NIFTY STOCKS-FUNDAMENTAL FACTORS AND ITS CORROBORATION OF PRICE PERFORMANCE

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Abstract

For any investors, taking decisions as to buy/hold/sell is always a difficult decision. To help them in this regard there are various strategies/tools. This paper aims to study if the growth in stock price is supported by the fundamentals factors Profit, Assets growth, Reserve & surplus growth. It analyses as to it is more than/less than/in line with the fundamental. The paper comes with various interpretation of what has led to this state.

Introduction

In the stock market, price of the stock sometimes behaves in line with the fundamentals of the company most of the times it doesn't seem to be, may be due to external factors or systematic factors. This paper tries to find out to what extent the price performance can be offered support by fundamental factors like CAGR of Total assets, PAT and CAGR of reserve and surplus.

Objective

To find out the companies (Ex-banking) in nifty universe if their stock market performance is supported by their fundamentals.

Research methodology

The study is based mainly on secondary data which is collected from books and websites. The nifty -50 stocks are universe excluding banking stocks. The study period is taken from 2012-2014. The data like stock price, revenue, Profit after taxes (PAT), Total assets (TA), Reserve & surplus (R&S) have been taken for two years. Stock price as on April 2, 2012 and March 31 2014 closing prices were taken. For these data CAGR is found. The CAGR of stock price is compared with CAGR of PAT, TA, R&S. Based on comparison the interpretation is made as to overvalued, rightly valued , undervalued or a cash cow or is getting ready for future growth.

Interpretation

When TA, PAT, R&S saw a growth in numbers, but stock price performs otherwise, then it could be construed as undervalued. Sooner or later the price will match the fundamentals. On the other hand, when the price is more than fundamentally justifiable value, it is overvalued.

When price performance is in line with the fundamentals then it is rightly valued. Among the fundamentals, when Ta and R&S show good numbers and PAT doesn't match them and price is in between the two then it is inferred that the company is into expansion. PAT will very soon catch up with other two.

On the contrary PAT shows good numbers and other two declines then it is construed as cash cow, milking the existing position without any further investment.

When all four doesn't share any enthusiasm in its numbers, it has 'nothing to say'.

Limitation

These fundamentals depicts past performance. This doesn't guarantee the future profitability. When we say undervalued, considering the fact that market has the uncanny ability of being a leading indicator, it may not be foolproof view.

Findings

Table 1: The Companies in Line with the Valuation

Company Name	Price	PAT	TA	R&S
	CAGR %	CAGR %	CAGR %	CAGR %
HCL TECH	68.76	75.17	47.11	55.36
TECH MAHINDRA	59.08	141.46	46.63	58.74
LUPIN	35.77	69.99	22.71	37.48
TCS	34.88	29.74	33.00	33.63
ITC	23.71	19.40	18.13	18.97
DR REDDY	22.80	45.55	20.56	18.05
MARUTI	20.40	30.46	18.04	17.67
M&M	19.13	14.26	15.68	17.85
IDEA	18.72	71.17	20.20	13.08
HDFC	15.24	14.87	10.52	21.51
RELIANCE INDS	13.66	4.74	12.92	10.17
BPCL	13.44	10.76	4.45	13.47
WIPRO	12.66	25.57	6.97	9.98
CIPLA	11.98	11.14	20.43	15.93
ONGC	9.88	-6.22	7.89	10.39
AMBUJA CEMENT	9.02	7.41	7.01	7.36
COAL INDIA	-8.26	36.42	-10.95	-12.56

Table 2: The companies which are Overvalued and Undervalued

Company Name	Price	PAT	TA	R&S	Inference
Year	CAGR %	CAGR %	CAGR %	CAGR %	
ZEE	46.22	25.58	15.11	-20.01	Overvalued
SUN PHARMA	42.04	#NUM!	11.34	-3.76	Overvalued
ASIAN POINT	40.35	10.45	17.07	21.05	Overvalued
L&T	20.19	11.02	16.07	15.49	Overvalued
ULTRA CEMENT CO	19.97	-6.37	14.81	15.62	Overvalued
INFOSYS	8.15	9.71	18.93	19.10	undervalued
GRASIM IND	3.65	-12.75	10.87	9.17	undervalued
CAIRN IND	0.58	1202.19	10.22	10.84	undervalued
POWER GRID	0.09	17.55	24.01	24.49	undervalued
GAIL	-0.13	9.43	17.49	12.59	undervalued
BHARTI AIRTEL	-2.83	7.33	8.81	16.70	undervalued
IDFC	-3.69	3.02	11.18	11.42	undervalued
TATA STEEL	-7.60	-2.15	6.94	7.94	undervalued
NTPC	-14.36	9.08	11.51	9.20	undervalued

Table 3: Companies-Other Categories

Company Name	Price	Revenue	PAT	TA	R& S	inference
Year	CAGR %	CAGR %	CAGR %	CAGR%	CAGR %	
HIND UNILVR	22.27	6.19	19.87	-3.42	-3.65	Cash cow
TATA MOTORS	20.76	14.91	-48.11	4.83	-1.28	Sustainability question mark
BAJAJ AUTO	11.44	22.78	3.91	25.48	27.29	Getting ready for future growth
HINDAL COAL	3.60	8.74	-20.52	16.36	8.03	Getting ready for future growth
SESA GOA	-0.93	16.10	-19.97	102.11	61.33	Into asset building, or merger
HERO MOTRO CO	4.61	0.04	-5.83	2.94	14.38	Nothing to say
ACC	0.63	3.48	4.92	5.01	5.76	Nothing to say
TATA POWER	-6.20	-13.07	-9.69	5.64	5.78	Nothing much
NMDC	-8.22	0.24	-6.00	10.85	11.02	Nothing much
BHEL	-15.06	109.31	-29.89	18.33	14.38	Could be a future story but now struggles

Conclusion

As per the analysis, by and large IT, Pharma companies seem to be in right valuation according to the fundamentals. The other category companies don't provide the clarity, barring some, mainly metal companies which is into expansion. Since 2015FY financials not available for many companies 2014 data have been taken.

Though, prima facei, it's a belated analysis, when the result is put to check in today's context, the inference does appear right.