Analysis of Risk and Return in Selected FMCG Stocks: A Comparative Study

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Abstract: *This study investigates the risk and return of stocks from four selected FMCG companies over a two-year period. By utilizing secondary data from the BSE India website and employing descriptive statistics, the research identifies the risk and return profiles of Hindustan Unilever Ltd., ITC Ltd., Nestle India Ltd., and Dabur India Ltd. The findings reveal significant insights into the average returns and volatility of these stocks, aiding investors in making informed decisions. The study concludes with recommendations on the most suitable FMCG stocks for investment, highlighting those with the highest returns and lowest risk.*

Keywords: FMCG stocks, risk assessment, return analysis, stock market, investment decision, Hindustan Unilever, ITC, Nestle India, Dabur India, BSE-FMCG Index.

I. INTRODUCTION

1.1 Risk in Finance and Investing

Risk in finance refers to the possibility of losing some or all of an investment. It encompasses return volatility and unpredictability. Higher potential returns generally come with higher risks, but they also increase the chances of significant losses.

Risk is fundamental in investment and money management due to future uncertainties and various factors affecting investment performance. Properly defining risk is crucial for making informed capital utilization decisions.

1.2 Types of Risks

- Market Risk: The risk of losses due to changes in market prices, influenced by politics, the economy, natural disasters, and market sentiment.
- Credit Risk: The likelihood that a bond issuer or borrower will default on payments.
- Operational Risk: Losses resulting from internal factors like fraud, system failures, or human errors.
- Liquidity Risk: The risk of not being able to buy or sell investments quickly enough to avoid large price swings.
- Interest Rate Risk: The probability that changes in interest rates will negatively impact investment values, especially bonds.
- Inflation Risk: The risk that inflation will reduce the purchasing power of investment returns.

1.3 Managing Risks

Investors use strategies like diversification, hedging, and stop-loss orders to manage risks. Diversification involves spreading investments across different asset classes, industries, or geographic locations to reduce exposure to any single risk. Hedging employs financial instruments like futures and options to offset potential losses. Stop-loss orders instruct the sale of an asset when its price reaches a certain level to minimize potential losses.

1.4 Risk Sources

- Market Risk Sources: Economic shifts, political events, natural disasters, and market sentiment can all impact market risk.
- Credit Risk Sources: Borrower's financial stability, economic conditions, and industry-specific factors.

- Operational Risk Sources: Internal process failures, system failures, human errors, and fraud.
- Liquidity Risk Sources: Market conditions, asset-specific factors, and market behavior.
- Interest Rate Risk Sources: Monetary policy, economic conditions, and market supply and demand.
- Inflation Risk Sources: Economic conditions, monetary policy, and supply chain disruptions.

1.5 Risk Measurements
Investors use various tools and metrics to assess and manage risk:
- Standard Deviation: Measures the dispersion of returns from the average, indicating volatility.
- Variance: The square of standard deviation, showing the spread of returns.
- Beta: Measures an investment's volatility relative to the market.
- Value at Risk (VaR): Assesses the maximum potential loss with a given confidence level over a specified period.

1.6 Return in Finance
Return is the profit or loss on an investment over a certain period, expressed as a percentage of the investment's initial value. It includes capital gains, dividends, interest income, and rental income.

Return is the compensation for bearing investment risk. The primary goal is to achieve the highest returns possible while managing risks. Returns can take various forms, including:
- Capital Gains: Profit from selling an investment at a higher price than its purchase price.
- Dividends: Payments made by a company to its shareholders from its profits.
- Interest Income: Earnings from paper securities like bonds or savings certificates.
- Rental Income: Earnings from leasing property.

