



AN ANALYTICAL STUDY OF INVESTORS USING TOP-DOWN AND BOTTOM-UP APPROACH FOR INVESTMENT IN SELECTED BANKS

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Abstract: Fundamental analysis is the art of evaluating the intrinsic value of a stock to find long term investing opportunities. In other words Fundamental analysis is a method of determining a stocks real or fair market value. Analysis of capital market can be done either by Fundamental analysis. This paper aims to study on the Fundamental analysis of banking sector to understand the financial performance of selected banks. The main objective was to conduct a comparative analysis for the three selected banks under banking sector and to suggest the better suitable stock to the investors. Fundamental analysis is studied in three parts namely; Economic analysis deals with fundamental factors like GDP, Interest rates, and Current account to GDP etc. Industry analysis, in this analysis all the three sectors are evaluated on the bases of Porter's five force model which takes in to consideration, Threat of potential Entrants, Threat of substitutes, Bargaining power of suppliers, Bargaining power of buyers and the competition among the existing companies in the market. Finally, Company analysis deals with various ratios such as Dividend pay-out ratio, EPS, P/E ratio, Net profit margin, ROE, ROA, and Debt to Equity ratio are used and to calculate these ratios the secondary data was collected through the respective company's annual reports. Based on the calculations of the ratios in the study we found that majority of the stocks are having downfall in ROE, ROA and EPS and we suggested to avoid such stocks for the long term investment, and with the help of comparative analysis we suggested the better suitable stocks for the investors to invest in each bank. The top-down investor starts their analysis with global economics, including both international and national economic indicators. The bottom-up investor starts with specific businesses, regardless of their industry/region, and proceeds in reverse of the top-down approach.

Keywords: Fundamental analysis, Economic analysis, Industry analysis, Company analysis, Comparative analysis.

1.INTRODUCTION: In accounting and financial terms the fundamental analysis is used to analyze the business assets, liabilities, and earnings by observing financial statements. It helps the company to compare

with the competitors and markets. To know the financial performance of the business. It focuses on the overall economy, and it takes into account interest rates, earnings, GDP. Fundamental analysis is performed on historical and present data which helps for financial forecasts.

Fundamental analysis tries to determine the value of the company, focusing on the future prospects. It also helps us to make business decisions internally and helps to find out intrinsic value of the shares. A wide range of financial services increases the welfare and productivity in the economy.

1. It helps to facilitate to buy or sell the shares through intrinsic value.
2. It provides investment opportunities for the investors.
3. To study the share value fluctuations in the market i.e., over-valued or under-valued.

Fundamental analysis includes: 1. Economic analysis 2. Industry analysis
3. Company analysis.

The intrinsic value of the shares is determined based upon these three analysis. The value that is considered the true value of the share. If the intrinsic value is higher than the market price, buying the share is recommended. If it is equal to market price, it is recommended to hold the share, and if it is less than the market price, then one should sell the shares.

Investors using fundamental analysis can use either a top-down or bottom-up approach.

- The top-down investor starts their analysis with global economics, including both international and national economic indicators. These may include GDP growth rates, inflation, interest rates, exchange rates, productivity, and energy prices. They subsequently narrow their search to regional/ industry analysis of total sales, price levels, the effects of competing products, foreign competition, and entry or exit from the industry. Only then do they refine their search to the best business in the area being studied.
- The bottom-up investor starts with specific businesses, regardless of their industry/region, and proceeds in reverse of the top-down approach.

NEED FOR THE STUDY: The study is made to evaluate the performance of Union bank, Central bank, Indian overseas bank and also to know the factors (Interest rates, Earnings, GDP) affecting the performance of particular bank. It will be useful to know the intrinsic value of the shares. It helps to select the most performing banks through fundamental analysis.

SCOPE OF THE STUDY: The study is confined to particular banks (Union bank of India, Central bank of India, Indian overseas bank) taken from the NSE for the period of three years

OBJECTIVES OF THE STUDY

1. To analyze the financial performance & comparison of selected banks (Union bank, Central bank, Indian overseas bank).
2. To know buying or selling option by comparing the intrinsic value of the share with the market price using fundamental analysis.

