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SAME ECONOMY, DIFFERENT RETURNS: MACROECONOMIC CYCLES AND WEALTH CREATION IN INDIA'S CONSUMER SECTOR

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ABSTRACT:

This study examines the relationship between macroeconomic indicators and shareholder wealth creation in Indian consumption companies, with a focus on understanding whether macroeconomic cycles translate uniformly into firm-level financial performance. The research analyses a set of six representative companies spanning different consumption sub-segments, including aspirational discretionary, cyclical retail, value-oriented retail, and fast-moving consumer goods (FMCG). Key macroeconomic indicators such as foreign portfolio investment (FPI) flows, foreign direct investment (FDI) flows, capacity utilisation, and consumption indices are evaluated alongside company-specific metrics including share price performance, Return on Equity (ROE), and Return on Capital Employed (ROCE).

The methodology adopts a descriptive and comparative approach, combining visual trend analysis with firm-level financial evaluation to identify patterns between macroeconomic movements and shareholder outcomes. The findings suggest that while macroeconomic indicators influence short-term performance and market sentiment, they do not independently determine long-term wealth creation. Instead, business model characteristics—such as pricing power, capital efficiency, and operating leverage—play a more significant role in shaping sustained returns.

The study highlights that discretionary businesses exhibit higher sensitivity to economic cycles, while FMCG and value-oriented companies demonstrate resilience across phases. Overall, the research reinforces the importance of integrating macroeconomic analysis with firm-level fundamentals, providing insights relevant for equity research, portfolio construction, and investment decision-making in the Indian consumption sector.

KEYWORDS: Macroeconomic Indicators; Shareholder Wealth Creation; Indian Consumption Sector; Return on Equity (ROE); Return on Capital Employed (ROCE); FDI; FPI Consumption Index; Equity Research; Business Models

RESEARCH OBJECTIVES

1. To examine the relationship between key macroeconomic indicators and shareholder wealth creation in Indian consumption companies.

2. To analyse the impact of macroeconomic variables such as GDP growth, repo rates, FPI flows, and consumption trends on company-level financial performance.
3. To evaluate shareholder wealth creation using metrics such as Return on Equity (ROE) and Return on Capital Employed (ROCE).
4. To compare how different consumption sub-segments—discretionary, cyclical retail, and FMCG—respond to changes in macroeconomic conditions.
5. To assess whether macroeconomic indicators consistently influence firm performance or whether business model characteristics play a more dominant role.
6. To derive insights relevant for equity research and investment decision-making within the Indian consumption sector.

INTRODUCTION

The Indian economy has undergone significant transformation over the past decade, driven by structural reforms, rapid digitalisation, and evolving consumption patterns. As one of the fastest-growing emerging markets, India's growth trajectory has been supported not only by industrial expansion but also by a strong and expanding consumer base. Rising disposable incomes, increasing urbanisation, and the emergence of a large middle class have positioned consumption as a key contributor to GDP growth. Consequently, companies operating within the consumer discretionary and consumer staples segments have become important indicators of broader economic health and demand conditions.

The consumption sector, encompassing industries such as quick-service restaurants, packaged food, apparel, retail, and lifestyle products, is inherently linked to macroeconomic trends. During periods of economic expansion, improved income levels and positive consumer sentiment tend to drive higher discretionary spending, leading to growth in revenues and profitability for firms. In contrast, during economic slowdowns or contractionary phases, reduced purchasing power and cautious spending behaviour can adversely impact business performance. Understanding this relationship between macroeconomic cycles and company-level outcomes is therefore essential for evaluating investment opportunities and the dynamics of shareholder wealth creation within the sector.

The motivation for this study arises from the need to systematically examine how fluctuations in India's macroeconomic environment influence financial performance and value creation in consumption-oriented companies. Given the sector's sensitivity to factors such as income growth, interest rates, government expenditure, and capital flows, changes in the broader economic environment are expected to have meaningful implications for firm performance. However, the extent to which these macroeconomic indicators translate into improvements in profitability and capital efficiency remains an empirical question.

Accordingly, this study seeks to analyse the relationship between macroeconomic indicators—such as GDP growth, repo rates, fiscal expenditure, and investment flows—and firm-level financial performance, as measured through Return on Equity (ROE) and Return on Capital Employed (ROCE). By examining a selected set of companies across different consumption sub-segments, the research aims to assess whether variations in macroeconomic cycles correspond with changes in company-level outcomes and whether expansionary phases consistently lead to improved profitability and shareholder wealth.

The scope of the study is limited to listed companies within the Indian consumption sector over the period 2018–2025, capturing both contractionary and recovery phases, including the COVID-19 disruption and subsequent economic normalisation. The analysis is based on secondary data sourced from official institutions such as the Reserve Bank of India (RBI), Ministry of Statistics and Programme Implementation (MOSPI), and National Securities Depository Limited (NSDL), along with company financial disclosures and databases such as Screener.in.

This study holds significance for multiple stakeholders. For investors, it provides a structured framework to interpret how macroeconomic trends influence financial performance across different consumption segments. For corporate decision-makers, it offers insights into how business outcomes align with changing economic conditions. For academicians and policymakers, it contributes to a deeper understanding of the interaction between macroeconomic cycles and firm-level performance. By

integrating macroeconomic analysis with company-level financial evaluation, the study aims to provide a comprehensive perspective on value creation within the Indian consumption sector.

LITERATURE REVIEW

The relationship between macroeconomic cycles and corporate financial performance has been widely examined in both developed and emerging market contexts. Existing literature broadly focuses on three key areas: the transmission of economic cycles into corporate returns, the role of fiscal and monetary policy in shaping consumption and profitability, and the differential sensitivity of business models to macroeconomic conditions.

The theoretical foundation for understanding business cycles originates from John Maynard Keynes (1936), who emphasized the role of aggregate demand in determining output and employment, particularly during downturns. Joseph Schumpeter (1939) further expanded this framework by introducing the concept of cyclical economic fluctuations driven by innovation and investment cycles. These theories remain relevant in explaining modern economic dynamics, including India's post-pandemic recovery, where demand-side stimulus played a crucial role.

Empirical studies have established a strong linkage between macroeconomic conditions and corporate performance. Eugene Fama and Kenneth French (1989) demonstrated that expected equity returns vary across business cycles, with higher risk premia during contractionary phases. In the Indian context, Pattanaik and Mitra (2001) found that corporate profitability tends to improve during economic expansions and decline during slowdowns. Additionally, Mohanty and John (2015) showed that monetary policy transmission affects real sector outcomes with a lag, suggesting that changes in interest rates may not immediately reflect in firm-level performance metrics such as ROE and ROCE.

Fiscal policy also plays a critical role in shaping economic activity. Ilzetzki, Mendoza, and Végh (2013) found that government expenditure in developing economies has a strong multiplier effect, stimulating private sector activity. Supporting this, India's Economic Survey (2023) estimated an infrastructure investment multiplier of approximately 2.5, indicating that public capital expenditure can significantly influence consumption and corporate earnings. From a consumption perspective, Milton Friedman (1957) proposed the Permanent Income Hypothesis, which suggests that consumption is driven by expected long-term income rather than short-term fluctuations. This framework helps explain why discretionary consumption declines during uncertainty and rebounds during recovery phases.

While macroeconomic conditions provide the external environment, firm-level characteristics determine how companies respond to these changes. Lev (1974) introduced the concept of operating leverage, highlighting that firms with higher fixed costs exhibit greater earnings volatility across business cycles. This is particularly relevant for discretionary retail and QSR businesses, which are more sensitive to demand fluctuations. Novy-Marx (2011) further identified operating leverage as a systematic risk factor, implying higher expected returns for more cyclical firms.

