
A study on Fundamental Analysis – Factors affecting Selection of Security for Portfolio Construction with special reference to Automobile Industry.

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Abstract:-

Fundamental analysis is the technique for finding the value of the stock which considers economy as a whole then industry and then performance of the company for finding the value of its stock. It uses top to bottom approach for finding the value of the stock. Fundamental analysis considers various factors such as development of the economy as a whole, development in the industry, past performances of company, and future prospectus of the company for finding the value of the stock of the company. The automobile industry is one of the key drivers of economic growth of the nation. Since the DE licensing of the sector in 1991, Indian automobile sector has come a long way. Today, almost every global auto major has set up their facilities in the country. This paper attempts to study the fundamental analysis of Indian automobile industry with reference to the selected companies.

Keywords : *Fundamental analysis, automobile sector, development of the economy.*

INTRODUCTION

Fundamental Analysis is the method of evaluation of stock of a company by measuring the intrinsic value of the stock. Intrinsic value is the actual value of a company or an asset based on the underlying perception of its true value including all tangible and intangible the aspects of the business. This value may or may not be equal to the current market value of the stock of the company. For finding the intrinsic value, fundamental analysis uses top to bottom approach which is also called as E-I-C (Economy, Industry and Company analysis) approach. Firstly it studies the macro economy i.e., overall health of economy as a whole and industry trends, competitors performance. After that the next step is to examine the financial data of the company. If this intrinsic value of the stock is more than its current market price, investor would prefer to purchase the stock because he believes that the stock will perform better in future and it will move towards intrinsic value. If intrinsic value of the stock is less than the market price, then investor would prefer to sell the stock because he believes that the price of the stock will fall in future and it will come near to the intrinsic value.

INTRODUCTION TO AUTOMOBILE INDUSTRY

The automobile sector is a key player in the global and Indian economy. Indian automobile industry embarked on a new journey in 1991 with de licensing of the sector and subsequent opening up for 100 per cent FDI through automatic route. In India, the automobile industry provides direct employment to about 5 lakh persons. It contributes 4.7 per cent to India's GDP and 19 per cent to India's indirect tax revenue. Till early 1980s; there were very few players in the Indian auto sector, which was suffering from low volumes of production, obsolete and substandard technologies. With de-licensing and opening up of this sector to FDI, the sector has grown rapidly due to the entry of global players The growth of Indian middle class with increasing purchasing power along with strong growth of economy over a past few years have attracted the major auto

manufacturers to Indian market. From 2001-02 to 2005-06, the Indian automobile sector has grown at an average annual rate of over 18 per cent in terms of value of output at constant 1993-94 prices and the auto-component sector has grown at about 26 per cent.

LITERATURE REVIEW:

Rajiv Kumar Bhatt (2011) has attempted to analyze the impact of recent global financial crisis on Indian Economy. The paper is divided into three sections. In the first introductory section, he has discussed the features of recent global financial meltdown. Section two deals with the impact of this crisis on Indian economy and discusses how India came back to high growth. Conclusion and suggestions have been given in the third section.

DynaSenet. al., (2012) have taken fundamental analysis research beyond the spatial and temporal bounds of previous studies. They have investigated 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. Using global data from 1990 to 2000, they have extended the body of research using fundamental signals for prediction of future earnings changes. Contextual factors such as prior earnings news, industry membership, macroeconomic conditions and country of incorporation that may influence this predictive ability are also investigated. Results indicate that the fundamental signals are significant predictors of both short- and long-term future earnings changes. Research results provide evidence to support the use of fundamental analysis.

(Vashisht, January 2008) Analyzed the determinants of competitiveness in the Indian auto industry. The automobile sector is a key player in the global and Indian economy. The global motor vehicle industry (four-wheelers) contributes 5 per cent directly to the total manufacturing employment, 12.9 per cent to the total manufacturing production value and 8.3 per cent to the total industrial investment.

(RAY, January 2012) examine the trends in capacity utilization in the Indian automobile sector at aggregate level during post liberalized economic scenario and also attempts to estimate the economic performance of Indian automobile industry in terms of capacity utilization at an aggregate level.

