

## RESEARCH ARTICLE

### FUNDAMENTAL ANALYSIS OF BANKING SECTORS

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#### ABSTRACT

The Gross Domestic Product (GDP) of India faced a downfall in the first two quarters of the Financial Year 2019 – 2020. Stock market's negative trend also caused an impact over this economic slowdown. In this paper, we focus on few of the stocks of the Banking sector between April 1, 2019 and December 31, 2019 and analyse them with the help of the Fundamental Analysis.

**Keywords:** GDP, NSE, Nifty 50, Banking Sector, Stock Analysis, Statistical Methods.

**AMS (2010):** 05C15.

## 1. INTRODUCTION

A stock exchange is an exchange where stock brokers and traders can buy or sell stocks, bonds and other securities. A stock is a form of security that indicates the holder has proportionate ownership in the issuing corporation. Many large companies have their stocks listed on a stock exchange. The exchange act as a guarantor of settlement. The purpose of stock exchange is to facilitate the exchange of securities between buyers and sellers.

In this paper, the Fundamental Analysis of leading banking securities in the stock market are analyzed. Our study is limited to Axis Bank, ICICI Bank and Yes Bank.

## 2. Preliminaries

### 2.1. Stock Market

The Stock Market refers to the collection of markets and exchanges where regular activities of buying, selling and issues of shares of publicly held companies takes place.

### 2.2. Intraday

Intraday refers to the price movements of a given security over the course of one day trading. It is generally used to describe the high and low price of a stock (or) option during a given trading day (or) session.

### 2.3. Stoploss

Stoploss is a buy or sell order which gets triggered automatically, once the stock reaches a certain price. The aim here is to limit the loss on a security buy (or) sell position.

### 2.4. Resistance

Resistance price is a price at which one can expect more secure than buyers. It is something which stops the price from rising further. The resistance level is a price point on the chart where traders expect maximum supply (in terms of selling) for stock/index. Resistance level is always above the current market price.

### 2.5. Support

Support prevents the price from falling. The support level is a price point on the chart where the trader expect maximum demand coming into the stock/index. The support level is always below the market price.

### 2.6. Order Book

An order book is the list of orders that a trading venue uses to record the interest of buyers and sellers in a particular financial instrument. A matching engine uses the book to determine which order can be fully or partially executed.

### 2.7. National Index Fifty (NIFTY)

NIFTY 50 index is the National Stock Exchange of India's benchmark broad based stock market index for the Indian equity market. National index 50(NIFTY) represents the weighted average of fifty companies of India in various sectors. It is one of the two main stock indices used in India. Some of the sectors in NIFTY 50 are NIFTY Bank, NIFTY IT, NIFTY Pharma etc.

### 2.8. National Stock Exchange (NSE)

The National Stock Exchange of India limited is the leading stock exchange of India, located in Mumbai. In 1922, NSE was first dematerialized

electronic exchange in the country. It deals with the transaction of debts equities and markets of derivatives. It is the stock exchange which uses NIFTY as its index. This is used to measure 50 companies of India in various sectors.

### 2.9. Sensex

Sensex is a index or benchmark used to measure the performance of top 30 companies listed in BSE (Bombay Stock Exchange). If the sensex goes up, it means that the prices of the stocks of the major companies on BSE have gone up. If the sensex goes down it means that the prices of those companies have gone down.

### 2.10. Bombay Stock Exchange (BSE)

The Bombay Stock Exchange is established in 1875. It is the Asia's first stock exchange. The BSE is the tenth largest stock exchange with an overall market capitalization. The BSE was found by Mr. Premchand Roychand, an influential businessman in 19<sup>th</sup> century in Bombay.

### 2.11. Volume

Volume plays very important role in Technical Analysis. It is used to confirm the trends and patterns. Volume illustrate how other participants perceive in the market. Volume indicate how many shares are bought and sold over a given period of time.

### 2.12. Share Holder

A Share holder is an individual (or) entity who owns the share of a corporation.

### 2.13. Dividend

Dividend refers to a reward, cash (or) otherwise that a company gives to its shareholder. Dividend can be issued in various forms such as cash, payment, stocks (or) any other form. A company's dividend is decided by its board of directors and it requires the shareholders approval. Dividend is usually a part of the profit that the company shares with its shareholders.