1.7 Risk-Return Trade-Off
Risk and return are closely related, forming the basis for investment decisions. Higher risks are generally associated with higher potential returns. Key concepts include:
- Risk Premium: The extra return expected for taking additional risk.
- Efficient Frontier: The optimal portfolio mix that offers the highest expected return for a given level of risk.
- Diversification: Reducing risk by spreading investments across different assets.
- Risk-Adjusted Return: Measures how much return an investment generates relative to the risk taken, using metrics like the Sharpe ratio, Treynor ratio, and Jensen's alpha

II. REVIEW OF LITERATURE
Mohammed abdul jaleel kamran and vishal (2024) " Risk and Return Analysis on Selected 10 Companies": The study aims to provide stakeholders with practical knowledge to optimize investment decisions and mitigate potential risks effectively, ultimately aiding stakeholders in making well-informed investment decisions aligned with their financial objectives and risk tolerance levels. Sonia Lobo and Ganesh Bhat S. (2021)" Risk Return Analysis of Selected Stocks of Indian. Financial Sector" More specifically, this research primarily analyzes the performance of the five financial services firms that belong to S&P BSE Finance Index and each firm's monthly rate of return while revealing the risk associated with it. The researched work employs the S&P BSE Finance Index as the benchmark index. Dr. Chand Tandon and Mr,Sameer Asif (2020)." Comparative Study of Nifty50 With Selected FMCG Stocks In India" The study highlights the significance of comprehending the risk-return dynamics, correlation patterns, market sensitivity, and regression relationships between NIFTY 50 returns and selected FMCG stocks for informed investment decision-making. Dr. Pramod Kumar Patjoshi (2016)" Comparative Risk Return Analysis of Bombay Stock Market" The study underscores the importance of comparative risk-return analysis, correlation patterns, market sensitivity, and regression relationships between the BSE Sensex index and selected banking stocks for informed investment decision-making in the banking sector. Afreen Tabassum and S. Baskaran (2022)" Risk and Return Analysis on Equity Stocks of Selected IT Companies". This study is focused on an examination of the IT Nifty Stock. Investors are advised to select their

securities based on their risk and return. A stock with a higher beta value is not recommended, thus it is exposed to a higher market risk and cannot be diversified. The beta ratio is most useful to investors when making short-term decisions where price volatility is significant. From this study it is found that Mindtree has a highest return with normal risk. This study will give investors the perception that if the market recovers, the scrip returns would undoubtedly increase. The stocks may not be a safe investment, but for a risk-taker and a risk-averse investor, the rewards may be greater in short-term than in the long-term. Raghav Kumar Jha(2018)" Risk and Return Analysis of Selected Stock Listed on Nifty Financial Services Index". The study offers insightful information about how risk and return interact while making investments in the financial services industry. It provides advice to investors who want to maximize their investment portfolios in accordance with their return goals and risk tolerance. Dr. P.Subramanyam and Dr. Nalla Bala Kalyan (2018)" A Study on Risk & Return Analysis of Selected Securities in India". The study focuses on the investigation of risk-return dynamics to aid investors in selecting securities based on their preferences. It highlights the importance of understanding the performance of various stocks in the market in terms of risk and return. The review suggests that market fluctuations play a significant role in determining stock prices, although identifying clear patterns in price movements can be challenging. Mehta Vani Joghee ef,al (2021)" A Study on Risk and Return Analysis of Selected Banking Securities" Analyzing the results of the study, it can be concluded that some banks have higher returns than their counterparts, and some have higher risks. An investor can therefore always adopt a way of having low risk together with a larger return. In the assessment of the systemic risk, the beta comes in handy. Consequently, the present study assists the investor in emerging strategic information on the returns and risks associated with various banking securities in circulation. Summing up, Kotak Bank could be considered as attractive for investors as it specified a higher level of return with less risk and beta value than the bank used for the study.

III. NEED FOR THE STUDY

The study focuses on examining the risk and return of chosen FMCG stocks. It aims to identify low and high-risk areas. Determining the risk level of securities has always been challenging. The study pursue to uncover the risk and return of the selected stocks and identify the FMCG companies with the highest return and lowest risk.

IV. SCOPE OF THE STUDY

This study evaluates the risk and return of stocks from 4 selected FMCG companies over a 2-year period. It enables investors, especially individuals, to pinpoint stocks that provide a mix of higher returns and lower risk These results assist investors in making informed decisions that match their risk tolerance and financial objectives. Ultimately, the study aims to offer valuable advice to investors looking to enhance their portfolios and achieve positive results in the ever-changing stock market environment.

V. OBJECTIVES OF THE STUDY

- To Analyze the average returns of securities from selected companies in the FMCG sector.
- To Understanding the risks linked to selected FMCG stocks.
- To Evaluating and comparing the performance of ten Indian FMCG companies.
- To Recommending the most suitable security to investors looking to invest in FMCG stocks.

