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A Study on the Investment Analysis of Equity Shares with Special Reference (BSE) Stock Index

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Abstract: The investors and stake holders of the equity stock are analyses the share price and earnings per share value in the past years. Estimating the required return on investment to be made in the stock market is a challenging job before an ordinary investor. Different market models and techniques are being used for taking suitable investment decisions. The past behavior of the price of a security and the share price index play a very important role in security analysis. The present study is an attempt to know risk and return analysis for measuring share price growth in the past three years. As the main object of the study is to test the relation between risk and return on equity shares in India, the period covered is from 31st December 2015 to 29 December 2017and the sample shares were randomly selected from amongst 10 equity shares included in the BSE 500 index. It is recommended that a proper estimation and analysis of standard deviation can be reliably taken recourse to in understanding the risk involved and the return generated from equity shares.

Keywords: risk and return, optimum portfolio, rate of return and so on.

I. INTRODUCTION

The potential for financial portfolio to minimize risk through diversification is central to the study of finance. The main objective of investment management to know market risk and create good investment plan or investment portfolio for decides future gain from the investment. The investment of any types of assets must have risk of uncertainty. Without risk there no higher return. Risk is defined as the chance that an investment's actual return will be different than expected. This includes the possibility of losing some or all of the original investment.

Investors always think about the future return for their investment. When investing in stocks, bonds or any other investment instrument, there is a lot more risk investors think. Stock investing requires careful analysis of financial data to find out the company's true worth. Stock market research is important to good investment decision making. It leads to determine the market price and trading volume for the stock, high and low price for the stock over different periods and the earnings for the company. To determine the right choice of a security or portfolio to an investor, it depends on the level of risk that the stock carries. An estimation of the risk return profile of a security or portfolio is an important aspect in investment management. The stock market research will allow one to assess the possible risk of a stock against the possible rewards of the stock.

The Indian stock market has increased a new life in the post-liberalization era. It has experienced a structural modification with the setting up of SEBI, opening up to the foreign investors, establishment of the BSE, commencement of the screen based trading system, dematerialization of equity securities and introduction of derivative instruments. The functions of the share market have increased in all respects. Market capitalization has improved spectacularly. Number of listed companies has gone up. But the most important and wonderful phenomena of all are the movement of secondary market share prices which are reflected in either the upward or downward trend in the major share price indices in the country.

The stock market impacted the performance of an economy. When the economy does well and the companies make beneficial profit, people get induced to invest in stocks because they expect higher return from their stockholding. In the present globalised business scenario, risk is attached with every dimension. Financial markets are not free from imperfections, which make results inconsistent with the expectations. The concept of risk management in case of investment decision assumes greater importance in the modern day financial management.

The objective of financial investing is to earn the largest possible profit or return on investment.

Investing always involves a certain amount of risk, ie, there is a chance that an investment will yield not only profit but also loss. Thus investing aims at profit maximization and risk minimization.

II. REVIEW OF LITERATURE

Suchaya Siamwalla (2016)[1] examines the factors that will affect the probability that a fund will deliver an outstanding low-risk, high-return performance using unbalanced panel logistic regression on a binary dependent variable. The results showed that funds with high non-systematic risk, also called idiosyncratic risk, and/or older funds, were more likely to deliver a low-risk, high-return performance, and the funds that were managed by the company that managed a high number of funds were less likely to deliver such performance. This study proposes a new performance evaluation tool called the “risk-return matrix.” This matrix suggested the funds with outstanding low-risk, high-return past performance. This study applied the results to three new investment strategies. All simulations demonstrated returns better than the industry’s average returns.

Thirugnanasoundari ed. al (2016)[2] explaining the parity between risk and return in the Indian equity market. It will definitely help the stakeholders to take appropriate decision regarding the time of investment, horizon of investment, quantum of investment and even portfolio selection. The analysis of testing the relationship between risk and return in the Indian stock market reveals that of all the different risk variables considered in the study, the distributional risk variables, variance, skewness and kurtosis of the return distribution, confirm the working of risk-return trade-off in the Indian context. Also, a positive association was exhibited between the security market return correlation and the average rate of return during the period of study. It also exposes the relation between systematic risk and rate of return on equities in India. The presence of randomness of the return series of both monthly market and monthly security returns in India has proved that the Indian stock market is weakly efficient.

