

Fundamental Analysis for Investment Decisions on Five Major Banks

T. Maharaja

Research Scholar, Anna University Regional Centre, Coimbatore, India

M.Saravanakumar

Associate Professor, Anna University Regional Centre, Coimbatore, India

Abstract

It is felt that the Share market is fluctuating very quickly and the real worth of the shares also is unstable. The investors need to know the trend of the share value fluctuations and the stability of share price movements. In banking industry, the intrinsic value of the shares is to be computed to ascertain the share values of the banks which may either be undervalued or overvalued based on the performance of the banks.

In this study, an analysis is done to help make decision as regard to whether it is wise to invest in banking institutions in India or not. Five of the banks have been selected for the analysis of investment decision over banking companies whether it is wise to hold or to sell the shares. The investment decision is made on the basis of analysis of general trend on banking sector. The study helps to select securities which maximizes the yield and minimizes risk.

Fundamental analysis involves finding the intrinsic value of the selected banks and their share value. It provides additional strength to the investor in choosing the option of buy/sell strategy. The analysis incorporates with various financial ratios and their calculations to arrive out the intrinsic value of the shares of the banks finally. The intrinsic value is the yardstick to measure the financial performance of any bank.

Real worth of the share may not always be reflecting in the market price. Banking companies are selected for investment based on the real worth of the shares and the intrinsic value of the shares will be calculated thus. In this way, we can make appropriate investment decisions with the help of intrinsic value of shares.

Fundamental analysis is always the proper method to arrive at the results of the company or industry on its financial performance. If the company is fundamentally strong, that will help the investor to get a very good return in the long run. Hence, before making an investment decision the investor has to check the results of the fundamental analysis of the companies. The study has thrown more light on the strength of banking sector performance and as a tool for generating and distributing the wealth of nation.

INTRODUCTION

This analysis is done to ascertain the financial performance of selected banks in the banking sector in India so as to facilitate a buy or sell option through the intrinsic value of the shares and the prevalent market price using fundamental analysis. It is basically to know the investment opportunities for the investors in buying the shares of banking companies.

This analysis utilizes various data spread over a span of four years (2009-10 to 2012-13) which was collected through the company related documents, websites, etc. The significance of the study lies in the fact that it helps to make decision to invest in banking institutions in India. It also will provide information on the existing investments with banking companies whether it is wise to hold or to sell the shares.

It is felt that the Share market is fluctuating very quickly and the real worth of the shares also is unstable. The value of the shares of a bank is either undervalued or overvalued. To know the trend of the share value fluctuations, the intrinsic value of the shares is to be computed. The share values of the banks may be either undervalued or overvalued based on the performance of the banks in purview.

Banks

A bank is a business unit that provides banking services for a profit. Traditional banking services include receiving deposits of money, lending money and processing transactions. Some banks issue bank notes as legal tender. Many banks offer ancillary financial services to make additional profit for example, selling insurance product, investment product or stock broking. Currently in most jurisdictions, the business of the banking is regulated and bank requires permission to do their business. Authorization for transactions is granted by banks regulatory authorities and provides rights to conduct the most fundamental banking services such as accepting deposits and making loans. There are also financial institutions that provide banking services without meeting the legal definitions of bank.

Profile of the Selected Banks

· State Bank of India

State Bank of India is an India-based bank. In addition to banking, the Company, through its subsidiaries, provides a range of financial services, which include life insurance, merchant banking, mutual funds, credit card, factoring, security trading, pension fund management and primary dealership in the money market. It operates in four business segments: the treasury segment includes the entire investment portfolio and trading in foreign exchange contracts and derivatives contracts; the corporate / wholesale banking segment comprises

the lending activities of corporate accounts group, mid corporate accounts group and stressed assets management group; the retail banking segment comprises of branches in National Banking Group, which primarily includes personal banking activities, and other banking business. As of March 31, 2013, the Bank had a network of 18,266 branches including 4,724 branches of its five Associate Banks.

