTC drugs and many other consumables. FMCG have a short life, either as a result of high consumer demand or because the product deteriorates rapidly. FMCGs includes meat, fruits and vegetables, dairy products, and baked goods as well as alcohol, toiletries, pre-packaged foods, soft drinks, chocolate, candies, and cleaning products.

2. Indian scenario of FMCG sector

The FMCG segment is the fourth largest sector in the Indian economy. There are three main segments in the sector such as food and beverages, healthcare and household and personal care. The market size of FMCG in India is estimated to grow from US\$ 31.6 billion in 2011 to US \$ 52.74 billion in 2018. At present the FMCG Sector is worth US\$ 13.1 billion. FMCG Sector in India include segments like cosmetics, toiletries, glassware, batteries, bulbs, pharmaceuticals, packaged food products, white goods, house care products, plastic goods, consumer non-durables, etc. The demand for quality goods and service has increased in rural areas due to increase in distribution channels of manufacturing companies. The FMCG market is highly focused in the urban areas as the increase in the income of the middle-income group is one of the major factors for the growth of the Indian FMCG market. The Growing awareness, easier access, and changing lifestyles as well as change in taste and preference of customers are the crucial growth drivers for the FMCG segment. The emphasis on agriculture, MSMEs, education, healthcare, infrastructure and employment have direct effect on FMCG sector under the Union Budget 2018-19. Nowadays, people have more attraction towards Ayurved products. Hence, we can see significant growth of Patanjali Ayurveda with a revenue of US \$ 1.57 billion in Financial Year 2017.

3. Literature review

Khamrui (2012) ^[17] has conducted the study of two major well-known FMCG companies - ITC & HUL. The researchers have done the comparison between the various profitability ratios as independent variable and Return on Investment as the dependent variable. The study revealed that both the companies in terms of profitability & liquidity position have a significant impact on profitability. Descriptive statistics disclose that liquidity position has significant impact on profitability. Multiple regression tests confirm a higher degree of association between the liquidity and profitability. Khamrui B.B. (2012) ^[17] has conducted the study of two well - known companies - Britannia Industries & Dabur India over a period of ten years from 2000-01 to 2009-10. The researchers have used various accounting ratios such as NPM, CTR, ROI, and ROSE for analyzing profitability as well as various liquidity ratios such as Current Ratio, Quick Ratio, SQR, and DER to assess liquidity position of selected companies. For measuring profitability, they have considered ROI as dependent variable and NPM & CTR as independent variables. The study revealed that the influence of CTR is more than that of NPM on ROI in both the companies except in year 2009-10 in Britannia Industry which indicate better short term and long term liquidity position of the firm. In case of Britannia Industries, a steep fall in NPM & ROI indicates tough times for the company. Dabur India continued to ride on its growth path by maintaining good NPM, ROI and ROSE even during the period of global economic recession. Soloman (2012) has conducted studies of 12 manufacturing companies listed on the Nigerian Stock Exchange for the period of five years from 2005-2009. The researchers have used statistical tools like Descriptive Analysis -Mean & Standard deviation to determine the extent of liquidity & accounting techniques like ratios - Return on Investment, Return on Equity & Return on Assets. The study concluded that most of the companies selected for this analysis

reported good levels of profitability in terms of their Return on Assets, Return on Equity & Return on Investment as well as there exists a relationship between Return on Assets, Return on Equity & Return on Investment and the company’s Debtors Collection Period, Creditors Payment Period, Operating Cash Flow Ratio & Cash Conversion Cycle. Joshi (2013) [16] has conducted the study of three major players of FMCG sector, namely HUL, Colgate Palmolive Ltd. & ITC – Agro Tech Foods. The study covers the period from 2008 to 2012. The study concentrates on the various ratios relating to profitability such as Net Operating Profit Ratio, Net Profit Margin Ratio, PAT to Net Worth Ratio, Cash Profit to Net Worth Ratio to evaluate the profitability of the selected public sector FMCG companies of India. The researcher has used statistical tools like Mean & ANOVA test. The study also concluded that there may be a vast difference in Net Operating Profit Ratio, Net Profit Ratio, PAT to Net Worth Ratio & Cash Profit to Net Worth Ratio of selected companies. V. Vijyalakshmi (2014) [20] have selected 10 well known pharmaceutical companies for a period from 2009-10 to 2013-14. The researchers have used ratio analysis and various statistical techniques such as Mean, Standard Deviation, Co-efficient of Variation, Multiple Regressions, ANOVA. The study reveals that Gross Profit Ratio, Operating Ratio, Return on Equity Capital and Earnings Per Share have significant effect on the Net Profit Ratio of the selected pharmaceutical companies during the study period.

4. Research methodology

4.1 Research Statement

Earnings Per Share in FMCG Sector of India

4.2 About the research problem

The present study focus on the Earnings Per Share in FMCG Sector of the India for a period from 2004-05 to 2013-14. One of the important factors affecting the functioning of an industrial unit is the size of that unit. Researcher have tried to innovate in analyzing the ratios by combining them with the paid-up capital, at respective point of time and working out composite ratios for ten years duration for the companies. Then such composite ratios have been used in carrying out trend analysis and comparative analysis through various tests of hypothesis.

