A Study Of Evaluating Investment Opportunities In Indian Stock Market

Anushka Aggarwal*

ABSTRACT:
The study aims at reviewing and discovering the lucrative and empirical evidence regarding the stock market performance. The Indian Stock market is soaring every day, it has become a potential investment opportunity for an individual. It is a theoretical paper derived from personal knowledge and data. This paper will highlight the techniques of evaluating the lucrative investment opportunities in the Indian stock market. It will include the fundamental and technical analysis study that are needed to study the flashback trend and the future scope of a stock listed in the Indian stock exchange.

Keywords: ***Indian Stock Market, Technical Analysis, Fundamental Analysis, Ratio Analysis***

INTRODUCTION

The term "investment opportunities" covers a wide range of ways to put money to work, including buying assets and holding them until their value rises or investing in real estate or a business opportunity. The degree of risk and potential reward associated with each decision varies. Investments could be unpredictable, or at least unstable. The value of investments typically fluctua tes. Some people's responses to global politics or economic issues are stronger. The securities commonly traded in the capital markets can be either stocks or bonds (Tandelilin, 2010). Investors need to be completely aware that there is a chance of making money on the stock market, but there is also a chance of losing money. They could potentially lose money, therefore there is no assurance that their capital will be preserved. Because of this, they ought to choose their shares with greater care. They must carry out a stock valuation to identify which shares are more profita ble now and in the future. There are two ways to evaluate the stock market – fundamental analysis and technical analysis. Financial ratio is performed in fundamental analysis to analyze the change in the stock price. Fundamental data are specifics about the overall state of the business, as demonstrated in the financial statements that quantify business performance. These financial statements can include some fundame ntal data, like cash flow, financial ratios, and other performance indicators linked to stock prices. There are five types of financial ratios, Profitability Ratio, Liquidity Ratio, Leverage Ratio, Activity Ratio and Valuation Ratio (Sutrisno, 2009). This study was conducted to determine the influence of fundamental factor and technical analysis variables on stock prices. The ratios which will be undertaken in this study will be PE ratio, Debt to Income ratio, dividend yield ratio, current ratio and earning yield ratio. Other factors like promoter holding and pledge percentage will be analyzed. Technical analysis will include the type of candlesticks and trend line analysis. Fundamental analysis is mainly divided into two parts- qualitative and quantit ative analyses, Qualitative analys is: a study that involves brand value, mana gement decisions, the financial perfo rmance of the company over a given period, and other similar factors. Quantitative analysis: an analysis that is purely number-based and considers the company's financial statements and concludes the share price from the observations. Technical Analysis in contrast to fundamental research, techn ical analysis focuses on statistical trends, such as changes in a stock's price and volume, to help traders spot oppor tunities. The fundamental premise is that all known fundamentals are taken into account by price, hence they are not particularly important. The intrinsic value of an asset is not something that technical analysts try to calculate. Instead, they look for patterns and trends in stock charts that indicate what will happen to a stock in the future. Technical analysis is a trading strategy that evaluates investments and spots trading opportunities by examining statistical patterns gleaned from trading activity, such as volume and price movement. Technical analysis focuses on the analysis of price and volume as opposed to fundamental analysis, which seeks to determine a security's worth based on financial metrics like sales and earnings. It can help improve the assessment of a security's strength or weakness compared to the overall market or one of its sectors. It is

*Student, Asian Business School, Noida

frequently used to generate short-term trading signals using different charting tools. Analysts can refine their overall valuation estimate by using this information. Charles Dow and his Dow Theory made technical analysis what it is today in the late 1800s. Depending on the needs of the user, technical analysis can be applied throughout a range of durations. One can utilize a time frame of 1m, 3m, 5m, 15m, 30m, 45m, 1h, 2h, 3h, 4h, 1D, 1wk, and 1mo, where "m" denotes minutes, "h" denotes hours, "D" denotes days, "wk" denotes weeks, and "mo" denotes months There are certain assumptions that are followed in technical analysis as mentioned below: Markets are efficient: Technical analysis is predicated on the idea that markets are effective and that the price of a security already reflects all relevant information. Trends will continue until there is a clear signal to the contrary: Technical analysts assume that trends will continue until there is a clear signal to the contrary. History repeats itself: Technical analysis also makes the assumption that market trends and patterns have a propensity to recur over time. As a result, traders can spot trends that are likely to continue by looking at historical price data.

