Profitability Analysis: A Study on Select BSE-Listed FMCG Companies in India

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ABSTRACT :

This study analysed the profitability of selected BSE-Listed FMCG companies in India. The demand of FMCG products was increased over time; however, it was essential to assess the financial health for company managers, investors, and policymakers. 76 FMCG companies in India were selected for the study and the secondary data in terms of ratios for the period of 2015 to 2024 was collected from the CMIE Prowess database. The variables (net profit margin, return on equity, and return on total assets as dependent variables and 5 firm-specific variables, namely, sales growth rate, earnings per share growth, total asset growth, cost-to-revenue ratio, and dividend payout ratio as independent variables) were selected on the basis of earlier literature and for the purpose of data analysis, descriptive statistics, correlation analysis, and panel data regression analysis were used. The findings revealed that the profitability of BSE-Listed FMCG companies was significantly affected by cost revenue, sales growth, and total asset growth. Sales growth was an upright effect on return on equity.

Keywords: Profitability, firm-specific factors, FMCG Company, India, panel regression analysis.

1. Introduction :

1.1 Background

The FMCG sector in India is one of the most vibrant and competitive industries in the country. The sector includes a wide range of products like food and beverages, personal care, cleaning products, and healthcare items, all of which have high demand due to their essential nature. However, despite the large market size and growth potential, profitability varies considerably across companies in the FMCG sector. Understanding the factors influencing the profitability of BSE-listed FMCG companies is important for investors, policymakers, and business managers. The Indian FMCG market is projected to grow due to increasing disposable incomes, urbanization, and changing lifestyles. According to studies, the FMCG sector has been resilient even during economic downturns, showing consistent growth (FICCI, 2023). The sector's growth is driven by rural penetration, premiumization of products, and advancements in distribution channels. Profitability analysis helps companies assess their financial health, identify areas of improvement, and develop strategies to optimize their performance. For investors, profitability is a key parameter in evaluating the return on investment (ROI) potential of a company. Academic studies have consistently emphasized the importance of return on equity (ROE), net profit margin (NPM), and earnings before interest, taxes, depreciation, and amortization (EBITDA) for financial decision-making (Damodaran, 2021). *Kaur and Gill (2019)* highlighted the challenges faced by FMCG companies, including rising input costs and intense market competition, and their impact on profitability. *Pandey (2020)* analysed the profitability trends in the Indian pharmaceutical sector, emphasizing the role of cost management and operational efficiency. *Jain and Sharma (2022)* examined the financial performance of Indian FMCG companies, concluding that companies with strong brand equity and diversified product portfolios tend to be more profitable.

1.2 Problem statement

A large number of foreign researchers, academicians, and others recently conducted numerous studies based on this topic from different angles and in different time frames to find out how firm-specific factors impact the profitability of FMCG companies in India. There are different dimensions of modern research on the profitability analysis of Indian FMCG companies, whereas most of the researchers conducted their research work to identify the impact of liquidity management on the FMCG firms' profitability. This approach of the policymakers, foreign investors, domestic investors, traders, and academic researchers (Bhunia et al., 2012; Bagchi, 2013; Bagchi & Chakrabarti, 2014; Ismail, 2016; Tamragundi & Vaidya, 2016) gives us a new dimension in the modern research activities. While the FMCG sector in India is expanding rapidly due to factors such as urbanization, rising disposable incomes, and increasing consumer demand, the profitability levels among firms within the sector vary widely. The core research problem is: *What are the key factors influencing the profitability of BSE-listed FMCG companies in India and how do these factors affect their financial performance over time?*

1.3 Rationale of the study

The FMCG sector is one of the largest contributors to the Indian economy, providing employment, generating revenue, and driving consumer markets. A detailed profitability analysis helps assess the financial viability of key players in this industry. BSE-listed FMCG companies are a focal point for investors seeking stable returns. By analyzing their profitability, this study provides insights into the sector's ability to generate returns on investment, which is critical for attracting capital. The FMCG sector faces competition, raw material price volatility, changing regulatory environments, and evolving consumer preferences. Profitability analysis allows companies and stakeholders to gauge resilience and adaptability in the face of these challenges. Policymakers and regulators can benefit from understanding the financial performance of key FMCG companies to make informed decisions about policies affecting the sector.