Brand strength also influences resilience across economic cycles. David Aaker (1991) conceptualised brand equity as a source of competitive advantage, enabling firms to maintain pricing power and customer loyalty. Empirical evidence by Barth et al. (1998) supports this view, demonstrating that strong brands are associated with more stable and superior financial performance. This is particularly evident in FMCG companies, which tend to exhibit consistent ROE and ROCE due to steady demand.

Global capital flows further influence market dynamics in emerging economies. Bekaert and Harvey (2000) found that financial integration increases sensitivity to global risk factors. In India, Rai and Bhanumurthy (2004) observed that foreign portfolio investment (FPI) flows are driven more by global conditions than domestic fundamentals, affecting market valuations rather than firm-level performance. In contrast, John Dunning (1993) noted that foreign direct investment (FDI) is driven by long-term structural factors such as market potential and policy stability.

Despite extensive research, a key gap remains in comparative analysis across different consumption sub-segments within a single macroeconomic framework. This study addresses this gap by integrating

macroeconomic indicators with firm-level performance across multiple consumption business models, providing a more nuanced understanding of shareholder wealth creation.

RESEARCH METHODOLOGY

This study adopts a **descriptive and analytical research design** to examine the relationship between macroeconomic indicators and shareholder wealth creation in Indian consumption companies. The methodology integrates macro-level economic analysis with firm-level financial evaluation to assess how economic cycles influence corporate performance.

1. Research Design

The study follows a **comparative and observational approach**, focusing on identifying patterns and relationships rather than establishing direct causality. It analyses trends across macroeconomic indicators and compares them with company-level financial performance over a defined time period.

2. Sample Selection

The study is based on a sample of six listed Indian consumption companies selected to represent different sub-segments of the sector:

- **Aspirational Discretionary:** Titan Company Ltd
- **Cyclical Retail:** Trent Ltd
- **Value-Oriented Retail:** Avenue Supermarts Ltd (DMart)
- **Urban FMCG:** Hindustan Unilever Ltd (HUL)
- **Rural & Mass FMCG:** Marico Ltd
- **Emerging Discretionary (QSR):** Sapphire Foods India Ltd

The selection ensures representation across varying business models, levels of cyclicity, capital intensity, and pricing power.

3. Data Sources

The study relies entirely on **secondary data**, collected from credible and publicly available sources:

- **Macroeconomic Data:**
 - Reserve Bank of India (RBI)
 - Ministry of Statistics and Programme Implementation (MOSPI)
 - National Securities Depository Limited (NSDL)
 - NSE India (for consumption index)
- **Company-Level Data:**
 - Annual reports and financial statements of selected companies
 - Screener.in (for historical financial ratios)

Basic Principles of Microeconomics and Macroeconomics

Microeconomics and macroeconomics together form the foundation for understanding economic activity and its impact on business performance. While microeconomics focuses on individual decision-making units such as consumers and firms, macroeconomics examines the economy as a whole through aggregate indicators.

Microeconomics studies how individuals, households, and firms allocate scarce resources and respond to price signals in a market economy. It explains how demand and supply interact to determine prices, output levels, and resource allocation. At the firm level, microeconomic theory—particularly the theory of the firm—analyses how businesses make decisions regarding production, pricing, and investment with the

objective of maximizing profits. Concepts such as cost structures, elasticity of demand, and market competition are central to this framework. These principles are critical for understanding company-level performance, as they provide insights into how firms respond to changing input costs, consumer preferences, and competitive pressures.

In contrast, macroeconomics focuses on the behaviour and performance of the economy as a whole. It examines aggregate variables such as Gross Domestic Product (GDP), inflation, unemployment, national income, and investment. The primary objective of macroeconomic analysis is to understand economic growth, stability, and cyclical fluctuations over time. Fiscal and monetary policies play a crucial role in this context. Fiscal policy, through government expenditure and taxation, influences aggregate demand and investment, while monetary policy, implemented by the central bank, regulates money supply, interest rates, and liquidity conditions.

A key contribution to macroeconomic thought was made by John Maynard Keynes, who emphasized the role of aggregate demand in determining economic output, particularly during periods of economic slowdown. Macroeconomic variables such as inflation and interest rates are closely interlinked, with changes in policy rates affecting borrowing costs, consumption, and investment decisions. Similarly, foreign capital flows—including Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI)—influence liquidity, exchange rates, and overall market sentiment.

Understanding both microeconomic and macroeconomic principles is essential for linking national-level economic developments with firm-level outcomes. While macroeconomic conditions set the external environment within which businesses operate, microeconomic factors determine how individual firms respond to these conditions. This interplay is particularly relevant in the consumption sector, where changes in income, prices, and consumer confidence directly influence demand patterns. Accordingly, integrating micro and macro perspectives provides a comprehensive framework for analysing corporate performance and shareholder wealth creation.

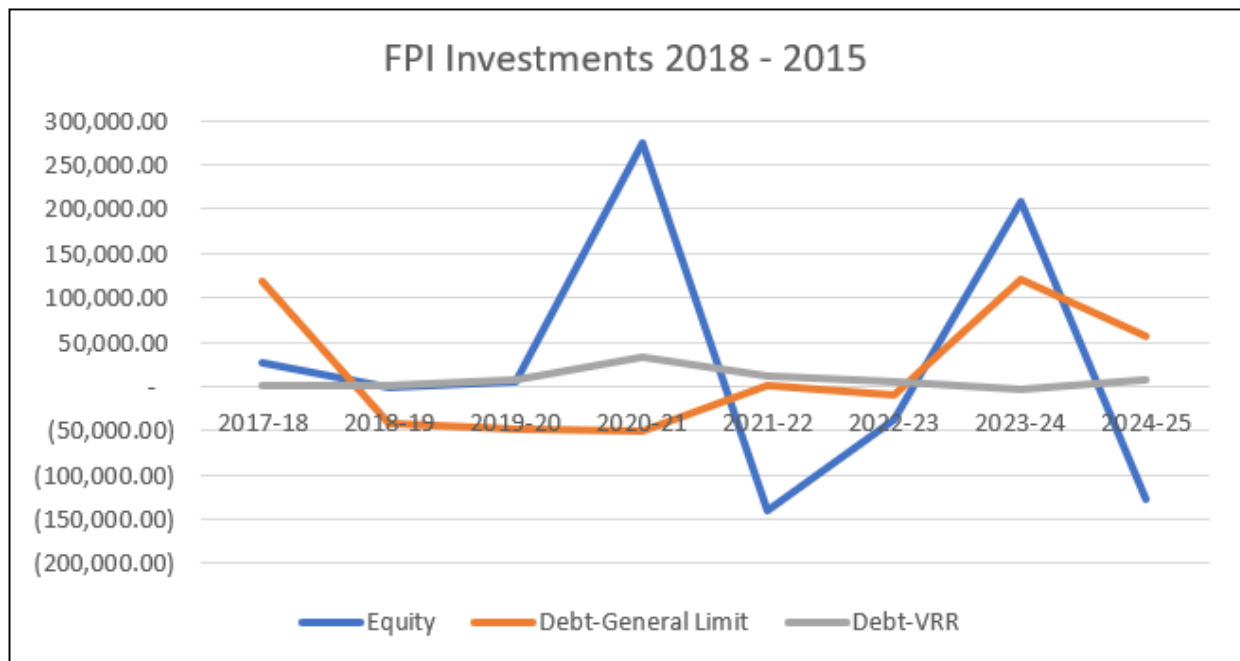
FINDINGS AND ANALYSIS

Findings and Analysis

Macro-Economic Indicators

Foreign Portfolio Investment (FPI) Trends and Behaviour

Foreign Portfolio Investment (FPI) flows serve as an important indicator of global investor sentiment and liquidity conditions, reflecting both domestic economic fundamentals and international risk dynamics. The analysis of FPI trends reveals a clear distinction between equity and debt flows, each responding differently to macroeconomic cycles.