RESEARCH METHODOLOGY

Secondary Data: The study draws the data from the secondary sources. For the purpose of the study the data relating to past five years has been captured and tabulated. The official websites of the selected banks and the RBI websites have been captured for the collection of data and further analysis.

1. Observation of the financial status of the company.
2. Study of intrinsic value and external factors of the company.

Research Design: This study is descriptive in nature. Descriptive study is one in which the information is collected without changing the environment. It is most widely used research design indicated by thesis. It is useful in gaining more information about characteristics of individuals, groups or situations. The study is closely connected with observational studies, but they are not limited with observation data collection method. Case studies and Surveys can also be specified as popular data collection methods used with descriptive studies. It is used to describe the characteristics of the population or phenomenon that is being studied.

STATISTICAL TOOLS: 1) Mean 2) Standard Deviation

FINANCIAL TOOLS

The following are the ratios were used in this analysis.

1. Current ratio 2. Debt equity ratio 3. Earnings per share 4. Price to earnings ratio

Other important ratios also include

1. Net profit margin 2. Credit deposit ratio 3. Interest expenses to total expenses 4. Interest income to total income 5. Net worth ratio 6. Operating profit margin

2. REVIEW OF LITERATURE

1. **T. Maharaj, M. Sravana Kumar (2021), in the article titled, "Fundamental Analysis for Investment Decisions on five Major Banks" Volume:7, Issue:2** stated as the analysis is done to help make decision as regard to whether it is wise to invest in banking institutions in India or not". Five of the banks have been selected for the analysis of investment decisions over banking companies whether it is wise to hold or to sell the shares.
2. **Sana Samreen (2021), in the article titled, "An analysis of indian banking industry with special reference to ICICI Bank" Volume:5, Issue:11** stated as the analysis is concentrated on the various developments, challenges and opportunities in the banking industry. Threat of substitutes will be low as banking is very convenient, Bargaining power of customers will have more chances to receive loans, Bargaining power of suppliers i.e., account holders will have high competition, Threat of new entries will become barriers to exist, Competitive rivalry is high due to many private players.
3. **Seema Malik (2020), in the article titled, "Technological innovations in Indian banking sector" Volume:5, Issue:11** stated as the study the survival, growth and profitability of banks depend upon the organizational effectiveness and operational efficiency in today's competitive scenario". Due to many technological and financial operations are increasing tremendously the banking sectors are becoming competitive in today's economy.
4. **Malaya Ranjan Mohapatra (2019), in the article titled, "A study of operational efficiency of commercial banks in Indian Financial System" Volume:5, Issue:11** stated that the operational efficiency

of public banks in india have faced many challenges.It takes in consideration of labour productivity,branch expansion and profitability ratios.the selected banks are lagging behind various financial parameters.

5. R.K.Uppal (2018),in the article titled, “Global crisis:Problems and prospects for Indian banking industry” Volume:5,Issue:11 stated that the efficiency of all the bank groups in the post banking reforms of time period between(2014-2018).The study is to analyze the implications of public sector in financial position,they still need to make many changes.

3.ANALYSIS AND INTERPRETATIONS

Current Ratio			Debt Equity Ratio			Non Performing Assets			
Year	UBI	CBI	IOB	UBI	CBI	IOB	UBI	CBI	IOB
2017-2018	0.31	0.04	1.15	1.59	1.4	17	0	0.037	0.03
2018-2019	0.76	0.05	2.15	1.79	1.49	18.26	0.027	0.036	0.06
2019-2020	1.68	0.12	1.16	1.35	0.52	17.52	0.052	0.074	0.12
2020-2021	1.79	0.05	1.96	1.76	0.54	17.98	0.056	0.102	0.14
2021-2022	3.5	0.42	1.73	1.82	0.32	18.68	0.084	0	0.15
Mean	1.608	0.136	1.63	1.662	0.854	17.888	0.0438	0.0498	0.1
Standard Deviation	1.227	0.162	0.458	0.196	0.547	0.652	0.032	0.039	0.052

