

AN OVERVIEW OF BLUE CHIP COMPANIES LISTED ON INDIAN STOCK EXCHANGE

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Abstract:

Blue-chip stocks are considered high-valued, superior, less volatile and long-term investment. These are well-established stocks and have several characteristics that benefit investors in the long-run with its stable earnings. Typically, these companies are large corporations that have been in business for many years and are considered to be very stable. The present study is based on secondary data collected from various financial reports from official website of selected blue chip companies. The purpose of this study is to make an analysis of top 25 Indian blue chip companies in terms of market capitalization, Return on Capital Employed and Interest coverage ratio. Different parameters and screening criteria are discussed in this paper to shortlist the best Blue chip stocks. Based on the studies, it was concluded that despite of some limitations with blue chip stocks, these are considered best for long-term returns and portfolio diversification. These stocks are having remarkable performance in Economic downturn.

Keywords:- Blue Chip, ROCE, Interest Coverage ratio, Market capitalization.

I. INTRODUCTION

BREAKING DOWN 'Blue Chip'

Blue chip is a nationally renowned, well-established, and financially sounds company. Blue chips sell high-quality and widely accepted products and services. These are well-known to weather downturns and function profitably in the face of unfavorable economic conditions, which contribute to their long record of reliable and stable growth.

Origin of Blue Chip: The term “blue chip” was first used to describe high-quality stocks in the early 1920s by a Dow Jones employee, Oliver Gingold. The term’s been used since then to refer to high-priced stocks, just as blue chips in poker typically carry higher chip values. Blue chip stocks do not necessarily need to be highly priced but should be of high quality.

A blue chip company is a multinational firm that has been in operation for some years. Think companies like Coca-Cola, PepsiCo, IBM, and McDonald’s which commanding leaders in their corresponding industries are. Blue chip companies have built a reputable brand, and as they have survived multiple downturns in the economy, it makes them count in stable companies to have in a portfolio. Conservative investors with a low-risk profile or nearing retirement can sometimes select valuable stocks. These stocks area unit good for capital preservation and their consistent dividend payments not solely give financial gain however conjointly shield the portfolio against inflation. With the assistance of Blue-chip index, an investor can track the performance of Blue-chip stocks, which is also an indicator of trade or economy performance. Most in Public listed traded blue-chip stocks are included in the Dow Jones Industrial Average (DJIA), one of the most popular blue-chip indices. A blue-chip stock is an element of the foremost prestigious market indexes or averages, just like the Standard & Poor's (S&P) 500, the Dow Jones Industrial Average, and the Nasdaq-100 in the United States, the FTSE Index in the United Kingdom or the TSX-60 in Canada.

Blue-chip stocks are considered high-valued, superior and long-term investment. Facts from history suggest that they have shown to generate growth in long-term portfolios. Blue-chip companies also offer security during phases of slowed growth due to their ability to generate stable profits and their intelligent management systems. If the stock market is experiencing a bear market, investors need not worry regarding their investments in blue-chips because they recover often. Many blue-chip stocks used to disburse dividends to their shareholders to make up as these do not move

much in price. Blue-chip stocks have shown that, generally, they make enhanced and unobstructed dividend payments over time which helps to safeguard against the adverse effects of inflation.

Blue chips have robust balance sheets, cash flows, business models and consistent growth. A company's strength is shown when it can distribute dividends even in unfavorable times, showing their confidence about their cash inflows. Such assured cash-inflow, can happen only when company is enjoying strong competitive advantage. It is this competitive advantage that makes blue-chip stocks so like-able by all investors. Typically, these companies are large corporations that have been in business for many years and are considered to be very stable. Blue chip companies in India are considered most stable stocks for investing. When one invests in blue-chip stocks, it is considered best for long-term returns. Fundamentals of blue-chip companies are very strong. Blue chip stock companies can earn profits even in bad times. Hence expert investors give special emphasis to these stocks.