Shaini Naveen & T. Mallikarjunappa (2016)[3] analyzes the risk and return in banking sector taking Nifty Bank Index as the benchmark. The study compares the performance of the 12 listed banks in the NSE. Indian banking industry, the backbone of the country’s economy has always played a positive key role in prevention the economic disaster from reaching horrible volume in the country. Risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event. It has achieved enormous appreciation for its strength, particularly in the wake of some of the worldwide economic disasters. Banking sector funds have proved to be more volatile than the pure diversified equity funds which make some of them a high risk proposition. The study evaluates the performance of banking stocks mainly to identify the required rate of return and risk of a particular stock based upon different risk elements prevailing in the market and other economic factors.

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[1] Suchaya Siamwalla (2016) “Risk and Return in The equity mutual fund industry: An unorthodox relationship and its application to new investment strategies” Capital Market Research Institute, the Stock Exchange of Thailand

[2] Thirugnanasoundari ed. al (2016) “Risk and Return Analysis of Equity Shares with Special Reference it Companies (NSE) Stock Index”, SSRG International Journal of Economics and Management Studies (SSRG-IJEMS),3(2), pp. 1-7.

[3] Shaini Naveen & T. Mallikarjunappa (2016) “A Study On Comparative Analysis of Risk and Return With Reference To Stocks of CNX Bank Nifty” International Journal of Scientific Research and Modern Education, 1(1), 737-743.

Dr. S Poornima and Swathing (2017)[4] analyzing in selected stocks from sectors such as automobile sector and IT sector. Five stocks in each sector have been taken for the sample. Automobile industry is considered to be one of the fastest growing sectors in any developing and even in a developed country. As global economies are getting integrated, technology companies are finding it an over task to align to the changing realities. In such a scenario, analyzing stocks from the technology sector requires utmost caution and understanding. By analyzing the stocks from two different sectors, investors will find beneficial in which sectors to invest. The risk and return analysis linked with any industry reveals the intricacies involved with the particular industry. A study revealed that automobile sector showing positive return and low risk and IT sector showing negative return and high risk during the study period.

III. Statement of the Problem

One of the most important financial decisions for business is investment with the aim of making gains in the future. Investment decisions are concerned with the use of funds including buying, holding or selling of assets and stock decision could be vital to a firm. A careless decision may result in a long-term loss or even worse, bankruptcy. Therefore, an in-depth understanding and analysis is necessary for a high quality investment decision process. This is also even more critical to investors who invest in stock of company or shareholders. The aim of investors' is getting investment opportunities with minimum risk and maximum returns.

Risk and returns are important variables that determine the future financial benefit. Risk and return is based on market risk and also investors' decision for investment. Naturally rational investors would expect a high return but they did not mind for high risk. The investors and stake holders of the equity stock are analyses the share price and earnings per share value in the past years. Estimating the required return on investment to be made in the stock market is a challenging job before an ordinary investor. Different market models and techniques are being used for taking suitable investment decisions. The past behavior of the price of a security and the share price index play a very important role in security analysis. The present study is an attempt to know risk and return analysis for measuring share price growth in the past three years.

IV. Objectives

The following objectives are framed for the present study

1. To ascertain the return from the equity shares for the selected study period
2. To know the risk through standard deviation of selected company share prices
3. To offer suitable suggestions to make optimum portfolio for investors

V. Methodology

As the main object of the study is to test the relation between risk and return on equity shares in India, the period covered is from 31st December 2015 to 29 December 2017and the sample shares were randomly selected from amongst 10 equity shares included in the BSE 500 index. The variables under consideration for the risk-return study are limited to only the distributional and financial risk variables. The distributional risk variables under observation are the variance of the return.

[4] Dr. S Poornima and Swathiga (2017) "A study on relationship between risk and return analysis of selected stocks on NSE using capital asset pricing model" International Journal of Applied Research 2017; 3(7): 375-378.