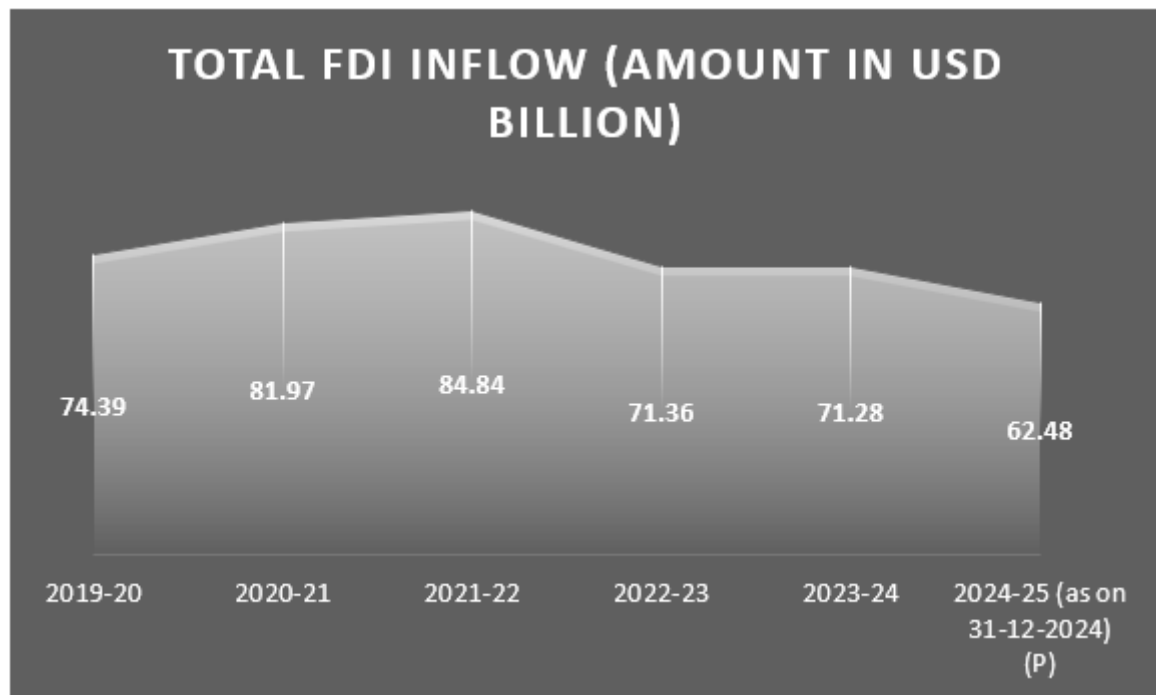
Equity FPI flows exhibit pronounced cyclicality, characterized by alternating phases of strong inflows and sharp outflows. The significant inflows observed during FY2020–21 (approximately ₹2.7 lakh crore) correspond to the post-COVID liquidity surge, where global monetary easing and fiscal stimulus led investors to seek growth opportunities in emerging markets such as India. This was followed by substantial outflows in FY2021–22 (₹–1.4 lakh crore) and again in FY2024–25 (₹–1.27 lakh crore), reflecting heightened risk aversion during global monetary tightening cycles. Rising interest rates in developed markets prompted capital reallocation towards safer assets. A notable recovery in FY2023–24 (₹2.08 lakh crore) aligns with improving domestic consumption, stabilizing inflation, and renewed investor confidence in India’s growth trajectory. Overall, equity flows appear closely linked to global liquidity conditions and domestic growth expectations.

In contrast, debt FPI flows display relatively lower volatility and are more influenced by interest rate differentials and macroeconomic stability. Periods of strong inflows, such as FY2017–18 and FY2023–24, coincide with stable inflation and attractive yield environments. Conversely, outflows during FY2018–21 reflect uncertainty arising from inflationary pressures and rate volatility. The introduction of the Voluntary Retention Route (VRR) has further supported steady, long-term participation in Indian debt markets, indicating increasing investor confidence.

Overall, FPI trends demonstrate that equity flows are growth-sensitive and cyclical, while debt flows are stability-oriented. Together, they provide a critical barometer of investor confidence and the broader macroeconomic environment.

Foreign Direct Investment (FDI) Trends in India

Foreign Direct Investment (FDI) represents long-term capital inflows into domestic businesses and serves as an indicator of sustained global investor confidence in a country’s economic prospects. In India, FDI has played a significant role in supporting economic growth through capital formation, employment generation, and technology transfer.



During the period FY2019–20 to FY2021–22, FDI inflows increased from USD 74.39 billion to a peak of USD 84.84 billion, supported by policy reforms, sectoral liberalisation, and initiatives such as the Production Linked Incentive (PLI) scheme. However, from FY2022–23 onwards, inflows moderated to around USD 71 billion and further to USD 62.48 billion (provisional FY2024–25), reflecting global monetary tightening, geopolitical uncertainties, and slower investment cycles.

Despite this moderation, FDI trends remain relatively stable compared to portfolio flows, indicating continued long-term confidence in India's structural growth drivers, including its large consumer base and ongoing policy support.

Exchange Rate Movements and Rupee Stability

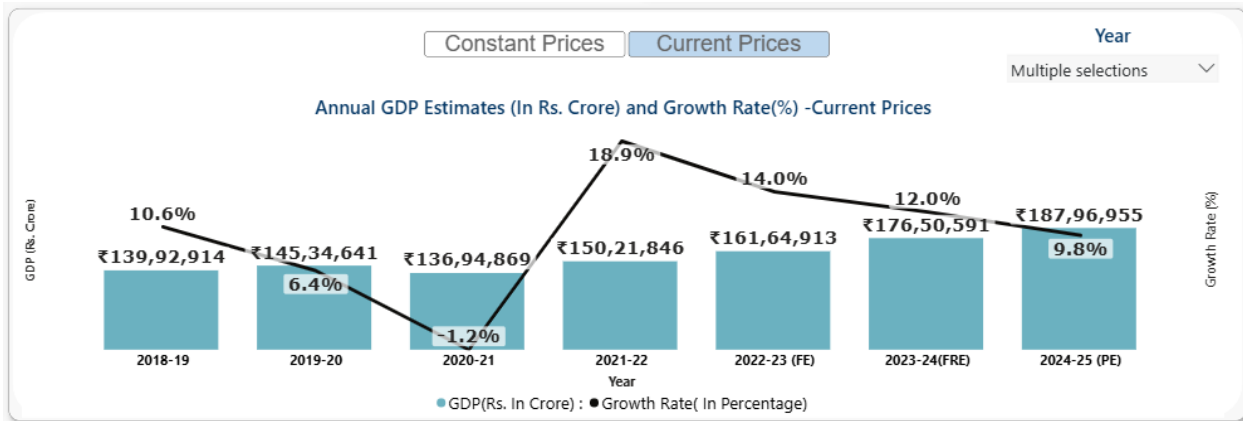
The Indian rupee plays a critical role in linking external capital flows with domestic economic conditions, acting as a key indicator of macroeconomic stability and competitiveness. While FPI and FDI flows reflect investor sentiment, exchange rate movements capture the net impact of global liquidity conditions, trade balances, and policy responses.