Objectives

The major objectives of this study are:

- To analyse the performance of selected companies of Indian automobile industry.
- To estimate the intrinsic value of the stocks of the selected companies.
- To assist the investors in making investment decisions in automobile industry.

Rationale of the Study

The automobile industry, one of the core sectors, has undergone transformation with the start of new business and manufacturing practices in the light of liberalisation and globalisation. The segment seems to be bright of posting strong sales in the couple of years in the view of a rational surge in demand. The Indian automobile market is gearing towards international standards to meet the needs of the global automobile giants and become a global hub. Thus the automobile industry is one of the essential industries in India and is hopeful of posting good sales in the coming years. So, the investment in the shares and securities of automobile companies seems to be lucrative. The present study aims at resonant the Fundamental analyses of top ten leading companies of automobile industry and estimating their intrinsic values to assist investment decisions. Here Top Automobile Companies have been selected based on its Market Capitalization.

Company Analysis

Company Analysis consists of measuring its performance and ascertaining the cause of this performance. When some companies have done well irrespective of economic or industry failures, it implies that there are

certain unique characteristics for this particular company that had made it a success. The identification of these characteristics, whether quantitative or qualitative, is referred to as company analysis. Quantitative indicators of company analysis are the financial indicators and operational efficiency indicators. Financial indicators are the profitability indicators and financial position indicators, analysed through the income and balance sheet statement of the company. Besides these, an analysis of future prospects of the company should also be carried out. The budget and cash flow statement give the investors an insight in to future functioning of the company. Future profitability and operational efficiency can be worked out from these statements. Earnings per share (EPS) and Dividend per share (DPS) are also useful for analysis. Besides these quantitative factors, qualitative factors of a company also influence investment decision to a larger extent. Qualitative factors are the management reputation, name of the company, operational plans of the company for the future, and so on, as revealed in the director's/auditor's reports, and also the information revealed by the management to the media. Ratios for investment purposes can be classified into profitability ratios, turnover ratios, and leverage ratios. Profitability ratios are the most popular ratios since investors prefer to measure the present profit performance and use this information to forecast the future strength of the company.

OBJECTIVES OF FUNDAMENTAL ANALYSIS

- To predict the direction of national economy because economic activity affects the corporate profit, investor attitudes and expectation and ultimately security prices.
- To estimate the stock price changes by studying the forces operating in the overall economy, as well as influences peculiar to industries and companies.
- To select the right time and right securities for the investment

Fundamental Variable Analysis :

In general, it has been observed (Dhatt, Kim and Mukherjee, 1999) that the returns from the securities of companies have fundamental factors or firm level characters. Suppose that there are M fundamental variables. Then the fundamental variables having impact on returns are identified using Factor analysis and the significant ones are used for securities selection in this Research Paper. Following are the Fundamental Factor one can Consider for analysing securities.

Table: 1 Fundamental Variables used for Securities Selection

P/E Ratio	Book Value per Share	Total Debt to Equity	Operating Profit Per Share
EPS	Net Operating Income Per Share	Current ratio	Net Profit Margin
Dividend Per Share	Operating margin (%)	Quick Ratio	Dividend Pay Out ratio

Table: 2 Top Automobile Companies from Sector of BSE

Tata Motors Ltd	Bosch Ltd
Mahindra & Mahindra Ltd	MothersonSumi Systems Ltd
Bajaj Auto Ltd	Cummins India Ltd
Hero MotoCorp Ltd	Exide Industries Ltd
Maruti Suzuki India Ltd	MRF Ltd