VI. Analyses and Interpretations

S. No	Companies	31-12-2015 Rs.	30-12-2016 Rs.	29-12-2017 Rs.	Return In Rupees	Returns In Percentage
1.	MRF	39847.60	48781.15	72348.15	32500.6	81.56
2.	Polson	6066.00	6955.00	16034.65	9968.65	164.34
3.	Rasoi	16915.00	24116.00	38428.00	21513	127.18
4.	Eicher Motors	16855.20	21812.10	30290.55	13435.4	79.71
5.	Vardhman Hold	959.25	1845.00	5059.20	4099.95	427.41

The above table shows that the calculation of return from the investment for the selected companies. It is found that MRF Company gives maximum return in Rs. 32500.6 and in percentage wise it gives 81.56% of return. The second most high return is getting from the Rasoi company Rs. 21513 and percentage wise 127.18%.

S. No	Companies	31-12-2015 Rs.	30-12-2016 Rs.	29-12-2017 Rs.	Standard Deviation	Skewness
1.	MRF	39847.60	48781.15	72348.15	16790.36	1.196974
2.	Polson	6066.00	6955.00	16034.65	5516.71	1.681587
3.	Rasoi	16915.00	24116.00	38428.00	10950.62	0.928416
4.	Eicher Motors	16855.20	21812.10	30290.55	6794.16	0.754272
5.	Vardhman Hold	959.25	1845.00	5059.20	2157.36	1.409411

The above table shows that the calculation of risk through standard deviation. It is found that maximum risks were found in the highly gaining company MRF. It is also give maximum return and maximum risk. The second highest risks are found from the Rasoi company.

S. No	companies	31-12-2015 Rs.	30-12-2016 Rs.	29-12-2017 Rs.	Return In Rupees	Returns In Percentage
1.	Bosch	18671.85	20999.40	20103.05	1431.2	7.67
2.	Shree Cements	11472.60	14724.70	18038.70	6566.1	57.23
3.	Claris Life	212.50	320.05	356.30	143.8	67.67
4.	Tide Water Oil	6980.75	5567.25	7036.60	55.85	0.80
5.	Page Industries	13342.30	13722.55	25462.75	12120.5	90.84

The above table shows that the calculation of return from the investment for the selected companies. It is found that Page Industries Company gives maximum return in Rs. 12120. 5 and in percentage wise it gives 90.84% of return. The second highest return is getting from the shree cements Rs. 6566.1 and percentage wise 57.23%.

S. No	companies	31-12-2015 Rs.	30-12-2016 Rs.	29-12-2017 Rs.	Standard Deviation	skewness
1.	Bosch	18671.85	20999.40	20103.05	1173.97	-0.66762
2.	Shree Cements	11472.60	14724.70	18038.70	3283.10	0.02828
3.	Claris Life	212.50	320.05	356.30	74.79	-1.28562
4.	Tide Water Oil	6980.75	5567.25	7036.60	832.68	-1.72329
5.	Page Industries	13342.30	13722.55	25462.75	6890.60	1.726119

The above table shows that the calculation of risk through standard deviation. It is found that maximum risks were found in the highly gaining company Page Industries. It is also give maximum return and maximum risk. The second highest risks are found from the shree cements company.

VII. Suggestions

- From the analysis the researcher suggest that investors must take decisions before investing share. MRF and Polson companies are having good return and high growth rate. So that they invest both companies.

- The regular income-seeker-investors can use the return values in fixing and formulating portfolios.
- It is recommended that a proper estimation and analysis of standard deviation can be reliably taken recourse to in understanding the risk involved and the return generated from equity shares.
- The risk-return analysis can be used as a stable platform by the investors in establishing the tradeoff between portfolio risk and return.

VIII. Conclusion

The present study can be used to analyze the relationships between different elements of a firm in order to provide an overview as well as an in-depth view of company's equity stock condition. Moreover, by looking at the calculated financial information, in the connection with economic data, investor can make judgments about past and future financial performance and conditions. Besides, earnings analysis and risk and return analysis may provide even more detailed information about the firm, and also help investor to perceive potential risk. Therefore, it is safe to assume that financial analysis play an irreplaceable role in making investment decisions.

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