A STUDY ON EQUITY ANALYSIS WITH REFERENCE TO BANKING SECTOR

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ABSTRACT:

Equity analysis is to provide information to the investors in the markets. An efficient market relies on information. In today’s scenario, most investors are tending to invest in stock market.

The main aim of this project is to equity analysis on banking sector and to find out the opportunities of investment in these sectors where returns can be maximised. As companies grow their shareholders are benefited with good dividend and capital appreciation on investment in equity shares of such companies. Number of companies listed in stock exchange (BSE&NSE) has been increasing every year with new IPOs coming in the market.

This report starts from the fundamental analysis where EIC (Economy, Industry, and Company) analysis of the six banks (SBI, BANK OF BARODA, CANARA Bank, AXIS Bank ICICI Bank, HDFC Bank). Fundamental analysis is a method of measuring a security's intrinsic value by examining related economic and financial factors. Fundamental analysts study anything that can affect the security's value, from macroeconomic factors such as the state of the economy and industry conditions to microeconomic factors like the effectiveness of the company's management.

Then the technical analysis is of the top banks has been done. Technical analysis is used to study stock chart pattern of these banks. The observed patterns are tested with various oscillators and decision about particular stock is made. Based on these factors, a trend of a particular stock is observed. Then the participation of selected banks in share market and comparing the performance of selected banks in the share market.

Keywords: Banking, Equity Analysis, Fundamental Analysis, Technical Analysis
1. Introduction:

Equity analysis is the process of analysing sectors and companies to give advice to professional fund managers and private clients on which shares to buy. Sell-side analysts work for brokers who sell shares to the investors mainly for private clients. Buy-side analysts work for fund management firms. Equity analysis is to provide information to the investors in the markets.

Fundamental Analysis:
Fundamental analysis is a method of measuring a security's intrinsic value by examining related economic and financial factors. Fundamental analysts study anything that can affect the security's value, from macroeconomic factors such as the state of the economy and industry conditions to microeconomic factors like the effectiveness of the company's management.

Technical Analysis:
Technical analysis is a trading discipline employed to evaluate investments and identify trading opportunities by analyzing statistical trends gathered from trading activity, such as price movement and volume. Unlike fundamental analysts, who attempt to evaluate a security's intrinsic value, technical analysts focus on patterns of price movements, trading signals and various other analytical charting tools to evaluate a security's strength or weakness.

2. Review of Literature:

K.S. Nemavathi & Dr. V.R Nedunchezhan, (2012) in their Study Technical Analysis the researchers finds that the selected securities had high fluctuations during the period to accomplish the objectives set out for this research, the effective tools are used.

Dr. Sreemoyee Guha Roy (2013) in her study Equity Research: Fundamental and Technical Analysis, examines the economic environment, industry performance and company performance before making an investment decision. The study arrived at a conclusion about the decision making behavior of the investors

Mrs.J. Nithya&Dr.G. Thamizhchelvan (2014) has found in their study The Effectiveness of Technical Analysis in Banking Sector of Equity Market, aimed at undertaking technical analysis of selected companies included in the CNX Nifty. The purpose of the study demonstrates how technical analysis can be of valuable use for the investors in making their investment decisions.

Various analyze tools of technical analysis have been used for forecasting stock prices.

P. Devika& Dr. S. Poornima (2015) found in their study of Fundamental Analysis as a Method of Share Valuation in Comparison with Technical Analysis, envisages on different trends of the stock market and it relates the trends towards the usage of Fundamental and Technical analysis.

Darshan Shivanand Gadag & Manas Mayur (2016) has founded in their study, Understanding Technical Analysis: A Conceptual Framework, the stock market indicators would help the investor to identify major market turning points. The indicators like Moving averages and
MACD is a significant technical analysis tool on any index or stock which helps to understand the price behavior of the shares.

3. Objectives of the Study:

- To study the fundamental analysis of selected banks.
- To understand the technical analysis of selected banks.
- To understand the participation of the selected banks in the share market.
- To observe and compare the performance of the selected banks in share market.

4. Need for the Study:

Most of the investors invest in share market with no idea or clarity on performing the shares and even they don’t have any knowledge about fundamental and technical analysis. The study of my project is fundamental analysis and technical analysis on selected banks and comparing the performance of the selected banks.