During periods of strong capital inflows and stable macro conditions, the rupee tends to remain stable or appreciate. However, global monetary tightening and risk-off environments lead to capital outflows, exerting depreciation pressure on the currency. In response, the Reserve Bank of India (RBI) has actively intervened in the foreign exchange market to manage volatility. Notably, the RBI sold approximately USD 25 billion in FY2022–23 and over USD 34 billion in FY2024–25, alongside maintaining a significant forward market position, reflecting a proactive approach to stabilisation.

Exchange rate stability has direct implications for the consumption sector. A weaker rupee increases input costs for imported commodities such as crude oil, gold, and packaging materials, thereby compressing margins for consumer companies. Additionally, currency volatility can affect foreign investor sentiment and equity valuations. Conversely, a stable rupee helps contain inflation, supports purchasing power, and encourages discretionary spending.

Thus, rupee movements serve as a crucial transmission channel through which global macro conditions influence domestic consumption and corporate performance.

Repo Rate and GDP Trend

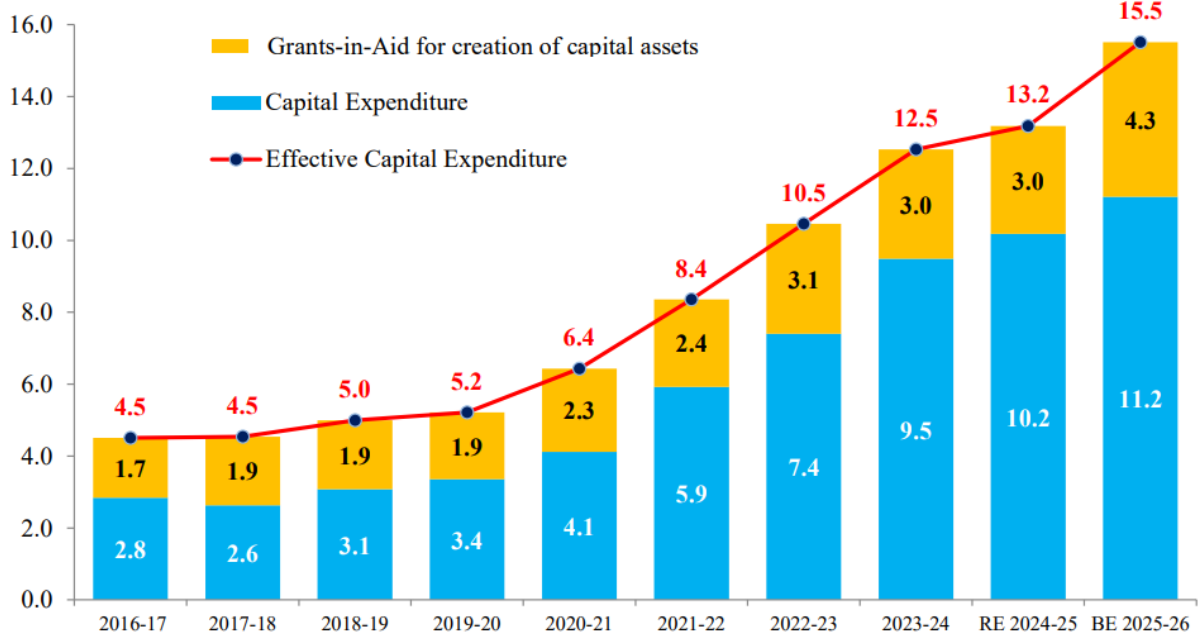


On the monetary side, the repo rate, which was reduced sharply to 4.00% in 2021 to support growth, was later raised to 6.50% by 2024 to manage inflation. Despite this tightening, GDP growth remained resilient, averaging 6–7% over FY24 and FY25, with domestic demand contributing more than half of this growth.

Capital Expenditure Trends

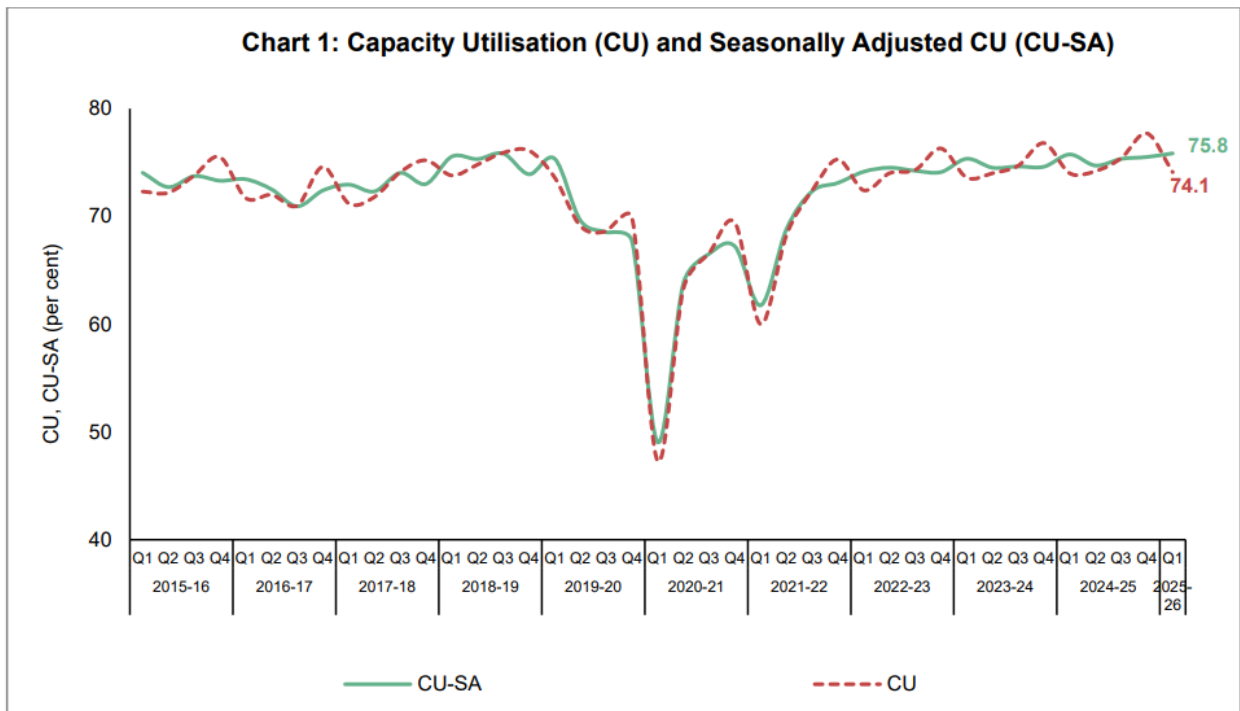
TREND IN CAPITAL EXPENDITURE

(₹ लाख करोड़ में)
(₹ in lakh crore)