### 2.14. Intrinsic Value

Intrinsic Value is the way of describing the true value of an asset. This is not always identical to the current market price because asset can be over (or) undervalued. It is a common part of Fundamental Analysis in which investors use to assess stocks.

### 2.15. Fundamental Analysis

The Fundamental Analysis is a method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. It attempts to study everything that can affect the security's value, including

macroeconomic factors and individual specific factors.

### 2.16. Earnings per share (EPS)

Earnings per share is an important indicator of the success or failure of the company.

It measures the company's profit by outstanding share of stock calculated on quarterly (or) annual basis. It is always good to invest in a company with higher EPS.

$$EPS = \frac{\text{Net Income after tax}}{\text{Total number of outstanding shares}}$$

### 2.17. Price to Earnings Ratio (P/E)

The P/E ratio measures the relation between a company's stock price and its EPS of stock issued. The P/E ratio shows the expectations of the market and is the price we must pay per unit of current earnings.

$$P/E \text{ ratio} = \frac{\text{Current stock price}}{EPS}$$

### 2.18. Price to Sales Ratio (P/S)

P/S ratio measures the total value that investors place on the company in comparison to the revenues generated by the business. It is calculated by dividing the share price by the sales per share.

$$P/B \text{ ratio} = \frac{\text{Stock price}}{\text{Book value per share}}$$

### 2.19. Price to Book Ratio (P/B)

P/B ratio measures a company's market price in relation to its book value. The ratio denotes how much equity investor are paying for each price in net assets.

$$P/B \text{ ratio} = \frac{\text{Stock price}}{\text{Book value per share}}$$

### 2.20. Dividend Yield

Dividend yield refers to stock's annual dividend payments to shareholders which is expressed as a percentage of the stock's current price.

$$\text{Dividend Yield} = \frac{\text{Annual Dividend}}{\text{Stock Price}} * 100$$

It is a financial ratio that shows how much a company pays out in dividends each year relative to its share price.

### 2.21. Return on Equity (ROE)

ROE is a very important ratio. It measures the entity's ability to generate profit from the shareholders investments. (i.e.,) it shows the efficiency of the company in terms of generating profits to its shareholders. The higher ROE indicates a higher level of management performance.

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Shareholders Equity}} * 100$$

### 2.22. Earnings Before Income Taxes Depreciation and Amortization (EBITDA) Margin

EBITDA is essentially net income with interest, taxes, depreciation and amortization. It can be used to analyze and compare profitability between companies and industries. It indicates the efficiency of the company and tells how profitable the company is at an operating level.

$$\text{EBITDA} = \text{Operating Revenues} - \text{Operating Expense}$$

Operating Revenues = Total revenue - Other Income

Operating Expense = Total Expense - Finance cost - Depreciation & Amortization

### 2.23. Net Asset Value (NAV)

NAV is a value of an entities assets minus the value of its liabilities. It is often associated with mutual fund and helps an investor to determine if the fund is overvalued or undervalued.

$$\text{NAV} = \frac{\text{Assets} - \text{Liabilities}}{\text{Number of outstanding shares}}$$

### 2.24. Profit and Loss Statement (P&L)

A P&L statement is also called an income statement. It is a financial statement that reports a company's revenues and expenses for a given period of time and also shows the profitable of a company for a time period.

P&L ratios shows all the company's income and expenses including revenues, cost of goods (or) services sold, operating expenses and financial expenses.

### 2.25. Balance sheet

The purpose of the balance sheet is to show the resources that the company has, (i.e.,) its assets, and from where those resources come from (i.e.,) its liabilities and investments by owners and shareholders. The balance sheet is one of the important statement showing the financial position of the concern. The balance sheet shows all the assets owned by the concern and all the liabilities it owes to owners and shareholders as the balance sheet is

prepared on a particular date.

### 2.26. Income statement

Income statement is prepared to determine the operational position of the concern. It is the statement of revenues earned and expenses incurred for earning that revenue.

### 2.27. Cash Flow Statement

A statement of changes in financial position of a firm on cash basis is called Cash Flow statement. It summarizes the causes of changes in cash position of business enterprise between dates of two balance sheet.

