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A Comparative Analysis of Value Creation, Market Capitalisation and Dividend Strategy in India's High-Market-Cap FMCG Companies

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Abstract- This paper presents a comparative analysis of value creation, market capitalisation, and dividend strategies among five high-market-capitalisation Fast-Moving Consumer Goods (FMCG) companies in India: Hindustan Unilever Limited (HUL), ITC Limited, Nestlé India, Varun Beverages Limited (VBL), and Britannia Industries Limited. Utilising a five-year period of financial data (2021–2025), the study examines key metrics such as Market Capitalisation, Return on Equity (ROE), and Dividend Payout Ratio. The findings reveal significant heterogeneity in value creation approaches, with companies like Nestlé India demonstrating superior operational efficiency (ROE) despite a smaller market cap than HUL and ITC. Conversely, VBL exhibits a low dividend payout but high growth, reflecting a focus on reinvestment for future value. The analysis underscores the differential impact of dividend policy on market valuation in the Indian FMCG sector, suggesting that investor preference is split between high-growth reinvestment and consistent, high-payout dividend streams.

Keywords: Value Creation, Market Capitalisation, Dividend Strategy, FMCG, Return on Equity.

I. INTRODUCTION

A key component of the Indian economy, the fast-moving consumer goods (FMCG) industry is distinguished by its high volume, low margin, and fierce competition. Businesses in this industry must constantly balance the twin demands of preserving market share and increasing shareholder value. One of the biggest and busiest industries in India is this one. Known for their high turnover and essential products, FMCG companies have consistently performed well on the stock market, offering investors a combination of stability and growth. Three million people are employed by it, making up about 5% of all factory jobs in the nation. With household and personal care products making up half of total FMCG sales, the fourth-largest sector in India is vital to the economy.

The industry's strong pace is anticipated to be maintained by rising disposable incomes, a younger consumer base, increasing brand awareness, and supportive government initiatives and policies. Both staples and non-staples are expected to contribute to the expected 8% increase in household FMCG spending by April 2025, which reached Rs. 17,792 crore (US$2.07 billion).

1.1 Budget allocation for the FMCG sector in India
The Union Budget 2025 highlights important steps to enhance the FMCG industry, including agricultural growth, infrastructure development, and consumer expenditure. Significant fiscal allocations include:

- Agriculture and Rural Development: ₹1.71 lakh crore provided to improve productivity and post-harvest storage.
- Focus on Oilseeds and Pulses: The National Mission for Edible Oilseeds and Aatma-nirbharta in Pulses aim to reduce imports and increase domestic output.
- Tax Reforms for the Middle Class: Tax breaks designed to increase disposable income, potentially driving up consumption of FMCG goods.
- Food Processing Investments: To boost FMCG sector growth, invest in the food processing industry and improve supply chain efficiencies.

The study focuses on three critical financial dimensions:

1. Value Creation: Mainly determined by Return on Equity (ROE), which shows how effectively a business makes money off of the investments made by shareholders.
2. Market Capitalisation: The total market value of a company's outstanding shares, serving as a proxy for investor perception of future value and overall scale.

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3. Dividend Strategy: Determined by the Dividend Payout Ratio, which shows the percentage of profits given to shareholders.

1.2 Company Backgrounds and History
The selected companies represent a diverse cross-section of the Indian FMCG landscape, ranging from legacy conglomerates to high-growth, focused players.

Company	Incorporation Year	Key Historical Milestones
Hindustan Unilever Limited (HUL)	1931	Traces its roots to 1888 with the entry of Sunlight soap; established as Hindustan Vanaspati Manufacturing Company in 1931; a subsidiary of Unilever [1].
ITC Limited	1910	Incorporated as the Imperial Tobacco Company of India Limited; progressively Indianised its ownership and diversified into hotels, paperboards, and a major FMCG business [2].
Nestlé India	1959	Incorporated as a subsidiary of the Swiss multinational Nestlé S.A.; established a strong presence in milk products, prepared dishes, and beverages [3].
Varun Beverages Limited (VBL)	1995	Began operations in 1996 as a key franchisee for PepsiCo products in India, becoming one of the largest bottlers outside the US [4].
Britannia Industries Limited	1892	One of India's oldest companies, initially manufacturing biscuits in Kolkata; now a leading food products company under the Wadia Group [5].

