Fundamental Analysis: A Study on Representative Companies of Bank Nifty

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ABSTRACT:

Investment is a very attractive activity which always encourages to the people for investing money from all walks of life irrespective of their occupation, economic status, education and family background. Investment refers to the employment of funds on assets with the purpose of earning income or capital appreciation. Investment has two aspects namely time and risk. Capital market has always been vulnerable to the assortment of variables pertaining the prices, trading, behavior, settlement, liquidity, economy and listed companies. Each and every time one kind of formula or standard does not work. That's why, the researcher plans to reside to work on the present research topic.

INTRODUCTION:

"As food is essential for growth of human beings, same as Investment is necessary for development of an economy."

As per above quotation, it is stated that this research work is designed to examine tools and techniques of Fundamental and Technical Analysis. Both analyses are the main approaches of Security Analysis. In Indian Capital Market, they facilitate to understand the nature of individual stocks as well as stock market so that decision can be taken about buying and selling of securities. Investment is a very attractive activity which always encourages to the people for investing money from all walks of life irrespective of their occupation, economic status, education and family background.

INVESTMENT PROCESS

Investment refers to that process under which all those activities are involved which are leading to the purchase of securities/ shares prices or some other alternatives.

Investment process is divided in to five stages:

1. Framing the independent Investment Policy
2. Security Analysis
3. Valuation
4. Construction of Portfolio
5. Portfolio Evaluation

➢ **SECURITY ANALYSIS:** The second step of process is Security Analysis. Individual securities as well as market as a whole are analyze in this step so that one can estimate the risk and return which is expected by every investor while making investment. To identify undervalued securities for buying and over value securities for selling is the main purpose of security analysis and it is known as security analysis. One can examine the securities through:

• **Fundamental Analysis:** A combination of economic, industry and company analysis is known as fundamental analysis. It is used for obtaining the current fair value as well as for predicting the future value of a stock. Since the fundamental analysis of share prices start from an analysis of the economy, move to the industry and then narrow down to the company. That's why, it is also known as "top-down approach". This is also called EIC (economy, industry and company) analysis.

• **Technical analysis:** Technical Analysis consist the study of share price's movements in the security market. To formulate the strategies for buying and selling of securities, technical analysis is basically a process to identify the trend reversals at early stage. The process of technical analysis can only be completed by using different indicators and oscillators. Its gives us direction to predict the price of a security at at which buyer / seller settles a deal is considered to be the one precise figure which synthesize, weights and finally express all the factors such as rational and irrational, quantifiable and non quantifiable and is the only figures that counts.

As per the technical analysis, demand and supply in the market place formulate the prices of stock. To study the past pattern and predict the future price, various tools and techniques are used in this analysis.

In short, it is used to study the market trend only.

- **Risk and Return Analysis:** valuation of expected risk and return is also involved in Security Analysis. The main purpose of this is income, capital appreciation and positive hedge against inflation. Risk is basically the variability in actual return. Here, Income refers to the expected return of securities.

- **Efficient Market Hypothesis:** This theory state that variations in stock prices are random and not a regular blueprint is follow by these hypotheses. The anticipation of investors' towards future cash flows is converted into share prices.

REVIEW OF LITERATURE:

Abarbanell, J.S., &Bushee, B.J.(1997) in the paper titled "Fundamental Analysis, Future Earnings and Stock Prices" investigated "how detailed financial statement data (fundamental signals) enter the decisions of market participants by examining whether current changes in the signals are informative about subsequent earnings changes. Studying the links between fundamental signals and future earnings changes allows us to test directly the validity of the economic intuition that underlies the original construction of the signals. The result was found that "macroeconomic variables inflation and GDP, as well as firm specific variables such as prior earning news and expected growth, condition some of the relations between the fundamental signals and future earnings, revisions, and forecast errors. Preliminary evidence on the influence of industry membership suggests that further refinements to the fundamental analysis performed in this study can be achieved with the aid of additional theory."

Bhardwaj, Raheja, and Priyanka (2012) the paper examined "the profitability of Maruti Suzuki Ltd. and Tata Motors Ltd. on the basis of Fundamental analysis tools". "They covered five years period 2005-06 to 2009-10. Authors used ROI, ROE, GP Ratio, NP Ratio, OP Ratio, EPS, DPS and Dividend Payout Ratio to examine the profitability. Authors used Average, S.D and C.V to analyze the data". This research demonstrates that Maruti Suzuki Ltd. was more profitable than Tata Motors Ltd. Maruti Suzuki has more ROI but Tata Motors has more ROE in all years. The EPS of Maruti Suzuki was high as compared to Tata Motors but the DPS and Dividend

Payout Ratio were not as much of Tata Motors".

Seng, D., & Hancock, J.R. (2012) in a study on "Fundamental Analysis and the Prediction of Earnings" taken "fundamental analysis research beyond the spatial and temporal bounds of previous studies and also investigate how detailed financial statement data enter the decisions of market makers by examining how current changes in the fundamental signals chosen can provide information on subsequent earnings changes. Capital markets research on fundamental analysis has become extremely popular in recent years, in part because of mounting evidence in the financial economics literature against the efficient markets hypothesis".