Interpretation: From the selected Banks, IOB has a better liquidity position when compare to other banks, whereas SD and mean is less in CBI. Overall IOB is doing well among selected Banks. From the selected Banks IOB has a high leverage, It means IOB is using more of Debt than Equity, followed by Union Bank and CBI. Union Bank and CBI have less Non-performing assets than IOB. It means Union bank and CBI has better receivable management methods.

Net Profit Margin			Credit to Deposit Ratio			Interest Expenses to Total Expenses			
Year	UBI	CBI	IOB	UBI	CBI	IOB	UBI	CBI	IOB
2017-2018	0.26	-0.05	0.02	1.19	0.74	0.77	0.014	0.78	0.82
2018-2019	0.25	0.02	-0.02	0.81	0.74	0.7	0.034	0.77	0.82
2019-2020	0.17	-0.09	-0.11	0.78	0.68	0.72	0.014	0.75	0.78
2020-2021	0.05	-0.18	-0.15	0.76	0.47	0.66	-0.007	0.74	0.75
2021-2022	-0.14	-0.39	-0.29	0.71	0.53	0.61	0.776	0.73	0.69
Mean	0.118	-0.14	-0.11	0.85	0.632	0.692	0.166	0.754	0.772
Standard Deviation	0.167	0.158	0.121	0.194	0.125	0.061	0.341	0.021	0.054

Interpretation: Union Bank has positive net profit margin whereas CBI and IOB has negative net profit margin. It means Union Bank is performing well in terms of profit compare to selected banks. Union bank is using 85% of its deposits for lending purpose, whereas CBI and IOB is lending 63% and 69% of deposits respectively. It means Union bank is using its deposits optimally. Among selected Banks IOB pays 77% of total expense for Interest component. Whereas, Union Bank and COI pays 16% and 75% of total expenses for Interest respectively.

Interest Income to Total Income			Net worth Ratio			Operating Profit Margin			
Year	UBI	CBI	IOB	UBI	CBI	IOB	UBI	CBI	IOB
2017-2018	0.68	0.71	0.7	0.031	0.054	0.06	0.912	0.927	0.91
2018-2019	0.57	0.69	0.69	0.051	0.056	0.05	0.901	0.933	0.92

2019-2020	0.66	0.68	0.64	0.056	0.057	0.06	0.899	0.93	0.9
2020-2021	0.61	0.59	0.61	0.051	0.051	0.06	0.868	0.896	0.85
2021-2022	0.6	0.54	0.55	0.051	0.055	0.05	0.868	0.902	0.83
Mean	0.624	0.642	0.638	0.048	0.0546	0.056	0.8896	0.9176	0.882
Standard Deviation	0.045	0.073	0.061	0.01	0.002	0.005	0.02	0.017	0.04

Interpretation: From the selected banks more revenue is generated from the interest income i.e., Union bank, CBI, and IOB fetching interest income of 62%, 64%, and 63% of total income correspondingly. IOB has more net worth compare to other selected banks. It means IOB has more funds leftover after paying all its liabilities, in other words it has more assets. Followed by CBI and Union Bank. All selected banks is performing well in terms of operating profit, CBI has more operating profit margin followed by Union Bank and IOB.