Features/Reasons to invest in Blue Chip Stocks:-

- Well Known Industry leaders
- Years of Existence
- Credit-Worthiness
- Remarkable performance in Economic downturn
- Less Volatile Investments
- Highly Liquidity Stocks
- Large market capitalization
- High ROE and ROA
- Regular Dividends
- Facilitates portfolio diversification

Objectives of the Study:-

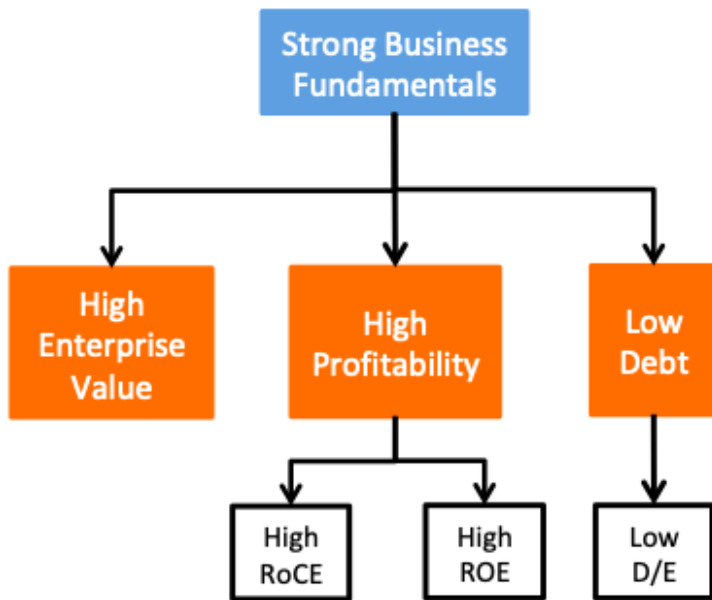
The main objectives of this study are

- To study what makes a stock Blue Chip
- To Examine the different parameter to list out the Blue chip stocks
- To study Screening Criteria to find out the best Blue Chip stock for Investment.
- To discuss the diversification of risk by having Blue chip stock in the Portfolio.

Criteria to shortlist Blue chip stocks:-

Blue Chip Stocks refer to shares of companies with large market capitalization. . Blue Chip Company is powerful financially, with a solid track record of producing earnings and only a moderate amount of debt. It also has a strong name in its industry with dominant products or services. These companies are relatively less sensitive to market fluctuations compared to Mid Cap and Small Cap companies. There are different criteria which a stock needs to be fulfilled to come under the category Blue Chip Stocks.

Majorly there are three different parameters to screen out Blue Chip Stocks.



Source: <https://getmoneyrich.com/blue-chip-stocks-list-in-india/>

- **High Enterprise Value:** This is one of the parameter to determine the status of a Company. Blue chip stocks are very large in size. Blue chip stock must necessarily have higher enterprise value.

$$EV = \text{Market Capitalization (Market price * No. of shares outstanding)} + \text{Debt} - \text{Cash}$$
- **High Profitability:** ROE & ROCE both the metrics are used to measure the company Profitability. It shows how well the Company uses its funds (capital). High profitability of business is one of the main reasons which make a company blue chip. Mostly ROCE is the better indicator to screen out the Blue Chip stock.

$$ROE = \text{Net profit} / \text{Shareholders Equity}$$

$$ROCE = \text{EBIT} / \text{Total Capital Employed}$$
 - *EBIT = Net Profit + Interest + Tax
 - *Capital Employed = Shareholders Equity + Long term debt
- **Low Debt:** Enterprise value of a company is a summation of market capitalisation and “net debt” (debt – cash). But this does not mean that high debt companies will qualify as blue chips.

Screening Criteria to find out the best Blue Chip stock for Investment

To find out the best blue chip stock available in the market, a Potential investor needs to shortlist the stocks by using a stock screener.

Steps of Shortlist the stock:-

- Go to the website www.moneycontrol.com.
- Select the option Stock Screener
- First of all select indicators as “ROCE” under the Profitability Ratios.
- Secondly select “Interest coverage ratio” under the heading Solvency Ratios.
- Set Zero (0) as the lower limits for both the ratios, by setting Zero as the lower limits for applying these two filters we get all the stocks which are having ROCE & Interest coverage ratio more than zero (0).
- Download the Excel file and convert all the text into Numbers.

- Select the main three indicators, ROCE, Interest Coverage Ratio & Market Capitalization.
- Sort the list on the basis of Market Capitalization.

Blue Chip Companies List as on 26.7.2020 based on Market Capitalization.