VI. RESEARCH METHODOLOGY

6.1 Nature of research:

The present research is exploratory and empirical, utilizing descriptive statistics on monthly returns from the stock market index and 4 companies in the BSE-FMCG Industry.

6.2 Research design:

Based on, the research designs the study's objectives, adopting descriptive research to draw inferences on potential variable relationships and gather information for more advanced studies.

6.3 Population and sample:

Analysis of risks and returns is carried out using monthly closing prices from 10 companies and the BSE- FMCG Index. Market return and risk are measured using the FMCG Index. The sample selection method is Judgment sampling, consisting of ten companies from the FMCG sector. These are

- Hindustan Unilever Ltd.
- ITC Ltd.
- Nestle India Ltd.
- Dabur India Ltd.

6.4 Data Collection

The study makes use of secondary data obtained from the BSE India website.

6.5 Statistical tools

A. Return

Return is a measure of the profit or loss generated from an investment made during a given period of time frame, reflecting the variations in the worth of securities. A positive return indicates a profit, while a negative return signifies a loss. The calculation of return involves evaluating the changes in price of the investment. Return can be calculated as Where:

Return=$(P_1-P_o)/P_o$

P_1 = Closing share's price

P_o = Opening share's price

B. Standard deviation: Standard deviation helps determine market volatility or the spread of asset prices from their average price.

VII. DATA ANALYSIS AND INTERPRETATION

Table 1- Hindustan Unilever Limited (HUL) Stock Return Calculation

Date	Open	Close	Return
Mar-24	2412.55	2268.25	-5.98
Feb-24	2478.9	2411.05	-2.74
Jan-24	2664	2480.4	-6.89
Dec-23	2546.7	2663.35	4.58
Nov-23	2484	2546.7	2.52
Oct-23	2468.5	2484	0.63
Sep-23	2524.95	2465.85	-2.34
Aug-23	2573.95	2504.2	-2.71
Jul-23	2680	2561.5	-4.42
Jun-23	2651.05	2678.4	1.03
May-23	2465.05	2660.75	7.94
Apr-23	2565.15	2454.4	-4.32
Mar-23	2457.65	2558.75	4.11
Feb-23	2590.05	2457.65	-5.11
Jan-23	2571	2577.6	0.26
Dec-22	2685	2559.75	-4.66
Nov-22	2570	2680.15	4.29
Oct-22	2708	2548.05	-5.91

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 1, August 2024

Sep-22	2648	2696.85	1.84
Aug-22	2636.9	2659	0.84
Jul-22	2218	2636.85	18.88
Jun-22	2375	2230.55	-6.08
May-22	2206.15	2349.65	6.50
Apr-22	2050	2237.1	9.13

Table 2- HUL Stock Risk Calculation with the help of Standard Deviation

Date	Return	$X - \bar{X}$	$(X - \bar{X})^2$
Mar-24	-5.98	-6.46	41.68
Feb-24	-2.74	-3.21	10.32
Jan-24	-6.89	-7.37	54.27
Dec-23	4.58	4.11	16.86
Nov-23	2.52	2.05	4.20
Oct-23	0.63	0.15	0.02
Sep-23	-2.34	-2.82	7.93
Aug-23	-2.71	-3.18	10.14
Jul-23	-4.42	-4.90	23.97
Jun-23	1.03	0.56	0.31
May-23	7.94	7.46	55.72
Apr-23	-4.32	-4.79	22.97
Mar-23	4.11	3.64	13.24
Feb-23	-5.11	-5.59	31.21
Jan-23	0.26	-0.22	0.05
Dec-22	-4.66	-5.14	26.41
Nov-22	4.29	3.81	14.53
Oct-22	-5.91	-6.38	40.72
Sep-22	1.84	1.37	1.88
Aug-22	0.84	0.36	0.13
Jul-22	18.88	18.41	338.91
Jun-22	-6.08	-6.56	42.99
May-22	6.50	6.03	36.36
Apr-22	9.13	8.65	74.86

Average Rate of Return $= \dfrac{\sum Returns}{No.of\ Periods} = \dfrac{\sum 11.39}{24} = 0.47$

Risk Calculation:

Standard deviation $= \sqrt{\dfrac{(xi-\bar{x})^2}{n-1}} = \sqrt{\dfrac{869}{24-1}} = \sqrt{\dfrac{869}{23}} = \sqrt{37.78} = 6.146$

Interpretation:

The average monthly return for HUL stock over the specified period is approximately 0.47%. This indicates a relatively modest positive average return on investment each month.