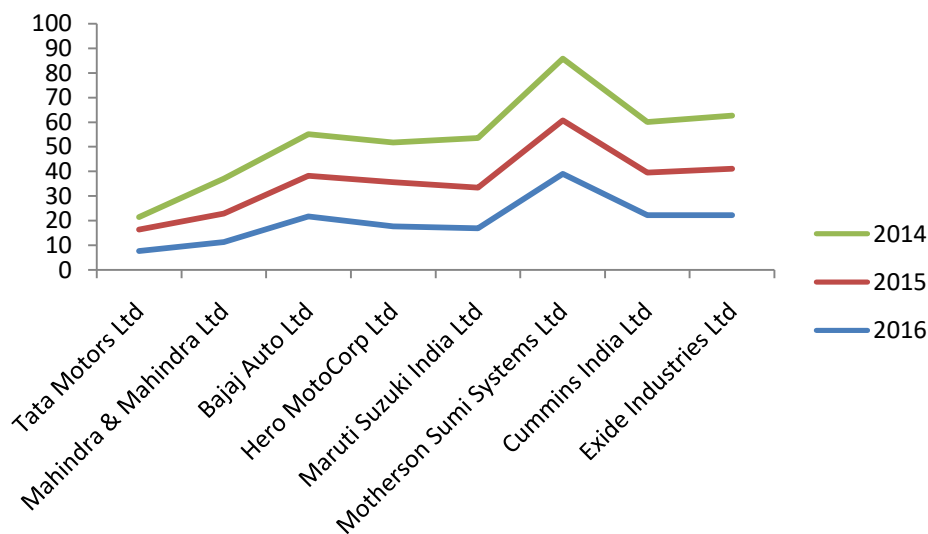
Company Analysis of Automobile Company

P/E Ratio: Price – to – Earnings Ratio is ratio for valuing a company that measures its current share price relative to its Earning. It is one of the tools used widely for selection of Stock. PE ratio Depends on market's perception of the risk and future Growth in earning. A company with lower PE ratio means market perceives that company as Low risk and low growth company. Here Last four years PE Ratio of Top Ten Companies has been given.

Years	Tata Motors Ltd	Mahindra & Mahindra Ltd	Bajaj Auto Ltd	Hero MotoCorp Ltd	Maruti Suzuki India Ltd	MothersonSumi Systems Ltd	Cummins India Ltd	Exide Industries Ltd
2016	7.7	11.4	21.7	17.7	16.9	39	22.3	22.2
2015	8.7	11.5	16.5	17.9	16.5	21.7	17.2	18.9
2014	5	14.1	16.9	16.1	20.1	25.1	20.6	21.6

P/E Ratio

In Above Data we can see that mother sun sumi and cummins have all time high ratio of all. Also we can see that compare to year 2013 in year 2016 PE ratio has Increased from Year to year

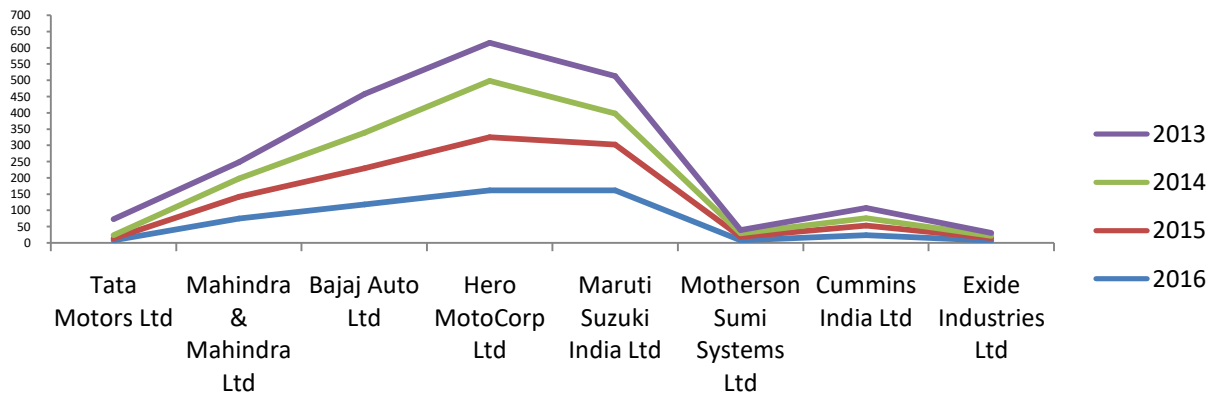


Earnings per Share Ratio: It is also called net income per share ratio, it's a market prospect ratio that measures the amount of net Income earned per share of stock outstanding. In other words it's the amount of money Each share of stock would receive if all of the profit were distributed. Earnings per share also calculates the how profitable a company is on a shareholder basis.

