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A Study On The Comparative Risk Return Analysis Of Stocks In Fmcg Sector

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Abstract

The global economy depends heavily on the fast-moving consumer goods (FMCG) industry, which is renowned for its dependability and steady profits. Five prominent Indian FMCG companies—Dabur, Godrej, Hindustan Unilever Limited (HUL), ITC, and Nestlé—are the subject of this study's thorough risk- return analysis. The study determines unique risk-return profiles for every company by looking at market sensitivity (beta), volatility (standard deviation), and historical stock performance. While ITC offers higher risk and possible rewards for investors with a bigger risk appetite, Dabur and Godrej stand out as the most reliable performers and are best suited for conservative investors. The results demonstrate the FMCG industry's defensive traits and applicability for a range of investment approaches. The effects of macroeconomic variables and ESG practices on FMCG stocks are potential areas for future study.

Keywords

FMCG sector, risk-return analysis, stock performance, market sensitivity, investment strategies, NSE FMCG Index.

I. INTRODUCTION

The fast-moving consumer goods (FMCG) sector, also known as the consumer packaged goods (CPG) sector, is a cornerstone of the global economy. Characterized by the rapid turnover of essential goods such as food, beverages, household items, and personal care products, this industry plays a critical role in meeting everyday consumer needs. Known for its resilience against economic turbulence, the FMCG sector attracts investors seeking a balance of safety and profitability.

This article explores the risk-return dynamics of key players in the Indian FMCG market—Dabur, Godrej, Nestlé, ITC, and Hindustan Unilever Limited (HUL). These companies, known for their strong market presence and diversified product portfolios, offer unique opportunities for wealth generation while presenting varying levels of risk. By leveraging financial metrics such as the Sharpe ratio, beta values, and standard deviation, we aim to provide investors with actionable insights into the performance and volatility of FMCG stocks. Our goal is to give investors useful information on the performance and volatility of FMCG stocks by utilizing financial indicators like the Sharpe ratio, beta values, and standard deviation.

II. LITERATURE REVIEW

The article "Comparative Analysis of Volatility and Sensitivity in FMCG and IT Stocks: An Empirical Study" by Venkata Lakshmi Suneetha M. and Aithal P. S. (2024) examines the volatility in the FMCG and IT sectors on the Bombay Stock Exchange (BSE). The study addresses two main issues: understanding the impact of sectoral volatility on investment decisions and developing effective risk management strategies. Its objectives include analyzing sectoral volatility, identifying influencing factors, and offering strategies to manage risks. Using statistical analysis, the study finds that economic indicators, regulatory changes, and global market trends significantly affect volatility in these sectors. The findings provide valuable insights for investors seeking to manage risk and optimize their portfolios in the
FMCG and IT sectors.

The article "Risk-Return Analysis of Selected Stocks of Indian Financial Sector" by Sonia Lobo and Ganesh Bhat S. (2021) investigates the risk-return profiles of stocks in the Indian Financial Services sector. It addresses challenges faced by investors in understanding risk-return relationships and constructing optimal portfolios. The study uses descriptive statistics, correlation, beta calculation, and paired t-tests to analyze the monthly returns of selected stocks. Findings show that India Infoline Finance Ltd. offers the highest returns with high risk (beta), while the returns of the S&P BSE Finance Index and JSW Holdings differ significantly. The study aids investors in making informed decisions based on risk-return analysis.

III. PROBLEM STATEMENT

The Fast-Moving Consumer Goods (FMCG) sector, encompassing industry giants like Godrej, Dabur, Nestlé, ITC, and Hindustan Unilever (HUL), is widely regarded as a stable and attractive investment avenue. Despite the sector's resilience, investors face challenges in accurately evaluating the risk-return dynamics of these companies. Each FMCG firm follows distinct business strategies, leading to variations in market positioning, profitability, and exposure to economic fluctuations. While the industry is generally low-risk, company- specific factors and external influences—such as inflation, regulatory shifts, and evolving consumer behavior—can introduce unexpected volatility. A structured risk-return analysis is essential to help investors make informed decisions. Conducting this comparative study will provide clarity on the investment potential of each company and help navigate the complexities of stock selection in this evolving sector.