5. Scope of the study:

Scope of the study is wider covers the banking sectors in India. There is a huge emerging issue of financial condition of banking sector in India. But, study is only going to cover selected nationalize three private banks and three public banks in India. Foreign Banks have been excluded from the study. As the policies and regulations of Foreign Banks are different from other Commercial Banks they are excluded. The time period is limited from April 2016 to March 2019 as it will give exact impact financial and equity performance of banks.

The scope of the project are limited to understanding the basics of fundamental analysis and technical analysis and apply it to take a decision of investing in banking sector.

6. Research Methodology:

Research methodology means collecting, analyzing interpreting the data. The population of the selected banks is listed from NSE & BSE and it is a secondary data sample collection. It is a random sample study.

7. Limitations:

1. The fundamental analysis and the industry analysis of the sector are not examined completely.
2. The credit risk management of the individual bank is not analyzed.
8. Fundamental Analysis of Selected Banks:

Table 1: Position of State Bank of India as a part of fundamental analysis as on June 2019

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market capital</td>
<td>Rs 262384 Cr</td>
</tr>
<tr>
<td>Book value</td>
<td>Rs 230.23</td>
</tr>
<tr>
<td>ROCE</td>
<td>4.19%</td>
</tr>
<tr>
<td>Current price</td>
<td>Rs 294.00</td>
</tr>
<tr>
<td>ROE</td>
<td>-2.34%</td>
</tr>
<tr>
<td>52 weeks High/Low</td>
<td>Rs 325.85/232.00</td>
</tr>
<tr>
<td>Dividend yield</td>
<td>0.00%</td>
</tr>
<tr>
<td>Sales growth(3yrs)</td>
<td>3.26%</td>
</tr>
<tr>
<td>Face value</td>
<td>Rs 1.00</td>
</tr>
</tbody>
</table>

Pros:
- Company has been maintaining a healthy dividend payout of 291.97%

Cons:
- Company has low interest coverage ratio.
- Promoters stake has decreased.
- The company has delivered a poor growth of 6.39% over past five years.
- Company has a low return on equity of 1.42% for last 3 years.
- Contingent liabilities of Rs.1240395.02 cr.
- Earnings include another income of Rs.74940.66 cr.

Table 2: Position of Bank of Baroda as a part of fundamental analysis as on June 2019

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market capital</td>
<td>Rs 31270 Cr</td>
</tr>
<tr>
<td>Book value</td>
<td>Rs 164.03</td>
</tr>
<tr>
<td>ROCE</td>
<td>3.69%</td>
</tr>
<tr>
<td>Current price</td>
<td>Rs 118.20</td>
</tr>
<tr>
<td>ROE</td>
<td>-5.98%</td>
</tr>
<tr>
<td>52 weeks High/Low</td>
<td>Rs 157.45/90.70</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.00%</td>
</tr>
<tr>
<td>Sales growth (3yrs)</td>
<td>0.53%</td>
</tr>
<tr>
<td>Face value</td>
<td>Rs 2.00</td>
</tr>
</tbody>
</table>
Pros:

- Stock is trading at 0.72 times its book value.
- Promoters stake has increased.

Cons:

- Company has low interest coverage ratio.
- The company has delivered a poor growth of 4.40% over past five years.
- Company has a low return on equity of -5.42% for last 3 years.
- Contingent liabilities of Rs.34406.35 cr.
- Company might be capitalising the interest cost.

Table 3: Position of CANARA BANK as a part of fundamental analysis as on June 2019

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market capital</td>
<td>Rs 20353 Cr</td>
</tr>
<tr>
<td>Book value</td>
<td>Rs 386.06</td>
</tr>
<tr>
<td>ROCE</td>
<td>3.90%</td>
</tr>
<tr>
<td>Current price</td>
<td>Rs 270.20</td>
</tr>
<tr>
<td>ROE</td>
<td>-14.70%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.00%</td>
</tr>
<tr>
<td>Sales growth(3yrs)</td>
<td>-1.94%</td>
</tr>
<tr>
<td>Face value</td>
<td>Rs 10.00</td>
</tr>
</tbody>
</table>

Pros:

- Stock is trading at 0.70 times its book value.

