A STUDY ON FUNDAMENTAL ANALYSIS IN AUTOMOBILE COMPANY

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ABSTRACT

The aim of the thesis is to perform the fundamental analysis of automobile industry with reference to the selected companies. Fundamental analysis is an approach to arrive at the 'correct price' of the security. Its objective is to identify the under priced and overpriced securities in the market place so that the investment decision-buying and sellingofsecuritiescanbemade.TheautomobileindustryisoneofthecoreindustriesinIndiaandisoptimisticofpostinggoodsalesinthecomingyears.So,theinvestmentinthe shares and securities of automobile companies seems to be profitable. As a part of the analysis, Automobile industry is turned out to be one of the essential business of the Economy.ThestudyisdoneusingsecondarydatacollectedfromEmployeewhoworksin selected automobile industry for the period of last five years from year 2015 to 2019.The first part of the thesis is focused on introduction of necessary theoreticalframework,thesecondpartcontinueswithanalysisofautomobileindustryand finally in last part valuation is performed and an investment recommendation is formulated.

1. INTRODUCTION TO FUNDAMENTAL ANALYSIS

Fundamental analysis assesses the fair market value of equity shares by examining the assets, earnings prospects, cash flow projections, and dividend potential. Fundamental analysis differs from technical analysis that essentially relies on price and volume trends and other market indicators to identify trading opportunities.

Fundamental analysis of a business involves analyzing its financial statements and health, its management and competitive advantages, and its competitors and markets. Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts. Fundamental analysis helps in analyzing strategy, management, product, financial position and many other readily and not-so-readily quantifiable numbers which will help to choose stocks that will outperform in the market.

OBJECTIVE OF THE STUDY PRIMARY OBJECTIVE

- To study the fundamental analysis of company and strategies of the company for five years

SECONDARY OBJECTIVE

- To finding the balance sheet with necessary calculations of the company for past five years
- To analyse the financial performance of thecompany
- To analyse as to investing for past five years of this company would maximizethe wealth of theinvestor.
2. To determine the various investment valuation models that canused

REVIEW OFLITERATURE

A literature review is a body of text that aims to review the critical points of current knowledge on a particular topic.

P. Devika (2019), A Study on fundamental analysis of Automobile companies in India - The term Financial Markets is often used to refer just to the markets that are mused to raisefinance.Afinancialmarketisamarketinwhichpeopletradefinancialsecuritiesand derivatives such as futures and options at low transaction costs. An investor wants to invest his money in various kinds of securities but each and every investment contains some level of risk and as a reward he gets thereturn.

EugineF.Fama(2010),EfficientCapitalMarkets:AReviewofTheoryandEmpiricalwork

Thispaperreviewsthetheoreticalandempiricalliteratureontheefficientmarketsmodel. Afteradiscussionofthetheory,empiricalworkconcernedwiththeadjustmentofsecurity prices to three relevant information subsets isconsidered.

Moonchul Kim, Jay R. Ritter (1998), Valuing IPOs - The use of accounting information in conjunction with comparable "rm multiples is widely recommended for valuing initial public o! erings (IPOs). We "and that the price-earnings (P/E), market-to-book, and price-to-sales multiples of comparable "rms have only modest predictive ability without further adjustments.

Aw Alford (1992), The Effect of the set of comparable Firms on the accuracy of the price earnings– ThispaperstudiesempiricallytheaccuracyoftheP/Evaluationmethodwhen comparable firms are selected on the basis of industry, risk, and earnings growth. The effect of adjusting earnings for cross-sectional differences in leverage is alsoexamined.

Philip G. Berger and Eli Ofek (1995), Diversifications effect on firm value - We estimate diversification's effect on firm value by imputing stand-alone values for individual business segments. The value loss is smaller when the segments of the diversified firm areinthesametwo-digitSICcode.Wefindthatoverinvestmentandcross-subsidization contribute to the value loss. The loss is reduced modestly by tax benefits of diversification. Urs Peyer (2001), Leverage and internal capital markets: Evidence from leveraged recapitalizations - We study the internal allocation of resources for diversified firms that completealeveragedrecapitalization.Beforetherecapitalization,internalcapitalmarkets allocate investment to high q segments. After the recapitalization, segment investment becomes less sensitive to q and more sensitive to segment cashflow.

Salikhova, T. (2019). Essays on Networks and Corporate Finance – The study is about how social connections among divisional managers act the capital allocation to divisions in diversied conglomertes. In contrast to the previous studies, it focus on horizontal connections formed among managers of the same level of corporate hierarchy.

3.   RESEARCH METHODOLOGY Researchdesign:

Research design is the conceptual structure within which research is conducted. This research is about finding annual report of the company. Every stock available in the markets has a value called market price, which is the indicator of the company's performance.Accordingtofundamentalanalysis,wewilltrytofindtheintrinsicvalueofa particular stock which is the true value of the stock, based on which investment arguments takeplace.

Sampling Unit:

This study is about collecting the fundamental data for the past 5 years. According to fundamental analysis, we will try to find the intrinsic value of a particular stock which is the true value of the stock.

