

Fundamental Analysis

Sunday, 30 January 2022 7:02 PM

It is ballistic approach to study a business.

20 % CAGR that means the investor will double its investments within 3.4 years.

Skill:

- Understanding the basic financial statements
- Understand the business w.r.t. industry in which it operates.
- Basic arithmetic operations like subtraction, addition.

Difference between TA and FA:

TA helps you select quick short term return

TA helps you time the market for better entry and exit.

However, TA is not an effective approach to create wealth.

TA and FA both must coexist in your market strategy.

Core Satellite strategy:

12% to 15 %



Tools of fundamental analysis:

- Annual report of the company
- Industry related data
- Access to the news
- MXSL

Market participants

Speculator

Trader

Investor

Compounding effects: it is the ability of the money to grow when the gains of year1 are invested for year 2.



The process of evaluating a fundamentally strong company included this studies of both quantitative aspects and qualitative.

Qualitative aspects involves understanding the non numeric aspect of the business.

Qualitative aspects includes:

- Management background
- Business ethics
- Corporate governance
- Minority shareholders
- Shared transactions
- Related party transaction
- Salaries paid to promoters
- Operators activities in stock
- Shareholders
- Political affiliation
- Promoter lifestyle

NOTE: It is red flag if any of the above factors don't fall in the right place.

Quantitative aspects includes:

- Profitability and growth
- Margins and its growth
- Earning its growth
- Matters relate to expense
- Operating efficiency
- Pricing power
- Matters related to taxes
- Dividends pay out
- Cash flow from various activities
- Debt
- Working capital management
- Asset growth
- Investment
- Financial Ratio

| For a retail industry: | For an Oil and Gas Industry: |
|------------------------------------|-------------------------------------|
| 1. Total number of stores | 1. Oil to Natural Gas revenue ratio |
| 2. Average sales per store | 2. Exploration costs |
| 3. Total sales per square foot | 3. Opening oil balance (inventory) |
| 4. Merchandise margins | 4. Developed reserves |
| 5. Owned store to franchisee ratio | 5. Total production growth |

Annual Report:

Yearly publication by the company and it is published by the end of financial year and it is sent to interested party and shareholders.

Primary audience for annual report:

Potential investors
Present shareholders

Main sections of annual report:

- Financial highlights
- Management statement
- Management discussion and analysis
- 10 year financial highlights
- Corporate information
- Director report
- Report on corporate governance
- Financial section
- Notice

Releases 3 financial statement

- PI statement
- Balance sheet
- Cashflow statement

Standalone financial statement

Consolidated financial statement

2 perspectives:

Maker perspective
User perspective

PL statement includes:

- Revenue of the company for given period
- Expense incurred to generate the revenue
- Tax and depreciation
- Earning per share numbers

| Statement of Profit and Loss for the year ended March 31, 2014 | | ₹ million | |
|--|----------|---------------------------|---------------------------|
| Particulars | Note No. | Year ended March 31, 2014 | Year ended March 31, 2013 |
| REVENUE | | | |
| Sale of products | | 38,041.27 | 32,949.37 |
| Less: Excise duty | | 4,005.15 | 3,512.45 |
| Net sale of products | | 34,036.12 | 29,436.92 |

| | | | |
|--|----|------------------|------------------|
| Sale of services | | 309.32 | 137.02 |
| Other operating revenue | | 21.15 | 15.21 |
| Net revenue from operations | 17 | 34,366.59 | 29,589.15 |
| Other income | 18 | 455.14 | 465.51 |
| Total Revenue | | 34,821.73 | 30,054.66 |
| EXPENSES | | | |
| Cost of materials consumed | 19 | 21,011.95 | 17,603.12 |
| Purchases of stock-in-trade | 20 | 2,113.69 | 2,632.54 |
| Changes in inventories of finished goods, work-in-process and stock-in-trade | 20 | (292.10) | (320.89) |
| Employee benefits expense | 21 | 1,583.16 | 1,262.30 |
| Finance costs | 22 | 7.18 | 2.69 |
| Depreciation and amortisation expense [includes impairment loss of ₹nil (PY ₹75.52 million)] | 23 | 645.71 | 660.92 |
| Other expenses | 24 | 4,346.60 | 3,904.24 |
| Total Expenses | | 29,416.19 | 25,744.92 |
| Profit before exceptional items and tax | | 5,405.54 | 4,309.74 |
| Less: Exceptional items (net) | 33 | 38.84 | 91.57 |
| Profit before tax | | 5,366.70 | 4,218.17 |
| Less: Tax expense | | | |
| Current tax | | 1,580.00 | 1,377.97 |
| Deferred tax (credit) / expense | | 106.23 | (24.51) |
| Earlier year's (excess) / short provision | | 6.11 | (2.34) |
| Profit for the year | | 3,674.36 | 2,867.05 |
| Basic and diluted earnings per equity share of ₹1 each | 37 | 21.51 | 16.78 |

Profit before tax = total revenue - total operating expense

Profit After Tax = PBT - applicable taxes

Net worth = assets - liabilities

Total liability = shareholder's funds + none current liabilities + current liabilities.