IV. OBJECTIVES OF THE STUDY

1. To examine the relationship between the yearly return of the NSE Index and selected companies yearly return. .
2. 2.Torank, the sample companies based on the return yielded.
3. To assess the market sensitiveness ofthe selected FMCG companies.
4. To analyze the risk and return of chosen FMCG companies covered by the FMCG index.

V. RESEARCH GAP

The extensive body of research on risk-return analysis in the financial markets still has certain gaps when it comes to the FMCG sector. One significant drawback is the lack of risk-return analysis models tailored to a particular business.

Most studies employ general models, like the Capital Asset Pricing Model (CAPM) or the Fama- French Three-Factor Model, which may not fully capture the unique characteristics of the FMCG industry, including its steady consumer demand, reduced cyclicality, and regulatory impacts. To better fit the distinct operational and financial features of FMCG companies, research that modifies or adapts these models is needed.The effect of sustainability and ESG (Environmental, Social, Governance) aspects on the performance of FMCG stocks is another topic that has received little attention. Few studies explicitly examine how sustainability activities affect the risk-return dynamics of FMCG corporations, despite the growing popularity of ESG investing. Incorporating ESG factors into risk-return analysis is essential given the industry's increased dedication to responsible marketing, carbon neutrality, and ethical sourcing.

Furthermore, macroeconomic variables are frequently disregarded in emerging economies, where a large number of FMCG behemoths operate. Although social changes, inflation, political unpredictability, and currency fluctuations have a big impact on stock performance, little is known about how they affect the assessment of FMCG risk-returnBy filling in these gaps with targeted study, investors may gain insightful knowledge that will help them make better decisions in a sector that is known for stability but is also vulnerable to changing possibilities and hazards.

VI .RESEARCH METHODOLOGY

For any study to be accurate, dependable, and relevant, a clear research approach is necessary. It provides an organized framework for gathering, evaluating, and interpreting data in order to successfully evaluate the performance of the stocks.The methodical process of inquiry known as research is used to find, assess, or alter previously held knowledge. Research improves academic and practical comprehension and aids in well-informed decision-making by collecting and evaluating pertinent data.This study examines the risk-return characteristics of FMCG stocks, focusing on companies like Dabur, Godrej, ITC, HUL, and Nestlé. Data is collected from the National Stock Exchange (NSE), including trade volumes, stock prices, and benchmarks like the Nifty FMCG Index. Key financial metrics, such as volatility, stock returns, and risk-adjusted performance indicators, are calculated to compare stock performance.A descriptive research design is adopted to provide a clear, data-driven assessment of FMCG stock behavior. This approach ensures that the analysis is thorough, with factual information supporting conclusions for investors and analysts.

SELECTED COMPANIES BASED ON MARKET CAPITALISATION DURING POST- COVID PERIOD(2020-2024)

S.NO	COMPANIES NAME	MARKET CAPITALISATION (As of December 2024)
1	DABUR	945.79 billion
2	GODREJ	298.35 billion
3	ITC	5.46 trillion
4	NESTLE	205.88 billion
5	HUL	5.67 trillion

VII. ANALYSIS AND INTERPRETATION

OBJECTIVE-1:

To examine the relationship between the yearly return of the FMCG index and selected companies return.