1.4 Motivation of the study

The FMCG sector is integral to India's economic framework, serving as a cornerstone for employment generation, consumer satisfaction, and revenue creation. The opportunity to understand its financial underpinnings motivates a deep exploration of the sector's profitability. Investors rely heavily on profitability metrics to make informed decisions. The study aims to provide a comprehensive analysis that could aid investors in assessing the financial performance and growth potential of FMCG companies, thereby contributing to their decision-making process. Although profitability studies exist, sector-specific analysis is limited. The FMCG sector, with its unique cost structures, revenue streams, and market challenges, warrants a focused study to uncover trends and strategies for enhancing financial performance. The outcomes of this study can benefit a diverse group of stakeholders, including corporate decision-makers, policymakers, and academicians, by offering actionable insights into profitability trends and strategies for sustainable growth. The aim of the study is t*o analyze and evaluate the profitability performance of select BSE-listed FMCG companies in India.*

2. Literature Review :

Patel et al. (2018) examined profitability variations among FMCG companies of different market caps, highlighting that large-cap firm benefited from economies of scale. *Mehta and Agarwal (2019)* explored the challenges posed by rising input costs and competition, emphasizing the need for innovation and cost optimization to sustain profitability. *Kumar and Sharma (2019)* analyzed the financial performance of Indian FMCG companies and found that effective cost management and strong brand equity were major contributors to profitability. *Chatterjee and Singh (2020)* analyzed the impact of inflation and GDP growth on the profitability of FMCG companies, noting a strong correlation between economic stability and financial performance. *Rao and Reddy (2020)* studied the impact of operational efficiency on the profitability of FMCG firms, concluding that companies with streamlined supply chains achieved higher margins. *Das and Gupta (2021)* investigated the role of revenue diversification in enhancing the profitability of FMCG companies, emphasizing the need to cater to both rural and urban markets. Damodaran (2021) emphasized the importance of profitability indicators as critical tools for financial decision-making. *Sinha and Verma (2021)* highlighted the effect of government policies, such as GST implementation, on FMCG sector profitability, observing a mixed impact during the transition period. *Nair and Joshi (2022)* conducted a study on regional differences in profitability within the FMCG sector, finding that southern-region companies outperformed others due to higher consumption patterns. *Roy and Banerjee (2022)* analyzed how FMCG companies adapted to changing consumer preferences during the COVID-19 pandemic to maintain profitability.

2.1 Research Gap

Despite the existing body of literature, there is limited research focusing exclusively on the profitability analysis of BSE-listed FMCG companies in India. The evolving dynamics of the FMCG market, coupled with the need for profitability insights, highlight the importance of this study.

2.2 Research Questions

    I.   What are the trends in profitability among the selected BSE-listed FMCG companies over the study period?
    II.   What are the critical factors influencing profitability in the FMCG sector?

2.3 Research Objectives

    I.   To examine the profitability trends for select BSE-listed FMCG companies.
    II.   To investigate the key factors influencing profitability in the FMCG sector

2.4 Research Hypothesis

H_1: There is a significant variation in profitability factors (net profit margin, return on equity, return on assets) among the selected BSE-listed FMCG companies.
H_2: Cost efficiency has a significant positive impact on the profitability of BSE-listed FMCG companies.
H_3: Revenue growth significantly influences the profitability of BSE-listed FMCG companies.
H_4: Operational efficiency significantly impacts the profitability of BSE-listed FMCG companies.

3. Data and Methodology :

Explanatory research design was considered to analyze the profitability and to observe the factors that influence the profitability of BSE-listed FMCG companies. We select the whole 76 BSE-listed FMCG companies and collect secondary data in connection with the profitability from the CMIE Prowess database for the period from 2015 to 2024. We select three profitability indicators, namely, return on total assets return on equity and net profit marginthat was considered as the dependent variables and five firm-specific variables in this study, namely, sales growth rate, earnings per share growth, total asset growth, cost-to-revenue ratio and dividend payout ratio considered as the independent variables. While analyse the data, descriptive statistics, correlation analysis and multiple regression analysis were used.

For panel regression analysis, three panel regression models were constructed below:

Model 1:

$NPM_{it} = \beta_0 + \beta_1(\text{Cost Revenue }_{it}) + \beta_2(\text{DP Ratio }_{it}) + \beta_3(\text{EPS Growth }_{it}) + \beta_4(\text{Sales Growth }_{it}) + \beta_5(\text{Total Assets Growth }_{it}) + \eta_i + \varepsilon_{it}$

Model 2:

$ROE_{it} = \beta_0 + \beta_1(\text{Cost Revenue }_{it}) + \beta_2(\text{DP Ratio }_{it}) + \beta_3(\text{EPS Growth }_{it}) + \beta_4(\text{Sales Growth }_{it}) + \beta_5(\text{Total Assets Growth }_{it}) + \eta_i + \varepsilon_{it}$

