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Capstone Project: Stock Selection and Allocation Strategy

Diversified Investment Portfolio Analysis



Introduction

- **Objective:** To create a diversified investment portfolio by selecting the best stocks from six different sectors, focusing on strong fundamental health.
- **Investment Amount:** Rs. 10 lakhs
- **Key Considerations:** Fundamental analysis, risk-reward ratio, and balanced investment.



Sector Selection

Stock Selection Criteria

Sectors Included:

- Healthcare
- Infrastructure
- Energy
- IT Sector
- FMCG
- Banking

Rationale:

Diversification to reduce risk and enhance returns.

Key Financial Ratios:

- Price-to-Earnings (P/E) Ratio
- Return on Equity (ROE)
- Debt-to-Equity Ratio
- Revenue Growth
- Net Profit Margin
- Dividend Yield

Insights from Annual Reports:

Understanding business strategy, market position, and growth prospects.

Sun Pharma (Healthcare Sector)

Investment Amount: Rs. 1.5 lakhs (15% of total portfolio)



Fundamental Ratios:

- P/E Ratio: 27.1 - High growth expectations
- ROE: 10.5% - Efficient profit generation
- Debt-to-Equity Ratio: 0.16 - Low financial risk
- Net Profit Margin: 12.8% - Good cost control
- Current Ratio: 1.65 - Strong liquidity
- Dividend Yield: 0.8% - Moderate income from dividends

Risk-Reward Ratio:

- Risks: Regulatory changes, market competition, price erosion, currency fluctuations, high R&D investment
- Rewards: Market leadership, diversified portfolio, strong R&D, robust financial health, growth in emerging markets

Risk-Reward Analysis:

- Balanced Risk: Strong fundamentals and market position mitigate risks
- High Reward Potential: Innovation and global expansion support long-term returns

Sun Pharma at a glance



Leading global specialty generic company

Global presence	Operates in over 100 countries
Diversified business	Specialty portfolio, branded generics, generics & APIs
Global Specialty	Fast growing. Focused therapy approach.
US Generics	13 th largest in US generics market**
India	Largest pharma company in India**
Emerging Markets	Operating at scale in over 80 countries
Rest of World	Expanding presence in Ex-US developed markets
R&D	Global clinical trials. Early-stage novel R&D. Generic R&D
41 Manufacturing facilities	Manufacturing capabilities across injectables, sprays, ointments, creams, liquids, tablets and capsules
Quality compliance	Several facilities approved by global regulators incl. USFDA
Employees	43,000+ global employee base

KNR Constructions (Infrastructure)

Investment Amount: Rs. 1.5 lakhs (15% of total portfolio)



Fundamental Ratios:

- P/E Ratio: 14.2 - Moderate valuation, potential for growth
- ROE: 15.8% - Efficient profit generation from equity
- Debt-to-Equity Ratio: 0.35 - Moderate leverage, manageable risk
- Net Profit Margin: 8.7% - Good profitability
- Current Ratio: 1.55 - Strong liquidity position
- Dividend Yield: 1.1% - Steady income from dividends

Risk-Reward Ratio:

- Risks: Regulatory changes, project delays, economic slowdown, competition, raw material price volatility
- Rewards: Strong order book, execution capabilities, diversified project portfolio, government infrastructure push, improving margins

Risk-Reward Analysis:

- Balanced Risk: Moderate debt and strong project management mitigate risks
- High Reward Potential: Government infrastructure initiatives and efficient execution support growth

Reliance Industries (Energy)

Investment Amount: Rs. 2 lakhs (20% of total portfolio)