Cons:

- Company has low interest coverage ratio.
- The company has delivered a poor growth of 3.98% over past five years.
- Company has a low return on equity of -7.19% for last 3 years.
- Contingent liabilities of Rs.320510.97cr.
9. Technical analysis of Selected Banks:

Fig 1: Technical Analysis of ICICI Bank from 2017-2019

INTERPRETATION:

- In the above analysis it represents the price and volume of the Bank for 3 years.
- In the above chart left side represents the price and right side represents the volume.
- In this chart curve represents the price and straight line represents the volume.
- As we observe the price is high in the year 2019 with 420rs and it is low in the year 2018 with 220rs.
- As we observe above the volume is high in the year 240000k and it is low in the year 2019 with 30000k.
Fig 2: Technical Analysis of Axis Bank from 2017-2019

INTERPRETATION:

- In the above analysis it represents price and volume of the banks for 3 years.
- In the above chart left side represents the price and right side represents the volume.
- In this chart the curve represents price and straight line represents volume.
- The price and volume changes due to the change in the market.
- As we observe above the price is high in the year 2019 with 162000k and it is low in the year 2017 with 440rs.
- As we observe the volume is high in the year 2017 with 810k and it is low in the year 2019 with 10000k.
Fig 3: Technical Analysis of HDFC Bank from 2017-2019

INTERPRETATION:

- In the above analysis it represents the price and volume of the Bank for 3 years.
- In the above chart left side represents price and right side represents the volume.
- In this chart the curve represents price and straight line represents volume.
- By comparing 3 years the price is high in year 2019 with 2400rs and it is low in the year 2017 with 1200rs.
- The volume is very low in the year 2018 with 5000k and it is high in the year 2017 with 100000k.

10. Participation of the Selected Banks in Share Market

Table 4: Participation of State Bank of India in Share Market

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>892</td>
<td>892</td>
<td>797</td>
</tr>
<tr>
<td>% Change in share Capital</td>
<td>0.024</td>
<td>0.026</td>
<td>0.029</td>
</tr>
<tr>
<td>EPS</td>
<td>0.97</td>
<td>-7.34</td>
<td>13.15</td>
</tr>
<tr>
<td>% Change in EPS</td>
<td>0.000026</td>
<td>-0.00021</td>
<td>0.000491</td>
</tr>
</tbody>
</table>
INTERPRETATION:

- In the above table the share capital is high and same in 2018-2017 & 2019-2018 with 892 and it is low in 2017-2016 with 797.
- EPS is also high in 2017-2016, totally decreased to -7.34 in 2018-2017 again in 2019-2018 it slightly increased to 0.97.
- % Change in Share capital is high in 2017-2016 with 0.029 and it is decreased continuously in next two years 2018-2017 & 2019-2018.
- % Change in EPS is negative in 2018-2017.

Table 5: Participation of Bank of Baroda in Share Market

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>530</td>
<td>530</td>
<td>462</td>
</tr>
<tr>
<td>% Change in share Capital</td>
<td>0.067</td>
<td>0.073</td>
<td>0.066</td>
</tr>
<tr>
<td>EPS</td>
<td>1.64</td>
<td>-9.17</td>
<td>6.00</td>
</tr>
<tr>
<td>% Change in EPS</td>
<td>0.00020</td>
<td>-0.0012</td>
<td>0.00086</td>
</tr>
</tbody>
</table>

INTERPRETATION:

- In the above table the share capital is same in 2019-2018 & 2018-2017 with 530 and it is low in 2017-2016 with 462.
- EPS is high in 2017-2016 again it decreased to -9.17 in 2018-2017 and again it slightly increased to 1.64 in 2019-2018.
- % Change in Share Capital is high in 2018-2017 with 0.073 and it is low in 2017-2016 with 0.066.
- % Change in EPS is negative in 2018-2017.

Table 6: Participation of Canara Bank in Share Market

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>753</td>
<td>733</td>
<td>597</td>
</tr>
<tr>
<td>% Change in Share Capital</td>
<td>0.109</td>
<td>0.120</td>
<td>0.10</td>
</tr>
<tr>
<td>EPS</td>
<td>4.61</td>
<td>130.22</td>
<td>18.78</td>
</tr>
<tr>
<td>% Change in EPS</td>
<td>0.00066</td>
<td>0.213</td>
<td>0.0032</td>
</tr>
</tbody>
</table>
INTERPRETATION:

- In the above table share capital is low in 2017-2016 with 597 slowly it increased to 733 in 2018-2017 again it is increased and high with 753 in 2019-2018.
- EPS is 18.78 in 2017-2016 it increased to 130.22 in 2018-2017 again it totally decreased to 4.61 in 2019-2018.
- % Change in share Capital is same in 2017-2016 & 2019-2018 with 0.10 and high in 2018-2017 with 0.12.
- % Change in EPS is low in 2019-2018 with 0.00066.

