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A Study on Performance of Selected FMCG Companies through Economic Value Added (EVA)

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ABSTRACT

This study evaluates the value-creating performance of five leading Fast-Moving Consumer Goods (FMCG) companies – Hindustan Unilever, Nestlé India, Britannia Industries, Dabur India and Marico – by using Economic Value Added (EVA) for 2020-21 to 2024-25. Profit after tax, return on equity and earnings per share fail to capture the cost of capital, which is crucial in determining shareholder wealth. EVA overcomes this limitation by adjusting Net Operating Profit After Tax (NOPAT) for a charge that reflects the opportunity cost of capital. This is an analytical and descriptive study based on secondary data retrieved from the companies' annual reports. Cost of equity was estimated by the Capital Asset Pricing Model and applied to capital employed at the year-end to arrive at the weighted average cost of capital. The data was subjected to mean, standard deviation and coefficient of variation, one-way Analysis of Variance (ANOVA) with Tukey's Honestly Significant Difference (HSD), Kruskal-Wallis test, paired t-test, Pearson and Spearman's rank correlation as well as simple linear regression analysis. The results show that all the 25 observations registered positive EVAs, and the aggregated EVA increased from about Rs. 9,476 crore in 2020-21 to about Rs. 12,882 crore in 2024-25. There were significant differences in the mean EVA of the companies, $F(4, 20) = 61.68$, $p < 0.001$, $\eta^2 = 0.93$. Hindustan Unilever recorded the highest absolute value while Nestlé India had the highest spread between the returns and the cost of capital. Dabur India was the only company that recorded no-growth EVA. Taken together, the study concludes that the selected FMCG companies are consistently creating value but the magnitude varies with their size and capital employed rather than profitability.

Keywords: Economic Value Added (EVA), FMCG Industry, NOPAT, Weighted Average Cost of Capital (WACC), Capital Employed, Shareholder Value, Return on Invested Capital, Value-Based Management, India.

1. Introduction

The Fast-Moving Consumer Goods (FMCG) sector is the fourth largest sector in the Indian economy. This sector is a diverse group of industries that are engaged in the production or sale of industrial goods of short-term use, such as food, beverages, personal care, home care and healthcare products. This sector has benefited from India's demographics, urbanization, rising disposable income and growing middle class and is currently regarded as a defensive sector with stable cash flows. As a result, the companies in this sector tend to be favorite investments for many retail investors.

The companies in this sector have performed consistently well in terms of accounting measures such as profit, earnings per share (EPS), return on equity (ROE) and return on capital employed (ROCE). However, the accounting-based metrics have limitations since net profit only accounts for the cost of debt, not for equity. A company is said to be destroying value when the return on equity is lower than the cost of equity. Economic Value Added (EVA), on the other hand, is a financial metric introduced by Stern Stewart & Co to address this shortcoming. EVA represents the amount by which the firm has created value after deducting the opportunity cost of capital. A positive EVA indicates that the firm had created value for the shareholders while a negative EVA indicates that the firm had destroyed value even when it recorded a profit on the income statement. Additionally, EVA provides insight into how operating policies affect the firm's economic performance since it can be improved by either improving operating profits or reducing the capital employed or lowering the cost of capital.

FMCG companies are a fascinating study in the context of EVA. This sector encompasses companies with extremely diverse capital structures and profit margins. Some of these firms, like Nestlé India, have low capital employed with a high profit margin, while others, like Hindustan Unilever, have a large capital employed due to acquisitions and goodwill. Thus, comparing companies based on absolute profit figures is not always informative about their value-creating potential. Therefore, this study measures and compares the EVA of the selected firms to ascertain if the differences are statistically significant.