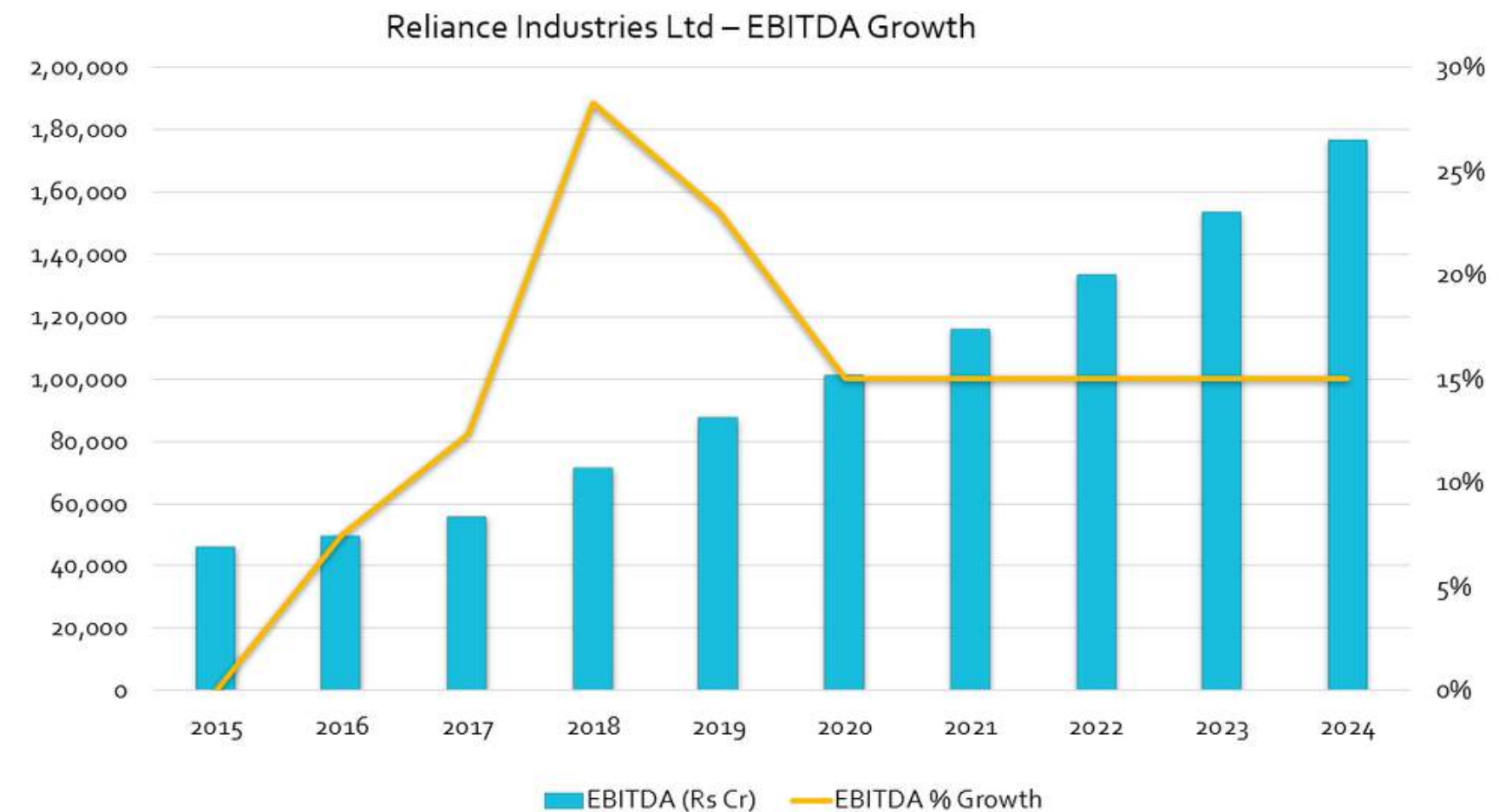


Reliance

Fundamental Ratios:

- P/E Ratio: 22.5 - Growth expectations reflected in valuation
- ROE: 10.2% - Moderate return on equity
- Debt-to-Equity Ratio: 0.45 - Manageable leverage
- Net Profit Margin: 6.7% - Solid profitability
- Current Ratio: 1.25 - Adequate liquidity
- Dividend Yield: 0.7% - Steady income from dividends

Reliance Industries' Road Map to a Become Zero Net-Debt Company



Note : EBITDA Growth is taken as 15% annually for next 5 years

Risk-Reward Ratio:

- Risks: Regulatory changes, oil price volatility, competition, execution risk in new ventures, foreign exchange fluctuations
- Rewards: Diversified business portfolio, strong market position, robust growth in digital and retail segments, strategic investments, significant cash flow generation

Risk-Reward Analysis:

- Balanced Risk: Diversification and strategic investments mitigate sector-specific risks
- High Reward Potential: Growth in digital services, retail expansion, and energy sector investments support long-term growth

Summary.