4.3 Research Design

The present study entitled “Earnings Per Share in FMCG Sector of India” is an analytical, conclusion oriented and hypothesis testing type of research study.

4.4 Objectives of the study

- To analyze and evaluate the trend of Earnings Per Share over a period of ten years for the FMCG Sector of India.
- To make suggestions to the investors, share brokers, financial institutions to take the decision on investment in equity shares of FMCG companies.
- To know the overall profitability of FMCG sector of India.
- To make comparison with the average of sector.

4.5 Nature and sources of data

The present study is mainly based on secondary data and it has been collected from annual reports of the selected companies from ACE Equity software. Other information

has been collected from research publications, other periodicals, journals, and websites of respective companies and other various documents of the companies.

4.6 Period of study

The present study covers the period of ten years from 2004-05 to 2013-14.

4.7 Sample Design

The sample has been selected by two stage sampling method. For selecting the first stage sample, convenient sampling method is used, where as for selecting the second stage sample proportional stratified sampling is used.

4.8 Population

The population consists of all the FMCG companies in India.

4.9 Sampling units and sample size

FMCG companies working in India are the sampling units for drawing the first stage sample, where as the companies listed on BSE or NSE or both are considered as the sampling units for drawing the second stage sample. For convenience, the size of the first stage sample is fixed at 76 and out of 76 companies, researcher has selected 16 companies in a sample on the basis of average paid up share capital. Then all the units of populations are classified on the basis of size of the company.

Table 1: Classification of companies based on different sizes

Size of the company (On the basis of Average Paid up capital) Indian Rupees in Crores (Stratum)	No. of companies (Size of Strata)	No. of units to be selected from the Stratum
Small-cap (Less than 5 Crores)	24	5
Mid-cap (5 Crores or more but less than 30 Crores)	39	8
Large-cap (30 Crores or more)	13	3
Total	76	16

Table 2: list of selected companies

Sr. No	Name of the company	Average Paid Up Share Capital (Indian Rupees in Crores)
1	Hindustan Unilever Ltd.	217.95
2	Colgate Palmolive (India) Ltd	50.32
3	Himalya International Ltd.	36.35
4	Godrej Consumer Products Ltd.	28.14
5	Britannia Industries Ltd.	23.90
6	Lotus Chocolate Company Ltd.	20.24
7	Modern Dairies	18.41
8	MFL India Ltd.	15.49
9	Emami Ltd.	14.48
10	Hind Industries Ltd.	8.96
11	Vadilal Industries	7.19
12	Milk Food Ltd.	4.89
13	Paramount Cosmetics (India) Ltd.	4.86
14	Madhur Industries Ltd.	4.09
15	Hipolin Ltd.	3.13
16	Pee Cee Cosma Sope Ltd.	2.63

4.10 Tools and techniques

In this study, researcher have used Ratio analysis and various statistical techniques such as Average, (Mean \bar{x}), Coefficient of correlation (r), Coefficient of Determination (R^2), Trend Analysis and Mann Kendall Test.