Model 3:

$RTA_{it} = \beta_0 + \beta_1(\text{Cost Revenue }_{it}) + \beta_2(\text{DP Ratio }_{it}) + \beta_3(\text{EPS Growth }_{it}) + \beta_4(\text{Sales Growth }_{it}) + \beta_5(\text{Total Assets Growth }_{it}) + \eta_i + \varepsilon_{it}$

Where,

NPM_{it} = Net Profit Margin;

ROE_{it} = Return on Equity;

RTA_{it} = Return on Assets;

β_0 = Intercept coefficient;

β_1 = Slope coefficient of Cost Revenue;

β_2 = Slope coefficient of DP Ratio;

β_3 = Slope coefficient of EPS Growth;

β_4 = Slope coefficient of Sales Growth;

β_5 = Slope coefficient of Total Assets Growth;

Cost Revenue $_{it}$ = Cost-Revenue Ratio;

DP Ratio $_{it}$ = Dividend Payout Ratio;

EPS Growth $_{it}$ = Earnings per Share Growth Rate;

Sales Growth $_{it}$ =Sales Growth Rate;

Total Assets Growth $_{it}$ = Total Assets Growth Rate;

η_i = Unobservable heterogeneity;

ε_{it} = Residual errors.

4. Empirical Results and Interpretations :

4.1 Descriptive Statistics

Table-1: Descriptive Statistics

	Cost Revenue	DP Ratio	EPS Growth	Sales Growth	Total Assets Growth	NPM	ROE	RTA
Mean	75.89	24.39	5.81	14.61	16.49	5.68	18.25	8.22
Median	79.74	11.00	6.31	10.13	9.68	5.20	16.86	7.87
Maximum	313.41	298.93	3081.11	522.08	708.57	45.76	215.42	44.74
Minimum	13.91	-9.43	-6650.00	-100.00	-45.90	-282.18	-534.17	-553.24
Std. Dev.	24.07	35.93	379.56	37.34	48.01	15.74	34.09	22.71
Skewness	1.56	2.95	-10.16	6.73	8.91	-9.71	-6.38	-19.93
Kurtosis	20.71	16.66	196.58	75.80	104.45	160.91	106.39	492.86
Jarque-Bera	10237.75	7016.14	1199684.00	173563.80	336006.80	801587.30	343671.00	7649112.00
Probability	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Observations	760	760	760	760	760	760	760	760

In this study, the descriptive statistics were given in table 1. The result of descriptive statistics approved high value of standard deviation of the EPS growth indicating high risk related with such variable. It implied that EPS growth rate inconsistent and fluctuated widely. This might signal for investors that future earnings were less predictable, which can influence on decision making. A moderate deviation in dividend payout ratio indicated that most of FMCG companies distributed dividend among shareholder at a satisfactory level that they maintain a similar percentage of their earnings as dividends. We found low standard deviation for net profit margin suggested that the attaining similar profitability levels relative to their revenue. In the FMCG industry, maximum companies were following similar pricing strategies and cost efficiencies that reduced disparities in profitability across FMCG companies. The Jarque Bera statics with probability or p-value result was extremely low (0.00). There were strong evidence to suggest that non-normality data under study.

4.2 Correlation Statistics

Table-2: Correlation Analysis

	Cost Revenue	DP Ratio	EPS Growth	Sales Growth	Total Assets Growth	NPM	ROE	RTA
Cost Revenue	1							
DP Ratio	-0.24	1						
EPS Growth	-0.03	-0.02	1					
Sales Growth	0.01	-0.09	0.06	1				
Total Assets Growth	0.06	-0.10	0.03	0.10	1			
NPM	-0.21	0.20	0.06	-0.02	-0.08	1		
ROE	-0.19	0.15	0.08	0.09	-0.02	0.33	1	
RTA	-0.16	0.16	0.05	-0.02	-0.05	0.83	0.26	1

Correlation analysis was given in table 2. NPM, ROE and RTA were slightly negative associated with cost revenue. In this study, Indian FMCG companies were effective cost management practices that mean variations in costs relative to revenue. It was not considered as significantly distress NPM. Furthermore, a very weak negative correlation or no correlation existed between total assets growth and NPM and ROE. This suggested that changes in total assets had little to no impact net profit margin and shareholder returns respectively. Also, we found a very weak negative correlation between total assets growth and RTA. FMCG companies might not be efficiently employing the newly acquired assets to make earnings. Conversely, NPM, ROE and RTA were slightly negative associated with DP ratio. It suggested that a potential risk if DP ratio continued to increase without rising profitability.