1.3 Defining Variables
The following variables are defined for this comparative analysis:

- Market Capitalisation (M-Cap): The share price multiplied by the quantity of outstanding shares is the company's current market value. It shows how the market values the company's potential for future profits.
- Return on Equity (ROE): Net Income divided by Shareholders' Equity. It is a measure of financial performance calculated by dividing net income by shareholders' equity. It represents the return generated on the owners' investment.
- Dividend Payout Ratio (DPR): Total Dividends paid to shareholders divided by Net Income. It indicates the percentage of earnings paid out to shareholders as dividends.
- Value Creation: A qualitative and quantitative concept in this study, primarily proxied by high and consistent ROE, and secondarily by sustained growth in Market Capitalisation.

II. REVIEW OF LITERATURE

The relationship between dividend policy, value creation, and market capitalisation has been a central theme in corporate finance research, yielding diverse and often conflicting theories. This review synthesises key academic contributions, with a focus on the Indian and emerging market context.

2.1 Dividend Policy and Firm Value
The debate surrounding dividend policy is grounded in three key theories: the irrelevance theory, the bird-in-hand theory, and the signaling theory. According to Modigliani and Miller (1961), the dividend irrelevance theory posits that in an ideal, perfectly efficient market, a firm’s value depends entirely on its earning capacity and investment decisions. Consequently, the method of distributing earnings—whether as dividends or retained profits—has no impact on firm value.

In contrast, the bird-in-hand theory, advanced by Gordon (1963) and Lintner (1962), argues that

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investors place a higher value on certain and immediate dividends compared to uncertain future capital gains. This preference implies that firms offering higher dividend payouts may experience a lower cost of equity and a higher overall valuation. Empirical evidence from developing economies often supports this view. For instance, Jabbouri (2016) and de Souza Junior found that dividend policy plays a crucial role in shaping firm value in emerging markets, where factors such as information asymmetry and investor risk aversion are more pronounced.

The signalling theory posits that dividend changes convey information about a firm's future prospects. Kovalev and Drachevsky (2020) noted that companies in emerging markets often adhere to annual dividend growth policies to signal stability and value to the market. Priya and Mohanasundari (2016) and Sathvik and Nirmala (2017) provided comprehensive reviews of these theories, highlighting the complexity of the dividend decision and its impact on market valuation.

2.2 Value Creation and Performance Metrics

The notion of value creation has expanded over time, moving past conventional accounting indicators such as Net Profit and Earnings Per Share (EPS). In contemporary financial analysis, measures like Economic Value Added (EVA) and Market Value Added (MVA) have gained prominence for evaluating genuine shareholder wealth. In their empirical study on Indian FMCG firms, Madhavi and Prasad (2015) explored the link between EVA and MVA, concluding that these modern performance indicators serve as more reliable measures of shareholder value compared to traditional accounting metrics. Altaf (2016) investigated whether EVA or earnings better explain market value in Indian firms, finding that both are significant, but the relationship varies across sectors. Banerjee (2000) and Sri (2019) further explored the linkage between EVA and MVA in the Indian context, advocating for their use in competitive advantage analysis.

2.3 Indian FMCG Sector Specific Studies

Several studies have focused specifically on the Indian FMCG sector. Bhatt (Year Unknown) analysed the dividend policy and its effect on shareholders' wealth creation in the Indian FMCG sector. Suharti et al. (2023) found that financial ratios like EPS, DPS (Dividend Per Share), and DPR significantly influence the market capitalisation of consumer goods companies. Ghosh (2008) investigated the value creation process in Indian listed firms, noting that the process is stronger for foreign-owned firms compared to private Indian firms, a finding relevant to HUL and Nestlé India. Seth and Mahenthiran (2022) connected dividend payouts and corporate social responsibility to firm value in India, adding a non-financial dimension to the analysis. Other studies by Biswas (Year Unknown) and Vithlani (2025) have also focused on the dividend pay capabilities and determinants of dividend policy within the Indian context.

