FUNDAMENTAL ANALYSIS OF STOCK MARKET

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LECTURE 1: BASICS OF FUNDAMENTAL ANALYSIS

What is Fundamental Analysis?

This is an analysis which helps the investor to decide where and in what to invest.

- QUALITATIVE ANALYSIS: Qualitative analysis involves assessing non-financial factors that can impact a company's performance and prospects. It focuses on understanding the company's management, industry, competitive position, and broader economic trends. Key aspects of qualitative analysis include:

  Management Team: Evaluating the competency and track record of a company's leadership team. Strong and experienced management is often considered a positive sign.

  Industry Analysis: Studying the industry in which the company operates, including its growth potential, competitive landscape, and regulatory environment.

  Competitive Advantage: Assessing whether the company has a sustainable competitive advantage or a unique value proposition that sets it apart from competitors.

  Market Trends: Identifying broader market trends and consumer preferences that can affect the company's products or services.

  Risk Assessment: Analysing potential risks such as regulatory changes, geopolitical factors, and market volatility that could impact the company's performance.

  Corporate Governance: Evaluating the company's corporate governance practices, including board structure and shareholder rights.

  Brand and Reputation: Assessing the strength of the company's brand and reputation in the market.

- QUANTITATIVE ANALYSIS: Quantitative analysis relies on numerical data and financial metrics to assess a stock's value and performance. Here are some key elements of quantitative analysis:

  Financial Ratios: Analysts calculate and compare various financial ratios like price-to-earnings (P/E), price-to-sales (P/S), price-to-book (P/B), and dividend yield. These ratios help determine whether a stock is overvalued or undervalued.

  Earnings Per Share (EPS): EPS measures a company's profitability by dividing its net income by the number of outstanding shares. A rising EPS is generally seen as a positive sign.

  Revenue and Profit Growth: Analysing a company's historical and projected revenue and profit growth can provide insights into its potential for future earnings.

  Debt Levels: Evaluating a company's debt-to-equity ratio and interest coverage ratio helps assess its financial stability and ability to meet its financial obligations.

  Dividend History: For income-oriented investors, examining a company's dividend history and dividend payout ratio can be crucial.

  Valuation Models: Using valuation models like discounted cash flow (DCF) or comparable company analysis (CCA) to estimate a stock's intrinsic value.
  Technical Analysis: Some quantitative analysts incorporate technical indicators like moving averages and relative strength to identify potential buy or sell signals.

LECTURE 2: PROFIT & LOSS AND BALANCE SHEET

ASSET – Anything an Individual OWNS is called as an asset.

LIABILITY – Anything an Individual OWES is called as a Liability.

BALANCE SHEET – A statement or a document which records the assets and liabilities of an individual as on date is called balance sheet.

PROFIT AND LOSS ACCOUNT – This account records the profits and expenses of the individual for the particular year ONLY.

CAPITAL EXPENDITURE – THE BENEFIT OF WHICH OUTLIVES THE BALANCE SHEET DATE IS CALLED AS CAPITAL EPENDITURE AND THE EXPENSE MADE ON IS TREATED AS AN ASSET AND IS RECORDED IN THE BALANCE SHEET

REVENUE EXPENDITURE – THE BENEFIT OF WHICH GETS EXHAUSTED BEFORE THE BALANCE SHEET DATE IS KNOWN AS REVENUE EXPENDITURE AND FOR FURTHER BENEFIT YOU NEED TO MAKE NEW EXPENSE.

LECTURE 3: ECOMONY AND INDUSTRY ANALYSIS

- ECONOMY ANALYSIS –
  - GDP (GROSS DOMESTIC PRODUT) Check the GDP of the country, if it's going up then its better.
  - INFLATION– Too much inflation is bad too much Deflation is bad but Steady Inflation is Good.
  - FOREX RESERVES – Check the position of forex trading
  - Check from where the major part of Income of the country comes from (IN CASE OF INDIA AGRICULTURE)
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- INDUSTRY ANALYSIS
  - BALANCE OF PAYMENT- Import and export statistics of the country and its future
  - Current Govt policies for resources supply
  - Whenever analysing an Industry BEWARE of the sub types of the industry which can affect the current policies or investment strategy
    EXAMPLE:
    MODI WANTS EVERY RURAL HOUSEHOLD IN INDIA TO REACH ELECTRICITY
    BUT IF THERE IS ENOUGH ELECTRICITY GENERATED IN INDIA AND ONLY NEEDS DISTRIBUTION, THEN DISTRIBUTION SECTOR OF THE ELECTRICITY INDUSTRY IS NEEDED TO ACT AND INVESTING ONLY IN THAT SECTOR WOULD BE HELPFUL AND WISE.