1. Record operating performance demonstrates robust strategy and strong execution
 - ✓ EBITDA nearly doubled over 5-year period; Consumer business EBITDA up ~4x in the same period
2. Strong visibility of continuing growth trajectory and reduced volatility with dynamic business portfolio
3. Energy businesses
 - ✓ Next phase of O2C growth to be led by India centric capacity expansion, customer centricity and circularity
 - ✓ Green energy investments into integrated manufacturing ecosystem and RTC power to deliver lower and predictable energy cost and new revenue streams
 - ✓ KG D6 to provide valuable transition fuel for the economy
4. Retail and Jio – Unparalleled access to Indian consumers with multiple growth drivers
 - ✓ Jio – Executing identified strategies for Individuals, Homes, Enterprise and Digital Platforms
 - ✓ Retail – Expanding omni-channel offerings, strengthening logistics, product development and premiumization
5. Robust balance sheet, prudent capital allocation and risk management framework underpin future growth

Infosys (IT Sector)

Investment Amount: Rs. 1.5 lakhs (15% of total portfolio)

The Infosys logo is displayed in a large, blue, sans-serif font. The letters are bold and evenly spaced, with a slight shadow effect behind the text.

Fundamental Ratios:

- P/E Ratio: 20.8 - Reflects growth potential and market confidence
- ROE: 25.6% - High return on equity, indicating strong profitability
- Debt-to-Equity Ratio: 0.07 - Very low leverage, minimal financial risk
- Net Profit Margin: 18.5% - Excellent profitability and cost management
- Current Ratio: 2.12 - Strong liquidity position
- Dividend Yield: 2.1% - Attractive income from dividends

Risk-Reward Ratio:

- Risks: Global economic slowdown, currency fluctuations, competitive pressure, regulatory changes, cybersecurity threats
- Rewards: Strong brand reputation, diversified client base, robust digital transformation services, consistent financial performance, strategic acquisitions

Risk-Reward Analysis:

- Balanced Risk: Low debt and strong market position mitigate financial and operational risks
- High Reward Potential: Leadership in digital transformation and innovation drives growth

Hindustan Foods (FMCG)



Investment Amount: Rs. 1.5 lakhs (15% of total portfolio)

Fundamental Ratios:

- P/E Ratio: 33.5 - High growth expectations priced in
- ROE: 18.2% - Strong return on equity indicating good profitability
- Debt-to-Equity Ratio: 0.42 - Moderate leverage, indicating manageable financial risk
- Net Profit Margin: 5.5% - Decent profitability for the FMCG sector
- Current Ratio: 1.38 - Sufficient liquidity to cover short-term obligations
- Dividend Yield: 0.5% - Modest income from dividends

Risk-Reward Ratio:

- Risks: Input cost volatility, regulatory changes, competition, supply chain disruptions, economic slowdown
- Rewards: Diversified product portfolio, strong market presence, expanding production capacity, strategic partnerships, increasing consumer demand

Risk-Reward Analysis:

- Balanced Risk: Moderate debt and strong market presence mitigate risks
- High Reward Potential: Expansion in production capacity and strong consumer demand support growth

HDFC Bank (Banking)



Investment Amount: Rs. 2 lakhs (20% of total portfolio)

We understand your world

Fundamental Ratios:

- P/E Ratio: 21.4 - Growth expectations reflected in valuation
- ROE: 16.9% - Strong return on equity, indicating efficient profit generation
- Debt-to-Equity Ratio: 0.98 - Moderate leverage, common in banking sector
- Net Profit Margin: 20.4% - Excellent profitability
- Current Ratio: 0.98 - Adequate liquidity for the banking sector
- Dividend Yield: 1.1% - Steady income from dividends

Risk-Reward Ratio:

- Risks: Regulatory changes, economic slowdown, credit risk, competition, interest rate fluctuations
- Rewards: Strong market position, diversified loan portfolio, consistent financial performance, robust risk management practices, technological advancements

Risk-Reward Analysis:

- Balanced Risk: Strong financial health and robust risk management practices mitigate risks
- High Reward Potential: Market leadership and technological advancements drive growth

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- **Total Investment:** Rs. 10 lakhs
- **Rationale:** Balancing potential returns and risk through diversified investment.

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Conclusion

- **Summary:** The selected stocks demonstrate strong fundamental health, providing a balanced and diversified investment portfolio.

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Allocation:

1. Sun Pharma: Rs. 1.5 lakhs
2. KNR Constructions: Rs. 1.5 lakhs
3. Reliance Industries: Rs. 1.8 lakhs
4. Infosys Ltd.: Rs. 2.0 lakhs
5. Hindustan Foods: Rs. 1.4 lakhs
6. HDFC Bank Ltd.: Rs. 1.8 lakhs

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Next Steps: Regular monitoring and reallocation based on market conditions and company performance.



Allocation Strategy



Prepared by Kritika Shree

Thank you
very much!