Earning per Share = Net Income- Preference Dividends/ Weightage average share outstanding

EPS

Years	Tata Motors Ltd	Mahindra & Mahindra Ltd	Bajaj Auto Ltd	Hero MotoCorp Ltd	Maruti Suzuki India Ltd	MothersonSumi Systems Ltd	Cummins India Ltd	Exide Industries Ltd
2016	7.47	75.04	118.29	161.07	161.13	7.8	23.55	7.21
2015	6.64	66.18	110.85	163.25	140.8	10.46	29.27	7.49
2014	8.98	56.27	108.85	174.05	96	11.21	22.84	6.61
2013	49.99	50.1	119.66	116.7	114.3	9.56	31.7	8.82

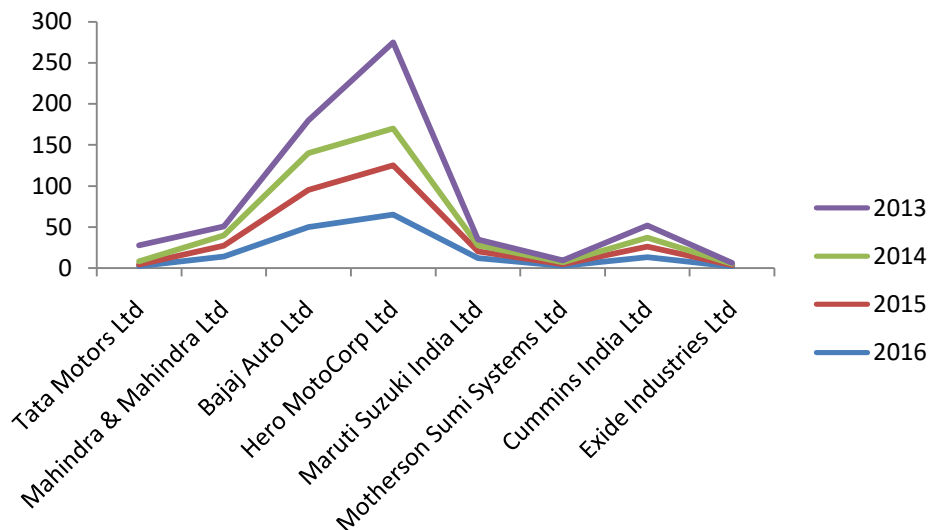


Dividend perShare :

The Dividend per share is defined as a total of declared dividend for each share of stock issued. Dividend per share is reliable indicator of Economic health of the Company. It is important because the number one goal of company is to return value of its shareholder.

DPS

Years	Tata Motors Ltd	Mahindra & Mahindra Ltd	Bajaj Auto Ltd	Hero MotoCorp Ltd	Maruti Suzuki India Ltd	MothersonSumi Systems Ltd	Cummins India Ltd	Exide Industries Ltd
2016	2	14	50	65.05	12	2.5	13	1.8
2015	2	13	45	60	8	2	13	1.6
2014	4	12.5	45	45	7.5	2.25	11	1.5
2013	20	11.5	40	105	7.5	2.75	15	1.5