2. Review of Literature

- Modigliani and Miller's (1958) classic paper on the value of firms demonstrated that a firm's earning power and the risk of its assets determine its value. This perspective has influenced various value-based performance measurements, including EVA.
- Stewart (1991) introduced EVA in his book, *The Quest for Value*, and advocated for it as a management technique that focuses on the profit after capital charges as a basis for compensating employees.
- Stern, Stewart and Chew (1995) stated that EVA is a financial management framework that involves measuring performance, capital budgeting, incentive compensation and communicating with shareholders. The authors added that several multinational corporations had adopted EVA as a management tool.
- Lehn and Makhija (1996) evaluated EVA and Market Value Added (MVA) as performance indicators and argued that both were related to stock performance and could be used to signal changes in firm value.
- O'Byrne (1996) discussed EVA's relationship with market value and showed that EVA was positively related to the market value of firms, which demonstrated its ability to capture value creation.
- Biddle, Bowen and Wallace (1997) compared EVA to alternative accounting-based measures such as earnings and found that earnings had a stronger relationship to stock performance than residual income, including EVA. The authors warned that EVA should not be used in isolation from other methods.
- Chen and Dodd (1997) compared EVA to traditional accounting measurements, such as Return On Assets (ROA), Return On Equity (ROE) and EPS, and concluded that while EVA was a valuable performance indicator, its superiority was not established conclusively.
- Young and O'Byrne (2001) wrote about value-based management and argued that EVA was most effective when it was used as a motivational tool rather than a mere reporting mechanism.
- Sharma and Kumar (2010) reviewed the literature on EVA's relationship with market value and stock performance in the global business environment. The authors concluded that while some studies revealed a connection between EVA and stock returns, more research was required before EVA could be reliably used in emerging economies.
- Damodaran (2012) explained the link between value creation and capital as well as earnings. He demonstrated that the excess returns on the capital employed determined the ability of a firm to create value.

A. Research Gap

Much of the previous research on EVA focuses on its relationship to stock returns or market value for large samples of firms. However, there is a need to examine the EVA of firms in specific sectors in India to determine the differences in value creation, particularly the effect of capital employed and its cost. This study bridges this research gap by assessing the EVA of five leading FMCG companies to demonstrate the variations in the value creation process and examine statistical differences.

B. Conceptual Framework

The conceptual model of this study is based on the relationship between EVA and its determinants. In this study, value creation is the dependent variable while operating profitability (NOPAT) and capital intensity are independent variables. The opportunity cost of capital (WACC) is the benchmark for measuring value creation. The difference between the return on capital and WACC is used as a proxy for the value creation potential of the firms.

Construct	Role	Measured through
Operating profitability	Independent	$\text{NOPAT} = \text{PBIT} \times (1 - \text{tax rate})$
Capital intensity	Independent	$\text{Capital employed} = \text{Net worth} + \text{Borrowings (incl. lease liabilities)}$
Cost of capital	Benchmark	WACC from CAPM cost of equity and after-tax cost of debt
Return efficiency	Derived	$\text{ROIC} - \text{WACC (percentage points)}$
Value creation	Dependent	$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{Capital employed})$

3. Objectives of the Study

- To calculate the Economic Value Added (EVA) of selected Fast-Moving Consumer Goods (FMCG) companies for the period 2020-21 to 2024-25.
- To compare the value-creating performance of the selected companies and rank them.
- To investigate the relationship between EVA and its components, namely NOPAT, capital employed and the return spread over WACC.
- To analyse the trend of EVA over the study period and identify companies that created or lost value momentum.
- To suggest measures for improving value creation in the FMCG sector.

4. Hypotheses of the Study

H0 : There is no significant difference in the mean EVA of the selected FMCG companies.

1 H1 : There is a significant difference in the mean EVA of the selected FMCG companies.

1 H0 : There is no significant difference between the return on invested capital (ROIC) and the weighted average cost of capital (WACC) of the selected companies.

H1 : ROIC is significantly higher than WACC.

2 H0 : There is no significant upward trend in the combined EVA of the selected companies over the study period.

3 H1 : Combined EVA shows a significant upward trend. 3

5. Research Methodology

A. Research Design

The study is descriptive and analytical in nature and is based on secondary data. EVA is calculated for each company and each year, and the resulting panel of observations is analysed with statistical tests.