TABLE 10: NUMBER OF INVESTOR WHO PREFER DIFFERENT TIME HORIZON

Basis	Fundamental Analysis	Technical analysis
Relevance	For long term investment.	For short term investment.
Function	Useful for investment.	Useful for trading.
Data used	Both past and present data.	Based on past data only.
Position	Long term position	Short term position.
Form of data	Annual reports, news, economic stats etc.	Uses technical charts only.
Application	Used mainly on stocks but can be applied on derivatives and bonds.	Can be applied to all the assets.

LITERATURE REVIEW

The method most frequently used to evaluate financial statements is financial ratio. The financial ratio connects several assumptions in the financial statements, allowing the financial situation and operational outcomes of a company to be understood. The ratios are a helpful tool for assessing a company's financial status and operations and comparing them to those of past years or other businesses (Simamora,2000). By comparing the financial ratio with that of prior years, financial ratio may also be utilized to identify abnormalities in the execution of the company's operational activities (Wild et al., 2005). A significant justification for buyback choices is a bad set of investment opportunities. Managers ought to return funds to investors rather than put money into initiatives with negative net present value when there aren't any good investment possibilities available. The problem with earlier study is that, in most cases, the researcher is unable to witness the firm's investment opportunity set. As a result, a number of proxies have been employed to gauge the firm's pool of investment opportunities (Gaver and Gaver ,1993). Julio, B., & Yook, Y. (2012) has demonstrated how corporate investment cycles worldwide coincide with the time of national elections. By accounting for growth potential and economic conditions, businesses cut investment spending during election years by an average of 4.8% compared to nonelection years. With varied country and election variables, investment cycle size varies. In order to support the theory that political uncertainty causes businesses to cut investment spending until the electoral uncertainty is resolved, the researcher looked into a number of possible reasons and discovered data to support it. It was discovered that the political process has a significant impact on actual economic outcomes through the channel of political uncertainty. The valuation ratio is used to assess a company's capacity to produce value for shareholders or the general public (investors). This ratio shows how much more money investors are willing to provide the company than the share's book value. According to Brigham and Houston (2012), the Price Earnings Ratio (PER) shows the investor's willingness to pay for each reported profit. A higher PER shows that investors are willing to purchase the company's shares for a greater price.

METHODOLOGY

This paper is based on secondary theo retical data collection method. Metho dology is the pathway or an approach to get the needed information by locating the data from different sources which are primary & secondary. The systema tic collecting, analysis, interpret ation, and reporting of data and findings important to the company is known as marketing research. Research method ology is the study of procedures in order to address a research topic. It is the science of understanding how to do research in a methodical manner. It is basically the specification of the meth od or methods that would be employed to obtain knowledge as well as informa tion or evidence in the context of the