The following table shows composite Earnings per share ratios of the sector

Table 3: Composite EPS Ratio

Name of the Companies	Composite EPS Ratio based on weighted Mean where weight (Wi) are paid up capital and Ri are EPS Ratio										Sum Wi	Sum WiRi	\bar{R}	\bar{w}
	Year													
	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14				
Hindustan Unilever Ltd.	1197.475	1353.7626	1540.332	1744.145	2500.345	2103.159	2306.346	2691.0675	3797.35	3866.9076	2179.45	23100.8903	10.5994031	217.95
Colgate Palmolive (India) Ltd.	1132.822	1376.2492	1601.998	231.727	290.2027	423.2009	402.5304	446.45517	496.77147	539.8803	503.172	6941.83623	13.7961497	50.317
Himalya International Ltd.	9.34285	59.92704	43.84368	83.11896	135.121	152.5883	153.8176	173.74552	531.51736	-129.704	363.477	1213.31829	3.33808821	36.348
Godrej Consumer Products Ltd.	358.4229	484.87848	132.1164	148.151	161.6216	248.093	434.9184	604.3728	510.7903	564.7236	281.368	3648.08838	12.9655411	28.137
Britannia Industries Ltd.	1487.63	1464.2181	1076.483	1910.006	1803.934	1165.115	290.5024	373.4007	467.6796	739.6117	239.02	10778.5809	45.0948912	23.902
Lotus Chocolate Company Ltd.	-7.2846	13.55745	17.19975	11.7363	18.2115	17.8068	-76.69065	-32.7807	-24.282	-42.4935	202.35	-105.01965	-0.519	20.235
Modern Dairies Ltd.	11.8692	65.67624	28.574	66.14465	-260.4529	-17.75284	-411.352	-182.4338	-10.27796	94.60395	184.075	-615.40139	-3.3432101	18.408
MFL India Ltd.	-14.6135	-3.9855	-2.86956	-2.23188	-1.54106	-1.8599	10.73808	5.40435	2.16174	6.84551	154.885	-1.95172	-0.0126011	15.489
Emami Ltd.	58.9486	98.6961	131.8394	185.4407	175.0003	330.7637	227.41893	256.77307	323.8034	398.33235	144.769	2187.01651	15.1069394	14.477
Hind Industries Ltd.	49.63286	17.64923	40.04673	3.85237	16.03661	25.71233	26.33946	-21.85996	16.21579	14.15522	89.59	187.78064	2.096	8.959
Vadilal Industries	14.08848	37.0182	55.92264	38.02452	10.85388	57.504	50.81916	62.5356	59.73228	14.23224	71.88	400.731	5.575	7.188
Milk Food	2.7356	33.0226	47.82415	17.43945	31.7525	-36.9306	-51.6833	5.8191	6.6993	11.7849	48.865	68.4637	1.40107848	4.8865
Paramount Cosmetics (India) Ltd.	0.4855	3.3985	3.3985	5.5347	7.03975	11.3607	14.41935	13.64255	14.12805	15.00195	48.55	88.40955	1.821	4.855
Madhur Industries Ltd.	-6.7076	-6.4213	0.5726	0.3272	-11.1248	-14.3559	0.8589	0.409	0.6953	0.818	40.9	-34.9286	-0.854	4.09
Hipoline Ltd.	4.88436	3.41279	0.3131	1.03323	5.47925	5.91759	-5.22877	-2.25432	2.28563	-2.59873	31.31	13.24413	0.423	3.131
Pee Cee Cosma Sope Ltd.	6.24	1.38	0.696	1.788	12.468	45.876	-1.056	5.6889	58.67532	31.46715	26.303	163.22337	6.20550393	2.6303
SumWi	500.515	505.502	506.056	395.082	405.691	425.407	444.178	469.586	476.938	481.011	4609.97			
Sum WiRi	4305.971	5002.4397	4718.291	4446.237	4894.947	4516.198	3372.698	4399.9855	6253.9456	6123.5682		48034.2816		
\bar{R}	8.603081	9.895984	9.323653	11.25396	12.0657	10.61618	7.5931225	9.3699248	13.112701	12.73062			10.4196607	
\bar{w}	31.28219	31.593875	31.6285	24.69263	25.35569	26.58794	27.761125	29.349125	29.808625	30.063188				

5. Earnings Per Share Ratio

Earnings per share is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

The following chart indicates the trends in Earning Per Share Ratios for the sector

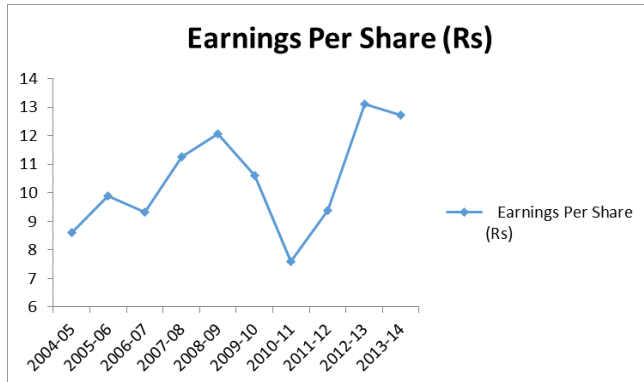


Fig 1

To test the following H_0 related to goodness of fit, the Mann-Kendall test is applied to test the following hypothesis.

- H_0 : There is no trend in the series of Composite Earning Per Share Ratio of the sector.
- H_1 : There is some trend in the series of Composite Earning Per Share Ratio of the sector.

From the above chart we can say that there is no trend in Earning per share. We checked significance of Earning per share using Mann-Kendall test and found that Mann Kendall Statistic is 17 with p-value 0.071, which is greater than the predefined significant level $\alpha=0.05$. So we can say that there is no significance trend in Earning per share. And we cannot fit any model on it.

6. Conclusion

It may be concluded from the above table no. 3 and chart that there is no trend in Earnings Per Share of the FMCG sector. From the 2004-05 to 2008-09, EPS has increased from Rs.8.60 to Rs.12.07. But then after it has declined and reaches to Rs.7.59 in 2010-11 and then after again it has increased to Rs.13.11 in 2012-13. The study revealed that EPS has fluctuated during the decade, which is not desirable from the viewpoint of equity shareholders. Further, the study also concluded that the composite EPS of the FMCG sector from 2007-08 to 2009-10 as well as from 2012-13 to 2013-14 is more than 10.419, which shows satisfactory profitability position of the sector.

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27. ANOVA – Analysis of Variance
28. CTR – Capital Turnover Ratio
29. DER – Debt Equity Ratio

30. FMCG – Fast Moving Consumer Goods
31. NPM – Net Profit Margin
32. OTC – Over the Counter
33. ROI – Return on Investment
34. ROSE – Return on Sweat Equity
35. SQR – Super Quick Ratio