· **ICICI Bank**

ICICI Bank Limited is a banking company which with its subsidiaries, joint ventures and associates, is a diversified financial services group providing a range of banking and financial services, including commercial banking, retail banking, project and corporate finance, working capital finance, insurance, venture capital and private equity, investment banking, broking and treasury products and services. It operates under four segments: retail banking, wholesale banking, treasury and other banking. Retail Banking includes exposures, which satisfy the four criteria of orientation, product, granularity and low value of individual exposures for retail exposures. Wholesale Banking includes all advances to trusts, partnership firms, companies and statutory bodies, which are not included under Retail Banking. Treasury includes the entire investment portfolio of the Bank. Other Banking includes hire purchase and leasing operations and other items.

· **HDFC Bank**

HDFC Bank Limited is a banking company which is engaged in providing a range of banking and financial services. The Bank operates in four segments: treasury, retail banking, wholesale banking and other banking business. The treasury segment primarily consists of net interest earnings from the Bank's investments portfolio, money market borrowing and lending, gains or losses on investment operations and on account of trading in foreign exchange and derivative contracts. The retail banking segment raises deposits from customers and makes loans and provides other services. The wholesale banking segment provides loans, non-fund facilities and transaction services to large corporates, emerging corporates, public sector units, government bodies, financial institutions and medium scale enterprises. The other banking business segment includes income from banking related activities, such as credit cards, debit cards and third party product distribution, primary dealership business.

· **AXIS Bank**

Axis Bank Limited is an India-based bank. The Bank operates in four segments: treasury operation, which includes investments in sovereign and corporate debt, equity and mutual funds, trading operations, derivative trading and foreign exchange operations on the

account, and for customers and central funding; retail banking, which includes lending to individuals/small business subject to the orientation, product and granularity criterion, and also includes liability products, and services, Internet banking, automated teller machines (ATM) services, depository, financial advisory services and nonresident Indian services (NRI); corporate/wholesale banking, which includes corporate relationships not included under retail banking, corporate advisory services, placements and syndication, management of public issue, project appraisals, capital market related services and cash management services and other banking business, which includes banking related activities.

· **Kotak Mahindra Bank**

Kotak Mahindra Bank Limited is a commercial bank which operates in nine business segments: Treasury, Investments and Balance Sheet Management Unit includes dealing in debt, foreign exchange market, investments and primary dealership of government securities; Retail Banking includes lending, personal loans and agriculture finance, branch banking, which includes retail borrowings covering savings and branch banking network/services, including distribution of financial products and credit cards, which includes receivables relating to credit card business; Corporate Banking includes wholesale borrowing and lending; Vehicle Financing include retail vehicle and wholesale trade finance; Other lending activities include financing against securities and other loans; broking include brokerage income; advisory and transactional services provides financial advisory and transactional services; Asset Management include management of investments, and Insurance which include life insurance.

OBJECTIVES

- To do the fundamental analysis of the selected banking companies
- Evaluating the intrinsic value of shares for decision making
- To recommend for a buy or sell option by comparing the intrinsic value of the share with the market price using fundamental analysis.

SCOPE OF THE STUDY

The scope of the study is limited to five selected banks in India. The significance of the study lies in the fact that it helps to make decision as regard to whether it is wise to invest in banking institutions in India and in case of investment which is already made in the with banking companies whether it is wise to hold or to sell the shares. The investment decision is made on the basis of analysis of general trend on banking sector. The study helps to select securities which maximizes the yield and minimizes risk.

RESEARCH METHODOLOGY

Data of the study was collected from secondary sources. Data was collected from the websites, Company websites, newspapers and periodicals were also referred which includes,

1. Observations of financial status of the company
2. Study of intrinsic value and extrinsic factors of a company
3. Interaction with stock broker in the stock market
4. Internet

Population and Sample

According to the Indian Banking industry, it estimates there is a total of 274 commercial banks operating in India out of which 223 banks are in the public sectors and 51 banks are in the private sector. These total 274 banks have been taken as the population for the study. On the basis of the relative performance of the banks in the market, 10 banks have been chosen from the population and 5 ranked according to their market capitalization. Thus, convenient sampling is used for carrying out the study.