This body of literature establishes a strong theoretical and empirical foundation for the current study, allowing for a nuanced interpretation of the comparative financial data.

III. METHODOLOGY

3.1 Sample Selection and Data Collection

The study selected five high-market-capitalisation FMCG companies listed on the Indian stock exchanges (BSE/NSE): HUL, ITC, Nestlé India, Varun Beverages, and Britannia Industries. The selection was based on their prominence and high market capitalisation, ensuring a focus on market leaders.

Secondary data was collected from the financial statements and public disclosures available on the financial data platform Screener.in. The data period spans five financial years, from March 2021 to March 2025 (with VBL data based on the December year-end).

3.2 Analytical Framework

The analysis is structured around a comparative framework using three primary financial metrics:

1. Market Capitalisation (M-Cap): Current M-Cap (as of October 2025) is used to establish the scale and market perception of each company.
2. Average Net Profit (5-Year): Used to gauge the absolute size and stability of earnings.
3. Average Return on Equity (ROE): The average ROE over the five-year period is used as the primary metric for internal value creation and operational efficiency.

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4. Average Dividend Payout Ratio (DPR): The average DPR over the five-year period is used to compare the companies' dividend strategies.

IV. RESULTS AND DISCUSSION

4.1 Comparative Financial Data

The consolidated 5-year average data for the selected companies is presented in Table 1.

Table 1: Comparative Analysis Data (5-Year Average, FY 2021-2025)

Company	Market Cap (Rs. Cr)	Avg. Net Profit (Rs. Cr)	Avg. ROE (%)	Avg. Dividend Payout (%)
HUL	5,79,292	9,597.4	20.6	102.6
ITC	5,26,608	20,741.8	27.3	86.0
Nestlé India	2,45,204	2,563.6	83.5	96.6
Varun Beverages	1,58,835	1,477.8	22.5	16.4
Britannia	1,40,583	1,999.0	52.9	106.8

Source: Compiled from Screener.in data (2025)

4.2 Analysis of Market Capitalisation and Value Creation

HUL and ITC dominate the market capitalisation landscape, reflecting their extensive reach, brand equity, and diversified portfolios. However, a deeper look at the value creation metric (ROE) reveals a different hierarchy.

- Nestlé India stands out with an exceptionally high Average ROE of 83.5%. This figure is a strong indicator of superior operational efficiency and capital structure management, likely due to its asset-light model and high brand premium. This aligns with the literature suggesting that high ROE is a key driver of intrinsic value [15].
- Britannia also shows a very strong ROE of 52.9%, significantly higher than the market leaders HUL (20.6%) and ITC (27.3%). This suggests that while HUL and ITC command higher market caps due to scale and stability, companies like Nestlé and Britannia are more efficient at generating returns on shareholder equity.
- Varun Beverages (VBL), despite being the smallest in the sample by M-Cap, maintains a healthy ROE of 22.5%, indicating efficient use of capital during its aggressive expansion phase.

4.3 Comparative Dividend Strategy

The dividend payout strategies of the companies fall into two distinct categories: high-payout and low-payout.

- High-Payout Group (HUL, Nestlé, Britannia, ITC): These companies consistently return a significant portion of their earnings to shareholders, with HUL (102.6%), Britannia (106.8%), and Nestlé (96.6%) effectively paying out almost all or more than their net profit over the period. This strategy strongly supports the "bird-in-hand" theory, appealing to investors who seek stable, predictable income streams, which is a common preference in the Indian market [9].
- Low-Payout Group (VBL): VBL maintains a significantly lower average dividend payout of 16.4%. This strategy is typical of high-growth companies that prioritise reinvestment of earnings into capacity expansion, market penetration, and business development. The low payout signals a focus on capital gains and future value creation over immediate income, aligning with the Modigliani-Miller perspective where retained earnings are expected to generate higher returns than if distributed [6].

The comparative analysis is visually represented in Figure 1, illustrating the trade-off between market scale and operational efficiency.

