

Fundamental Analysis With Special Reference to Basmati Rice Companies Listed in NSE

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ABSTRACT

Every investor should have enough knowledge about the stock market before making any investment decisions. Analysis is essential for the benefit of risk reduction and maximizes the gain. The investment analysis on stock market has two main approaches namely technical analysis and fundamental analysis. This study is focused on fundamental analysis of basmati rice companies listed in National Stock Exchange (NSE), which include selected four companies for a period of April 1, 2013 to March 31, 2018. The fundamental analysis is studied in three parts. First is, economic analysis, deals with factors like GDP, inflation, interest rate, current account deficit. Second is, Industry analysis which includes industry growth rate, sales, global market share etc. Third is company analysis, various ratios like P/E ratio, EPS, Debt-equity ratio are used.

1. Introduction

Basmati Rice is GI (geographically indexed) Product and Grown only in India (70%) and Pakistan (30%). Basmati is geographically indexed to the northern region on the Indian Sub-continent, which includes Basmati growing areas in the states of Uttarakhand, Punjab, Haryana, Uttar Pradesh, adjoining areas of Jammu, Kashmir, Himachal Pradesh and Delhi. The main difference between basmati and normal rice is when cooked, the Basmati is longer, lighter and tastier than standard white rice, and does not stick together. Basmati Rice is just 2% of total Rice Production in the World. Basmati rice is one of the highly demanded commodities in various countries.

2. Review of Literature

Prakash Tiwari & Hemraj Verma (2009) conducted a study on "A Fundamental Analysis of Public sector Banks in India". This article explains the position of the banks with reference to various ratios.

Venkatesh C K and Madhu Tyagi (2011) in their research paper titled, "Fundamental analysis as a method of share valuation in comparison with technical analysis" detailed about different movements of share prices in comparison with fundamental and technical analysis. It also emphasized on the market capitalization and organizational structure.

J Hema and V Ariram (2016) in their research paper titled, "Fundamental analysis with special reference to pharmaceutical companies listed in NSE" stated that an investor should analyze the market fundamentally and technically before investing in shares. They also noticed growth in the pharmaceutical industry in India.

Sugandharaj Kulkarni (2011) in his research paper titled, "A study on fundamental analysis of ONGC" explains about the relevance of fundamental analysis along with the attempt to find the intrinsic value of shares.

Silpa K S, Arya Mol J and Dr. A S Ambily (2017) conducted a study on A study on Fundamental Analysis of Selected IT companies Listed at NSE. This article analyzes the fundamental strength of five IT companies.

V. Sornaganesh, D. Maheshwari (2014) conducted a study named, "Fundamental Analysis of IT industry in India" This article analyzes the company strength in different ratios and ANOVA.

3. Scope of the Study

The study entitled as "A study on Fundamental analysis with special reference to Basmati Rice companies listed in NSE". This study provides an accurate presentation of data and guidelines to individual investors as well as foreign portfolio investor (FPI), portfolio managers to know broad vision of investment. This study is established to gain the knowledge about the economic factors such as gross domestic product, rate of Inflation, Exchange rate & Interest rates of RBI etc., and industry analysis like past industrial growth, sales, revenue, potential of growth etc., and company analysis through its profit, debt, etc., by using descriptive statistics and ratio analysis. This study has focused on the four basmati rice companies listed in NSE based on different criteria.

4. Need of the Study

Stock markets are the place to trade stock and securities; it operates as mediators between investors and borrowers of capital by means of pooling of funds, sharing business risk and transferring their ownership. On a daily basis, prices of the shares are changing in stock markets. These changes in share price are because of different economic situations, news, political situation, industrial potential and particular company's business performance. Indian basmati industry is one of the largest producer and exporter industries in the world. India's total basmati production for the July 2016–June 2017 crop year was five million tons. At the same time period, India exported 4.04 million metric tons of Basmati rice across the globe. And it is expected to increase 18% per annum. Hence large numbers of foreign investors are coming and investing in Indian Basmati sector due to its high potential growth in the future.