- COMPANY ANALYSIS:
  - STANDALONE FINANCIAL STATEMENT:
  - CONSOLIDATED FINANCIAL STATEMENT:
  - SUBSIDARY: A company in which a parent company (Holding Company) holds more than 50% of the equity is knows as its subsidiary.
  - ASSOCIATE: If the parent company holds 20%-50% (inclusive) of a company then that company is known as its Associate.
  - JOINT VENTURE:

MUTUAL FUND IS A TYPE OF INVESTMENT AND ALSO AN INSTITUTION.

  - THE AMOUNT OF MONEY A BANK CAN INVEST IN STOCK MARKET IS DECIDED BY RBI
  - THE AMOUNT OF MONEY A INSAURANCE COMPANY CAN INVESST IN STOCK MARKET IS DECIDED BY INSAURANCE REGULATORY DEVELPOMENT AUTHORITY OF INDIA

When analysing an annual report of any company, it is important to understand that multiple parameters need to be checked before deciding to invest in that company.

TYPES OF BUSINESS:

- FAMILY-OWNED BUSINESS: Business is run by the family or the promoters of the company. The promoter's take will be the highest.
- PROFESSIONALLY OWNED BUSSINESS: Business is run by group of professionals and the successor might be different according to the policy of the company. Promoter's take is lowest.

NOTE: IF IN A FAMILY-OWNED BUSINESS MAJORITY OF THE SHARES IS HELD BY THE PROMOTER THEN IT IS HIGHLY LIKELY TO BE A RISKY SCENARIO.

WHO IS A NON-EXEUTIVE DIRECTOR OF A COMPANY?

ANS: A non-executive director is the non-working director of a company or nonprofit organisation. While they do not participate in day-to-day activities, they have a big say in policy making, strategic planning and fundraising, as their opinion is unbiased.

LECTURE 4: P/E RATIO

1.MEANING OF P/E RATIO:

- Market price per share / Earning price per share. Market price is last traded price of the shares.
- Earning per share = Profit after tax / total number of shares
- EXAMPLE: Current market price = 100 Rs and Earning per share = 10 Rs then the P/E ratio is 10 which means the investor has to pay 100 Rs per share to earn 10 Rs per share

2.HOW TO INTERPRET P/E RATIO:

- Interpretation of the P/E ratio helps you decide if it is wise for you to buy this share.
- Stock market price is directly proportional to the P/E ratio.
- For figuring out if a company's P/E ratio is cheaper or expensive compare it with any other high-end company or the industry average. But this is important to note that the P/E ratio of a company may not completely outline the conditions of the shares. A High P/E ratio may also mean that the company is doing well that the investors are willing to pay for higher P/E ratio and it is also possible that a company's P/E ratio is low because it is not doing great.

3.TYPES OF P/E RATIOS:

- TRAIING P/E: Calculated by the past data of twelve months.
- FORWARD P/E: Calculated by the estimated data

4.INTERPRETING MARKET P/E RATIO:

- NIFTY P/E: If Nifty P/E is above 21 then it is in overvalue zone and if it is under 16 then it is in undervalue zone.
- IF THE NIFTY IS ABOVE 21 THEN A CORRECTION IN THE MARKET IS EXPECTED.

LECTURE 5: CAGR

COMPUND ANNUAL GROWTH RATE:
MEANING: The compound annual growth rate (CAGR) is the rate of return (RoR) that would be required for an investment to grow from its beginning balance to its ending balance, assuming the profits were reinvested at the end of each period of the investment's life span.

FORMULA: [(FUTURE VALUE / PRESENT VALUE)^(1/N) - 1] WHERE N = NUMBER OF YEARS

NEED:

The compounded annual growth rate (CAGR) is one of the most accurate ways to calculate and determine returns for anything that can rise or fall in value over time.

It measures a smoothed rate of return.

Investors can compare the CAGR of two or more alternatives to evaluate how well one stock performed against other stocks in a peer group or a market index.

CAGR is thus a good way to evaluate how different investments have performed over time, or against a benchmark.

The CAGR does not, however, reflect investment risk.

LECTURE 6: COMPANY ANALYSIS TOP 3 PARAMETERS

1.CAGR: The CAGR of sales, top line bottom line of the company is a good parameter

2.RATIOS: Debt to equity ratio, P/E ratio, Return on Equity ratio.

3.CASH FLOW: Operating cash flow (HOW MUCH CASH IS BEING GENERATED FROM YOUR CORE BUSINESS), Free Cash Flow (CASH LEFT AFTER INVESTING OP CASH FLOW IN INVESTMENT ASSETS) both cash flows are higher the better.

SITES TO CHECK OUT

tickertape.com

zeroda.com

smallcase.com