ISSN: 2321-7782 (Online)
Volume 3, Issue 2, February 2015
International Journal of Advance Research in Computer Science and Management Studies
Research Article / Survey Paper / Case Study
Available online at: www.ijarcsms.com

Equity Analysis of Banking Stocks

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***Abstract:** A stock or any other security representing an ownership interest. On a company's balance sheet, the amount of the funds contributed by the owners (the stockholders) plus the retained earnings (or losses). Also referred to as "shareholders' equity". In the context of margin trading, the value of securities in a margin account minus what has been borrowed from the brokerage.In the context of real estate, the difference between the current market value of the property and the amount the owner still owes on the mortgage. It is the amount that the owner would receive after selling a property and paying off the mortgage. In terms of investment strategies, equity (stocks) is one of the principal asset classes. The other two are fixed-income (bonds) and cash/cash-equivalents. These are used in asset allocation planning to structure a desired risk and return profile for an investor's portfolio. The term's meaning depends very much on the context. In finance, in general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company.*

I. INTRODUCTION

India is a developing country. Nowadays many people are interested to invest in financial markets especially on equities to get high returns, and to save tax in honest way. Equities are playing a major role in contribution of capital to the business from the beginning. Since the introduction of shares concept, large numbers of investors are showing interest to invest in stock market. In an industry plagued with skepticism and a stock market increasingly difficult to predict and contend with, if one looks hard enough there may still be a genuine aid for the Day Trader and Short Term Investor. The price of a security represents a consensus. It is the price at which one person agrees to buy and another agrees to sell. The price at which an investor is willing to buy or sell depends primarily on his expectations. If he expects the security's price to rise, he will buy it; if the investor expects the price to fall, he will sell it. These simple statements are the cause of a major challenge in forecasting security prices, because they refer to human expectations. As we all know firsthand, humans expectations are neither easily quantifiable nor predictable. If prices are based on investor expectations, then knowing what a security should sell for (i.e., fundamental analysis) becomes less important than knowing what other investors expect it to sell for. That's not to say that knowing what a security should sell for isn't important--it is. But there is usually a fairly strong consensus of a stock's future earnings that the average investor cannot disprove Fundamental analysis and technical analysis can co-exist in peace and complement each other. Since all the investors in the stock market want to make the maximum profits possible, they just cannot afford to ignore either fundamental or technical analysis.

II. OBJECTIVE OF THE STUDY

The objective of this project is to deeply analyze our Banking Sector for investment purpose by monitoring the growth rate and performance on the basis of historical data.

The main objectives of the Project study are:

- To study the overall growth of Indian Economy which is growing at a fast pace.
- Detailed analysis of Banking Sector which is gearing towards international standards
- Analyze the impact of qualitative factors on industry’s and company’s prospects
- Comparative analysis of three main banks in the industry ICICI Bank, HDFC Bank and Axis Banks through fundamental analysis.
- Suggesting as to which company’s shares would be best for an investor to invest.

III. NEED OF THE STUDY

To start any business capital plays major role. Capital can be acquired in two ways by issuing shares or by taking debt from financial institutions or borrowing money from financial institutions. The owners of the company have to pay regular interest and principal amount at the end.

Stock is ownership in a company, with each share of stock representing a tiny piece of ownership. The more shares you own, the more of the company you own. The more shares you own, the more dividends you earn when the company makes a profit. In the financial world, ownership is called **“Equity”.**

IV. RESEARCH METHODOLOGY

Research design or research methodology is the procedure of collecting analyzing and interpreting the data to diagnosis the problem and react to the opportunity in such a way where the costs can be minimized and the desired level of accuracy can be achieved to arrive at a particular conclusion.

- The methodology used in the study for the completion of the project and the fulfillment of the project objectives, is as follows:
- Market prices of the companies have been taken for the years of different dates, there by dividing the companies in to 5 sections.
- A final portfolio is made at the end of the year to know the changes in the portfolio at the end of the year.

Sources of data:

- **Primary data:**

The primary data information Is gathered from share khan by interviewing share khan executives.

- **Secondary data:**

The secondary data is collected from various financial books, magazines and from stocks lists of various newspapers and share khan as part of the training class undertaken for project.

V. SCOPE OF THE STUDY

The scope of the study is identified after and during the study is conducted. The project is based on tools like fundamental analysis and ratio analysis. Further, the study is based on information of last five years.

- The analysis is made by taking into consideration three banks i.e. ICICI Bank, HDFC Bank and AXIS Banks.
- The scope of the study is limited for a period of five years.
- The scope is limited to only the fundamental analysis of the chosen stocks.

VI. Security Analysis

Investment success is pretty much a matter of careful selection and timing of stock purchases coupled with perfect matching to an individuals risk tolerance. In order to carry out selection, timing and matching actions an investor must conduct deep security analysis.

Investors purchase equity shares with two basic objectives;

- To make capital profits by selling shares at higher prices.
- To earn dividend income.