## 3. Company Profile

### 3.1. Yes Bank

Yes Bank was incorporated in 2004 by Mr. Ranakapoor. It is the India's fifth largest private sector bank. It is a full service commercial bank that offers corporate banking, investment banking and personal banking services across India. Net Income : Rs.1, 506.64cr

Asset: Rs.380, 859.61cr

Yes Bank has entities listed on the Bombay Stock Exchange and National Stock Exchange.

**Sectors:** Yes Bank includes Yes Trustee limited, Yes Bank limited, Asset management Arm, Yes asset Management limited, Yes securities limited.

### 3.2. Axis Bank

Axis bank is the third largest private sector bank on India. It was formally known as Unit Trust of India (UTI). It was established in the year 1993. It is headquartered at Mumbai, Maharashtra. In 2007, UTI changed its name to Axis bank.

Net Income : Rs.4677cr

Asset: Rs.0.800997cr

**Sectors:** Axis bank includes Axis securities limited, Axis finance limited, Axis securities Europe, Enan International limited.

### 3.3. ICICI Bank

ICICI limited is an Indian multinational banking and financial services company. It is headquartered in Mumbai, Maharashtra. It was established in the year 1994.

In 2018 ICICI bank is the second largest bank in India in terms of assets and market capitalization.

Net Income : Rs.6, 709cr

Asset: Rs.1, 007, 068cr

**Sectors:** ICICI sectors include ICICI prudential life insurance, ICICI lombard, ICICI securities, ICICI bank Canada, Securities primary dealership limited.

#### 4. Fundamental Analysis of Banking sectors

##### 4.1. Yes Bank

##### Balance sheet (Rs. in cr)

	Mar-17	Mar-18	Mar-19
Share capital	456	461	463
Reserves	21,583	25,292	26,424
Borrowings	1,81,464	2,75,582	3,335,982
Other Liabilities	11,556	11,115	17,990
Total Liabilities	2,15,060	3,12,450	3,80,680
Fixed Assets	612	765	778
CWIP	75	72	51
Investments	49,9892	68,293	89,329
Other Assets	1,64,391	2,43,319	2,90,701
Total Assets	2,15,060	3,12,450	3,80,860

##### Profit & Loss Statement

	Mar-17	Mar-18	Mar-19
Revenue	16,425	20,269	29,624
Interest	10,627	12,529	19,811
Expenses	4,790	6,594	11,834
Financial Profit	1,008	1,145	-2,021
Financing Margin %	6%	6%	-7%
Other Income	4,218	5,292	4,675
Depreciation	173	232	305
Profit before tax	5,053	6,205	2,349
Tax %	34%	32%	27%
Net Profit	3,340	4,233	1,709
EPS in Rs	14.63	18.38	7.38
Dividend Payout %	16%	15%	27%

##### ROE

	Mar-17	Mar-18	Mar-19
ROE %	19%	18%	6%

#### Cash Flow

	Mar-17	Mar-18	Mar-19
Cash for operating activity	4,384	-21,810	-24,573
Cash for investing activity	-4,478	-8,738	-6,235
Cash for financing activity	11,429	35,748	33,039
Net cash flow	11,336	5,199	2,231

##### INTERPRETATION

- Total Asset and Liabilities increased from Rs.2,15,060 to Rs.3,80,680.
- The investments in the company is decreased year on year from FY17 to FY19.
- Decrease in EPS from Rs.14.63cr to Rs.7.38cr shows the company is in trouble which lead to a decline in the stock price.
- Net profit reduced from Rs.3,340 to Rs.1,709 which shows that the higher the cost of stocks, lower the net profit.
- The ROE ratio decreased from 19% to 6%.
- Net cash flow varies from Rs.11,338cr to Rs.2,231cr which represent that the company is to pay the operating costs.

