

J D Women's College

Course Name- PG vocational MBA

(3rd semester)

Subject- Security Analysis and Portfolio Management

Faculty Name – Anjali

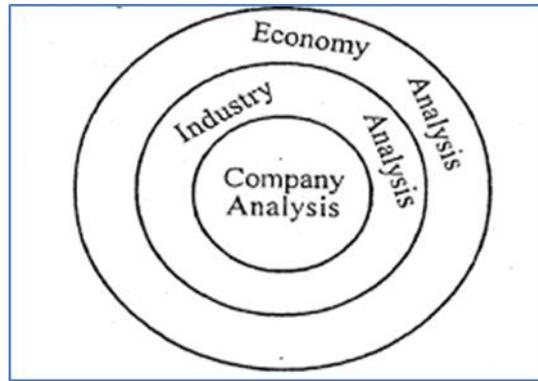
Topic- Fundamental Analysis



Fundamental analysis (FA) is a method that used to determine value of stock by analysis economic and financial factors. Fundamental analysis includes anything that can affect the security's value, from macroeconomic factors such as the state of the economy and industry conditions to microeconomic factors like the effectiveness of the company's management.

Fundamental analysis focus on key issues related to business and its performance. The fundamental analyst initially takes a top-down approach to understand the fundamental aspects. It involves analyzing shares (stocks) of companies by first analyzing the economy, industry, and then the company. The overall health of the economy, both current and future is firstly viewed.

After the analysis of the economy, the next step is to analysis the industry of which the company is a part. This step of the analysis is refers to find out as much information as possible about the industry and the inter-relationships of the companies in that industry. The next step is to study the company and its products.



Fundamental Analysis

Objectives and goals of Fundamental Analysis:

Objective

1. It is an approach for Company stock valuation.
2. For projection on its business performance.
3. Evaluate management and make internal business decisions
4. Calculate a company's credit risk
5. Make financial forecasts ,

Goals:

1. Predicting future price movement
2. Determining fair value
3. Management Evaluation
4. Analysing companies strength
5. Determining company's ability to beat competitors

Some, often questions arises:

- Is the company's revenue growing?
- Is it actually making a profit?
- Is it in a strong enough position to beat out its competitors in the future?

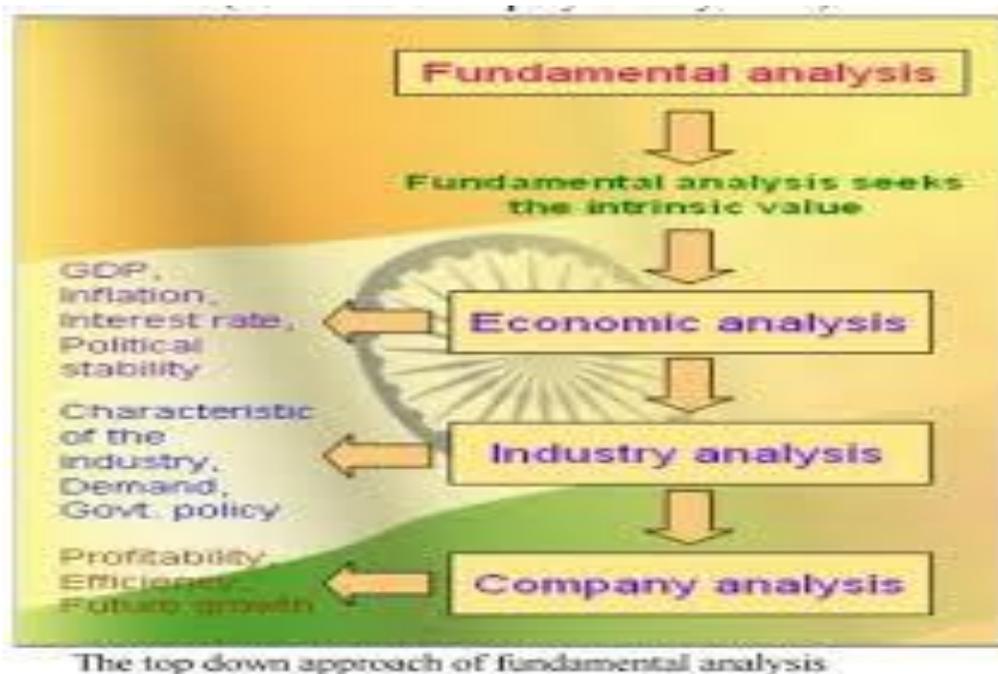
- Is it able to repay its debts?

These are very involved question, i.e., whether the company's stock a good investment? *Fundamental Analysis* is an effective tool to help us answer this question.

Fundamental analysts make use of two different methods:

- The top-down approach makes the analyst start their analysis with global economics (like GDP growth rates, inflation, interest rates, productivity, etc.) and then narrow their research to regional or industry analysis (like total sales, price levels, entry or exit from the industry, etc.).
- The bottom-up approach is when the analyst starts with a particular business and then moves on to a more macro analysis.

Following is the top down approach of Fundamental Analysis:



It is, thus, a stock valuation methodology that uses financial and economic analysis to envisage the movement of stock prices. The relevant data and information for analysis

could include both financial and non-financial aspects such as estimates of growth, demand for products sold, industry comparisons, economy-wide changes, changes in government policies, etc. The outcome of such an analysis is a value (or a range of values) of the stock of the company called its 'intrinsic value'.

Following are the factor consider in the economic analysis, industry analysis and company analysis:

Economic Analysis	Industrial Analysis	Company Analysis
GDP of the country	Growth rate of Industry	Competitive Advantage
Level of Savings & Investment	Type of Industry – Growth, cyclical, defensive, cyclical growth	Financial Stability & Performance
Inflation Rate	Nature of Competition	Growth Rate/Sales
Interest Rate	Nature of Product	Market Share
Growth in Primary, Secondary and tertiary Sectors	Subsidies, incentives, concessions	Financial Leverage and Borrowing Capacity
Tax Structure	Tax framework	Previous track record
Economic Forecasts	Import and export policies	Profits of the company
Infrastructural Facilities	Financing norms	Corporate Image
Demographic Factors	State of technology	SWOT Analysis profits
Climatic Conditions	Industrial Policies	Management
State of Economy	Socio-Demographic Trends	Operating Efficiency
Balance of Payments Situation	Government programs and projects	Future estimates of sales
Government Budget	Supply Sector	
Linkage with World Economy	Industry Life cycle	
	SWOT Analysis	