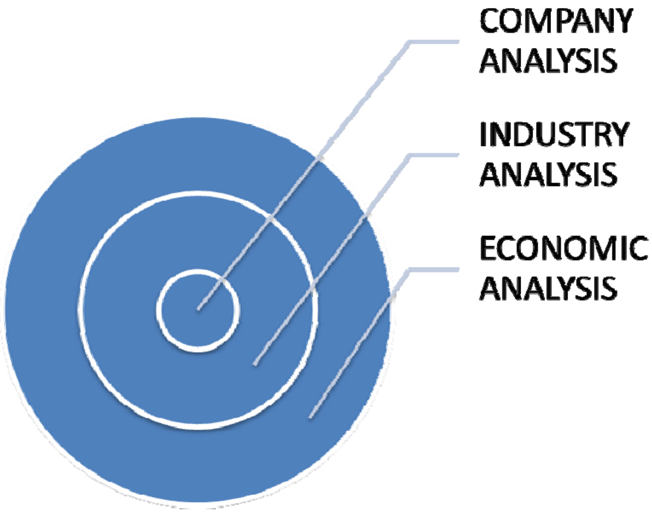
These two factors are affected by a host of factors. An investor has to carefully understand and analyze all these factors. There are basically two approaches to study security prices and valuation i.e. fundamental analysis and technical analysis The value of common stock is determined in large measure by the performance of the firm that issued the stock. If the company is healthy and can demonstrate strength and growth, the value of the stock will increase. When values increase then prices follow and returns on an investment will increase. However, just to keep the savvy investor on their toes, the mix is complicated by the risk factors involved. Fundamental analysis examines all the dimensions of risk exposure and the probabilities of return, and merges them with broader economic analysis and greater industry analysis to formulate the valuation of a stock.

VII. Fundamental Analysis

Fundamental analysis is a method of forecasting the future price movements of a financial instrument based on economic, political, environmental and other relevant factors and statistics that will affect the basic supply and demand of whatever underlies the financial instrument. It is the study of economic, industry and company conditions in an effort to determine the value of a company’s stock. Fundamental analysis typically focuses on key statistics in company’s financial statements to determine if the stock price is correctly valued. The term simply refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements. Fundamental analysis is the cornerstone of investing. The basic philosophy underlying the fundamental analysis is that if an investor invests re.1 in buying a share of a company, how much expected returns from this investment he has. The fundamental analysis is to appraise the intrinsic value of a security. It insists that no one should purchase or sell a share on the basis of tips and rumors. The fundamental approach calls upon the investors to make his buy or sell decision on the basis of a detailed analysis of the information about the company, about the industry, and the economy. It is also known as “top-down approach”. This approach attempts to study the economic scenario, industry position and the company expectations and is also known as **“economic-industry-company approach (EIC approach)”**.

Thus the **EIC approach** involves three steps:

- Economic analysis
- Industry analysis
- Company analysis



VIII. Economic Analysis

The level of economic activity has an impact on investment in many ways. If the economy grows rapidly, the industry can also be expected to show rapid growth and vice versa. When the level of economic activity is low, stock prices are low, and when the level of economic activity is high, stock prices are high reflecting the prosperous outlook for sales and profits of the firms. The analysis of macroeconomic environment is essential to understand the behavior of the stock prices.

The commonly analyzed macro economic factors are as follows:

Gross Domestic Product (GDP): GDP indicates the rate of growth of the economy. It represents the aggregate value of the goods and services produced in the economy. It consists of personal consumption expenditure, gross private domestic investment and government expenditure on goods and services and net exports of goods and services. The growth rate of economy points out the prospects for the industrial sector and the return investors can expect from investment in shares. The higher growth rate is more favorable to the stock market.

Savings and investment: It is obvious that growth requires investment which in turn requires substantial amount of domestic savings. Stock market is a channel through which the savings are made available to the corporate bodies. Savings are distributed over various assets like equity shares, deposits, mutual funds, real estate and bullion. The savings and investment patterns of the public affect the stock to a great extent.

IX. Conclusion

Indian banks have compared favorably on growth, asset quality and profitability with other regional banks over the last few years. The banking index has grown at a compounded annual rate of over 51 per cent since April 2001 as compared to a 27 per cent growth in the market index for the same period. Policy makers have made some notable changes in policy and regulation to help strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations between commercial and co-operative banks. However, the cost of intermediation remains high and bank penetration is limited to only a few customer segments and geographies. While bank lending has been a significant driver of GDP growth and employment, periodic instances of the “failure” of some weak banks have often threatened the stability of the system.

Structural weaknesses such as a fragmented industry structure, restrictions on capital availability and deployment, lack of institutional support infrastructure, restrictive labour laws, weak corporate governance and ineffective regulations beyond Scheduled Commercial Banks (SCBs), unless addressed, could seriously weaken the health of the sector.

Further, the inability of bank managements (with some notable exceptions) to improve capital allocation, increase the productivity of their service platforms and improve the performance ethic in their organizations could seriously affect future performance.

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