*Student, Asian Business School, Noida

research problem. In this research report I have used secondary source for data collection. Works that analyze, interpret, or merely recount historical or scientific occurrences are referred to as secondary sources. They are not firsthand accounts themselves; they are written based on firsthand accounts. Secondary sources reevaluate the material and create conclusions by fusing it with data from other sources. They do this by drawing on the facts and experiences from primary sources. Secondary sources frequently offer a condensed and easier-to-understand version of the same essential informa tion because original sources aren't always available to everyone. The accessibility of secondary sources for study is one of their key benefits. Analysis Fundam ental analysis PE ratio The price- earning ratio also known as PE ratio, it compares the price to the earning per share of the company. It is commonly used to determine whether the company is undervalued or overvalued. The approach is straightfor ward and is now widely used by investors to make buy/sell decisions. The liquidity ratio is used to assess a company's capacity to meet its immedi ate obligations. The PE ratio of a company can be compared with the industry PE ratio so that we can analyze whether it is costly to buy or not. The formula for this ratio is obtained by dividing the current price of the stock by the earnings per share. For example, the PE ratio of a company X is 89.4 whereas of Company Y is 20.8 (as of 11 July,2023) which simply means that the latter is much more cheap to buy than the former stock. It also tells the number of years. According to stocks Fama and French(1992), during1963-1990, the high correlation between returns and factors including size, price-to-book ratio, and historical return is proof that existing asset pricing methods are compensating for extra sources of risk. They come to the same conclusion about the earnings price ratio when it serves as the sole explanatory factor for the cross-section of stock returns. However, when book-to-market ratio is also taken into consideration, its significance is lost. Debt to Income ratio The debt-to-income (DTI) ratio calculates how much money a person or business needs to make in order to pay off their debts. If the ratio is more than 1 then it indicates a negative view and the investors should be careful and if it is beyond 10 then that company can get trapped into a debt trap situation in the future. A likely scenario, can be when we divide the debt by 5 and get it equal to the profit. For example, taking the same both companies as taken earlier, company X. has 49.9 which is way higher and it denotes that the company has more debt than the earnings and company Y has 8.11 (as of 11 July,2023) which means that the company has high debt but if managed wisely the company will be able to manage it. For an IT industry this ratio may not prove to be that significant. Dividend Yield ratio The dividend yield ratio, which measures the risk inherent in investing in a company, is the ratio between the company's current dividend and its current share price. Investors seeking dividend income from stocks should continue to focus on those with at least a 3%–4% yield. Dividend is always given on the face value of a company. It denotes that the company pays dividend to its shareholders which also makes the company a lucrative option of investment opportunity for an investor. For example, a company X has 0.31% whereas Company Y has 1.05% which indicates a better investment opport unity. Current Ratio The current ratio (CR) gauges how well current assets can cover current liabilities. Divide current assets by current liabilities to get this ratio. And it demonstrates how assets that will soon be turned into cash pay existing liabilities. According to Brigham and Houston (2012), cash, tradable securities, receivable accounts, and other current assets inventories, too. current liabilities include accrued salary, short-term receivable notes, long-term loans, taxes, and payable accounts. Example, Company X has 1.09 as CR ratio and company Y has 0.5 which makes company Y a better investment opportunity. Earning Yield Earnings yield is the result of dividing the current share price by the earnings per share for a certain financial period. It is the P/E ratios' opposite. Investors can determine how much he has earned per share using the earnings yield. If a company's profits yield is 8%, that indicates that for every Rs. 100 worth of shares purchased, the investor has made Rs.8. it is an important ratio for an investor to analyze whether the compan y will be able to help him incur earnings or not. Example, Company X has 3.45% of earning yield and Company Y has 6.81% which means that company Y will be bake to generate more earnings.

*Student, Asian Business School, Noida

TABLE 1 COMPARISON OF RATIOS

RATIO	COMPANY X	COMPANY Y
PE RATIO	**89.4**	**20.8**
DEBT TO INCOME RATIO	**49.9**	**8.11**
DIVIDEND YIELD RATIO	**0.31%**	**1.05%**
CURRENT RATIO	**1.09**	**0.5**
EARNING YIELD RATIO	**3.45%**	**6.81%**