B. Sample and Study Period

Five companies were selected through purposive sampling on the basis of market leadership, availability of continuous financial data and representation of different FMCG segments: Hindustan Unilever (home and personal care, foods), Nestlé India (food and beverages), Britannia Industries (biscuits and bakery), Dabur India (ayurvedic and personal care) and Marico (hair care and edible oils). The study covers five financial years, 2020-21 to 2024-25, giving 25 company-year observations.

C. Sources of Data

Data on profit before interest and tax (PBIT), effective tax rate, net worth and borrowings were taken from the published annual reports of the selected companies. Risk-free rate, market risk premium and beta values were taken as stated in the table below.

D. Computation of EVA

$EVA = NOPAT - \text{Capital Charge}$, where $NOPAT = PBIT \times (1 - t)$; $\text{Capital Employed} = \text{Net worth} + \text{Borrowings}$

(including lease liabilities); $\text{Capital Charge} = WACC \times \text{Capital Employed}$; and $WACC = [K_e \times E + K_d(1 - t) \times D] / (E + D)$. The cost of equity is estimated by CAPM: $K_e = R_f + \beta \times (R_m - R_f)$. The risk-free rate (R_f) is taken as 7.0 per cent, the market risk premium as 6.5 per cent and the pre-tax cost of debt (K_d) as 8.0 per cent. $ROIC = NOPAT / \text{Capital Employed} \times 100$, and the value spread = $ROIC - WACC$.

Company	Beta (β)	Cost of equity K_e (%)	Pre-tax K_d (%)
Hindustan Unilever	0.55	10.57	8.00
Nestlé India	0.50	10.25	8.00
Britannia	0.60	10.90	8.00
Dabur	0.70	11.55	8.00
Marico	0.75	11.88	8.00

Table 1: Cost of capital parameters.

E. Statistical Tools

The following statistical procedures were used: descriptive statistics including mean, median, standard deviation, coefficient of variation and skewness, one-way analysis of variance (ANOVA) with Tukey's HSD test and Levene's test of equality of variances, non-parametric Kruskal-Wallis test (used as a robustness check because EVA values were not normally distributed, Shapiro-Wilk $p = 0.004$), paired t-test with Wilcoxon signed-rank check, Pearson and Spearman correlation coefficients and simple linear regression. All tests were performed at the 5 per cent level of significance ($\alpha = 0.05$).

6. Data Analysis and Interpretation

A. Year-wise EVA of Selected Companies

Company (Rs. crore)	2020-21	2021-22	2022-23	2023-24	2024-25
Hindustan Unilever	3,112	3,695	4,390	4,578	4,510
Nestlé India	2,652	2,895	3,351	3,667	3,737
Britannia	1,783	1,721	1,903	2,344	2,496
Dabur India	976	905	900	951	935
Marico	953	971	958	1,086	1,204
Combined EVA	9,476	10,189	11,502	12,627	12,882

Table 2: Economic Value Added (Rs. crore), 2020-21 to 2024-25.

All the five companies reported positive EVA in every year which means that each and every company generated returns over and above their cost of capital during the period under consideration. Hindustan Unilever's EVA for instance, rose from around Rs. 3,112 crore to Rs. 4,510 crore while that of nestle India improved from Rs. 2,652 crore to Rs. 3,737 crore and that of Britannia improved from Rs. 1,783 crore to Rs. 2,496 crore. Marico's EVA too, increased from Rs. 953 crore to Rs. 1,204 crore during the period. On the other hand Dabur's EVA remained almost flat at around Rs. 900 to 975 crore during the period as growth in capital employed off set the growth in operating profit. Combined EVA grew by about 35.9 per cent