OBJECTIVE OF THE STUDY:

To carry out the present study, the objectives are:

- To examine the profitability of the companies on the basis of fundamental analysis.

RESEARCH METHODOLOGY: The data was collected from secondary sources by the researcher. After collection of the data, data have been tabulated, analyzed and interpreted and relevant conclusions are drawn on the basis of derived results. The

profitability position of AXIS BANK, BANK OF BARODA, NSE- Bank Nifty companies have been taken from annual report of the banks on the basis of some fundamental analysis tools like, return on capital employed, return on net worth, return on average assets and earnings per share (formulas of these ratios have been given in chapter 1). To scrutinize the collected data, various simple statistical techniques like Average, Annual Average Growth Rate and t-test have been used. A number of analytical tables and charts are being used for effective presentation of results of study.

1. **Ratio Analysis**
   A. Profitability ratio
      - Net Profit Ratio
      - Return on Investment
      - Return on Equity
      - Earnings Per Share
      - AAGR

HYPOTHESIS:

For achieving the objectives in an effective manner, the following hypotheses were framed:

1. **Null Hypothesis (H0):** There is no significant difference in Return on

Capital Employed Ratios of the companies during the study period.

Alternative Hypothesis (H1): There is significant difference in Return on Capital Employed Ratios of the companies during the study period.

2. **Null Hypothesis (H0):** There is no significant difference in Return on Net worth Ratios of the companies during the study period.

   Alternative Hypothesis (H1): There is significant difference in Return on Net worth Ratios of the companies during the study period.

3. **Null Hypothesis (H0):** There is no significant difference in Average Annual Growth Rate Ratios of the companies during the study period.

   Alternative Hypothesis (H1): There is significant difference in Average Annual Growth Rate Ratios of the companies during the study period.

4. **Null Hypothesis (H0):** There is no significant difference in Earning per

Share Ratios of the companies during the study period.

Alternative Hypothesis (H1): There is no significant difference in Earning per Share Ratios of the companies during the study period.

DATA ANALYSES AND INTERPRETATION:

PROFITABILITY ANALYSIS ON SELECTED LISTED COMPANIES OF BANK NIFTY

Fundamental Analysis is the examination of economic factors or fundamentals/basic factors to determine the intrinsic value of a security or it estimates about a company's worth. It involves the evaluation of forces that affects the economy, industry and companies. Fundaments include financial statements and ratios which provide information whether the company is performing well or not.

Table 1.1 Profitability Ratios of Axis Bank

Years	ROCE	RONW	ROAA	EPS(B)
2011-12	7.66	21.22	1.68	102.94
2012-13	7.33	20.51	1.7	119.67
2013-14	7.17	18.23	1.78	132.56
2014-15	6.68	18.57	1.83	31.18
2015-16	5.41	17.49	1.72	34.59
Average	6.85	19.204	1.742	84.188
AAGR	-8.08	-4.60	0.67	-9.63
t-value	37.975	33.566	38.784	4.369
Sig. / Non Sig.	Significant	Significant	Significant	Significant

Source: Financial Statements of the company from Annual Report and Prowess Data Base CMIE but calculation and analysis by the researchers.

Note: ROCE-Return on Capital Employed (Average Capital Employed)

RONW –Return on Net worth (Average Net Worth)

ROAA –Return on Average Assets

 EPS (B) –Earnings per Share (Basic)

Table 4.1(1) exhibits Profitability Ratios of Axis Bank. On an average Return on Capital Employed Ratio calculated is 6.85 while its Average Annual Growth Rate is -8.08 and t-value is 37.975. The Average of Return on Net Worth Ratio calculated is 19.204 while the Average Annual Growth Rate is -4.60 and t-value is 33.566. The Average of Return on Average Assets Ratio calculated is 1.742 while the Average Annual Growth Rate is 0.67 and t-value is 38.784. The Average of Earning per Share (Basic) calculated is 84.188 while the Average Annual Growth Rate is -9.63 and t-value is 4.369. The results show that all the ratios were significant at 5 percent level of significance at degree of freedom 4 because the tabulated value of t of all ratios were less than their calculated value.

Table 1.2

One-Sample T-Test of Return on Average Assets

	Test Value = 0.67					
	T	d.f.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Return on Average Assets	38.784	4	.000	1.07200	.9953	1.1487

Source: Researchers' Calculation

The table 4.1(4) draws attention to the output of One Sample T-Test. The Average of Return on Average Assets Ratio was 1.742 and the Annual Average Growth Rate was 0.67. The output reveals that the return on capital employed ratio was significant at 5% level of significance at degree of freedom 4 because the tabulated value=2.571was less than the calculated value of t= 38.784(In short, t=38.784, d.f. =4 and critical value= 2.571).

Table 1.3

One-Sample T-Test of Basic Earning Per Share

	Test Value = -9.63					
	T	d.f.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Basic Earning Per Share	4.369	4	.012	93.81800	34.2043	153.4317

Source: Researchers' Calculation

The table 4.1(5) draw attention to the output of One Sample T-Test. The Average of Basic Earnings per Share Ratio was 84.188 and the Annual Average Growth Rate was -9.63. The output reveals that the return on capital employed ratio was significant at 5% level of significance at degree of freedom 4 because the calculated value of t= 4.369 was less than the tabulated value=2.571 (In short, t=4.369, d.f. =4 and critical value= 2.571).

