

# A Study on Equity Analysis With Reference to Pharmaceutical Sector

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## ABSTRACT

The Banking industry, one of the core sectors, has undergone metamorphosis with the advent of new business practices in the light of liberalization and globalization. The sector seems to be optimistic of posting strong sales in the couple of years in the view of a reasonable surge in demand. The Indian Banking market is gearing towards international standards to meet the needs of the global banking and become a global hub. A detailed analysis of banking industry has been covered in respect of past growth and performance.

In this analysis the risk and return calculations are done for all the banking stocks and compared. The study has undergone with the comparative analysis of the leading banking companies. At the end of the project work conclusions and recommendations have been specified so as to make the project work more meaningful and purposeful.

## 1. INTRODUCTION:

India is a developing country. Nowadays many people are interested to invest in financial markets especially on equities to get high returns, and to save tax in honest way. Equities are playing a major role in contribution of capital to the business from the beginning. Since the introduction of shares concept, large numbers of investors are showing interest to invest in stock market. In an industry plagued with

skepticism and a stock market increasingly difficult to predict and contend with, if one looks hard enough there may still be a genuine aid for the Day Trader and Short Term Investor. The price of a security represents a consensus. It is the price at which one person agrees to buy and another agrees to sell.

If prices are based on investor expectations, then knowing what a security should sell for (i.e., fundamental analysis) becomes less important than knowing what other investors expect it to sell for. That's not to say that knowing what a security should sell for isn't important--it is. But there is usually a fairly strong consensus of a stock's future earnings that the average investor cannot disprove. Fundamental analysis and technical analysis can co-exist in peace and complement each other. Since all the investors in the stock market want to make the maximum profits possible, they just cannot afford to ignore either fundamental or technical analysis.

This session discusses the trade-off and, using conventional statistical tools, provides a method for quantifying risk. Two categories of risk borne by the firm's stockholders, business risk and financial risk, are discussed and demonstrated, as is the concept of leverage. The session also examines risk reduction via portfolio diversification and what requirements need to be met for firms to experience the benefits of diversification. This is used to demonstrate the risk/return trade-off by relating the required return on the firm's investments to its beta (or market) risk.

## NEED OF THE STUDY

To start any business capital plays major role. Capital can be acquired in two ways by issuing shares or by taking debt from financial institutions or borrowing money from financial institutions. The owners of the company have to pay regular interest and principal amount at end. Stock is ownership in a company, with each other each share of stock representing a tiny piece of ownership. The more shares you, the more dividends you earn when the company makes a profit In the financial world, ownership is called “Equity”.

### Advantages of selling stock:

- A company can raise more capital than it could borrow.
- A company does not have to make periodic interest payments to creditors.
- A company does not have to make principal payments

Stock/shares play a major role in acquiring capital to the business in return investors are paid dividends to the shares they own. The more shares you own the more dividends you receive. The role of equity analysis is to provide information to the market. An efficient market relies on information: a lack of information creates inefficiencies that result in stocks being misrepresented (over or under valued). This is valuable because it fills information gaps so that each individual investor does not need to analyze every stock thereby making the markets more efficient

## SCOPE OF THE STUDY

The scope of the study is identified after and during the study is conducted.

- The analysis is made by taking into consideration Five companies in Pharma Sector
- The scope of the study is limited for a period of five years.

- The scope is limited to only the fundamental analysis of the chosen stocks

## OBJECTIVES OF THE STUDY

The objective of this project is to deeply analyze our Indian Pharma Industry or investment purpose by monitoring the growth rate and performance on the basis of historical data.

### The main objectives of the Project study are:

- To study the detailed analysis of Pharma industry this is gearing towards international standards
- To analyze the various risks and returns patterns in shares.
- To compare the Five tough competitors in Pharma Sector
- To know the risk involved with invests in equities

To Suggest as to which company’s shares would be best for an investor to invest.

## 2. LITERATURE SURVEY

### THEORETICAL BASE TO THE STUDY

#### INTRODUCTION

The risk/return relationship is a fundamental concept in not only financial analysis, but in every aspect of life. If decisions are to lead to benefit maximization, it is necessary that individuals/institutions consider the combined influence on expected (future) return or benefit as well as on risk/cost. The requirement that expected return/benefit be commensurate with risk/cost is known as the "risk/return trade-off" in finance.

This session discusses the trade-off and, using conventional statistical tools, provides a method for quantifying risk. Two categories of risk borne by the firm's stockholders, business risk and financial risk, are discussed and demonstrated, as is the concept of leverage. The session also examines risk

reduction via portfolio diversification and what requirements need to be met for firms to experience the benefits of diversification. The Capital Asset Pricing Model (CAPM) is used to demonstrate the risk/return trade-off by relating the required return on the firm's investments to its beta (or market) risk.

#### Important Learning Terms

- Risk
- Systematic risk
- Unsystematic risk
- Return
- Portfolio
- Beta
- Leverage
- Diversification

#### Systematic Risk

Systematic Risk, as the name suggests is the risk inherent in the economic system. Macro factors such as domestic as well as international policies, employment rate, the rate and momentum of inflation and general level of consumer confidence etc. are what constitute systematic risk. Generally, investors cannot hedge or diversify against this risk as it affects all kinds of asset classes and affects the entire economy as such.