Hence, the researcher selected this topic to make investments especially in the basmati industry based on the fundamental analysis.

5. Objective

1. To taste the financial efficiency of the basmati rice industries.
2. To analyze the growth of basmati rice industry.
3. To evaluate the fundamental strength of selected four basmati rice companies.
4. To take better decision for the investment.

6. Data Collection

This research paper is based on secondary data. The secondary data collected from books, journals, magazines, various websites. Financial statement are raw data collected from various website such as www.nseindia.com, www.screener.in, www.moneycontrol.com and compnies official websites.

7. Research Methodology

The current study adopts an analytical and descriptive research design. The data of the sample basmati rice industries (for a period of five years from april 2013 to march 2018) has been collected from the annual reports published by the company. A limited size of four company has been selected for the purpose of the study. They are KRBL ltd, L T food ltd, Kohinoor ltd, chamanlal setia export ltd. The variables used in the analysis of the data are Earning Per Share(EPS), Operating Profit Margin(OPM), Net Profit Margin(NPM), Debt Equity Ratio(DER), Return On Assets(ROA), Return On Net worth(RNW), Current Ratio(CR), Fixed Assets Turnover Ratio(FTR).While interpreting the results, the statistical tool of two-way Analysis of Variance (ANOVA) has been used. In view of the objectives of the study listed above, exploratory research design has been adopted. Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information, and it makes use of secondary data.

8. Analysis and Interpretation

Economic Analysis :

India is a developing country. The total GDP of the India is □ 98.39 lakh crore in year 2013-14 and □ 131.80 lakh crore in the year 2017-18. So overall 8.48% growth in the our economy over the last 5 year and it is expected to grow with 8% in the coming next five year. It's a very big positive sign for the country growth and development. The repo rate is 7.75% in year of 2014 and 6.50% in the year of 2018. Continues decrease the rate of repo rate is a sign of increase the liquidity in the economy. This all figure shows Indian economy is on the track of development and it has a high potential for developing in the coming year.

Industry Analysis :

Basmati Rice is GI (geographically indexed) Product. Hence the demand of the particular commodity is very high across the globe and The production are in limited area. So listed company have a high potencial situatuion for the export in the worldwide and earn the high profit. The total export of the basmati rice for the year 2013-14 is 3.18 million tones and 4.80 million tones for the year 2017-18. So the total export is increase by 12.73% in last 5 year and due to high demand of

the quality product , it is expected increase by 12-13% in the coming next 5 year.

Company Analysis :

(A) Earning per share (EPS):

Earning per share shows the ability of company to earn profit per share , after the tax paying. In practice, EPS is became a more useful tools to evaluate the company on starting phase. A higher EPS means better capital productivity. This ratio is computed with the help of following formula :

$$\frac{\text{Net income} - \text{Preferred Dividends}}{\text{Weighted Average Shares Outstanding}}$$

Table 1 :EPS (in rupees) position of sample companies

Year	KRBL	DAAWAT	CHAMANLAL	KOHINOOR
2013-14	9.63	2.94	3.53	1.85
2014-15	13.67	2.7	3.77	0
2015-16	12.45	2.7	7.2	1.08
2016-17	16.97	4.4	7.45	0
2017-18	18.46	4.21	8.05	0
Average	14.24	3.39	6	0.59

As shown in table 1, the EPS of Krbl substantially higher than that of other 3 companies as per the data taken from april 2013 to march 2018. The analysis reveals that Krbl is the most efficient company in the terms of generating Earning per Share.

The EPS position of sample companies is compared and tested using the following hypothesis.

Hypothesis Testing:

H₀ : EPS of Krbl, Daawat, Chamanlal and Kohinoor does not differ significantly.

H₁ : EPS of Krbl, Daawat, Chamanlal and Kohinoor differ significantly.

