

Security Analysis & Portfolio Management At India Bulls Ltd.

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ABSTRACT

The activities of large, internationally active financial institutions have grown increasingly complex and diverse in recent years. The increasing complexity has necessarily been accompanied by a process of innovation in how these institutions measure and monitor their exposure to different kinds of risk. One set of risk management techniques that has attracted a great deal of attention over the past several years, both among practitioners and regulators, is “stress testing”, which can be loosely defined as the examination of the potential effects on a firm's financial condition of a set of specified changes in risk factors, corresponding to exceptional but plausible events.

A concept of security analysis and portfolio management services has been very famous and old among various institutions. This report represents practices and applications of portfolio management techniques in the portfolio section. Portfolio management is integrated and exhaustive of fundamental and technical methods which are used for calculation of annual return and earnings per share for the portfolio.

Modern portfolio theory suggests that the traditional approach to portfolio analysis, selection and management may yield less than optimum results. Hence a more scientific approach is required, based on estimates of risk and return of the portfolio and the attitudes of the investor toward a risk-return trade-off stemming from the analysis of the individual securities.

1. INTRODUCTION:

1.2 NEED FOR THE STUDY

Portfolio management is a process encompassing many activities of investment in assets and securities. It is a dynamic and flexible concept and involves regular and systematic analysis, judgments and actions. The objective of this service is to help the unknown investors with the expertise of professionals in investment portfolio management. It involves construction of a

portfolio bases upon the investors objectives, constraints, preferences for risk and return and tax ability. The portfolio is reviewed and adjusted from time to time in tune with the market conditions. The evaluation of portfolio is to be done in terms of targets set for a risk and return. The changes in the portfolio are to be effected to meet the changing conditions.

Portfolio construction refers to the allocation of surplus funds in hand among a variety of financial assets open for investments. Portfolio theory concerns itself with the principles governing such allocations. The modern view of investments is oriented more towards the assembly of proper combinations of individual securities to form investment portfolios. A combination of individual securities to form investments portfolios. A combination of securities held together will give a beneficial result if they are grouped in a manner to secure higher return after taking into consideration the risk elements.

1.3 OBJECTIVES

- To understand the process and operations of stock markets.
- To select a combination of securities and conduct security analysis by calculating

risk and return using Markowitz portfolio model.

- To analyze and select the portfolio of investment.
- To construct optimum portfolios using two securities.
- To study the portfolio risk return involved in the constructed portfolios.

1.4 SCOPE OF THE STUDY

- This study covers the Markowitz model. Here in, the study covers the calculation of correlations between the different securities in order to find out at what percentage of funds should be invested among the companies in the portfolio.
- The study includes the calculation of weights of individual securities involved in the portfolio. These percentages help in allocation the funds available for investments based on the risky portfolios.
- Statistical tools like Mean , variance, Standard deviation , covariance , coefficient of correlation are used for the analysis.

1.5 METHODOLOGY OF STUDY

The type of research adopted is explorative in nature. For the preparation of this report, relevant data has been collected from secondary source i.e., Daily prices of scripts from Newspapers, Business Magazines, Internet and Text Books.

The project mainly focuses on analysis of stocks of 12 selected companies. Markowitz portfolio method was chosen for the purpose of study. The study includes calculating the risk, return and beta (market risk) of the stocks for a period of one year. Statistical techniques such as mean, standard deviation, variance, co-variance have been used for predicting future returns of the assets. This assists in better decision making. Using Markowitz model, the expected return of the individual security is calculated which helps to know whether the security is fairly priced, over-priced or under-priced. Graphs representing date wise returns are plotted for each company stock and conclusions are drawn from these graphs.

Sample Frame: The Stock Prices of the selective companies namely RELIANCE, IDEA, AIRTEL, MTNL, IDBI, INDIAN BANK ,ACC, ULTRA TECH, TCS, WIPRO, ICICI, IDBI for the period of the year from

JANUARY 2017 to DECEMBER 2017, have been considered for the study purpose.

1.6 LIMITATIONS OF THE STUDY

- The study has certain constraints which has limited to its scope and objects of the study.
- The fulfillment of project to 45 days.
- From BSE and NSE listing – a very few and randomly selected scripts are analyzed.
- Construction of portfolio restricted to two- assets based in Markowitz model.
- Limited industries are only covered in the study.
- The study was conducted only for one period from January to December 2017.

2. LITERATURE SURVEY

Gupta (1972) in his book has studied the working of stock exchanges in India and has given a number of suggestions to improve its working. The study highlights the' need to regulate the volume of speculation so as to serve the needs of liquidity and price continuity. It suggests the enlistment of corporate securities in more than one stock exchange at the same time to improve liquidity.

The study also wishes the cost of issues to be low, in order to protect small investors

Panda (1980) has studied the role of stock exchanges in India before and after independence. The study reveals that listed stocks covered four-fifths of the joint stock sector companies. Investment in securities was no longer the monopoly of any particular class or of a small group of people. It attracted the attention of a large number of small and middle class individuals. It was observed that a large proportion of savings went in the first instance into purchase of securities already issued.

Gupta (1981) in an extensive study titled 'Return on New Equity Issues' states that the investment performance of new issues of equity shares, especially those of new companies, deserves separate analysis. The factor significantly influencing the rate of return on new issues to the original buyers is the 'fixed price' at which they are issued. The return on equities includes dividends and capital appreciation. This study presents sound estimates of rates of return on equities, and examines the variability of such returns over time.