Research Design

Out of the ten companies which were taken on the basis of the market capitalization from the BSE listing and ranked accordingly, five were selected to conduct a detail study. Fundamental analysis involves finding the intrinsic value of the selected banking shares. It provides additional strength to the investor in choosing the option of buy / sell strategy.

Tools used in Fundamental Analysis

1. Earnings per Share (EPS) = $PAT / \text{No. of Equity shares}$.
2. Dividend per Share (DPS) = $\text{Dividend \%} * \text{Face value of a share}$
3. Dividend Payout Ratio (DPOR) = DPS / EPS
4. Average DPOR = $\text{Sum of DPOR} / \text{No. of years taken}$
5. Average Retention Ratio = $1 - \text{Average DPOR}$
6. Return On Equity (ROE) = $PAT / \text{Net worth where N.W} = \text{Capital} + \text{Reserves and Surplus}$
7. Average Return on Equity = $\text{Sum of ROE} / \text{No. of years}$
8. Growth Rate in Equity = $\text{Average Retention Ratio} * \text{Average Return on Equity}$
9. Price Earnings Ratio = $\text{Market Price of the Share i.e. MPS} / \text{EPS}$
10. Normalized average P/E ratio = $\text{Sum of Price earnings Ratio} / \text{No. of years}$
11. Projected EPS for next year = $\text{EPS for the current year} * (1 + \text{Growth rate} / 100)$
12. Intrinsic value = $\text{Projected EPS} * \text{Normalized Price Earnings Ratio}$

Financial Ratios

1. Price Earnings Ratio
P / E Ratio = Marketing Price of the Share i.e. MPS / EPS
2. Price To Book Value
Price to book value = Market Price of the Share / Book Value of the Share
3. Dividend Pay Out Ratio
Dividend Pay Out Ratio = Dividend Per Share / Earnings Per Share * 100
4. Dividend Per Share
DPS = Dividend Paid to Equity Shareholders / No. of Equity
5. Return On Equity
ROE = Net Profit after Tax / (Equity Capital + Reserves & Surplus) * 100
6. Earnings Per Share
EPS = Net profit available to Equity Shareholders / No. of Equity Shares
7. Net Profit Margin
Net Profit Margin = Net Profit After tax / Net Sales
8. Current Ratio
Current Ratio = Current Assets / Current Liabilities
9. Quick Ratio (Liquid Ratio)
Quick Ratio = Quick Assets / Current Liabilities
Quick Assets = Total Current Assets — Stock
10. Debt Equity Ratio
Debt Equity Ratio = Long Term Debts / Equity (Shareholder's Fund)

FUNDAMENTAL ANALYSIS AND INTERPRETATION

Basis for Selection of the Companies

Out of the ten companies which were taken on the basis of high market capitalization, the top five were selected to perform the detailed study. Five top ranked banks have been selected out of ten banking companies based on their market capitalization. Then, Ratio analysis was done on the banks using the related data of the respective bank and tabled as follows.

1. SBI Bank

Table.1 Ratios (SBI Bank)

ITEMS	2009 -10	2010 -11	2011 -12	2012 -13
Current Ratio	0.79	0.79	0.86	0.80
Debt Equity Ratio	15.25	15.75	15.30	13.75
Net Profit Margin (%)	12.81	13.82	12.19	13.82

Table.2 Normalized Price Earnings Ratios (SBI Bank)

ITEMS		2009 -10	2010 -11	2011 -12	2012 -13
Reported EPS		83.91	103.94	143.67	144.37
Market:	High	2476.45	2574	2500	3515
	Low	898.1	965.65	891.5	1863.1
Market:	High/EPS	29.507	24.76	17.400	24.347
	Low/EPS	10.70	9.290	6.205	12.9050
Avg. P/E		20.1035	17.025	11.8025	18.626

2. ICICI Bank**Table.3 Ratios (ICICI Bank)**

ITEMS	2009 -10	2010 -11	2011 -12	2012 -13
Current Ratio	0.61	0.72	0.78	1.94
Debt Equity Ratio	15.30	13.75	12.75	14.85
Net Profit Margin (%)	10.81	10.57	9.74	12.17

Table.4 Normalized Price Earnings Ratios (ICICI Bank)