Table 2 : One-way ANOVA for EPS

Source of Variation	SS	df	MS	F	F crit (At 5%)
Between Groups	519.71978	3	173.23	37.16	3.238
Within Groups	74.58024	16	4.66		
Total	594.30002	19			

Since the calculated value of F is 37.17 which is greater than the table value of 3.24 (CV>TV at 5% significance level), the null hypothesis is rejected and the alternative hypothesis is accepted. Hence, it is concluded that the EPS position of Krbl, Daawat, Chamanlal and Kohinoor differ significantly.

(B) Operating Profit Margin (OPM)

Operating Profit Margin indicates how effective a company is at controlling the costs and expenses associated with their normal business operations. A rise in the operating profit margin indicates a decline in efficiency. This ratio is used to test the efficiency of the business. This ratio is found out using the following formulae and expressed in percentage terms:

$$\frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

Table 3: OPM (in %) of Sample Companies

Year	KRBL	DAAWAT	CHAMANLAL	KOHINOOR
2013-14	15	11	8	9
2014-15	17	10	7	1
2015-16	13	12	12	12
2016-17	20	11	13	-8
2017-18	21	10	9	3
Average	17.2	10.8	9.8	3.4

As shown in table 3, among all the sample companies, KRBL has sustained the highest Operating profit margin followed by Daawat which has registered a reasonably higher

margin. Thus it is found that krbl is the most efficient company in controlling costs and expenses when compared to other sample companies.

The OPM position of sample companies are compared and tested using the following hypothesis.

Hypothesis Testing:

H_0 : OPM of Krbl, Daawat, Chamanlal and Kohinoor does not differ significantly.

H_1 : OPM of Krbl, Daawat, Chamanlal and Kohinoor differ significantly.

Table 4 : One-way ANOVA for OPM

Source of Variation	SS	df	MS	F	F crit (at 5%)
Between Groups	478.6	3	159.5333333	8.087874947	3.238871522
Within Groups	315.6	16	19.725		
Total	794.2	19			

Since the calculated value of F is 8.08 which is greater than the table value of 3.24 ($CV > TV$ at 5% significance level), the null hypothesis is rejected and the alternative hypothesis is accepted. Hence, it is concluded that the OPM position of Krbl, Daawat, Chamanlal and Kohinoor differ significantly.

efficiency the capital is applied. A higher ROCE implies a more economical use of capital; the ROCE should be higher than the capital cost. If not. The company is less productive and inadequately building shareholder value. This ratio is found out using the following formula and expressed in percentage terms:

(C) Return on Capital Employed (ROCE)

ROCE stands for return on capital employed; it is a financial ratio that determines a company's profitability and the

$$\frac{\text{Earnings Before Interest and Tax}}{\text{Total Assets} - \text{Current Liabilities}}$$

Table 5 : ROCE (in %) of Sample Companies

Year	KRBL	DAAWAT	CHAMANLAL	KOHINOOR
2013-14	19	14	29	9
2014-15	19	13	28	0
2015-16	17	14	46	10
2016-17	21	16	39	-9
2017-18	22	14	29	1
Average	19.6	14.2	34.2	2.2

As shown in table 1, the ROCE of Chamanlal substantially higher than that of other 3 companies as per the data taken from april 2013 to march 2018. The analysis reveals that Chamanlal is the most efficient company in the terms of efficiency of capital allied.

The ROCE position of sample companies are compared and tested using the following hypothesis.

Hypothesis Testing:

H_0 : ROCE of Krbl, Daawat, Chamanlal and Kohinoor does not differ significantly.

H_1 : ROCE of Krbl, Daawat, Chamanlal and Kohinoor differ significantly

Table 6 : One-way ANOVA for ROCE

Source of Variation	SS	df	MS	F	F crit (at 5%)
Between Groups	2641.35	3	880.45	27.42834891	3.238871522
Within Groups	513.6	16	32.1		
Total	3154.95	19			

Since the calculated value of F is 27.42 which is greater than the table value of 3.24 ($CV > TV$ at 5% significance level), the null hypothesis is rejected and the alternative hypothesis is

accepted. Hence, it is concluded that the ROCE of Krbl, Daawat, Chamanlal and Kohinoor differ significantly.