Earnings per share			Price to Earnings ratio			
Year	UBI	CBI	IOB	UBI	CBI	IOB
2017-2018	27.99	-11.1	6.05	4.03	-6.25	7.81
2018-2019	28.05	4.27	-3.68	5.7	23.06	-11.6
2019-2020	20.42	-8.55	-19.9	6.09	-9.56	-1.42
2020-2021	8.08	-13.4	-15.8	18.5	-8.56	-1.67
2021-2022	-69.5	-19.5	-23.3	-1.31	-4.25	-0.75
Mean	3.016	-9.65	-11.3	6.602	-1.112	-1.526
Standard Deviation	41.33	8.772	12.2	7.278	13.669	6.879

Interpretation: Union Bank has positive EPS whereas CBI and IOB have Negative EPS, Which means Union bank is performing well in terms of profit and Revenue. Whereas COI and IOB is running into losses. From the selected banks Union bank has positive PE ratio while CBI and IOB has Negative PE ratio, which means union bank is doing well in terms of share value maximization than CBI and IOB.

UBI		CBI		IOB	
Intrinsic Value		Intrinsic Value		Intrinsic Value	
Average PE ratio	6.6	Average PE ratio	-1.11	Average PE ratio	-1.53
Expected EPS	3.018	Expected EPS	-9.646	Expected EPS	-11.3
Intrinsic Value	19.93	Intrinsic Value	10.727	Intrinsic Value	17.25
Current Market Price	91.1	Current Market price	77.2	Current Market Price	17.5
Buy/Sell	Sell	BUY/SELL	SELL	BUY/SELL	BUY

Interpretation: Union bank has less intrinsic value than current market price, so it is suggested to sell because share price of that bank is more than the calculated value.

Central Bank of India

Average Price Earnings Ratio= Average of Market Price per Share/Earnings per Share

Expected Earnings per Share=Average of Earnings per Share

Intrinsic value=Average Price Earnings*Expected Earnings per share

Current Market Price is derived from NSE Website

BUY/SELL is chosen accordingly to intrinsic value and current market price.By observing the below chart current market price is more than intrinsic value.So,the investor choose to sell the share in market to gain the profits.

Interpretation:-CBI has more current market price than intrinsic value, so it is advised to sell the share because calculated value is less than the market price.

Indian Overseas Bank

Average Price Earnings Ratio= Average of Market Price per Share/Earnings per Share

Expected Earnings per Share=Average of Earnings per Share

Intrinsic value=Average Price Earnings*Expected Earnings per share

Current Market Price is derived from NSE Website

BUY/SELL is chosen accordingly to intrinsic value and current market price.By observing the below chart current market price is more than intrinsic value. So, the investor choose to buy the share in market to gain the profits.

Interpretation:-IOB has same intrinsic value and Market price, so it is left to discretion of an investor whether to hold or sell the share.

4. FINDINGS

1. From the above selected banks Union Bank of India is performing well in terms of liquidity and profitability compare to Central Bank of India and Indian Overseas Bank.
2. Indian overseas bank has high NPA than Union Bank of India and Central Bank of India.
3. Indian Overseas Bank has more debt component in their Capital Structure among the selected banks.
4. Union Bank of India is providing more credit to its customers than Central Bank of India and Indian Overseas Bank.
5. Union Bank of India has high earnings per share and price to earnings than other selected banks.
6. Central Bank of India is performing poor than union bank and Indian Overseas Bank in terms of profitability.

5. SUGGESTIONS: As Indian Overseas Bank is using more of debt in their capital, it is suggested that to increase equity proportion in their capital structure to avoid interest expenses which in turn increases profitability of the bank. It is suggested to Indian Overseas Bank has to follow effective receivable management methods or credibility evaluations methods to decrease NPA of the bank. To improve liquidity position of the Central Bank of India it is suggested to invest in short term assets. It is suggested to investors to invest in Union Bank of India has it is having more earnings ability and growth prospects.

6. CONCLUSION: Union Bank of India is fetching more revenue than Central Bank of India and Indian Overseas Bank and it is also performing well in various dimensions such as less NPA, high interest income, increased net profit margin, and less interest expenses. Central Bank of India is performing poor in terms of liquidity and profitability than other selected banks. Indian Overseas Bank has more debt in their capital which in turns increased interest expenses for the bank and also has high NPA. From the selected banks Union Bank has high Earnings Per Share and Price to Earnings which indicates bank having more earnings ability than selected banks.

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