Table 1.4

Profitability Ratios of Bank of Baroda

Years	ROCE	RONW	ROAA	EPS(B)
2011-12	10.19	19.11	1.24	127.84
2012-2013	8.5	14.59	0.9	108.84
2013-2014	7.09	13	0.75	107.38
2014-2015	4.29	9.21	0.49	15.83
2015-2016	-10.14	-17.64	-0.78	0.0
Average	3.986	7.654	0.52	89.9725
AAGR	-102.26	-88.81	-84.48	-50.37
t-value	29.017	14.796	245.037	4.613
Sig. / Non Sig.	**Significant**	**Significant**	**Significant**	**Significant**

Source: Financial Statements of the company from Annual Report and calculation and analysis by the researchers

Note: ROCE -Return on Capital Employed (Average Capital Employed)

RONW –Return on Net worth (Average Net Worth)

ROAA –Return on Average Assets

EPS (B) –Earnings per Share (Basic)

Table 4.1(6) exhibits Profitability Ratios of Bank of Baroda. On an average Return on Capital Employed Ratio calculated is 3.986 while its Average Annual Growth Rate is -102.26 and t- value is 29.017. The Average of Return on Net Worth Ratio calculated is 7.654 while the Average Annual Growth Rate is -88.81 and t-value is 14.796. The Average of Return on Average Assets Ratio calculated is 0.52 while the Average Annual Growth Rate is -84.48 and t-value is 245.037. The Average of Earning Per Share (Basic) calculated is 89.9725 while the Average Annual Growth Rate is -50.37 and t-value is 4.613. The results demonstrate that all the ratios were significant at 5 percent level of significance at degree at degree of freedom 4 because tabulated value of t of all ratios were greater than their calculated value.

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Table 1.5

One-Sample T-Test of Return on Capital Employed

	Test Value = -102.26					
	T	d.f.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Return on Capital Employed	29.017	4	.000	106.24600	96.0799	116.4121

Source: Researcher's Calculation

The table 4.1(7) designates outputs of One Sample T-Test. The Average of Return on Capital Employed was 3.986 and the Annual Average Growth Rate was -102.26. The output point out that the return on capital employed ratio was significant at 5% level of significance at degree of freedom 4 because the tabulated value=2.571 was less than calculated value of t= 29.017 (In short, t=29.017, d.f. =4 and critical value= 2.571)

Table 4.1(8)

One-Sample T-Test of Return on Net Worth

	Test Value = -88.81					
	T	d.f.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Return on Net Worth	14.796	4	.000	96.46400	78.3624	114.5656

Source: Researchers' Calculation

The table 4.1(8) shows the output of One Sample T-Test. The Average of Return on Net Worth Ratio was 7.654 and the Annual Average Growth Rate was -88.81. The output shows that the return on capital employed ratio was significant at 5% level of significance at degree of freedom 4 because the tabulated value=2.571 was less than the calculated value of t= 14.796 (In short, t=14.796, d.f. =4 and critical value= 2.571).

Table 1.6

One-Sample T-Test of Return on Average Assets

	Test Value = -84.48					
	t	d.f.	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Return on Average Assets	245.037	4	.000	85.00000	84.0369	85.9631

Source: Researchers' Calculation

The table 4.1(9) draws attention to the output of One Sample T-Test. The Average of Return on Average Assets Ratio was 0.52 and the Annual Average Growth Rate was -84.48. The output reveals that the return on capital employed ratio was significant at 5% level of significance at degree of freedom 4 because the tabulated value=2.571was less than the calculated value of t= 245.037(In short, t=245.037, d.f. =4 and critical value= 2.571).

Table 1.7

One-Sample T-Test of Basic Earnings Per Share

	Test Value = -50.37					
	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Basic earning Per Share	4.613	4	.010	122.34800	48.7170	195.9790

Source: Researchers' Calculation

The table 4.1(10) draw attention to the output of One Sample T-Test. The Average of Basic EarningPer Share Ratio was 89.9725 and the Annual Average Growth Rate was -50.37. The output reveals that the return on capital employed ratio was significant at 5% level of significance at degree of freedom 4 because the calculated value of t= 4.613 was less than the tabulated value=2.571 (In short, t=4.613, d.f. =4 and critical value= 2.571).

CONCLUSION:

Being a part of fundamental analysis, four Profitability Ratios have been calculated pertaining to earnings and market prices so that financial position can be ascertained. For this purpose, Profitability Ratios of **AXIS BANK and BANK OF BARODA** were calculated. These ratios are: ROCE, RONW, ROAA and EPS (B) across from 2011-12 to 2015-16 and tested by applying statistics, t-test. It was found that annual average growth rates of ROAA ratio was positive and RONW ratio, ROCE ratio and EPS (B) were negative during the study period. It was found that annual average growth rates of ROAA ratio, RONW ratio, ROCE ratio and EPS (B) were negative during the study period.

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