The standard deviation, which measures the volatility or risk of the stock, is approximately 6.15%. This suggests a moderate level of fluctuation in the stock's returns around its average return. It indicates that HUL stock experiences notable variability in its monthly returns.

Comparing each month's return with the average return allows for identifying outperforming and underperforming months relative to the average return.

Table 3- ITC Stock Return Calculation

Date	Open	Close	Return
Mar-24	407.05	428.55	5.28
Feb-24	443.3	406.5	-8.30
Jan-24	462.4	441.45	-4.53
Dec-23	438	462.35	5.56
Nov-23	430	435.6	1.30
Oct-23	441	428.55	-2.82
Sep-23	439.65	444.4	1.08
Aug-23	466	439.65	-5.65
Jul-23	446.05	465.6	4.38
Jun-23	446.8	451.65	1.09
May-23	427	445.3	4.29
Apr-23	383.5	425.15	10.86
Mar-23	375.1	383.45	2.23
Feb-23	352.35	376.8	6.94
Jan-23	331.5	352.25	6.26
Dec-22	340.15	331.65	-2.50
Nov-22	348.2	340.05	-2.34
Oct-22	332	348.1	4.85
Sep-22	319.3	332	3.98
Aug-22	304.7	320.3	5.12
Jul-22	273	302.95	10.97
Jun-22	272	273.45	0.53
May-22	258.6	270.6	4.64
Apr-22	249.55	259.35	3.93

Table 4- HUL Stock Risk Calculation with the help of Standard Deviation

Date	Return	$X - \bar{X}$	$(X - \bar{X})^2$
Mar-24	5.28	2.90	8.42
Feb-24	-8.30	-10.68	114.10
Jan-24	-4.53	-6.91	47.76
Dec-23	5.56	3.18	10.11
Nov-23	1.30	-1.08	1.16
Oct-23	-2.82	-5.20	27.08
Sep-23	1.08	-1.30	1.69
Aug-23	-5.65	-8.04	64.56
Jul-23	4.38	2.00	4.01
Jun-23	1.09	-1.29	1.68
May-23	4.29	1.91	3.63
Apr-23	10.86	8.48	71.91

Mar-23	2.23	-0.15	0.02
Feb-23	6.94	4.56	20.78
Jan-23	6.26	3.88	15.05
Dec-22	-2.50	-4.88	23.81
Nov-22	-2.34	-4.72	22.29
Oct-22	4.85	2.47	6.10
Sep-22	3.98	1.60	2.55
Aug-22	5.12	2.74	7.50
Jul-22	10.97	8.59	73.79
Jun-22	0.53	-1.85	3.41
May-22	4.64	2.26	5.11
Apr-22	3.93	1.55	2.39

Average Rate of Return $= \dfrac{\sum Returns}{No.\,of\,Periods} = \dfrac{\sum 57.13}{24} = 2.38$

Risk Calculation:

Standard deviation $= \sqrt{\dfrac{(xi - \bar{x})^2}{n-1}} = \sqrt{\dfrac{538.91}{24-1}} = \sqrt{\dfrac{538.91}{23}} = \sqrt{23.43} = 4.84$

Interpretation:

The average monthly return for the observed period is approximately 2.38%. This indicates a moderate positive average return on investment each month.

The standard deviation, which measures the volatility or risk of the stock, is approximately 4.84%. This suggests a moderate level of fluctuation in the stock's returns around its average return. It indicates that the stock experiences some variability in its monthly returns.

Comparing each month's return with the average return allows for identifying outperforming and underperforming months relative to the average return.