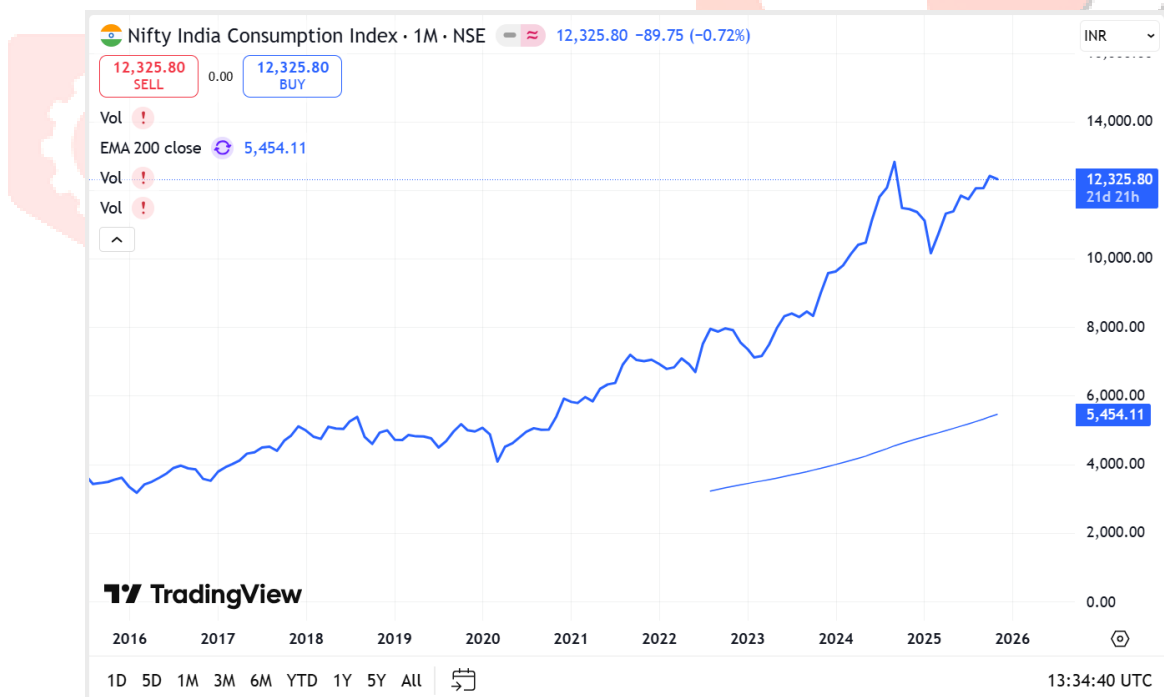
Capital Expenditure trends shifted notably. Government capex grew at double-digit rates between FY22 and FY24, particularly in sectors such as infrastructure, transport and defense, driving an investment-led recovery in the post-COVID phase. By FY24–25, however, early signs pointed to a broadening of demand, where private consumption began to take a larger role, aided by moderating inflation, stable borrowing conditions and improving consumer confidence.

Capacity Utilization



Capacity utilization, an indicator of industrial momentum, rose from ~60–63% in FY21 to ~74–75% by FY24, signaling a recovery in domestic manufacturing activity.

Nifty Consumption Index

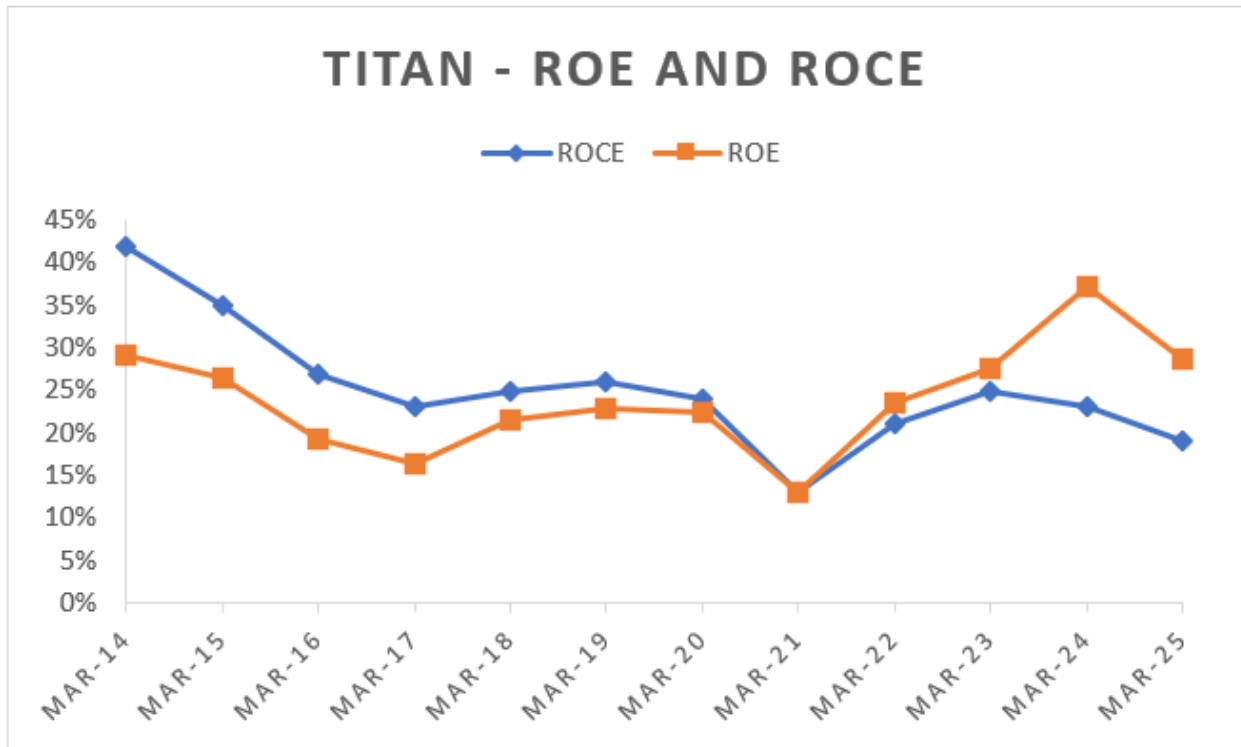


This changing consumption pattern is also visible in market indices. The Nifty Consumption Index, which reflects demand in consumer goods and discretionary categories, rose from ~4,900 in 2016 to ~10,600 in 2025, more than doubling over the period. The nature of consumption has also evolved. After a period of urban-led recovery post-pandemic, rural demand has gradually strengthened, supported by better agricultural terms of trade, increased rural credit penetration and targeted government support programs. Recent industry commentary and sales data across FMCG and apparel sectors suggest that the rural–urban

consumption gap that widened during 2021–23 is now narrowing, indicating that consumption growth is becoming more broad-based.

Company Level Analysis

Titan: ROE & ROCE Trends in the Context of Macroeconomic Indicators (FY14–FY25)