4.3 Panel Unit Root Test Results

Levin, Lin & Chu (LLC) panel unit root tests were used to assess the stationarity of panel data. According to Levin, Lin & Chu (LLC) test, the null hypothesis that the panel data series is not stationary against the research hypothesis that panel data series is stationary. In order to verify if a unit root existed in a panel data set, Levin, Lin, and Chu assumed a homogenous alternative hypothesis, according to which every cross-sectional unit was the same underlying process.

Table – 3: Levin, Lin & Chu t Method

Variables	At Level			At 1st Difference		
	Statistic	Prob.**	Remarks	Statistic	Prob.**	Remarks
Cost Revenue	-13.7542	0.0000	S	-45.6514	0.0000	S
DP Ratio	-5.67748	0.0000	S	-5.53887	0.0000	S
EPS Growth	-33.1366	0.0000	S	-30.1955	0.0000	S
Sales Growth	-23.9693	0.0000	S	-32.0171	0.0000	S
Total Assets Growth	-17.3352	0.0000	S	-25.1939	0.0000	S
NPM	-11.8063	0.0000	S	-19.8442	0.0000	S
ROE	-21.4705	0.0000	S	-29.7077	0.0000	S
RTA	-14.0727	0.0000	S	-18.3786	0.0000	S
S = Stationary						

In table 3, the Levin, Lin & Chu Method unit root test result were discussed. According to the Levin, Lin, and Chu (LLC) method, all variables were found to be stationary at both the level and first difference. All variables were naturally stationary, meaning that their mean, variance, and autocorrelation do not change over time.

4.4 Panel Regression Test Results

A panel regression test result presented the estimated coefficients for each independent variable in a panel data analysis were shown in a panel regression test result, along with their standard errors, t-statistics, and p-values, indicating the significantly of each variable's affect the dependent variable. Three profitability indicators (NPM, ROE and RTA) were considered as dependent variables and five firm-specific indicators (cost revenue, DP ratio, EPS growth, sales growth, and total assets growth) were considered as independent variables.

4.4.1 Panel Regressions Analysis between firm-specific indicators and Profitability (NPM)

Net profit margin considered as dependent variable and five firm-specific indicators, which were considered as independent variables in Model 1. Fixed effects model and random effects model were used, which was shown below.

Table - 4: Panel Data Regression Results (DV: NPM)

Variable	FE Model			RE Model		
	coefficient	t-stat	prob.	coefficient	t-stat	prob.
Constant	11.98	3.94	0.00	13.27	5.50	0.00
Cost Revenue	-0.10	-2.59	0.01	-0.12	-4.19	0.00
DP Ratio	0.01	0.71	0.48	0.04	2.45	0.01
EPS Growth	0.00	0.57	0.57	0.00	1.09	0.27
Sales Growth	-0.02	-1.06	0.29	-0.01	-0.92	0.36
Total Assets Growth	0.07	5.28	0.00	0.03	2.60	0.01
Prob. of F-statistic	0.00			0.00		

Hausman test was applied to focus on testing which model (fixed effects and random effects model) was appropriate. Pertaining to this, the null hypothesis stated that 'fixed effects model is not appropriate' against the alternative hypothesis that 'fixed effects model is appropriate'.

Table - 5: Hausman Test Results

χ^2 Statistic	d.f.	Prob.
61.76	5	0.00

Table 5 confirmed that the null hypothesis was rejected as the probability was 0.00; consequently, all individual-specific effects in these models were considered as fixed. This reflected that the individual effects were uncorrelated with the independent variables. In the present research work, the regression analysis was described on the basis of fixed effects test results.

Panel regression analysis based on fixed effects model demonstrated that cost revenue negatively associated with NPM, which was statistically significant; DP ratio and EPS growth positively associated with NPM, which was not statistically significant; sales growth negatively associated with NPM, which was not statistically significant; and total assets growth positively associated with NPM, which was statistically significant. The statistically significant F-statistic (p-value = 0.00) supported the validity of the model that all firm-specific indicators collectively had a meaningful relationship with NPM.

4.4.2 Panel Regressions Test Results between firm-specific indicators and Profitability (ROE)

Return on equity considered as dependent variable and five firm-specific indicators were considered as independent variable in Model 2. Fixed effects model and random effects model were used and shown in table 6.

