

# A Study on Fundamental Analysis of Selected NBFC listed in Indian Stock Exchange

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**Abstract** “A Study on fundamental analysis of selected NBFC listed in Indian stock exchange”. This study attempts to apply fundamental analysis on seven selected scrips from NBFC industry from 2009-10 to 2018-19. It is up to the perception of the investors to look for either capital appreciation or periodic income for their investment. In order to attain the objective of an investor, one of the best way to get higher return in long term, is indeed stock market. Investors cannot make higher return in all the companies from various sectors of stock market. To value the market properly, fundamental analysis has to be performed. The main focus of this study is to value the share prices of the selected NBFCs through fundamental analysis.

**Keywords** CAGR, EPS, NBFC

## Introduction

The portrait of the economic development and productive efficiency of an economy is governed to a large extent by effective mobilization and distribution of savings into productive channels of investment.

Stock prices are dynamic in nature, which means that stock prices are determined by supply and demand forces. There is no infallible system that indicates the exact movement of prices of the stock. However, the factors for increase or decrease in the demand /supply pattern of a particular stock could include company fundamentals, external factors, and behavior of the market. Company fundamental factors influencing stock price includes performance of the company, a change in board of directors, appointment of new management, and the creation of new assets, dividends per share, earnings and many others. External factors include government policies and regulations, inflation rate and other economic conditions, investor behavior, market conditions, money supply, competition, uncontrolled natural or environmental circumstances directly affecting the production of the company, strikes, etc. According to research, studies reveal that corporate

fundamental factors are the keen determinants of share price and stock return over a period of time.

## Objectives of the study

- The Primary objective of the study is to do fundamental analysis of selected NBFC listed in Indian stock exchange.
- To analyze the profitable position of the sample NBFCs.
- To predict the compound annual growth rate for EPS for the companies.
- To acquire hands on experience of financial analysis of an enterprise.

## Research Design

Analytical Research Design study is used to conduct the study. The data of the sample companies, for a period of ten years from 2010 to 2019 has been collected from the annual reports, published by the companies in their website respectively.

Judgmental sampling, also known as purposive sampling is a non-probability sampling technique in which the sample members are chosen only on the basis of the

researcher's knowledge and judgment, seven NBFCs are selected which are listed on NSE and based on the following basis, Market capitalization, Net sales, Profit, EPS, Promoter holdings greater than 50, Net worth, Total debt, Total assets, Operating profit, Operating profit margin. The companies selected for the study are, Bajaj Finance Limited, Cholamandalam Investment and Finance Limited, Shriram City Union Finance Limited, Mahindra & Mahindra Financial Services, Muthoot Capital Financial Services Limited, Ujjivan Financial Services Limited, Sundaram Finance Limited.

### Tools used for analysis

- CAGR
- Ratio ranking
- One-way ANOVA
- DuPont Analysis

### Analysis and Interpretation

**Table 1: CAGR OF EPS**

Companies	BF	CF	M&M F	MC	SCU F	SF
in 2009	9.27	-	35.78	8.33	41.22	49.26
in 2010	24.43	1.79	47.85	11.04	48.78	70.01
in 2011	67.47	5.67	12.09	14.87	67.86	41.21
in 2012	110.84	14.39	16.59	13.12	85.58	50.76
in 2013	135.69	22.89	16.95	17.45	0.82	52.3
in 2014	144.79	25.43	16.19	17.8	0.94	51.83
in 2015	179.94	30.09	13.69	17.87	83.75	52.49
in 2016	242.3	37.5	9.06	18.32	87.68	61.52
in 2017	34.01	46.01	20.4	24.13	112.29	66.28
in 2018	47.05	58.75	29.73	36.39	151.83	105.4
in 2019	67.52	75.87	29.73	50.11	151.83	105.4
<b>CAGR</b>	0.20	-1.4	0.98	1.18	1.13	1.07

**Table 2: One- way ANOVA**

Companies	BF	CF	M&M F	MC	SCU F	SF
in 2009	9.27	-	35.78	8.33	41.22	49.26
in 2010	24.43	1.79	47.85	11.04	48.78	70.01
in 2011	67.47	5.67	12.09	14.87	67.86	41.21
in 2012	110.84	14.39	16.59	13.12	85.58	50.76
in 2013	135.69	22.89	16.95	17.45	0.82	52.3
in 2014	144.79	25.43	16.19	17.8	0.94	51.83
in 2015	179.94	30.09	13.69	17.87	83.75	52.49
in 2016	242.3	37.5	9.06	18.32	87.68	61.52
in 2017	34.01	46.01	20.4	24.13	112.29	66.28
in 2018	47.05	58.75	29.73	36.39	151.83	105.4
in 2019	67.52	75.87	29.73	50.11	151.83	105.4

### Hypothesis:

H0: EPS position of BF, CF, M&MF, MC, SCU F, and SF does not differ significantly.

H1: EPS position of BF, CF, M&MF, MC, SCU F, and SF differ significantly.

### Result:

#### Anova: Single Factor

Groups	Count	Sum	Average	Variance
Column 1	11	106	96.6	531
		3.3	645	2.90
		1	5	3
Column 2	11	315	581	517
		.24	8	7
		248	509	007
Column 3	11	.06	1	3
Column 4	11	229	20.8	149.