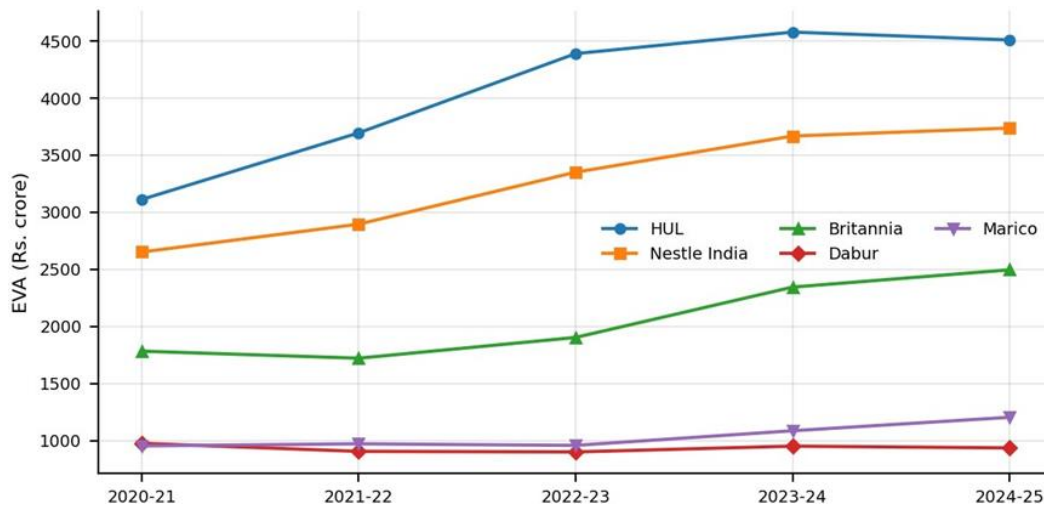


Figure 1: Trend of EVA of selected FMCG companies

B. Components of EVA and Ranking

Company	NOPAT	Capital employed	ROIC (%)	WACC (%)	Spread (pp)	Mean EVA	Ran k
Hindustan Unilever	9,341	50,490	18.47	10.47	8.01	4,057	1
Nestlé India	3,570	3,152	113.12	9.80	103.33	3,261	2
Britannia	2,614	5,860	44.43	9.62	34.81	2,049	3
Dabur India	1,910	8,840	21.71	11.05	10.66	934	5
Marico	1,411	3,384	41.69	11.13	30.56	1,034	4

Table 3: Five-year average NOPAT, capital employed (Rs. crore), returns and EVA.

Hindustan Unilever is the largest company in terms of absolute EVA (average Rs. 4,057 crore or about 35.8 per cent of the combined EVA of this study), followed by Nestlé India (28.8 per cent), Britannia (18.1 per cent), Marico (9.1 per cent) and Dabur (8.2 per cent). The efficiency ranking is completely different. Nestlé India earns an average ROIC of 113.1 per cent against a WACC of 9.8 per cent, a spread of more than 100 percentage points, because its profit is generated on a very small capital base. Britannia (34.8 points) and Marico (30.6 points) also earn returns several times their cost of capital. Hindustan Unilever has the lowest ROIC (18.5 per cent) and the smallest spread (8.0 points) because its capital employed of about Rs. 50,000 crore includes large goodwill and intangibles from acquisitions; it ranks first only because of its scale. Dabur's spread (10.7 points) and its falling ROIC (23.9 per cent to 20.6 per cent) explain its weak EVA momentum.

C. Descriptive Statistics of EVA

Company	Mean	Median	SD	CV (%)	Min	Max
Hindustan Unilever	4,057	4,390	635	15.6	3,112	4,578
Nestlé India	3,261	3,351	476	14.6	2,652	3,737
Britannia	2,049	1,903	349	17.0	1,721	2,496
Dabur India	934	935	32	3.4	900	976
Marico	1,034	971	109	10.6	953	1,204
All (N = 25)	2,267	1,903	1,303	57.5	900	4,578

Table 4: Descriptive statistics of EVA (Rs. crore).

The average EVA across all observations is Rs. 2,267 crore with a standard deviation of Rs. 1,303 crore (skewness = 0.46). Britannia (CV 17.0 per cent) and Hindustan Unilever (15.6 per cent) show the largest year-to-year variability, which reflects strong growth rather than instability, while Dabur's EVA is the most stable (CV 3.4 per cent) because it barely changed.

D. One-Way ANOVA (H0)

1

Test	Statistic	df	p-value	Effect size	Result ($\alpha = 0.05$)
One-way ANOVA (EVA by company)	F = 61.68	4, 20	< 0.001	$\eta^2 = 0.93$	Significant
Levene's test	W = 2.09	4, 20	0.120	—	Variances equal
Kruskal-Wallis (robustness)	H = 21.97	4	< 0.001	—	Significant

Table 5: ANOVA and non-parametric test of EVA across companies.