Correlations

		YEAR	Dabur RETURN	Godrej RETURN	HUL RETURN	ITC RETURN	NESTLE RETURN	INDEX RETURN
YEAR	Pearson Correlation	1	.113	-.062	.224	.601	-.766	-.452
	Sig. (2-tailed)		.857	.922	.717	.284	.131	.445
	N	5	5	5	5	5	5	5
DABUR RETURN	Pearson Correlation	.113	1	.709	.877	.485	.310	-.816
	Sig. (2-tailed)	.857		.180	.051	.408	.612	.092
	N	5	5	5	5	5	5	5
GODREJ RETURN	Pearson Correlation	-.062	.709	1	.685	.440	.683	-.763
	Sig. (2-tailed)	.922	.180		.202	.459	.204	.133
	N	5	5	5	5	5	5	5
HUL RETURN	Pearson Correlation	.224	.877	.685	1	.241	.231	-.670
	Sig. (2-tailed)	.717	.051	.202		.696	.709	.216
	N	5	5	5	5	5	5	5
ITC RETURN	Pearson Correlation	.601	.485	.440	.241	1	-.167	-.866
	Sig. (2-tailed)	.284	.408	.459	.696		.788	.057
	N	5	5	5	5	5	5	5
NESTLE RETURN	Pearson Correlation	-.766	.310	.683	.231	-.167	1	-.132
	Sig. (2-tailed)	.131	.612	.204	.709	.788		.832
	N	5	5	5	5	5	5	5
INDEX RETURN	Pearson Correlation	-.452	-.816	-.763	-.670	-.866	-.132	1
	Sig. (2-tailed)	.445	.092	.133	.216	.057	.832	
	N	5	5	5	5	5	5	5

The comparison of the companies' returns with the Index Return reveals notable trends. Dabur exhibits a strong negative correlation with the Index, indicating an inverse relationship where its performance improves when the market declines, making it a defensive stock. Similarly, Godrej shows a moderate negative correlation, suggesting it also acts defensively, though to a lesser extent. ITC stands out with the strongest negative correlation, underscoring its reliability as a defensive asset during market downturns.

HUL displays a weaker negative correlation, implying its returns are less impacted by overall market movements. In contrast, Nestle demonstrates a very weak negative correlation, highlighting its relatively independent performance from market trends. Overall, Dabur, Godrej, and ITC emerge as strong defensive stocks, while HUL and Nestle display more neutral behavior concerning market fluctuations

OBJECTIVE-2

To rank the sample companies based on the return.

COMPANIES	COMPANIES RETURN	RANK
HUL	-0.06	1
NESTLE	-0.0628	2
DABUR	-0.085	3
GODREJ	-0.102	4
ITC	-0.1155	5

The data represents the return values of five companies in the FMCG sector: Dabur, Godrej, HUL, ITC, and Nestle. These return values, which are all negative, indicate a decline in the performance of these companies over the analyzed period. Among the companies, HUL recorded the least negative return (-0.06), followed closely by Nestle (-0.0628), suggesting comparatively better performance relative to their peers. Dabur, with a return of -0.085, occupies the middle position, reflecting moderate underperformance. Godrej (-0.102) and ITC (-0.1155) experienced the most significant declines, highlighting a relatively weaker performance in this group.

This ranking provides insights into the comparative financial performance of these companies and can help stakeholders assess investment risks and returns in the FMCG sector.

OBJECTIVE-3

To assess the market sensitiveness of the selected companies on the NSE FMCG index

S.NO	COMPANIES	BETA VALUE
1	Dabur	-0.7699
2	Godrej	-0.7244
3	HUL	-0.7959
4	ITC	-1.649
5	Nestle	-1.1965

The beta values of the FMCG companies—Dabur, Godrej, HUL, ITC, and Nestle—reveal interesting insights into their relationship with the broader market and their volatility. All the companies show negative beta values, which is unusual for the FMCG sector, typically known for its stability. A negative beta indicates that these stocks tend to move inversely to the market. This inverse movement suggests that these FMCG stocks might act as a hedge during market downturns, providing stability when other sectors may be more volatile.Dabur, Godrej, and HUL exhibit similar beta values ranging from -0.72 to -0.80, which reflects consistent inverse movement with moderate sensitivity to market fluctuations. On the other hand, Nestle and ITC show higher negative beta values, -1.1965 and -1.649, respectively, indicating stronger volatility and greater sensitivity to market movements compared to their peers.