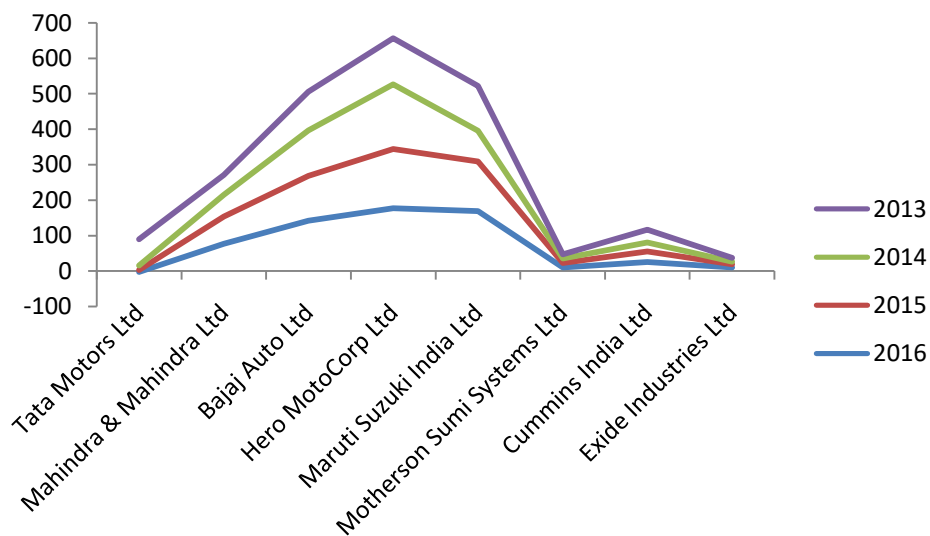
Operating Profit perShare:

It is defined as net operating earning divided by Weightage average number of fully paid share. Profit earned after subtracting from revenues those expenses that are directly associated with operating the business such as

Cost of Goods Sold, Administration and Marketing, depreciation and other general operating cost etc. operating income are an important measure of profitability.

Operating Profit perShare

Years	Tata Motors Ltd	Mahindra & Mahindra Ltd	Bajaj Auto Ltd	Hero MotoCorp Ltd	Maruti Suzuki India Ltd	Motherson Sumi Systems Ltd	Cummins India Ltd	Exide Industries Ltd
2016	-2.83	76.66	141.89	177.28	168.69	9.58	25.13	9.61
2015	5.39	76.7	125.63	166.36	140.02	12.88	30.12	9.22
2014	13.16	61.41	128.56	182.69	86.98	13.38	25.15	8.05
2013	73.51	56.26	109.59	130.06	125.94	11.1	36.68	10.34

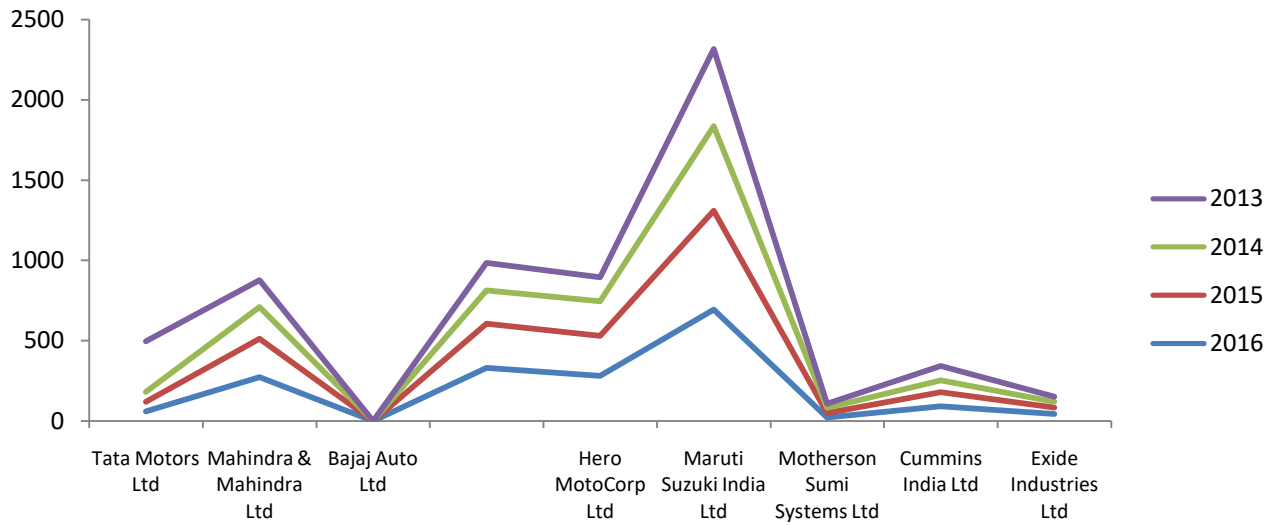


Book value per Share:

Book value per Share is measure used by an investor in common share in a firm to determine the level of safety associated with each individual share after all debt are paid accordingly. In simple term it would be the amount of money that that a holder of a common share will get if company were to liquidate.