Table 1 depicts the comparison of different ratios discussed above. Company X is overvalued in terms of PE ratio than company Y and also have more debt than company Y which makes it more prone to debt trap situation in the future. Dividend yield ratio of Company X is also lower which means that the company is less reliable to pay dividend to its shareholders in the future. The company X holds more assets which depicts that the money is blocked and less cash flow. Earning yield ratio is less which means that the company earns less per shares. Company X despite being a huge franchise, when analyzed on fundamental terms have less investment opportunity than Company Y. Table 2 shows the decomposition measure's results from Fama. Value stock portfolios have produced the biggest risk premiums of any other type of portfolio in this area as well. Compared to other portfolios, value stock portfolios offered investors a significantly higher compensation for their lack of diversification. The fact that all value stock portfolios offered positive net selectivity returns is what is more intriguing to note. Therefore, even on a basis of net selectivity, value stock portfolios have outperformed growth stock portfolios. All P1 portfolios have placed first in the rankings based on net selectivity, with the exception of dividend yield, where P2 took the top spot. This shows that defying the trend and investing in value stock portfolios instead of growth stocks paid off in the form of better returns. So, we may conclude that value stock portfolios can be used to create portfolios that perform better.

TABLE 2 RESULTS OF FAMA'S DECOMPOSITION

Portfolio	*Risk premium*	*Risk premium due to*				*Ranking on the basis of net selectivity*
		Systematic risk	*Selectivity*	*Unsystematic risk*	*Net selectivity*	
P/B						
P1 (value)	0.0297	0.0103	0.0194	0.0025	0.0168	1
P2	0.0251	0.0097	0.0153	0.0015	0.0138	2
P3	0.0214	0.0092	0.0121	0.0011	0.0110	3
P4	0.0176	0.0090	0.0085	0.0008	0.0077	4
P5 (growth)	0.0150	0.0085	0.0065	0.0006	0.0059	5
P/E						
P1 (value)	0.0308	0.0099	0.0209	0.0019	0.0191	1
P2	0.0256	0.0090	0.0166	0.0013	0.0153	2
P3	0.0209	0.0092	0.0117	0.0009	0.0108	3
P4	0.0165	0.0086	0.0079	0.0008	0.0071	4
P5 (growth)	0.0137	0.0094	0.0044	0.0007	0.0036	5
Dividend yield						
P1 (value)	0.0223	0.0086	0.0137	0.0017	0.0119	2
P2	0.0225	0.0091	0.0134	0.0012	0.0121	1
P3	0.0204	0.0085	0.0119	0.0012	0.0108	3
P4	0.0166	0.0090	0.0076	0.0009	0.0067	4
P5 (growth)	0.0168	0.0098	0.0070	0.0008	0.0062	5

TECHNICAL ANALYSIS

Technical analysis is mainly done for short term trading. To understand the technical analysis, it is empirical to understand the candlestick pattern. Ultimate oscillator is a technical indic ator that measures the price momentum of a security. The range of the ultimate oscillator, a range-bound oscillator, is 0 to 100. Levels below 10 and levels beyond 90 are regarded as oversold and overbought, respectively. It is recomme nded to buy the security if the U.O is less than10, and to sell it if the U.O is greater than 90. Ultimate oscillator also helps in providing possible indications whether the market will go up or down in succeeding candles. This is done by the concepts of Bullish Divergence, Positive/ Bullish Reversal, Bearish Div ergence and Negative/ Bearish Reve rsal. Positive reversal pattern, simply defined, a reversal happens when a stock shifts trends and begins to move against earlier price movement. A positive reversal joins the Low and Higher low points whereas the ultimate oscillator shows the opposite, which indicates the prices will go up. Whereas, negative reversal is just the opposite of it. Both shows that there is going to be reversal in orice movement. Bearish divergence pattern is when prices increase to a new high while the oscillator stagnates rather than rising to a new peak, bearish divergences indicate possible downtr ends. Currently, the bulls are losing control of the market, prices are only increasing due to inertia, and the bears are prepared to regain control and bullish divergence depicts the opposite. For a Buying Signal: First, a bullish divergence must form. This is when the price makes a lower low but the indicator is at a higher low. Second, the