The null hypothesis H0 is rejected: mean EVA differs significantly among the five companies, and company 1 identity explains about 93 per cent of the variation in EVA. Tukey's HSD post-hoc test shows that every pair of companies differs significantly ($p < 0.05$) except Dabur and Marico (difference = Rs. 101 crore, $p = 0.994$). Hindustan

Unilever differs from Nestlé India by Rs. 796 crore ($p = 0.031$), from Britannia by Rs. 2,007 crore and from Dabur and Marico by more than Rs. 3,000 crore (all $p < 0.001$).

E. ROIC versus WACC (H0)

2 A paired t-test on the 25 company-year observations shows that ROIC exceeds WACC by 37.5 percentage points on average ($t(24) = 5.29$, $p < 0.001$). The Wilcoxon signed-rank test, which does not assume normality, gives the same conclusion ($p < 0.001$), as the spread was positive in all 25 observations. H0 is therefore rejected. The mean 2 difference is strongly influenced by Nestlé India, but even the lowest observed spread (6.5 points, Hindustan Unilever in 2020-21) is positive.

F. Correlation and Regression Analysis

Relationship	Pearson r	p-value	Spearman ρ	p-value	Result
EVA and NOPAT	0.870	< 0.001	—	—	Strong positive, significant
EVA and Capital employed	0.667	< 0.001	0.181	0.386	Pearson significant; Spearman not
EVA and Value spread (ROIC – WACC)	0.273	0.187	—	—	Not significant

Table 6: Correlation of EVA with its drivers (N = 25).

EVA is strongly and significantly related to NOPAT, as expected. Its correlation with capital employed is positive in the Pearson test but not significant in the rank-based Spearman test, which indicates that the Pearson result is driven by Hindustan Unilever's very large capital base rather than a consistent pattern across companies. EVA is not significantly correlated with the ROIC-WACC spread ($r = 0.273$, $p = 0.187$). This is an important finding: a company can earn an exceptionally high return on capital (Nestlé India) and still produce less absolute EVA than a larger company with a modest spread (Hindustan Unilever). Absolute value creation is a joint outcome of margin, capital efficiency and scale.

G. Trend of Combined EVA (H0)

3 A linear regression of combined EVA on time ($t = 1$ to 5) gives a slope of Rs. 925 crore per year ($R^2 = 0.966$, $p = 0.003$). The combined EVA rose in every year, with the fastest increase in 2022-23 (Rs. 1,313 crore) and a slower rise of Rs. 255 crore in 2024-25. H0 is rejected, although the result rests on only five annual points and should be interpreted with caution. Company-wise compound annual growth of EVA was 9.7 per cent for Hindustan Unilever, 9.0 per cent for Nestlé India, 8.8 per cent for Britannia, 6.0 per cent for Marico and -1.1 per cent for Dabur; individual trends were significant for the first four companies ($p < 0.05$) but not for Dabur ($p = 0.779$).

H. Hypothesis Testing Summary

Hypothesis	Test and statistics	Decision
H0 : No difference in mean EVA across companies ¹	ANOVA $F(4, 20) = 61.68$, $p < 0.001$; Kruskal-Wallis $p < 0.001$	Reject H0 1
H0 : No difference between ROIC and WACC 2	Paired $t(24) = 5.29$, $p < 0.001$; Wilcoxon $p < 0.001$	Reject H0 2
H0 : No upward trend in combined EVA 3	Slope = Rs. 925 crore/year, $R^2 = 0.966$, $p = 0.003$	Reject H0 3