#### Unsystematic Risk

This is the risk inherent in a particular asset class. The best way to combat this risk is by diversification. However, one must remember that the diversification must be in the class of asset and not the asset itself. An example of the above is evenly distributing your portfolio in bank deposits, Reserve Bank of India (RBI) bonds, real estate and equities. That way if a certain unsystematic risk affects let's say the real estate market (say the prices crashes), then the presence of other classes of assets in your portfolio saves you from a total washout. However, note that diversifying within the same asset class (buying different equity shares) is not strictly combating unsystematic risk.

#### Understanding Unsystematic Risk

The one thing that almost all investors would agree upon is the fact that equity is definitely more risky

than debt. Irrational exuberance with a rising market has left many an investor losing their shirts and in some cases even more sensitive garments.

However, does this mean that investing in debt instruments is entirely risk-free? Unfortunately, the answer is in the negative though the volatility is much less. So first, let us examine what kind of risks do debt instruments pose

#### Interest Rate Risk

Interest rates and prices of fixed income instruments share an inverse relationship. In other words, when the overall interest rates in the economy rise, the prices of fixed income earning instruments fall and vice versa. Interest rates in the economy may fluctuate due to several factors such as a change in the RBI's monetary policy, Cash Reserve Ratio (CRR) requirements, forex reserves, the level of the fiscal deficit and the consequent inflation outlook etc. Extraneous factors such as energy price fluctuations, commodity demand and supply and even capital flows may result in rates fluctuating.

Then there are the event-based factors that affect interest rates. For example, the 11/9 episode in the United States of America and 13/12 in India. If there is a war, interest rates will rise. However, typically such events are temporary in nature and in fact a good fund manager can actually take advantage of such hiccups.

### 3. RESEARCH METHODOLOGY

**Source of data:** Data is collected from the primary data and secondary data

**Primary Data:** primary data means which is collected personally and observations, for this project there is no primary data

**Secondary data:** The data which is represented already. The present study is based on Secondary data

#### Research Design

The various source of secondary data include

- Internet

- Share prices of different NSE Sensex companies.
- Information provided by India Infoline Ltd
- Magazines

#### LIMITATIONS

- This study has been conducted purely to understand Equity analysis for investors.
- The study is restricted to Five companies.
- The study is limited to the companies having equities.
- Detailed study of the topic was not possible due to limited size of the project.
- There was a constraint with regard to time allocation for the research study i.e. for a period of 45 days.
- Suggestions and conclusions are based on the limited data

#### 4. FINDINGS OF THE STUDY

The study for risk return analysis is carried out by taking 3 different companies of Pharma Sector

1. The return & risk associated with the price movement of LUPIN for a month of November & December 2017 & January 2018. It has an average return of -0.45 and risk is 2.40
2. The return & risk associated with the price movement of CIPLA for a month of November & December 2017 & January 2018. It has an average return of -0.36 and risk is 1.59
3. The return & risk associated with the price movement of AUROBINDO PHARMA for a month of November & December 2017 & January 2018. It has an average return of -0.52 and risk is 1.81.
4. The return & risk associated with the price movement of BIOCON for a month of November & December 2017 & January 2018. It has an average return of 0.50 and risk is 2.
5. The return & risk associated with the price movement of NATCO PHARMA for a month of

November & December 2017 & January 2018. It has an average return of -0.29 and risk is 1.67.

In pharma sector, only BIOCON is giving positive returns and other companies are showing negative returns and the risk factor for the BIOCON is more than other companies.

#### 5. SUGGESTIONS

1. Understanding and measuring return and risk is fundamental to the investment process and increases an awareness of the investment problem.
2. To have a higher return, the investor should be able to accept the fact that he has to be faced with greater risk.
3. Though high risk leads to high returns, there may be certain cases where more returns cannot be generated. This may be due to volatility of the market or some other factors.
4. If an investor wants to take risk he can invest in BIOCON because reason is the risk is more and at the same time, it is yielding high returns.
5. The reverse will be the case if the investor is risk averse. That means a risk averse investor invests only in those securities which are having minimal risk and he is satisfied with the normal returns. Here, in the study, if an investor is risk averse person, then he will be interested to invest in Cipla.
6. In some cases, there will be investors who are in a position to face moderate risk. Such kind of people would like to invest in Lupin

#### 6. CONCLUSION

The study equity analysis of pharmaceutical sector started with the objectives specifications, to study the detailed analysis of Pharma industry this is gearing towards international standards

To analyze the various risks and returns patterns in shares From the calculations in the study it can be

concluded that the banking sector in the best sector for the investment with minimum risk and maximum return, every individual can do this simple calculations to understand the risk and return involved in the each securities. Any rational investor, before investing his or her investible wealth in the stock, analyses the risk associated with the particular stock. The actual return he receives from a stock may vary from his expected return and the risk is expressed in terms of variability of return. Investors in general would like to analyze the risk helps him to plan his portfolio in such a manner so as to minimize the risk associated with the investment

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