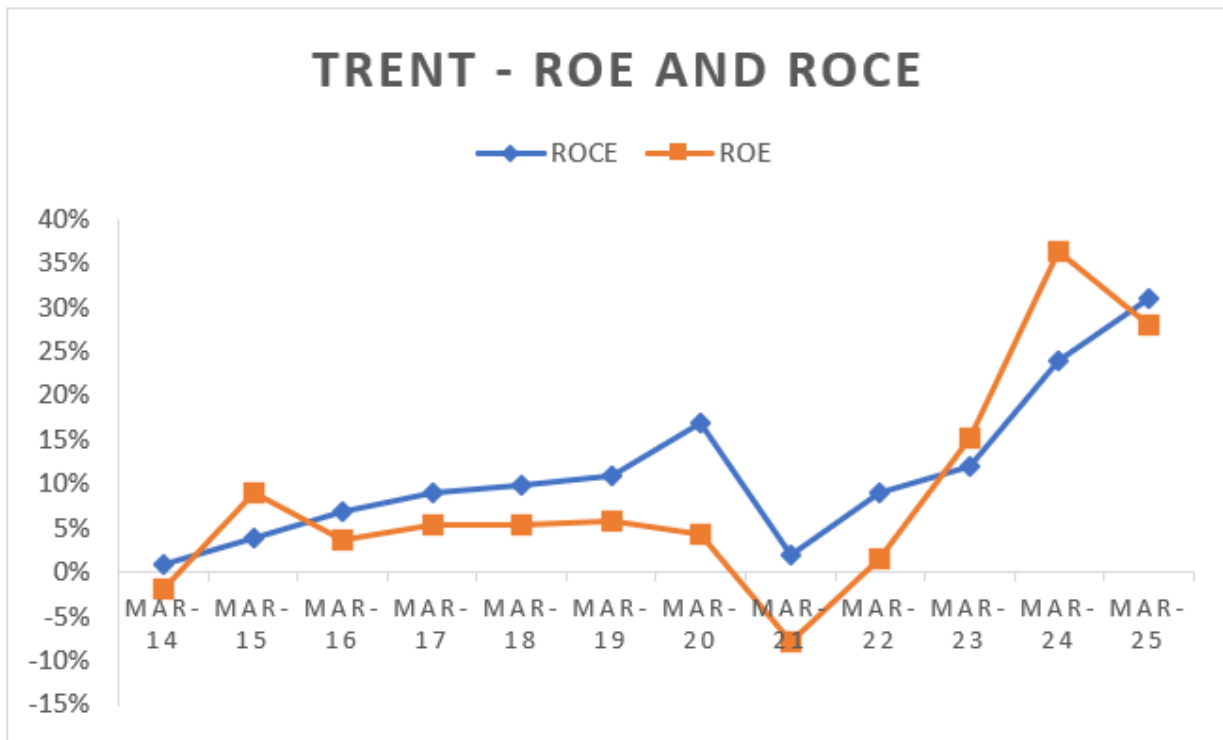


Titan’s ROE and ROCE trends over FY14–FY25 reflect a relatively resilient performance across macroeconomic cycles, with temporary disruptions during periods of economic stress. In the pre-pandemic phase (FY14–FY19), Titan maintained strong capital efficiency, with ROCE moderating from elevated levels but stabilizing around the mid-20% range, while ROE remained broadly in the 20–30% range. This period coincided with steady GDP growth and gradual formalization within the jewellery sector.

A sharp decline is observed in FY20–FY21, where both ROE and ROCE dropped to approximately 13%, reflecting the impact of the COVID-19 shock, reduced discretionary demand, and supply chain disruptions. However, the recovery phase from FY22 onwards demonstrates a strong rebound, with ROE rising to a peak of ~37% in FY24 and ROCE recovering to ~25%. This improvement aligns with revival in consumption, particularly in wedding-related demand, and normalization of economic activity.

Importantly, this recovery occurred despite rising repo rates, indicating that demand-side factors such as income growth and consumer sentiment outweighed the effects of monetary tightening. The moderation in FY25 suggests normalization after a strong recovery phase. Overall, Titan’s performance indicates that while macroeconomic shocks impact returns, strong brand positioning and demand drivers enable sustained capital efficiency over the long term.

Trent: ROE & ROCE Trends in the Context of Macroeconomic Indicators (FY14–FY25)



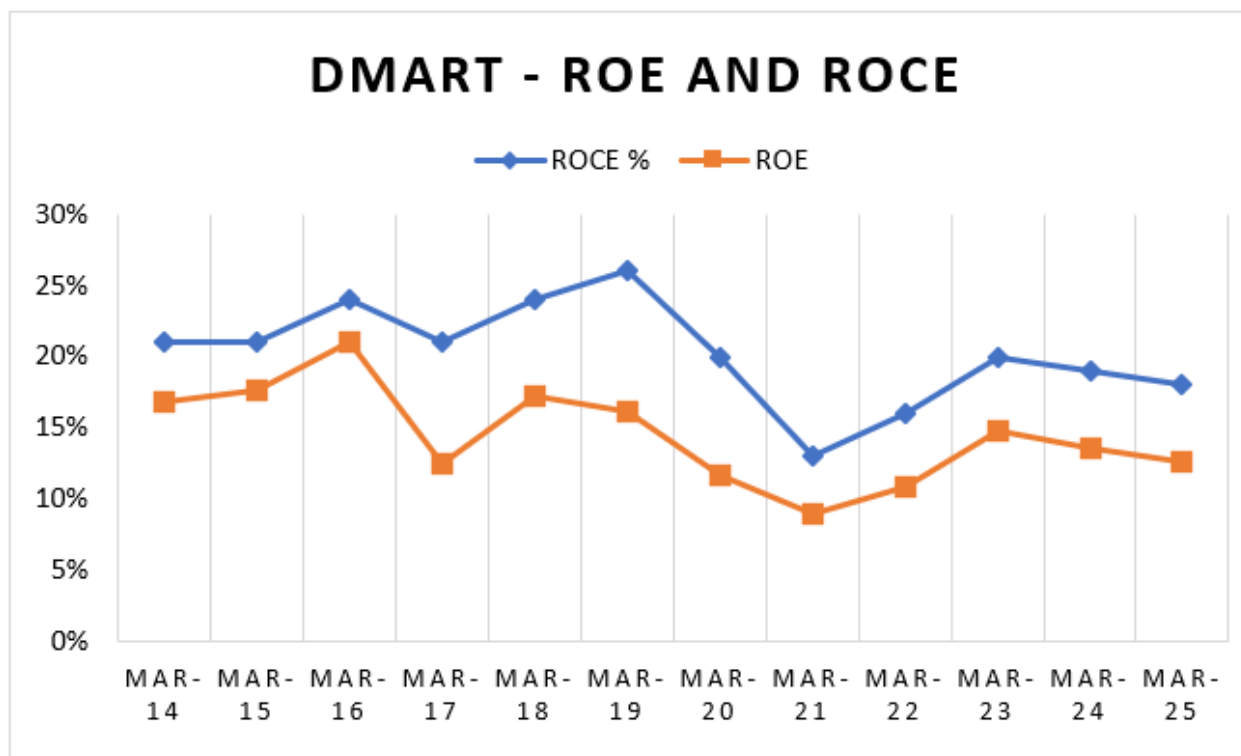
Trent's ROE and ROCE trends over FY14–FY25 highlight a highly cyclical performance, reflecting the company's exposure to discretionary consumption and its operating leverage. In the initial phase (FY14–FY18), return ratios remained low, with ROCE gradually improving from ~1% to ~10% and ROE stabilizing in the low single digits. This period was characterized by ongoing investments in store expansion and relatively moderate demand growth.

A gradual improvement was observed in FY19–FY20, with ROCE reaching ~17%, indicating improving store productivity and scale benefits. However, the pandemic-induced shock in FY21 led to a sharp decline, with ROCE falling to ~2% and ROE turning negative (~-8%), reflecting the impact of reduced footfalls, fixed cost pressures, and weak discretionary demand.

The post-COVID recovery phase (FY22–FY24) shows a significant turnaround, with ROCE rising to ~24% and ROE peaking at ~36% in FY24. This aligns with recovery in GDP growth, improving consumer sentiment, and strong demand for value fashion formats such as Zudio. Notably, this improvement occurred despite rising interest rates, indicating that demand recovery and operating leverage were key drivers.

In FY25, ROE moderates to ~28% while ROCE continues to improve, suggesting a transition toward a more sustainable return profile. Overall, Trent's performance demonstrates high sensitivity to economic cycles, with macro recovery phases translating into disproportionately higher returns.