7. Findings of the Study

- All five of the selected FMCG companies earned a positive economic value added in all 25 observations (years), creating returns on their invested capital that greatly exceed their cost of capital.
- Hindustan Unilever created the highest absolute EVA (average Rs. 4,057 crores), followed by Nestlé India (Rs. 3,261 crores) and Britannia (Rs. 2,049 crores). Marico and Dabur created about Rs. 1,000 crores each.
- Nestlé India is the most capital-efficient company, averaging the highest ROIC (113 per cent) and a spread of more than one hundred points. Hindustan Unilever has the lowest spread (8.0 points) due to its size.
- Mean EVA differs substantially across companies ($\eta^2 = 0.93$), and all pairs, except Dabur and Marico, are statistically different.
- Total EVA increased by around 35.9 per cent for 2020-21 to 2024-25, with Hindustan Unilever, Nestlé India and Britannia growing their EVA by 9 to 10 per cent a year.
- Dabur's EVA stagnated (CAGR -1.1 per cent) because additions to capital employed grew faster than operating profit, and its ROIC decreased from 23.9 per cent to 20.6 per cent.
- EVA is closely related to NOPAT, but it is not significantly related to the ROIC-WACC spread, indicating the importance of scale for absolute value creation.

8. Discussion

The results support the perspective of Stewart (1991) and Stern, Stewart and Chew (1995) that a measure that charges for all capital provides a more comprehensive assessment of performance than profit alone. Rankings by absolute EVA, ROIC and spread differ, just as it would be in the case of profit-based comparisons. Hindustan Unilever has the best EVA ranking and the worst return spread. Nestlé India leads in efficiency but only qualifies second on absolute value. This is in line with the argument of Damodaran (2012) that value creation is a function of excess returns on capital plus the amount of capital invested. Dabur's flat EVA illustrates the point made in the value-based management literature (Young and O'Byrne, 2001), that growth in capital that does not earn a proportionate increase in operating profit does not add value. The mixed evidence on the superiority of EVA over accounting measures reported by Biddle, Bowen and Wallace (1997), Chen and Dodd (1997), and Sharma and Kumar (2010) also suggests that EVA should be read in conjunction with ROCE, ROE and cash-flow measures rather than taken on its own.

9. Suggestions and Recommendations

- Adopt EVA as an internal performance and incentive measure. Companies that are already reporting strong profits should track EVA at the level of business units and brands, so that managers are accountable for the capital that they use.
- Improve capital productivity at Hindustan Unilever. As the most capital inefficient company (lowest spread), the company has the largest opportunity to increase its EVA by improving returns on acquired intangibles and working capital.

- Restore EVA momentum at Dabur. The company should link new capital investment to a minimum return above its cost of capital, and focus on higher margin categories.
- Maintain Nestlé India's asset-light model. The company's high spread relies on its small capital base, and growth investments should be evaluated on the basis of the EVA hurdle to preserve the spread.
- Manage the cost of capital. Companies that are low on debt can explore if a modest increase in leverage will reduce WACC without adding financial risk.
- Investors should go beyond profit growth. Analysts and investors should use EVA, ROIC and spread over WACC along with EPS and ROE to compare FMCG companies.

10. Limitations and Scope for Further Research

- The study covers only five companies and five years (25 observations), and statistical results, especially the trend test, are indicative only.
- Capital employed was measured at year-end book values and no accounting adjustments (such as capitalising R&D or advertising, or adjusting for goodwill) had been made to the numbers. Such adjustments, which are part of the original Stern Stewart method, would alter absolute EVA figures.
- Beta, risk-free rate, market risk premium and cost of debt were assumed to be constant over the period and time-varying estimates would fine-tune the WACC.
- Further research could involve more companies and years, and link EVA to market value added and share returns, and test the impact of adjustments to capital employed.

11. Conclusion

This study explored the performance of the five selected FMCG companies through Economic Value Added for 2020-21 to 2024-25. All the five companies created positive EVA in all 25 observations, and total EVA grew at about 36 per cent over the period. Hindustan Unilever created the biggest absolute value, Nestlé India the highest return spread over its cost of capital, and Britannia and Marico both had healthy spreads with a boost in their EVA, while Dabur's value creation stagnated. The differences in EVA among the companies are statistically distinct, and absolute value creation depends on both scale and capital efficiency. The study concluded that EVA provides a more meaningful basis for comparing FMCG companies than accounting profit, and that sustained value creation requires growth in operating profit that is earned efficiently on the capital employed.

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