Sl.No	Stock Name	Sector Name	ROCE (%)	Interest Coverage Ratio	M. Cap (Rs. Cr)
1	ITC	FMCG	25.98	379.15	246,776.00
2	Nestle India	FMCG	52.04	19.79	166,378.80
3	Avenue Supermarts	Retailing	15.45	25.37	136,055.40
4	Titan Company	Diamond & Jewellery	26.97	28.5	95,010.88
5	Hindustan Zinc	Metals & Mining	15.8	58.64	87,633.12
6	Dabur India	FMCG	22.81	31.74	84,738.62
7	Coal India	Metals & Mining	18.19	36.81	82,241.61
8	Pidilite Industries	Chemicals	28.57	46	70,164.97
9	Godrej Consumer Products	FMCG	18.71	24.74	69,702.56
10	Berger Paints India	Chemicals	27.2	15.72	50,707.38
11	Aurobindo Pharma	Healthcare	22.22	18.16	48,070.40
12	Marico	FMCG	41.31	26.58	45,113.39
13	Abbott India	Healthcare	26.24	81.69	32,997.72
14	Hindustan Aeronautics Ltd.	Aviation	17.79	11.6	31,153.21
15	Alkem Laboratories	Healthcare	19.26	112.2	29,830.87
16	PI Industries	Chemicals	18.6	35.87	27,153.18
17	United Breweries	Alcohol	16.59	18.98	26,502.65
18	NMDC	Metals & Mining	20.01	577.63	26,454.38
19	Bharat Electronics	Capital Goods	20.75	661.83	24,975.08
20	Honeywell Automation	Consumer Durables	26.04	86.72	24,735.93
21	Ipca Laboratories	Healthcare	17.7	28.64	22,599.97
22	Page Industries	Textiles	49.27	20.05	21,859.25
23	Alembic Pharmaceuticals	Healthcare	26.22	69.26	18,112.61
24	Bata India	Footwear	18.45	11.1	16,831.97
25	AIA Engineering	Capital Goods	15.33	104.23	16,033.99

Source : <https://www.moneycontrol.com/stock-screener/> dt on 26.7.2020

- M.Cap: Market Capitalisation (Rs.Cr.)
- ROCE: Return on Capital Employed (%)

Interpretation & Analysis:- In this table top 25 Companies are selected on the basis of Market Capitalization. Market Capitalization is the total market value of all the Outstanding Shares. In this table ITC is having larger Market Capitalization as comparison to other Companies.

ROCE highlights the profitability of the overall business. High ROCE means that the business is profitable. ROCE & Interest coverage ratio are taken to list out the Blue Chip stock.

Interest Coverage ratio shows the ability of a Company to handle its outstanding debts. This ratio determines whether the Company is able to pay off its debts or not. A higher of this ratio shows that the company is paying its debts whereas a lower of this shows that the company is not financially sound. It is calculated by dividing EBIT for the period & Total Interest payable in the given period.

In this table serial no 19, Bharat Electronics is having highest Interest cover ratio, i.e 661.83, which is highest among all the companies, but Top one will be considered as ITC having M.cap is Rs,246,776.00 Cr.

How Blue Chip stocks investment helps to diversification the Portfolio.

When it comes in the field of investment, an investor main target should be minimizing the risk and generating the return which is more than the market return. A diversified portfolio is very important to stay in the market for the longer period and reducing that risk. A diversified portfolio consists of Bonds, Stocks, Assets etc. Weightage calculation of different stocks or sectors is very important while creating a diversified portfolio. Investors also can take the help of investment advisors for creating a well-diversified portfolio. These stocks are considered for safe investment and advisable for conservative class of investors

Limitations of the study:-

- The study is based on 25 Blue chip companies at a particular date.
- Literature review is not available.
- There are different parameters are available on different site to screen out the Blue chip stocks.

Conclusions: After the study, it was concluded that Blue chip companies have high market capitalization, strong ROCE, steady dividend payments, remarkable performance in Economic downturn, and stability of earnings and are less volatile in nature as compared to non-blue chip companies. Blue chip is a nationally renowned, well-established, and financially sounds company. Blue chips sell high-quality and widely accepted products and services. These stocks are considered for safe investment and advisable for conservative class of investors. ITC has maintained its first rank among other blue chip companies in the long run in terms of Market Capitalization.

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