11. Comparative study on performance of the selected Banks in the Share Market:

Table 7: Share Capital of Selected Banks

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>892</td>
<td>892</td>
<td>797</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>530</td>
<td>530</td>
<td>462</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>753</td>
<td>733</td>
<td>597</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>1289.46</td>
<td>1285.81</td>
<td>1165</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>514.33</td>
<td>513.31</td>
<td>479</td>
</tr>
<tr>
<td>HDFC Bank</td>
<td>544.66</td>
<td>519.02</td>
<td>512.51</td>
</tr>
</tbody>
</table>

Fig 4: Graphical representation of share capital of selected Banks for 3 years
INTERPRETATION:

- In the above graph represents the share capital for 3 years of selected Bank.
- In the above graph x axis represents the Bank names and y axis represents the share capital values.
- The ICICI Bank has the highest share capital with 1289.6 in 2019 and Bank of Baroda has lowest share capital of 462 in 2017.
- ICICI Bank has highest share capital values in every year compared to other Banks.

Table 8: EPS of selected Banks

<table>
<thead>
<tr>
<th>Bank</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Bank of India</td>
<td>0.97</td>
<td>-7.34</td>
<td>13.15</td>
</tr>
<tr>
<td>Bank of Baroda</td>
<td>1.64</td>
<td>-9.17</td>
<td>6.00</td>
</tr>
<tr>
<td>Canara Bank</td>
<td>4.61</td>
<td>130.22</td>
<td>18.78</td>
</tr>
<tr>
<td>ICICI Bank</td>
<td>10.54</td>
<td>16.83</td>
<td>16.73</td>
</tr>
<tr>
<td>Axis Bank</td>
<td>18.19</td>
<td>1.07</td>
<td>15.36</td>
</tr>
<tr>
<td>HDFC Bank</td>
<td>77.40</td>
<td>67.38</td>
<td>56.78</td>
</tr>
</tbody>
</table>

Fig 5: Graphical representation of EPS of selected Banks for 3 years
INTERPRETATION:

- In the above graph it represents the EPS values for 3 years of selected Banks.
- In the above graph y axis represents the EPS Values and x axis represents the Bank names.
- Canara Bank has highest EPS in 2018 with 130.22 and SBI has lowest EPS in 2019 with 0.97.
- SBI and Bank of Baroda had loss in 2018 with -7.34 and -9.17.

FINDINGS:

- ICICI Bank has highest Share capital of 1289.46 in 2019 and Canara Bank has lowest total asset of 578146.30 in 2017.
- State Bank of India has lowest EPS -7.34 in 2018, HDFC has highest EPS of 77.40 in 2019.
- SBI has low return on equity of 1.42% for last 3 years.
- Bank of Baroda has low interest Coverage ratio.
- Canara Bank stock is trading at 0.70 times its Book value.
- In ICICI Bank tax rate seems low.
- Axis Bank has low return on equity of 7.33% for last 3 years.

SUGGESTIONS:

- Bank operations and rates are good but need to achieve the highest rank.
- Banks should be strengthening where customers are dissatisfied with some services.
- Bank charges have to reduce in order to attract more number of customers.
- Whatever transaction are done by the customers that should be clearly maintained in the Book of Accounts.
- SBI is better to invest it provides loans with less interest rates and it has highest market capital, dividend P/E ratio.

CONCLUSION:

Equity analysis is the process of analysing sectors and companies to give advice to professional fund managers and private clients on which shares to buy. Sell-side analyst work for brokers who sell shares to the investors mainly for private clients. Buy-side analysts work for fund management firms. Equity analysis is to provide information to the investors in the markets. An efficient market relies on information.

Banks were considered as a backbone to the financial system and play an important role in economic development of a nation. They act as intermediaries in channelizing funds from
surplus units to deficit units to the fully utilization of the funds. An efficient banking system of nations has significant positive externalities which increase the efficiency of economic transaction in general. There is a major shift in banking system in the policy atmosphere after the introduction of financial sector reform in 1992; these reforms impact the working of commercial banks. As one of the objectives of financial sector reform was to improve the efficiency of banking system in India economy.

The financial system's contributes to the economy depends upon the quantity and quality of its service and efficiency with which it provides them. Financial System of any country consists of financial markets, financial intermediation and financial instruments or financial products. The term "finance" in our simple understanding it is perceived as equivalent to 'Money'. The word "system", in the term "financial system", implies a set of complex and closely connected or interlined institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit, and finance-the three terms are intimately related yet are somewhat different from each other. Indian financial system consists of financial market, financial instruments, and financial intermediation.

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