Avenue Supermarts (DMart): ROE & ROCE Trends in the Context of Macroeconomic Indicators (FY14–FY25)



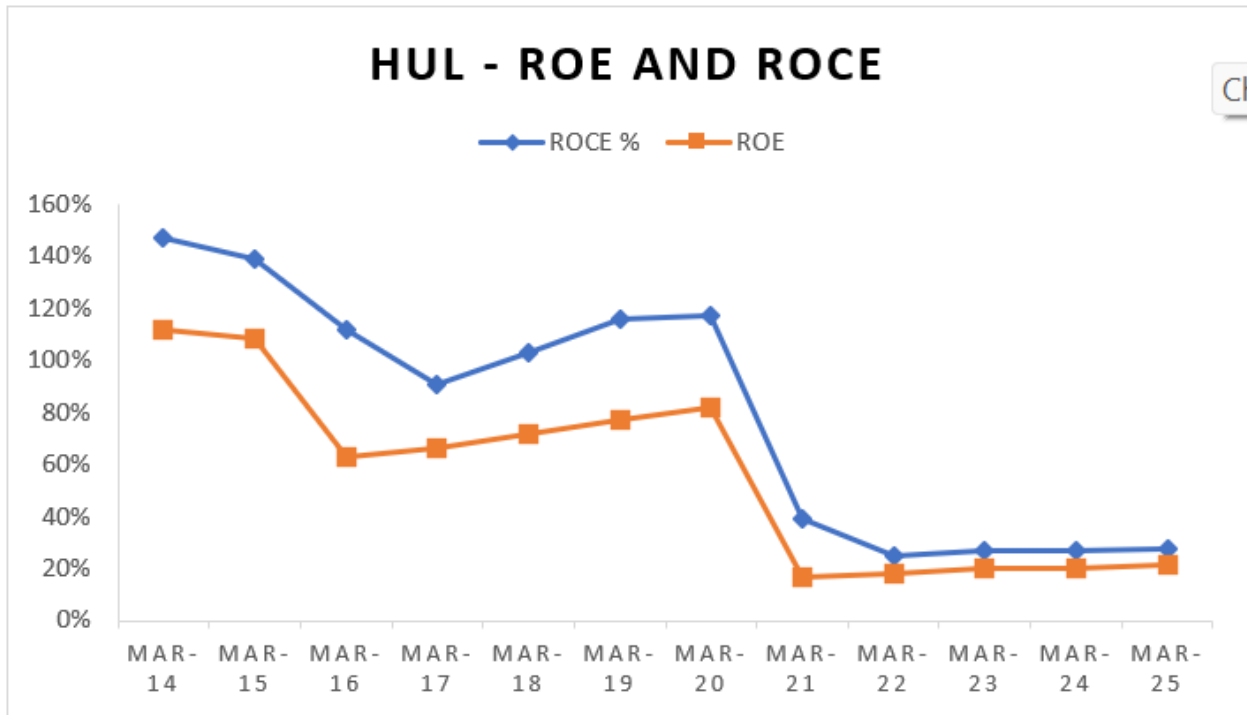
Avenue Supermarts (DMart) demonstrates a relatively stable and resilient return profile across FY14–FY25, reflecting the defensive nature of its value-oriented retail model. In the pre-pandemic period (FY14–FY19), the company maintained consistent ROCE in the range of ~21–26% and ROE between ~12–21%, supported by steady demand for essential goods and efficient cost management. This stability aligns with moderate GDP growth and sustained consumption demand in essential categories.

During the pandemic phase (FY20–FY21), ROCE declined to ~13% and ROE to ~9%, indicating operational disruptions, supply chain challenges, and temporary demand constraints. However, the decline was less severe compared to discretionary retailers, highlighting the relatively inelastic demand for essential products.

The recovery phase (FY22–FY25) shows gradual improvement, with ROCE stabilizing around ~18–20% and ROE recovering to ~13–15%. This recovery corresponds with normalization in consumption and improved economic activity, although the magnitude of improvement remains moderate compared to cyclical businesses.

Importantly, DMart's return profile appears less sensitive to interest rate movements and more aligned with overall consumption stability. The relatively narrow fluctuation in ROE and ROCE indicates strong capital discipline and operational efficiency. Overall, the company's performance suggests that value-oriented retail businesses provide resilience across economic cycles, with steady but less volatile wealth creation.

Hindustan Unilever (HUL): ROE & ROCE Trends in the Context of Macroeconomic Indicators (FY14–FY25)



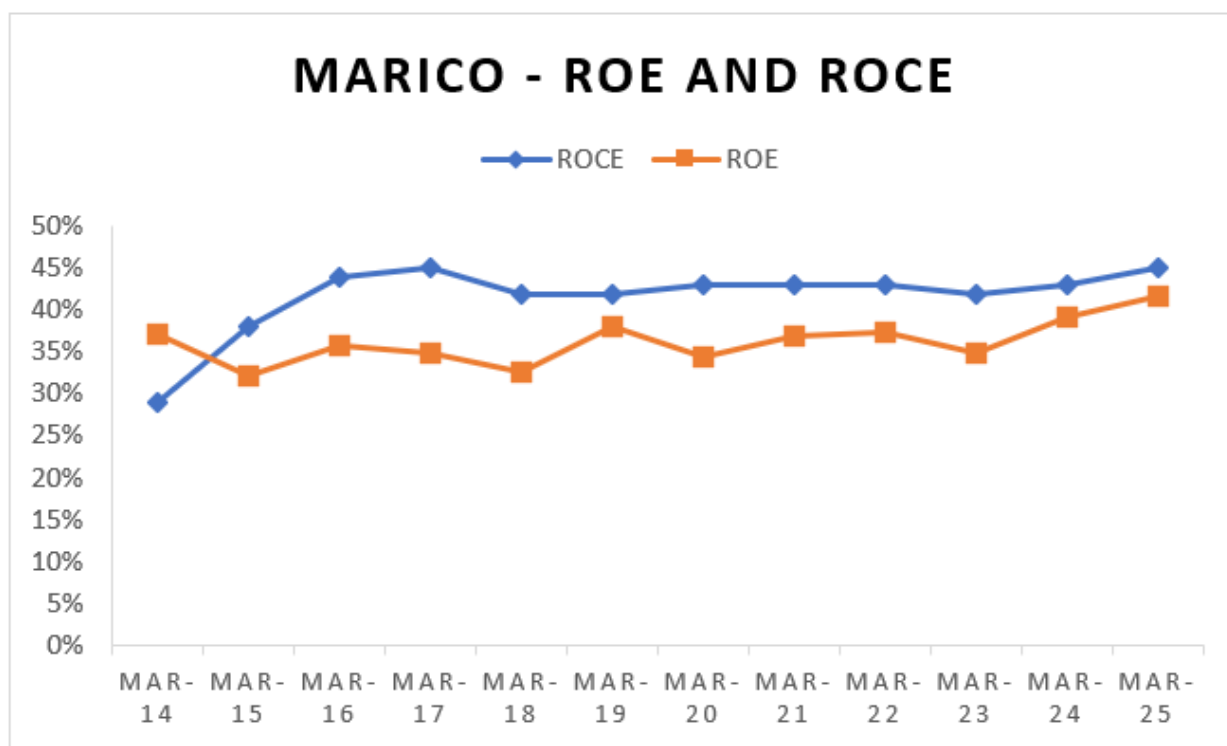
Hindustan Unilever (HUL) exhibits consistently high ROE and ROCE across FY14–FY25, reflecting the strength of its asset-light business model, strong brand portfolio, and pricing power within essential consumption categories. In the pre-pandemic period (FY14–FY19), the company maintained exceptionally high return ratios, with ROCE ranging between ~90–140% and ROE between ~60–110%, supported by stable demand, efficient capital utilization, and strong operating margins.

During the pandemic phase (FY20–FY21), both ROE and ROCE witnessed a sharp decline, with ROCE falling to ~39% and ROE to ~17%. This reflects the impact of supply chain disruptions, input cost pressures, and temporary demand shifts. However, despite this decline, return ratios remained significantly higher than most other companies, indicating strong business resilience.

In the post-pandemic period (FY22–FY25), ROCE stabilizes in the range of ~25–28% and ROE around ~18–22%. This moderation aligns with rising input cost inflation and increased competitive intensity, even as overall consumption gradually recovers.