JawaharLal (1992) presents a profile of Indian investors and evaluates their investment decisions. He made an effort to study their familiarity with, and comprehension of financial information, and the extent to which this is put to use. The information that the companies provide generally fails to meet the needs of a variety of individual investors and there is a general impression that the company's Annual Report and other statements are not well received by them. of his study that there is existence of wild speculation in the Indian stock market. The

L.C.Gupta (1992) revealed the findings over speculative character of the Indian stock market is reflected in extremely high concentration of the market activity in a handful of shares to the neglect of the remaining shares and absolutely high trading velocities of the speculative counters. He opined that, short-term speculation, if excessive, could lead to "artificial price". An artificial price is one which is not justified by prospective earnings, dividends, financial strength and assets or which is brought about by speculators through rumours, manipulations, etc. He concluded that such artificial prices are

bound to crash sometime or other as history has repeated and proved.

Nabhi Kumar Jain (1992) specified certain tips for buying shares for holding and also for selling shares. He advised the investors to buy shares of a growing company of a growing industry. Buy shares by diversifying in a number of growth companies operating in a different but equally fast growing sector of the economy. He suggested selling the shares the moment company has or almost reached the peak of its growth. Also, sell the shares the moment you realize you have made a mistake in the initial selection of the shares. The only option to decide when to buy and sell high priced shares is to identify the individual merit or demerit of each of the shares in the portfolio and arrive at a decision.

3.FINDINGS OF THE STUDY

Present project work has been undertaken to construct a portfolio using Markowitz theory. Markowitz theory is applied to construct a portfolio using only two securities. According to this theory Twelve securities were selected from profitable sectors, their returns were calculated using previous and current prices. Using their returns risks are

calculated during the project work following facts were found.

- RELIANCE is the profit making company which is having returns of 6.79 and risk of 2.581 . Both returns and risk are very high of this company.
- IDEA is the profit making company from tele communication industry which is having a returns of 4.417 and risk only 0.864. IDEA is gaining high returns and was involved in less risk.
- BHARATI AIRTEL is the profit making company from tele communication industry which is having a returns of 0.979 and risk is 0.9877. For this company returns as well as risk is low.
- MTNL (Mahanagar telephone Nigam limited) is a telecommunication sector which is having the returns of – 3.867 and risk is 1.95. Even though this company is involved in more risk but having negative returns.
- IDBI is the profit making company from the banking industry which is having a negative returns of -4.039 and risk of 1.065. Returns is negative and Risk is high for this company.
- INDIAN BANK is the profit making company from the banking industry which is having the returns of -3.817 and risk is 1.782

.Returns is less and Risk is high for this company.

- ACC is the another profit making company in the cement industry which is having the returns of -2.265 and risk of 0.82. There is negative returns and also less Risk for this company.
- ULTRA TECH is the another profit making company in the cement industry which is having the returns of -0.771 and risk of 0.9756 . There is negative returns and also less Risk for this company
- TCS is the one of the reputed the IT sector which is having the returns of the 5.154 and risk of 0.8925. As this company is having high returns with less risk involved.
- Wipro is also another reputed in the IT sector which is having the returns of the 3.337 and risk of the 1.166 . There is high risk and more returns.
- ICICI is the profit making company from the banking industry which is having the returns of -0.159 and risk is 1.154 . There is negative Returns and Risk is high for this company.
- HDFC is the profit making company from the banking industry which is having the returns of -0.349 and risk is 0.628 .Returns is

negative and Risk is also less for this company.

- The portfolio RELIANCE AND IDEA is having a risk of 1.439 and returns is 5.367, as this portfolio is getting high returns and also involved in high risk.
- The portfolio AIRTEL AND MTNL is having a risk of 0.959 and a return of 0.396 it means both risk and return is low.
- The portfolio IDBI AND INDIAN BANK is having a risk of 1.342 and a return of -3.92. As this portfolio is having negative returns and high risk.
- The portfolio ACC AND ULTRA TECH is involving in a risk of 0.88 and having a negative returns of -1.397. Both risk and returns are low for this portfolio.
- The portfolio TCS AND WIPRO is having less risk of 0.936 but having a high return of 4.423. Compared with other portfolios, this portfolio is having less risk and more returns.
- The portfolio ICICI AND HDFC is having a risk of 0.85 and a negative return of -0.245, both risk and returns are less for this portfolio

4. SUGGESTIONS

- As the average return of securities RELIANCE, IDEA, AIRTEL, TCS, WIPRO are HIGH, it is suggested that investors who

show interest in these securities are taking risk into consideration.

- The securities MTNL, IDBI, INDIAN BANK, ACC, ULTRA TECH ICICI and HDFC are having negative returns for this period, so better go think before investing into these securities.
 - As the risk of the securities RELIANCE, MTNL, IDBI, INDIAN BANK, WIPRO and ICICI are risky securities it suggested that the investors should be careful while investing in these securities.
 - The investors who require minimum return with low risk can invest in IDEA, TCS.
 - It is recommended that the investors who require high risk with high return can invest in RELIANCE and WIPRO.
 - The investors are benefited by investing in selected scripts of Industries.
 - Buy stocks in companies with potential for surprises.
 - Take advantage of volatility before reaching a new equilibrium.
 - Listen to rumors and tips, check for yourself.
- Don't put your trust in only one investment. It is like "putting all the eggs in one basket ". This will help lesson the risk in the long term

5. CONCLUSION

After collecting the data of five securities from different sectors to construct a portfolio. The main aim of constructing a portfolio is to minimize the risk associated with individual securities returns. Markowitz theory explains the process of constructing portfolios using their co-variance and standard deviation using the weightages. After collecting the returns, risk co-variance and correlation coefficient between different sets of securities one can construct their own portfolio using only two securities. We can select under portfolios according to their rankings in correlation co-efficient.

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