Table 5- Nestle Stock Return Calculation

Date	Open	Close	Return
Mar-24	2598.05	2623.3	0.971883
Feb-24	2524.85	2598.65	2.922946
Jan-24	2669.99	2505.5	-6.1607
Dec-23	2425.01	2659.55	9.671713
Nov-23	2417.01	2421.72	0.194869
Oct-23	2249.32	2423.93	7.762791
Sep-23	2200.01	2249.33	2.241808
Aug-23	2256.11	2199.18	-2.52337
Jul-23	2291.51	2256.08	-1.54614
Jun-23	2175	2288.3	5.209195
May-23	2175.9	2169.36	-0.30057
Apr-23	1979	2175.9	9.949469
Mar-23	1877	1969.19	4.911561
Feb-23	1919	1865.8	-2.77228

Jan-23	1961.11	1901.56	-3.03655
Dec-22	2018.39	1959.88	-2.89885
Nov-22	2040	2010.59	-1.44167
Oct-22	1910.01	2036.79	6.637662
Sep-22	1970.1	1912.46	-2.92574
Aug-22	1940.99	1993.08	2.683682
Jul-22	1741	1935.24	11.15681
Jun-22	1763.9	1749.32	-0.82658
May-22	1830.83	1777	-2.9402
Apr-22	1734	1830.9	5.588235

Table 6- Nestle Stock Risk Calculation with the help of Standard Deviation

Date	Return	$X - \bar{X}$	$(X - \bar{X})^2$
Mar-24	0.97	-0.80	0.64
Feb-24	2.92	1.15	1.32
Jan-24	-6.16	-7.93	62.93
Dec-23	9.67	7.90	62.40
Nov-23	0.19	-1.58	2.49
Oct-23	7.76	5.99	35.89
Sep-23	2.24	0.47	0.22
Aug-23	-2.52	-4.30	18.45
Jul-23	-1.55	-3.32	11.01
Jun-23	5.21	3.44	11.81
May-23	-0.30	-2.07	4.30
Apr-23	9.95	8.18	66.87
Mar-23	4.91	3.14	9.86
Feb-23	-2.77	-4.54	20.65
Jan-23	-3.04	-4.81	23.12
Dec-22	-2.90	-4.67	21.82
Nov-22	-1.44	-3.21	10.33
Oct-22	6.64	4.87	23.67
Sep-22	-2.93	-4.70	22.07
Aug-22	2.68	0.91	0.83
Jul-22	11.16	9.38	88.07
Jun-22	-0.83	-2.60	6.75
May-22	-2.94	-4.71	22.21
Apr-22	5.59	3.82	14.56

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 1, August 2024

Average Rate of Return $= \frac{\sum Returns}{No.of\ Periods} = \frac{\sum 42.53}{24} = 1.77$

Risk Calculation:

Standard deviation $= \sqrt{\frac{(xi\ \bar{x})^2}{n-1}} = \sqrt{\frac{542.28}{24-1}} = \sqrt{\frac{542.28}{23}} = \sqrt{23.58} = 4.86$

Interpretation:

The average return for Nestle stocks over the given period is approximately 1.77%. This means that on average, investors gained 1.77% about their investment each month.

The standard deviation, which determines the volatility or risk of the stock, is approximately 4.86%. This indicates the degree of fluctuation in Nestle's returns from its average return. A higher standard deviation suggests higher volatility and thus higher risk.

You can compare each month's return with the average return to see how it deviates from the norm. Positive differences indicate months where Nestle outperformed its average return, while negative differences indicate underperformance.

Table 7- Dabur India Stock Return Calculation

Date	Open	Close	Return
Mar-24	535.1	523.15	-2.23
Feb-24	548.35	538.25	-1.84
Jan-24	560	537.7	-3.98
Dec-23	539	556.95	3.33
Nov-23	529.85	538.25	1.59
Oct-23	552.05	528.8	-4.21
Sep-23	552.1	551.55	-0.10
Aug-23	575.55	553.3	-3.87
Jul-23	573.15	575.55	0.42
Jun-23	555	572.9	3.23
May-23	533.15	554.6	4.02
Apr-23	546	532.85	-2.41
Mar-23	533.05	545.1	2.26
Feb-23	558.1	533.05	-4.49
Jan-23	562.95	557.65	-0.94
Dec-22	586.55	561.4	-4.29
Nov-22	555	589.15	6.15
Oct-22	571.75	554.55	-3.01
Sep-22	565.95	572.55	1.17
Aug-22	581.05	583.4	0.40
Jul-22	494.5	584.15	18.13
Jun-22	519	495.95	-4.44
May-22	553.5	518.75	-6.28
Apr-22	538.95	556.85	3.32