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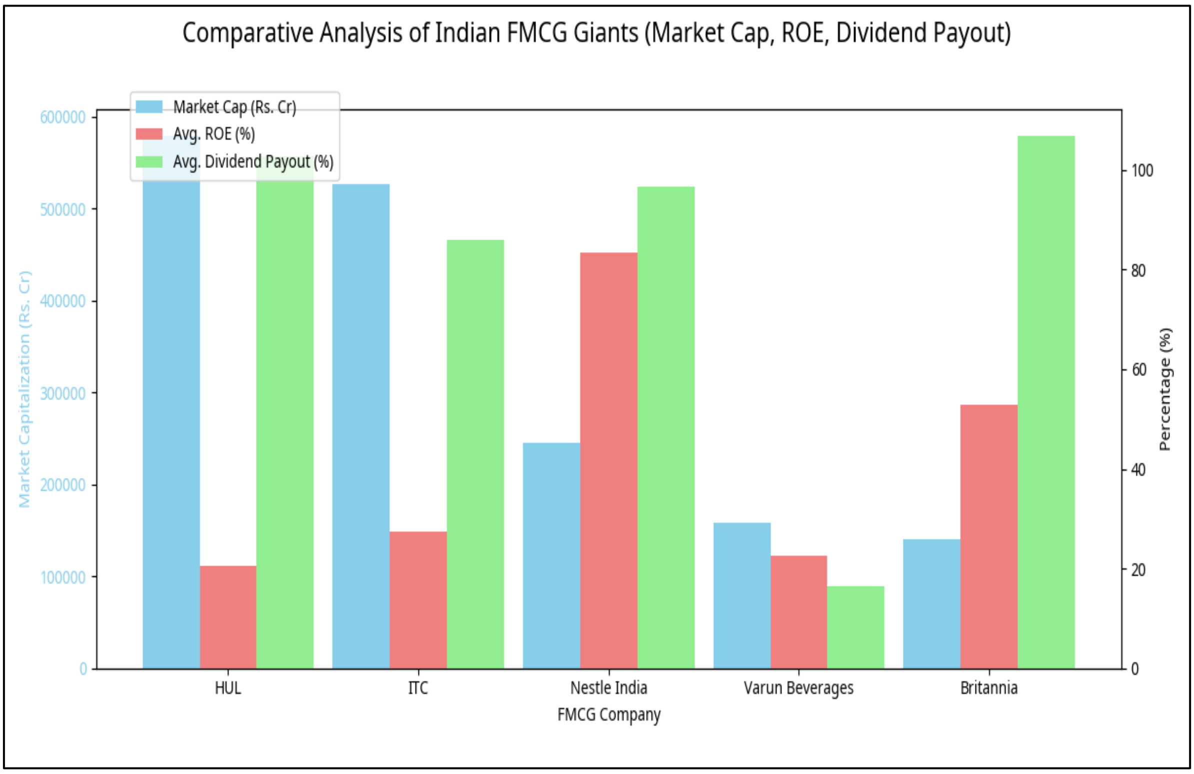
Figure 1: Comparative Analysis of Indian FMCG Giants (Market Cap, ROE, Dividend Payout



V. CONCLUSION

An evaluation of India's top FMCG companies shows a multifaceted link between market capitalisation, value generation, and dividend policies. Hindustan Unilever (HUL) and ITC command the highest market values, showcasing their vast operations, resilience, and brand dominance. On the other hand, Nestlé India and Britannia stand out for their strong internal value creation, reflected in higher Return on Equity (ROE), which signifies more efficient use of shareholder funds.

These companies follow distinctly different dividend strategies. HUL, Nestlé, and Britannia maintain generous payout ratios, attracting investors who prioritise steady income—consistent with the "bird-in-hand" principle often favoured in developing markets. Meanwhile, Varun Beverages Limited (VBL) pursues a low-dividend, growth-driven approach, channelling profits into reinvestment, a move that has been positively received through rising market valuations and stock performance.

Going forward, incorporating advanced metrics such as Economic Value Added (EVA) and Market Value Added (MVA) could provide a deeper understanding of genuine economic value creation and its relationship with market capitalisation and dividend behaviour.

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