Unlike discretionary businesses, HUL's performance appears less sensitive to GDP fluctuations and more influenced by inflation and cost dynamics. Overall, the company demonstrates strong capital efficiency and stability across macroeconomic cycles, reinforcing its position as a defensive consumption play with consistent, though moderating, return metrics.

Marico: ROE & ROCE Trends in the Context of Macroeconomic Indicators (FY14–FY25)



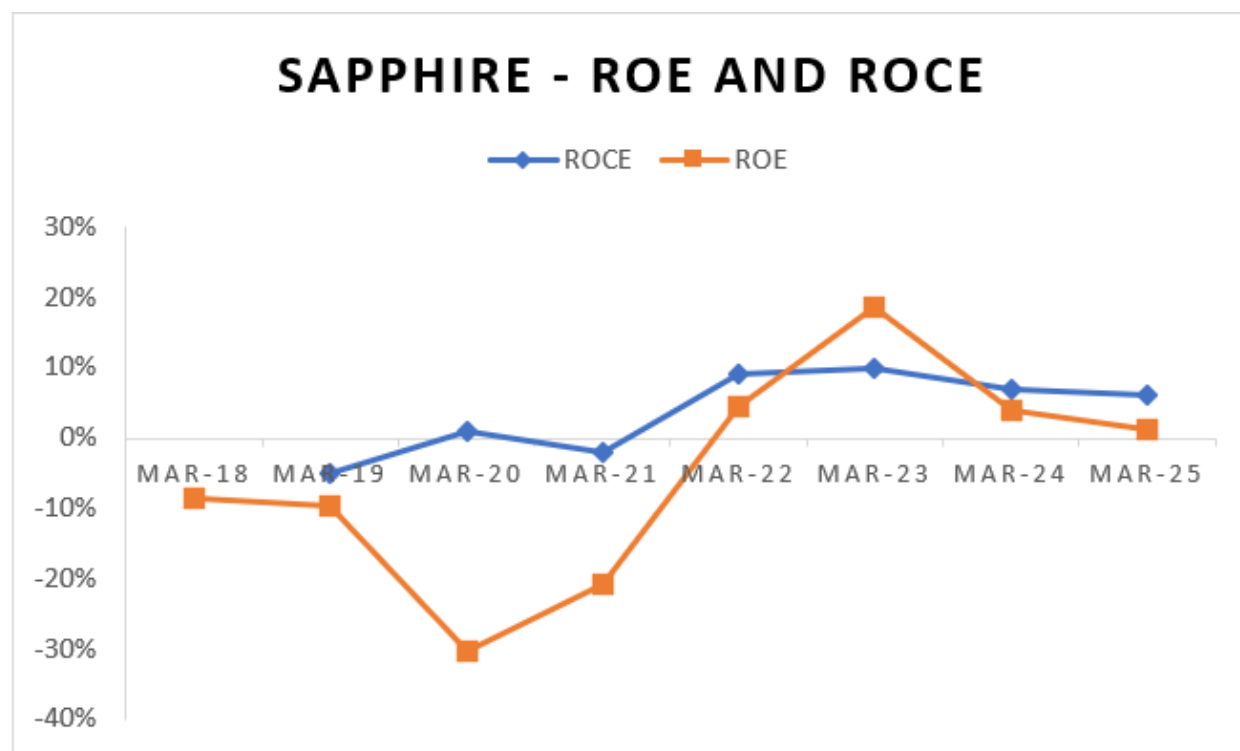
Marico demonstrates one of the most stable and consistent return profiles across FY14–FY25, reflecting the resilience of its FMCG-focused business model and strong presence in essential consumption categories. Throughout the pre-pandemic period (FY14–FY19), the company maintained robust ROCE in the range of ~38–45% and ROE between ~32–38%, supported by steady demand, strong brand equity, and efficient capital utilization.

Unlike discretionary businesses, Marico's return ratios showed minimal disruption during the pandemic phase (FY20–FY21), with ROCE remaining stable at ~43% and ROE in the mid-30% range. This highlights the relatively inelastic demand for its core products, particularly in rural and mass markets, where consumption remains less sensitive to economic shocks.

In the post-pandemic period (FY22–FY25), both ROCE and ROE continue to remain strong, with ROCE stabilizing around ~42–45% and ROE improving to ~42% by FY25. This performance aligns with gradual recovery in rural demand and stable consumption patterns, despite inflationary pressures and rising interest rates.

Marico's performance appears more influenced by commodity price cycles and rural income trends than by broader macroeconomic indicators such as GDP or repo rates. Overall, the company exemplifies a high-quality, capital-efficient business model that delivers consistent returns across economic cycles.

Sapphire Foods: ROE & ROCE Trends in the Context of Macroeconomic Indicators (FY18–FY25)



Sapphire Foods exhibits highly volatile ROE and ROCE trends over FY18–FY25, reflecting the early-stage nature of its business, high operating leverage, and sensitivity to discretionary consumption. In the initial phase (FY18–FY20), return ratios remained weak, with ROCE fluctuating around low single digits and ROE remaining negative, indicating scale inefficiencies and high fixed costs associated with rapid store expansion.

The impact of the COVID-19 pandemic in FY21 further intensified this trend, with ROCE declining to approximately -2% and ROE reaching around -21% to -30% , reflecting severe demand disruption, store closures, and operational constraints in the QSR segment. This period highlights the vulnerability of discretionary, dine-out-oriented businesses to macroeconomic shocks.

The post-pandemic recovery phase (FY22–FY23) shows a sharp improvement, with ROCE turning positive ($\sim 9\text{--}10\%$) and ROE recovering to $\sim 5\text{--}19\%$, supported by normalization in mobility, consumption recovery, and improved store-level economics. However, the subsequent moderation in FY24–FY25, with ROCE stabilizing around $\sim 6\text{--}7\%$ and ROE declining to low single digits, indicates that sustained profitability remains dependent on scale, cost control, and consistent demand.

Overall, Sapphire Foods demonstrates high sensitivity to macroeconomic conditions, particularly consumption cycles and urban demand, with returns improving during recovery phases but lacking stability compared to established consumption businesses.

Conclusion

This study set out to examine the relationship between macroeconomic indicators and shareholder wealth creation in Indian consumption companies by analysing firm-level performance through ROE and ROCE across different consumption sub-segments. The findings indicate that while macroeconomic conditions provide an important backdrop for business performance, they do not uniformly translate into improved financial outcomes across companies.

Macroeconomic indicators such as GDP growth, capital flows, and consumption trends were found to influence demand conditions and market sentiment, particularly during periods of economic expansion and recovery. However, the impact of these variables varied significantly across business models. Discretionary and cyclical businesses, such as retail and QSR, exhibited high sensitivity to economic

cycles, with sharp declines during downturns and strong recovery-driven improvements in return ratios. In contrast, FMCG and value-oriented businesses demonstrated greater resilience, maintaining relatively stable ROE and ROCE even during periods of macroeconomic stress.

The analysis also highlights that interest rates and capital flows, particularly FPI, play a more significant role in influencing market sentiment and short-term volatility rather than directly determining operating performance. Exchange rate movements and inflation, on the other hand, were more closely linked to cost structures and margin dynamics within consumption companies.

Overall, the study concludes that shareholder wealth creation in the consumption sector is primarily driven by firm-specific factors such as business model strength, capital efficiency, and pricing power, rather than macroeconomic conditions alone. Macroeconomic indicators act as enablers or constraints, but the ability of companies to convert these conditions into sustained returns ultimately determines long-term value creation.

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