Data Collection Methods/Source of data:

The study is about collecting the secondary data that has been collected from company reportsanditisquantitativeinnature.Thedataarecollectedfromtheemployeeworking inautomobile industry.Thesourcesareinternalanditstypeisa

balancesheetforlastfiveyears.Herethisstudyconsistsoffundamentaldataanalysisof thecompany.

TOOLS USED

- ➢ Microsoft excel :Spreadsheets
- ➢ Financial calculations: This was done to find the various valuation ratios and necessary calculations to find the intrinsic value of thecompany.
- ➢ Growthrate

    Retention Ratio* Return on Equity

    Returnonequity=Riskfreerate+(Betaofstock)*(Expectedmarketrisk premium)

    Retention ratio = 1- Dividend pay-out Ratio
- ➢ Volatility

    V= Range of ROE over n years / Average ROE over n years

4. ANALYSIS

Analysis of Earning and Dividend Level
- Return onEquity

- Book Value pershare

- Earnings PerShare

- Dividend PerShare

- Dividend PayoutRatio

- Debt-EquityRatio

Growth Performance

Compound Annual Growth Rate (CA-GR) Sustainable Growth Rate

Risk Exposure

Volatility

Estimation of Intrinsic Value

This estimation is based on various assumptions taken by looking into past performance of the company and consistencies in the financial information provided in their annual report.

FINANCIAL STATEMENT

PROFIT AND LOSS ACCOUNT FROM THE PERIOD OF 2015 TO 2019 IS AS FOLLOWS ('in Rs. Cr.)

Particulars	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
INCOME					
Revenue from Operations [Gross]	423.53	316.30	276.87	201.56	154.83
Revenue from Operations [Net]	423.53	316.30	276.87	201.56	154.83
Other Operating Revenues	26.90	19.07	13.65	9.08	6.67
Total Operating Revenues	450.43	335.37	291.01	234.98	185.08
Other Income	0.04	2.97	4.53	5.98	7.09
Total Revenue	450.47	338.34	297.76	243.65	174.21
EXPENSES					
Employee Benefit Expenses	85.65	70.08	63.20	59.18	53.56
Finance Costs	140.52	23.23	20.67	15.43	10.75
Depreciation and Amortization Expenses	2.83	2.56	2.12	1.98	1.65
Other Expenses	77.87	57.48	50.01	46.78	41.78
Total Expenses	306.88	153.35	144.98	132.56	112.90

BALANCE SHEET FROM THE PERIOD OF 2015 TO 2019 IS AS FOLLOWS

(in Rs. Cr.)

Particulars	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15
LIABILITIES					
Share Capital	87.35	83.46	75.40	69.88	61.23
Reserves & Surplus	1632.16	1520.46	1476.89	1389.56	1309.67
Net Worth	1719.51	1603.92	1547.87	1433.07	1311.43
Secured Loan	21.20	10.41	9.71	7.60	4.54
Unsecured Loan	715.03	564.67	484.87	370.76	289.56
TOTAL LIABILITIES	2455.75	2274.80	1954.56	1732.77	1502.87
ASSETS					
Gross Block	12.17	10.41	9.45	7.63	6.91
Net Block	6.58	4.46	4.09	3.64	3.21
Investments	1663.34	1556.67	1498.78	1356.76	1243.43
Sundry Debtors	52.20	93.31	112.76	115.78	120.89
Cash and Bank	31.58	21.53	19.78	15.80	14.11
Loansand Advances	910.26	899.49	802.67	754.09	698.43
Total Current Assets	994.05	1014.33	1150.88	1208.56	1297.32
Current Liabilities	164.57	255.90	302.43	376.11	414.98
Provisions	47.43	47.23	46.9	46.54	45.32
Total Current Liabilities	212.00	303.13	411.98	525.76	601.90
NET CURRENT ASSETS	782.05	711.20	698.30	634.76	587.07

5. SUGGESTION

Intrinsic ValueAnalysis Intrinsic ValueAnalysis

➢ Purely based on intrinsic value, selling the stock isrecommended.

➢ Thecompaniesthathavetheirstockpriceclosertotheintrinsicvaluearetheones that can achieve intrinsic value much faster and produce fasterreturns.

➢ Butintrinsicvaluealonecannotbethedecidingfactor.Therearemanyfactorsthat can affect the gain part of thestock.

6. CONCLUSION

Fromthepointofviewofinvestmentdecision,fundamentalanalysisprovidesawareness into the economic performance of a business enterprise. The Indian economy is on the verge on expansion. This is a positive sign for industries like the automobile industry. Therearemanyfactorsthataffectstheindividualcompaniesintheindustry.Bydoingthe industry analysis we found that there is much more potential in the automobile industry than what is being displayed currently. The inflow of FDI is constantly increasing which canleadtotechnologicalbreakthroughsandinnovations.

BydoingthecompanyanalysiswecanconcludethatinthetermsofCAGRofsales,EPS and DPS: Earing per Share, Dividend per Share, BVSP, Dividend Pay-out and Volatility.

Investigation helps the financial specialist in settling on speculation choices however few out of every odd venture is totally subject to key examination alone. After effects of specialized investigation and also other subjective elements identified with the organization's execution should likewise be considered while settling on a speculation choice. An appropriate examination helps in decreasing the dangers on interest in the offer market and aides in picking less unsafe and exceptionally compensating speculation roads.

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