The variation in beta magnitudes points to the influence of company-specific factors, such as product portfolios, market positioning, and regional dependencies, which contribute to their individual sensitivities to market movements. While all the companies share a negative beta trend, the stronger inverse movements of ITC and Nestle suggest that these companies may have unique market dynamics or investor perceptions influencing their stock behavior. This overall negative beta trend across the sector suggests that the FMCG industry may exhibit inverse correlation with the broader market during certain periods, possibly driven by factors such as the defensive nature of FMCG products, market sentiment, and macroeconomic influences like inflation and currency fluctuations. The consistency in beta values for Dabur, Godrej, and HUL underscores a shared defensive characteristic within the sector, while the higher beta values for ITC and Nestle highlight their greater volatility.

OBJECTIVE-4

To analyse the risk of chosen FMCG companies covered by the NSE FMCG Index.

YEAR	DABUR RETURN	Godrej RETURN	HUL RETURN	ITC RETURN	NESTLE RETURN	INDEX RETURN
2020	0.06917	0.1028	0.02	0.3915	0.0257	0.1511
2021	0.18858	0.1357	0.2	0.1909	0.04953	0.1699
2022	0.006463	0.0757	0.03	0.1221	0.0358	0.00087
2023	0.0507	0.04	0.02	0.000148	0.0161	0.014
2024	0.1135	0.16	0.07	0.1171	0.2387	0.11699
STANDARD DEVIATION	0.061860934	0.042503	0.068527	0.12906	0.083506	0.070092

The standard deviation of the FMCG Index (0.0701) serves as a benchmark for evaluating the volatility of individual companies within the sector. Dabur, with a standard deviation of 0.0619, and Godrej, at 0.0425, exhibit lower risk levels compared to the Index, indicating greater stability in their performance. HUL's standard deviation of 0.0685 is close to the market average, reflecting a level of risk that is consistent with the broader FMCG sector. In contrast, ITC shows the highest standard deviation (0.1291), signifying greater volatility and sensitivity to market changes, likely due to its diverse business operations and exposure to sector-specific challenges. Nestlé, with a standard deviation of 0.0835, demonstrates moderate volatility—higher than Dabur, Godrej, and HUL but less than ITC.

Among the companies analyzed, Dabur and Godrej emerge as the most stable performers, making them attractive options for conservative investors prioritizing low risk and consistent returns. HUL's risk level, closely aligned with the Index, makes it a suitable choice for investors seeking stable performance in line with the overall FMCG market.

VIII. FINDINGS

- HUL recorded the least negative return, showing better resilience, while ITC exhibited the highest volatility (Standard Deviation: 0.129), indicating higher risk.
- Dabur and Godrej demonstrated lower risk and stable returns, making them suitable for conservative investors.
- Dabur, Godrej, and ITC had negative beta values, indicating an inverse correlation with the market, with Nestlé and ITC showing higher sensitivity to fluctuations.
- The FMCG Index Standard Deviation (0.0701) was a benchmark, with Dabur (0.0619) and Godrej (0.0425) exhibiting lower risk, while ITC's higher risk profile suggested greater return potential.
- All selected FMCG companies showed negative beta values, an unusual trend for the sector, reflecting a unique defensive nature.
- Regulatory challenges, competitive pressures, and evolving consumer preferences remain key hurdles for the FMCG industry.

IX. LIMITATIONS OF THE STUDY

This study has several limitations, including its reliance on historical data, which may not predict future performance accurately. The focus on only five FMCG companies limits generalizability, and external factors like market volatility, inflation, and government regulations were not deeply analyzed. Additionally, the study overlooks ESG factors and investor sentiment, and the methodology could benefit from more advanced risk models.

X. CONCLUSION

The risk-return profiles and market sensitivity of the FMCG stocks Dabur, Godrej, HUL, ITC, and Nestle are compared in this study. For investors who are risk averse, Dabur and Godrej provide stability with less volatility, while HUL consistently produces returns by closely matching the FMCG Index. Higher-risk investors looking for larger returns are drawn to ITC because of its higher volatility, whereas Nestle provides a balanced risk-return appeal. All of the companies' negative beta values highlight their defensive posture and point to their potential as a hedge during market downturns. The significance of company-specific factors in determining investment strategies is underscored by these findings, especially in times of economic uncertainty. The effects of sustainability and technology developments on FMCG stock performance may be investigated in future studies.

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