Table 7 : Key Ratio

Particular	KRBL	DAAWAT	CHAMANLAL	KOHINOOR
Dividend Yield	1.12	1.17	0.69	0.35
Book Value Per Share	132	46.31	45.99	12
P/E Ratio	17.56	14.29	13.9	19.01
current ratio	3.02	1.52	4.33	0.23
Quick ratio	0.3	0.51	3.59	0.22
Debt to Equity ratio (D/E)	0.18	1.17	0.16	5.66
Return on Asset (ROA)	12.99	4.31	11.29	3.4

(D) **The dividend yield**, expressed as a percentage, is a financial ratio (dividend/price) that shows how much a company pays out in dividends each year relative to its stock price. Here among four company, Daawat pay the highest dividend.

(E) **Book value per share** is a method to calculate the per-share book value of a company based on common shareholders' equity in the company. It shows the how much tangible assets company have. Higher is a better. Here krbl have a highest book value per share. It shows company have a more sufficient tangible assets.

(F) **The price-to-earnings ratio (P/E ratio)** is the ratio for valuing a company that measures its current share price relative to its earnings per share. The P/E ratio shows what the market is willing to pay today for a stock based on its past or future earnings. A high P/E could mean that a stock's price is high relative to earnings and possibly overvalued. Above data shows that Kohinoor is overvalued stock with compare to other three.

(G) **The current ratio** is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables. Here result shows that chamalal setia export ltd has a highest liquidity assets and it is able to pay almost 4.5 times there current liabilities in one year .

(H) **The Quick ratio**, also known as the Acid-test or Liquidity ratio, measures the ability of a business to pay its short-term liabilities by having assets that are readily convertible into cash. These assets are namely cash, marketable securities and accounts receivable. Except Chamanlal all there company have less than 1 quick ratio. It means company does not have enough liquid assets to cover its current liabilities.

(I) **The debt-to-equity ratio** shows the proportions of equity and debt. A low debt-to-equity ratio indicates a lower amount of financing by debt via lenders, versus funding through equity via shareholders. Low ratio are able to increase the profitability of the company. Here the krbl and chamanlal have a very low D/E ratio. It means both companies are able to earn more profit because they have not suppose to pay more interest on debt.

(J) **Return on assets (ROA)** is an indicator of how profitable a company is relative to its total assets. Higher ROA shows high efficiency of capital of the company. Here krbl is able to earn high return on assets with compare three other company.

9. Findings

Krbl have highest Earning Per Share (EPS) and Operating Profit Margin (OPM) over the last five year e.g. April 2014 to March 2018. Chamanlal setia have a highest ROCE among the four company. Daawat have a highest dividend yield. While krbl have a highest book value. Kohinoor have ahighest P/E ratio which show it's a highly valued company. Chamanlal have a best strength position in Quick ratio, Current ratio and Debt-to-equity ratio. Krbl and chamanlal both have a high positive return on asset ratio.

10. Conclusion

Fundamental analysis is the useful tool for investment through by analysing the macroeconomic factors, industry condition and the company's financial situation and so on. Economic analysis and industry analysis shows the high growth rate in the coming 5 to 7 years. The company analysis revealed that its financial performance through the financial ratios, which indicates that Krbl and Chamanlal setia are financially in satisfactory position during the study period. Through the fundamental analysis, investor can relate the possible factors to ensure investment risk and expect a reasonable return. But the fundamental analysis does not advice to investors for investment by basis on buying and selling of a particular security. So the investors can take only the decision whether the investment is to be worth or not. The main motto of fundamental analysis is to reduce the risk and maximize the return on investment.

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