Table - 6: Panel Data Regression Results (DV: ROE)

Variable	FE Model			RE Model		
	coefficient	t-stat	prob.	coefficient	t-stat	prob.
Constant	32.41	4.64	0.00	33.40	5.93	0.00
Cost Revenue	-0.20	-2.31	0.02	-0.23	-3.57	0.00
DP Ratio	-0.01	-0.18	0.85	0.05	1.33	0.18
EPS Growth	0.00	1.07	0.28	0.01	1.46	0.14
Sales Growth	0.08	2.44	0.01	0.08	2.59	0.01
Total Assets Growth	0.01	0.49	0.62	0.01	0.18	0.87
Prob. of F-statistic	0.00			0.00		

Hausman test was applied to focus on testing which model (fixed and random effects model) appropriate. Pertaining to this, the null hypothesis stated that 'fixed effects model is not appropriate' against the alternative hypothesis that 'fixed effects model is appropriate'.

Table-7: Hausman Test Results

χ^2 Statistic	d.f.	Prob.
10.11	5	0.07

Table 7 determined that the null hypothesis was failed to reject as the probability was 0.07 (>0.05); consequently, all individual-specific effects in these models were considered as random. This reflected that the individual effects were correlated with the independent variables. In the present research work, the regression analysis was described on the basis of random effects test results. The intercept denoted the expected value of the dependent variable when all independent variables were equal to zero in a random effects model, which was statistically significant. This implied that ROE expected value was significantly different from zero when all independent variables were zero. Cost revenue (-0.23) suggested that a 1-unit increase in the cost revenue ratio was linked with a decrease of 0.23 units in the ROE, which was statistically significant at the 1% level. DP ratio (0.05) suggested positive relationship with the ROE, which was not statistically significant. EPS growth (0.01) suggested positive relationship with the ROE, which was not statistically significant. Sales growth (0.08) indicated a positive association between the sales growth rate and the ROE, inferred that a 1-unit increase in the quick ratio results in an increase of 0.08 units, which was statistically significant at the 1% level. Total assets growth (0.01) suggested positive relationship with the ROE, which was not statistically significant. The statistically significant F-statistic (p-value = 0.00) supported the validity of the model (Rizkianto & Surya, 2014).

4.4.3 Panel Regressions Test Results between firm-specific indicators and Profitability (RTA)

Return on total assets considered as dependent variable and five firm-specific indicators were considered as independent variable in Model 3. Fixed effects model and random effects model were used and shown in table 8.

Table - 8: Panel Data Regression Results (DV: RTA)

Variable	FE Model			RE Model		
	coefficient	t-stat	prob.	coefficient	t-stat	prob.
C (Intercept)	11.07	2.30	0.02	15.48	5.15	0.00
Cost Revenue	-0.06	-0.97	0.33	-0.12	-3.37	0.00
DP Ratio	0.01	0.29	0.77	0.07	3.25	0.00
EPS Growth	0.00	0.52	0.60	0.00	1.34	0.18
Sales Growth	-0.03	-1.22	0.22	-0.01	-0.61	0.54
Total Assets Growth	0.11	5.48	0.00	0.00	0.29	0.77
F-stat (prob.)	0.00			0.00		

Hausman test was applied to focus on testing which panel model (fixed and random effects model) appropriate. Pertaining to this, the null hypothesis stated that 'random effects model is appropriate' against the alternative hypothesis that 'random effects model is not appropriate'.

Table 9 showed that the null hypothesis was rejected as the probability was 0.00; consequently, all individual-specific effects in these models were considered as fixed. This reflected that the individual effects were uncorrelated with the independent variables. In the present research work, the regression analysis was described on the basis of fixed effects test results.

Table-9: Hausman Test Results

χ^2 Statistic	d.f.	Prob.
101.40	5	0.00

Fixed effects model demonstrated that cost revenue negatively associated with RTA, which was statistically insignificant; DP ratio and EPS growth positively associated with RTA, which was not statistically significant; sales growth negatively associated with RTA, which was not statistically significant; and total assets growth positively associated with RTA, which was statistically significant. The statistically significant F-statistic (p-value = 0.00) supported the validity of the model that firm-specific indicators collectively had a meaningful relationship with return on total assets (RTA).

5. Conclusion :

This study examined the relationship between firm-specific indicators and profitability of selected FMCG companies in India. Panel regression analysis showed that cost revenue, sales growth and total assets growth of FMCG companies significantly affect the profitability under study. This recommended that operating costs should be controlled for improving production quality. At the same time, to preserve financial stability, think about reducing the dividend payout for the FMCG companies. Profitability will improve if more assets are used effectively and evaluation of asset performance regularly. Indian FMCG Companies need to invest more in marketing, research and development, and after sales support due to sales growth has a positive impact on their return on equity.

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