Table 8- Dabur India Stock Risk Calculation with the help of Standard Deviation

Date	Return	$X - \bar{X}$	$(X - \bar{X})^2$
Mar-24	-2.23	-2.31	5.35
Feb-24	-1.84	-1.92	3.70

Jan-24	-3.98	-4.06	16.50
Dec-23	3.33	3.25	10.56
Nov-23	1.59	1.50	2.26
Oct-23	-4.21	-4.29	18.42
Sep-23	-0.10	-0.18	0.03
Aug-23	-3.87	-3.95	15.57
Jul-23	0.42	0.34	0.11
Jun-23	3.23	3.14	9.89
May-23	4.02	3.94	15.55
Apr-23	-2.41	-2.49	6.19
Mar-23	2.26	2.18	4.75
Feb-23	-4.49	-4.57	20.87
Jan-23	-0.94	-1.02	1.04
Dec-22	-4.29	-4.37	19.08
Nov-22	6.15	6.07	36.88
Oct-22	-3.01	-3.09	9.54
Sep-22	1.17	1.09	1.18
Aug-22	0.40	0.32	0.11
Jul-22	18.13	18.05	325.77
Jun-22	-4.44	-4.52	20.45
May-22	-6.28	-6.36	40.43
Apr-22	3.32	3.24	10.50

Average Rate of Return $= \frac{\sum Returns}{No.\, of\, Periods} = \frac{\sum 1.93}{24} = 0.08$

Risk Calculation:

Standard deviation $= \sqrt{\frac{(xi - \bar{x})^2}{n-1}} = \sqrt{\frac{594.75}{24-1}} = \sqrt{\frac{594.75}{23}} = \sqrt{25.86} = 5.09$

Interpretation:

The average return for Dabur India Limited stocks over the given period is approximately 0.08%. This indicates a very minimal average return on investment each month.

The standard deviation, a measure of the volatility or risk of the stock, is approximately 5.09%. This indicates a relatively high level of fluctuation in Dabur India Limited's returns from its mean yield. Increased standard deviation suggests higher volatility and thus higher risk.

Similar to the interpretation for Nestle stocks, you can compare each month's return with the average return to see how it deviates from the norm. Positive differences indicate months where Dabur India Limited outperformed its average return, while negative differences indicate underperformance.

VIII. FINDINGS

Hindustan Unilever Ltd. (HUL)

- Average Return: The average monthly return for HUL stock over the specified period is approximately 0.47%.
- Risk: The standard deviation is approximately 6.15%, indicating moderate volatility in the stock's returns.
- Performance: HUL stock shows a modest positive average return with notable variability in monthly returns.

IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 1, August 2024

ITC Ltd.

- Average Return: The average monthly return is approximately 2.38%.
- Risk: The standard deviation is approximately 4.84%, indicating a moderate level of fluctuation in returns.
- Performance: ITC Ltd. shows a moderate positive average return, with some variability in its monthly returns.

Nestle India Ltd.

- Average Return: The average return for Nestle stocks over the given period is approximately 1.77%.
- Risk: The standard deviation is approximately 4.86%, suggesting moderate volatility.
- Performance: Nestle India Ltd. has a positive average return, with a notable degree of fluctuation in monthly returns.

Dabur India Ltd.

- Average Return: The average return is approximately 0.08%, indicating minimal monthly returns.
- Risk: The standard deviation is approximately 5.09%, indicating relatively high volatility.
- Performance: Dabur India Ltd. exhibits very minimal average returns with relatively high fluctuations.

IX. CONCLUSION

The study provides valuable insights into the risk and return characteristics of selected FMCG stocks, which are crucial for individual investors aiming to optimize their portfolios. ITC Ltd. emerges as the stock with the highest average return and moderate risk, making it a suitable choice for investors seeking a balance of return and risk. Hindustan Unilever Ltd. and Nestle India Ltd. also offer moderate returns with manageable risk levels, while Dabur India Ltd. shows higher risk with minimal returns. These findings can guide investors in making more informed decisions aligned with their financial goals and risk tolerance in the dynamic stock market environment.

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