None current liabilities:

- Long term borrowing
- Default taxes liability
- Long term provision

Strategies for the stock market

| | | |
|---|---|---|
|  |  |  |
| Bullish Strategies | Bearish Spreads | Neutral Strategies |
| 1. Bull Call Spread | 1. Bear Call Spread | 1. Long & Short Straddles |
| 2. Bull Put Spread | 2. Bear Put Spread | 2. Long & Short Strangles |
| 3. Call Ratio Back Spread | 3. Bull Put Ladder | 3. Long & Short Iron Condor |
| 4. Bear Call Ladder | 4. Put Ratio Back spread | 4. Long & Short Butterfly |
| 5. Call Butterfly | 5. Strip | 5. Box |
| 6. Synthetic Call | 6. Synthetic Put | |
| 7. Straps | | |

Spread = high strike price - lower strike price
Commodities

Events which one should keep track on:

Import/Export data:

Trade deficit : excess of import over the export

Interest rate:

Dovish : central bank is likely the decrease of the interest rate.

Hockeyish: if central bank is going to increase the interest rate.

Consumer Price Index: inflation in increasing/ decreasing

Gross domestic product: tools to count growth rate of company or country. Higher the gap, higher the number of investor.

2 types of commodities exchanges

- MCX: Multi Commodity Exchange (popular for metal energy)
- NCDEX: National Commodity and Derivative Exchange (agri-commodities)

| Sr. No. | List of Commodities Available for Trading on MCX | List of Commodity Contracts Available for Trading on MCX |
|---------|--|--|
|---------|--|--|

| | Trading on MCX | for Trading on MCX |
|----|----------------|--------------------|
| 1 | ALUMINIUM | ALUMINIUM MINI |
| 2 | CARDAMOM | CARDAMOM |
| 3 | COPPER | COPPER |
| 4 | COTTON | COTTON |
| 5 | CRUDE OIL | BRENT CRUDE OIL |
| | | CRUDE OIL |
| | | CRUDE OIL MINI |
| 6 | CRUDE PALM OIL | CRUDE PALM OIL |
| 7 | GOLD | GOLD |
| | | GOLD GLOBAL |
| | | GOLD GUINEA |
| | | GOLD MINI |
| | | GOLD PETAL |
| | | GOLD PETAL DELHI |
| 8 | KAPAS | KAPAS |
| 9 | LEAD | LEAD |
| | | LEAD MINI |
| 10 | MENTHA OIL | MENTHA OIL |
| 11 | NATURAL GAS | NATURAL GAS |
| 12 | NICKEL | NICKEL |
| | | NICKEL MINI |
| 13 | SILVER | SILVER |
| | | SILVER 1000 |
| | | SILVER MINI |
| | | SILVER MICRO |
| 14 | ZINC | ZINC |
| | | ZINC MINI |

Different types of gold contact:

- Gold
- Gold mini
- Gold guinea
- Gold petal

GOLD

05OCT2016 ▾

 Add to Watchlist

31,331.00 -136.00(-0.43 %)

Category : BULLION | Price Quote Unit : 10 GRMS



| | |
|-------------------------|-------------|
| Expiry Date | 05-OCT-2016 |
| Average Price(Rs./Unit) | 31,344.16 |
| Close | 31,467.00 |
| Volume (Lots) | 4297 |
| Trading Unit | 1 KGS |

MCX Gold

| | Price Quote | Lot Size | Tick Size | P&L/tick | Expiry | Delivery Logic | Delivery Unit |
|-------------|---------------|----------|-----------|----------|---------------------|----------------|---------------|
| Gold | Rs. per 10 gm | 100 gm | 1 rupee | Rs.10 | 5 th day | Compulsory | 100 gm |
| Gold Mini | Rs. per 8 gm | 8 gm | 1 Rupee | Rs.1 | Last day | Compulsory | 8 gm |
| Gold Guinea | Rs. per 1 gm | 1 gm | 1 Rupee | Rs.1 | Last day | Compulsory | 8 gm |

| | | |
|-------|----|-----|
| Petal | gm | Gay |
|-------|----|-----|

| Contracts | Price Quote | Lot Size | Tick Size | P&L/tick | Expiry | Delivery Units |
|--------------|-------------|----------|-----------|------------|--------------------------|----------------|
| Silver | 1 kilogram | 30 kgs | Rs.1/tick | Rs.30/tick | 5th day of expiry month | 30 kgs |
| Silver Mini | 1 kilogram | 5 kgs | Rs.1/tick | Rs.5/tick | Last day of expiry month | 30 kgs |
| Silver Micro | 1 kilogram | 1 kg | Rs.1/tick | Rs.1/tick | Last day of expiry month | 30 kgs |
| Silver 1000 | 1 kilogram | 1 kg | Rs.1/tick | Rs.1/tick | Last day of expiry month | 1 kg |

Silver

Crud Oil

American Shell oil

China Oil

| Country | Breakeven point on a per barrel basis* |
|--------------|--|
| Iran | \$130.7 |
| Algeria | \$130.5 |
| Nigeria | \$122.5 |
| Venezuela | \$117.5 |
| Saudi Arabia | \$106.0 |
| Iraq | \$100.6 |
| UAE | \$77.3 |
| Qatar | \$60.0 |
| Kuwait | \$54.0 |

Export to the countries whose economy depends on oil.

- UAE
- USA
- Saudi Arabia
- Iran
- China
- Kuwait

State Owned Oil Market Companies:

HPCL

BPCL

IOCL

Direct beneficiary of low oil prices, where HPCL and BPCL trades less 30 % price of oil one the market.

MCX of oil exchange

- Crud oil
- Crud oil mini

Options Moneyless

- At the money: strike closes to the settlement price is atm. it is when the spot is in or around the strike price.
- In the money: all call option strike below the atm and all put option above tam are considered as ITM
- On the money: all call option strike above the atm and all put option below tam are considered as OTM.
- Close To Money: 2 strikes above and 2 strikes below ATM is CTM

Daily Settlement Price: official daily closing price for a contract calculated each business day.