*Student, Asian Business School, Noida

first low in the divergence (the lower one) must have been below 30. This means the divergence started from oversold territory and is more likely to result in an upside price reversal. Third, the Ultimate oscillator must rise above the divergence high. The divergence high is the high point between the two lows of the divergence. For Selling Signal: First, a bearish divergence must form. This is when the price makes a higher high but the indicator is at a lower high. Second, the first high in the divergence (the higher one) must be above 70. This means the divergence started from overbought territory and is more likely to result in a downside price reversal. Third, the Ultimate oscillator must drop below the divergence low. The divergence low is the low point between the two highs of the divergence. Another popular and well-known momentum indicator in technical analysis is the relative strength index (RSI). The Relative Strength Index (RSI) is a tool that may be used to detect overbought and oversold circumstances in an investment. The indication is displayed on a scale of 0 to 100. A rating of more than 70 indicates that a security is overbought, while a reading of less than 30 indicates that it is oversold. This indicator aids traders in determining whether the price of an asset has been artificially pushed to present levels and whether a reversal is imminent.

Source: Google
Details: RSI graphs
RSI = 100 – 100 / (1 + RS).
RS = Average Gain / Average Loss.
Average Gain = Sum of Gains over the past 14 periods / 14.
Average Loss = Sum of Losses over the past 14 periods / 14
In this case, RSI can be based on any number of periods, though Wilder recommends a default of 14. When compared to long-term trading, the number of periods employed for short- and medium-term trading will be less. For short- and medium-term investments, 9-day RSI and 14-day RSI are typically employed, while long-term investments may be made using 56 day RSI, 100 day RSI, and 200 day RSI. When making a long-term investment, a lengthy period of time will be taken into account. The most popular type of technical analysis is trend lines. They're also possibly one of the most underutilized. They can be as accurate as any other method if drawn correctly. Unfortunately, most traders draw them incorrectly or attempt to make the line match the market rather than the other way around. An uptrend line is formed along the bottom of plainly recognized support regions in its most basic form (valleys). The trend line is formed along the top of plainly recognized resistance points in a decline (peaks). All these terms combined together form a strong base for any investor to analyze any investment opportunity in Indian stock market.

CONCLUSION AND RECOMMENDATION

Both fundamental and technical analysis have its importance for any new trader to enter into such volatile maker such as Indian stock market and convert it into an opportunity. Fundamental analysis will need a person to be financially literate and have much more understan ding of the accounts whereas technical analysis can be used for small traders. The five ratios that were discussed affects the investors decision whether to buy the stock or not as it depicts the company's performance and give a better view whether the organization has strong financials or not. There are many more financial ratios that can be used but these five have most significant impact on any organization's financials. Technical analysis is a bit easier to understand and intradaytrading can be done more easily by an investor. For understanding and identifying an investment opportunity an investor should always trade without risking everything. Stock market is a platform which gives people profits in a very short span of time as well as can hit a person's financials very deeply. For a good portfolio it is always advisable to invest in different stocks by investing in diverse caps like large cap are for risk averse individuals, mid cap gives better returns and low cap are highly risky.

REFERENCES

1. Abad, C., Thore, S. A., & Laffarga, J. (2004). Fundamental analysis of stocks by two-stage DEA. Managerial and Decision Economics, 25(5), 231-241.

Student, Asian Business School, Noida

2. Agarwal, S., Kumar, S., & Goel, U. (2019). Stock market response to information diffusion through internet sources: A literature review. Intern ational Journal of Information Management, 45, 118-131.

3. and beverage industries. European Research Studies, 21(3), 316-326.

4. Greig, A. C. (1992). Fundamental analysis and subsequent stock returns. Journal of Accounting and Economics, 15(2-3), 413-442.

5. Herawati, A., & Putra, A. S. (2018). The influence of fundamental analysis on stock prices: The case of food

6. Kallapur, S., & Trombley, M. A. (2001). The investment opportunity set: determinants, consequences and meas urement. Managerial finance, 27(3), 3-15.

7. Latha, K., Gupta, S., & Kumar, A. (2016), Relationship between Indian Stock Market Performance and Macroeconomic Variables: An Empiric al Study.

8. Tripathi, V., & Aggarwal, P. (2018). Value effect in Indian stock market: an empirical analysis. International Journal of Public Sector Performance Management, 4(2), 146-168.

*Student, Asian Business School, Noida