Book Value per Share

Years	Tata Motors Ltd	Mahindra & Mahindra Ltd	Bajaj Auto Ltd	Hero MotoCorp Ltd	Maruti Suzuki India Ltd	Motherson Sumi Systems Ltd	Cummins India Ltd	Exide Industries Ltd
2016	59.58	272.63	332.04	280.43	694.45	21.5	92.54	43.62
2015	59.98	238.75	273.08	250.7	615.03	27.62	86.1	40.28
2014	61.84	198.23	208.77	214.83	525.68	32.91	73.71	35.67
2013	315.36	167.99	169.69	148.03	479.99	26.02	91.23	31.94



Net Operating Income per Share

Years	Tata Motors Ltd	Mahindra & Mahindra Ltd	Bajaj Auto Ltd	Hero MotoCorp Ltd	Maruti Suzuki India Ltd	Motherson Sumi Systems Ltd	Cummins India Ltd	Exide Industries Ltd
2016	106.53	657.72	696.33	1,265.75	1,446.66	51.3	143.46	70.17
2015	140.33	658.67	691.07	1,190.27	1,442.93	73.21	165.56	71.43
2014	171.12	518.81	674.89	1,181.19	1,231.77	92.17	148.53	60.08
2013	742	382.13	566.69	969.86	1,267.47	72.86	202.42	53.5

Here we have discussed some of the fundamental variable which shows the performance of company. And based on those factor selection of thee company to invest in has been made.

Ranking:

	Average	Rank	Average	Rank	Average	Rank	Average	Rank
Tata Motors Ltd	3.585	7	5.874	7	7.785	7	48.3725	3
Mahindra & Mahindra Ltd	44.275	3	46.712	3	36.07	3	41.99	4
Hero MotoCorp Ltd	105.275	1	114.152	1	104.46	1	117.115	1
Maruti Suzuki India Ltd	89.68	2	89.224	2	52.645	2	90.51	2
MothersonSumi Systems Ltd	14.72	5	11.5	5	12.985	5	8.2425	6
Cummins India Ltd	20.995	4	23.772	4	19.8975	4	28.77	5
Exide Industries Ltd	10.205	6	8.94	6	9.44	6	7.37	7

After Fundamental analysis of Some company in automobile based on some important parameters, Average of all the Variable Of five years taken and based on that average ranking has been given to that companies. Rank one suggest overall very good performance of that company and are preferable to select as a best company to invest in.

Conclusion:

Investment is a financial activity that involves risk. It is the commitment of funds for a return expected to be realised in the future. Investments may be made in financial assets or physical assets. In either case there is the possibility that the actual return may vary from the expected return. That possibility is the risk involved in the investment. Risk and Return are the two most important characteristics of any investment. Safety and liquidity are also important for an investor. The objective of an investor is specified as maximisation of return and minimisation of risk.

The unique nature of capital market instruments forces investors to depend strongly on fundamental factors in their investment decisions. These fundamental factors relate to the overall economy or a specific industry or a company. The performance of the securities that represent the company can be said to depend on the performance of the company itself. However, as companies are a part of industrial and business sector, which in turn are a part of overall economy, so even the economic and industry factors can affect the investment decision. The selection of an investment will start with fundamental analysis. Fundamental analysis examines the economic environment, industry performance and company performance before making an investment decision.

Each investor tries to maximise his welfare by choosing the optimum combination of risk and return in accordance with his preference and capacity. It is highly essential for the investor to do fundamental Analysis for deciding the suitable stock.

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