RESEARCH ARTICLE

FUNDAMENTAL ANALYSIS OF BANKING SECTORS
Vivek Prabu, M. *, Kothai, S. and Rahini, M.
PG and Research Department of Mathematics, Kongunadu Arts and Science College (Autonomous), Coimbatore – 641029, Tamil Nadu, India

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.
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 gonne 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 19th 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.

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

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.

\[
\text{Dividend Yield} = \frac{\text{Annual Dividend}}{\text{Stock Price}} \times 100
\]

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.

\[
\text{ROE} = \frac{\text{Net Profit}}{\text{Shareholders Equity}} \times 100
\]

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.

\[
\text{EBITDA} = \frac{\text{Operating Revenues} - \text{Operating Expense}}{} - \text{Finance cost} - \text{Depreciation & Amortization}
\]

2.23. Net Asset Value (NAV)

NAV is a value of an entity's 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 profitability of a company.

P&L ratio 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 share holders. 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 share holders 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. Ranakapo. 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

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 headquarter at Mumbai, Maharashtra. In 2007, UTI changed its name to Axis bank.

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.

3.4. 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 | 3,80,680 |

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 |
| Net cash flow         | 11,336 | 5,199  | 2,231  |

INTERPRETATION

i. Total Asset and Liabilities increased from Rs.2,15,060 to Rs.3,80,680.

ii. The investments in the company is decreased year on year from FY17 to FY19.

iii. 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.

iv. Net profit reduced from Rs.3,340 to Rs.1,709 which shows that the higher the cost of stocks, lower the net profit.

v. The ROE ratio decreased from 19% to 6%.

vi. Net cash flow varies from Rs.11,336cr 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

i. Total Asset and Liabilities increased from Rs.611,555cr to Rs.814,136cr.

ii. The investments in the company is increased year on year as of FY17 to FY19.

iii. Increase in EPS from Rs.16.51cr to Rs.19.59cr shows the good time for investment of the company.

iv. Net profit varies between Rs.3,953 to Rs.5,039.

v. The ROE ratio was maintained without any

vi. Net cash flow varies from Rs.17,263cr to Rs.24,094cr which represent

vii. 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|
| Profit               | −62%   | −72%   | −71%   |
| Margin %             |        |        |        |
| 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
| ROE % | 10% | 7% | 4% |
|-------|-----|----|----|

**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.

**REFERENCES**

[1] Investment analysis and Portfolio Management, Prasanna Chandra, Published by Tata McGraw-Hill Education Private Limited, 2012 (Fourth edition).

[2] Indian Economy, Rakesh Kumar Roshan, Arihant publications, India limited.

[3] Yahoo finance and Money control- For secondary datas.

[4] www.nseindia.com- Data of NSE

**About The License**

The text of this article is licensed under a Creative Commons Attribution 4.0 International License.