##### 4.2. Axis Bank

##### Balance sheet (Rs. in cr)

	Mar-17	Mar-18	Mar-19
Share capital	479	513	514
Reserves	55,901	63,694	67,288
Borrowings	527,437	611,425	711,996
Other Liabilities	27,737	28,210	34,338
Total Liabilities	611,555	703,843	814,136
Fixed Assets	3,518	3,697	3,842
CWIP	292	352	288
Investments	129,018	153,037	174,056
Other Assets	478,727	546,757	635,950
Total Assets	611,555	703,843	814,136

### Profit & Loss Statement

	Mar-17	Mar-18	Mar-19
Revenue	45,175	46,614	56,044
Interest	26,789	27,604	33,883
Expenses	24,323	29,700	27,995
Financial Profit	-5,937	-10,689	-5,835
Financing Margin %	-13%	-23%	-10%
Other Income	12,418	11,846	14,164
Depreciation	527	591	737
Profit before tax	5,954	566	7,592
Tax %	33%	18%	34%
Net Profit	3,953	456	5,039
EPS in Rs	16.51	1.78	19.59
Dividend Payout %	30%	0%	5%

### ROE

	Mar-17	Mar-18	Mar-19
ROE %	7%	1%	8%

### Cash Flow (Rs. in cr)

	Mar-17	Mar-18	Mar-19
Cash for operating activity	32,209	-38,390	37,125
Cash for investing activity	-12,458	-10,007	-18,674
Cash for financing activity	-2,487	41,342	5,643
Net cash flow	17,263	-7,055	24,094

### INTERPRETATION

- Total Asset and Liabilities increased from Rs.611,555cr to Rs.814,136cr.
- The investments in the company is increased year on year as of FY17 to FY19.
- Increase in EPS from Rs.16.51cr to Rs.19.59cr shows the good time for investment of the company.
- Net profit varies between Rs.3,953 to Rs.5,039.
- The ROE ratio was maintained without any

major loss.

- Net cash flow varies from Rs.17,263cr to Rs.24,094cr which represent
- that the positive cash flow. But in FY18 the net cash flow was Rs.-7,055cr which shows that the company has a negative cash flow.

### 4.3. ICICI Bank

#### Balance sheet (Rs. in cr)

	Mar-17	Mar-18	Mar-19
Share capital	1,165	1,286	1,289
Reserves	103,461	109,338	112,959
Borrowings	700,874	815,198	891,641
Other Liabilities	183,765	202,077	236,866
Total Liabilities	989,265	1,127,899	1,242,756
Fixed Assets	9,338	9,465	9,660
CWIP	0	0	0
Investments	304,373	372,208	398,201
Other Assets	675,554	746,226	834,894
Total Assets	989,265	1,127,899	1,242,756

### Profit & Loss Statement

	Mar-17	Mar-18	Mar-19
Revenue	60,940	62,162	71,982
Interest	34,836	34,262	39,178
Expenses	63,839	72,806	83,773
Financial Profit	-37,735	-44,906	-50,969
Financing Margin %	-62%	-72%	-71%
Other Income	52,456	56,807	59,323
Depreciation	912	922	946
Profit before tax	13,809	10,978	7,408
Tax %	18%	17%	23%
Net Profit	10,188	7,712	4,254
EPS in Rs	15.55	12	6.6
Dividend Payout %	14%	12%	15%

### ROE

	Mar-17	Mar-18	Mar-19

ROE %	10%	7%	4%
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### Cash Flow (Rs. in cr)

	Mar-17	Mar-18	Mar-19
Cash for operating activity	52,636	19,383	48,671
Cash for investing activity	-1,711	-50,551	-30,282
Cash for financing activity	-35,470	39,676	-19,997
Net cash flow	15,455	8,508	-1,608

### INTERPRETATION

- i. Total Asset and Liabilities increased from Rs.989,265 to Rs.1,242,756.
- ii. The investments in the company is increased year on year as on FY17 to FY19.
- iii. Decrease in EPS from Rs.15.55cr to Rs.6.6cr shows the company is in trouble which lead to

- a decline in the stock price.
- iv. Net profit decreases from Rs.10,188 to Rs.4,254.
  - v. The ROE ratio shows a major loss as 10% to 4%.
  - vi. Net cash flow varies from Rs.15,455cr to Rs.-1,608cr which represent that the company have to pay the operating costs. Compared to FY17 and FY18, in FY19 it had a great negative cash flow.

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