		.43	572	304
			7	1
			75.6	264
		832	890	0.74
Column 5	11	.58	9	1
			64.2	480.
		706	236	426
Column 6	11	.46	4	7

FAT	21.4	38.64	50.47	16.36	40.2	6.56	2.81
Asset Turnover	20.58	41.57	44.68	20.31	49.56	6.57	9.98

Weightage have been given for above ratios in Table 4 as per the performance of each ratio. Finally, weightage have been added and rank has been given based on the total weightage secured by the companies.

**Table 4: Weightage for various ranking**

WEIGHTAGE FOR VARIOUS RATIOS							
Ratios	Companies						
	B F	C F	M&M F	M C	SCU F	S F	U F
Op/P margin	7	6	4	3	1	5	2
N/P margin	2	3	6	4	7	5	1
Current Ratio	7	4	1	6	5	3	2
FAT	4	5	7	3	6	2	1
Asset Turnover	5	4	6	3	2	1	7
<b>Total</b>	25	22	24	19	21	16	13
<b>Rank</b>	1	3	2	5	4	6	7

From the above table Bajaj finance limited has been ranked the highest followed by Mahindra & Mahindra Financial Services and Cholamandalam Investment and Finance Limited.

### DuPont Analysis

The average of the DuPont Analysis calculated for the selected companies during the study period are given below in Table 5

**Table 5: Average of DuPont Analysis**

Companies	BF	CF	M&M MF	M C	SC UF	SF	UF
DuPont Analysis	21.27	0.21	11.49	8.66	11.02	7.37	1.17

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	559		111	7.19	2.46	2.3
	41.5		88.3	821	E-	682
	3	5	1	5	05	7
			155			
Within Groups	932		4.31			
	59	60	7			
	149					
	200.					
Total	5	65				

### Inference:

Since the F value is greater than F critical ( $F = 7.198215$ ,  $F_{critical} = 2.36827$ ), Alternate hypothesis is accepted and Null hypothesis is rejected. That is EPS position of BF, CF, M&MF, MC, SCU, and SF differ significantly.

### Ratio Ranking

The average of the fundamental ratios calculated for the selected companies during the study period are given below in Table 3

**Table 3: Average of fundamental ratios**

AVERAGE OF FUNDAMENTAL RATIOS							
Ratios	Companies						
	BF	CF	M & MF	M C	SC UF	SF	UF
Op/P margin	-5.01	-9.71	-11.2	-68.1	-154.3	-44.8	-116.29
N/P margin	0.31	11.57	17.8	12.25	18.85	14.1	9.15
Current Ratio	5.7	3.19	2.56	7.49	4.05	2.68	2.57

From the above table, it is found that Bajaj Finance Limited has the highest return on equity of 21.27% when compared to its peers.

### Findings and Suggestions

- The CAGR of EPS at 1.18 for Muthoot capital financial limited, which is high when compared to the peers in the industry so the company has to maintain the current EPS growth rate. The EPS growth rate of Cholamandalam investment and finance limited is -1.34% which is low hence the company has to improve their EPS to compete with their peers.
- Every company should focus on improving their EPS so that automatically their market price would be mounted.
- The right valuation of the scrip should be performed by comparing the market price, EPS and its prevailing P/E ratio.
- On an average, Bajaj finance limited has generated EPS of Rs. 96.66, making Bajaj finance limited one of the most efficient NBFC in terms of generating earnings.
- The overall fundamental score of Bajaj finance limited is high when compared to the peers so the fundamental investor may choose Bajaj finance limited for investment.
- Assets are in an increasing trend for Bajaj finance limited, Cholamandalam investment and finance limited, Mahindra & Mahindra financial services, Muthoot capital financial services limited and Sundaram finance limited.
- The current ratio of Bajaj Finance Limited, Cholamandalam Investment and Finance Limited, Shriram City Union Finance Limited, Mahindra & Mahindra Financial Services, Muthoot Capital Financial Services Limited, Ujjivan Financial Services Limited, Sundaram Finance Limited are greater than 1, it means that the companies has more assets compared to its liabilities.

- Bajaj finance limited has registered highest return on equity of 21.27 and is thus the most efficient in generating additional earnings by using invested earnings than other six companies.

### Conclusion

The fundamental analysis which aims at developing an insight into the economic performance of the business is of at most importance from the investor's point of view in investment decisions. If the fundamental isn't correct then the investor's wealth creation will get affected due to sustainability of the company. In order to value the market correctly, fundamental analysis has to be performed. Thus, this present study has been conducted to examine the economic sustainability of the seven major NBFCs in the Indian NBFC sector: Bajaj Finance Limited, Cholamandalam Investment and Finance Limited, Shriram City Union Finance Limited, Mahindra & Mahindra Financial Services, Muthoot Capital Financial Services Limited, Sundaram Finance Limited and Ujjivan Financial Services Limited. It was found that while the ranking through fundamental ratio analysis, Bajaj finance limited comes first followed by Mahindra & Mahindra financial services and Cholamandalam investment and finance limited. Hence the investors are suggested to trade and invest in these kinds of scrips so that their return would be maximized as well as their risk would be minimized. The scrip of Bajaj Finance Limited stands first in terms of its ratio ranking and also its finance fundamentals are comparatively better performing than its peer companies and hence from the safety perspective of an investor, investor can invest in the scrip of Bajaj Finance Limited without any panic. It is advised to trade and invest in those scrips that are fundamentally efficient. Thus the study will help the investors to invest in scrips where their return would be maximized with minimal risk.

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