ITEMS		2009 -10	2010 -11	2011 -12	2012 -13
Reported EPS		34.58	37.37	33.76	36.10
Market:	High	1349	1455.5	980	1279
	Low	791	283.1	252.3	712
Market:	High/EPS	39.010	38.948	29.0284	35.429
	Low/EPS	22.874	7.575	7.4733	19.722
Avg. P/E		30.942	23.261	18.250	27.575

3. HDFC Bank**Table.5 Ratios (HDFC Bank)**

ITEMS	2009 -10	2010 -11	2011 -12	2012 -13
Current Ratio	0.26	0.26	0.27	0.28
Debt Equity Ratio	10.62	8.76	9.75	7.78
Net Profit Margin (%)	13.57	12.82	11.35	14.76

Table.6 Normalized Price Earnings Ratios (HDFC Bank)

ITEMS		2009 -10	2010 -11	2011 -12	2012 -13
Reported EPS		35.74	44.87	52.77	64.42
Market:	High	359.96	365	367.8	507.98
	Low	176.71	158.31	154.8	309.8
Market:	High/EPS	10.071	8.134	6.969	7.885
	Low/EPS	4.944	3.528	2.933	4.809
Avg. P/E		7.5075	5.8313	4.951	6.347

4. AXIS Bank**Table.7 Ratios (AXIS Bank)**

ITEMS	2009 -10	2010 -11	2011 -12	2012 -13
Current Ratio	0.32	0.36	0.37	0.63
Debt Equity Ratio	17.28	9.99	11.49	8.81
Net Profit Margin (%)	12.19	13.82	13.31	16.10

Table.8 Normalized Price Earnings Ratios (AXIS Bank)

ITEMS		2009 -10	2010 -11	2011 -12	2012 -13
Reported EPS		23.40	29.94	50.57	62.06
Market:	High	1025	1291.5	1064	1608.5
	Low	396.25	352.5	278.24	965.15
Market:	High/EPS	43.80	43.13	21.040	25.91
	Low/EPS	16.93	11.77	5.502	15.5443
Avg. P/E		30.36	27.45	13.272	20.7271

5. Kotak Mahindra Bank**Table.9 Ratios (Kotak Mahindra Bank)**

ITEMS	2009 -10	2010 -11	2011 -12	2012 -13
Current Ratio	0.32	0.39	0.49	0.49
Debt Equity Ratio	6.62	4.57	4.01	5.26
Net Profit Margin (%)	8.84	10.37	8.35	15.23

Table.10 Normalized Price Earnings Ratios (Kotak Mahindra Bank)

ITEMS		2009 -10	2010 -11	2011 -12	2012 -13
Reported EPS		4.33	8.53	7.99	16.72
Market:	High	699.5	719	425	526.55
	Low	190.45	120	104	347.78
Market:	High/EPS	161.54	84.290	53.191	31.492
	Low/EPS	43.983	14.067	13.0162	20.800
Avg. P/E		102.76	49.178	33.108	26.146

Table.11 Intrinsic Value Calculation - SBI Bank

Average Dividend Pay Out Ratio for 4 years	Sum of DPOR for 4 years
	4
	$(0.1667+0.2068+0.2018+0.2077) / 4$
	= 0.19575
Average Retention Ratio Average Return on Equity	1-Avg.DPOR=
	$1-0.19575 = 0.80425$
	Sum of ROE for 4 years
	4
	$(14.5096+13.7237+15.7404+13.8986) / 4$
	=14.4680%
Long Term Growth Rate in Dividend & Earnings	Avg. retention Ratio * Avg. Return on Equity
	$= 0.80425 * 0.144680 = 0.1163588$
Normalized Average Price Earnings Ratio	Sum of P/E ratios for 4 years
	4
	$(20.1035+17.025+11.8025+18.626) / 4$
	=16.88925
Projected Earnings per Share	(Earning Per Share for current year) * (1+Growth Rate)
	$=144.37 * (1+0.1163588)=161.167$
Intrinsic Value Projected Dividend Per Share	Projected EPS * Normalized Avg. P/E Ratio
	$= 161.167 * 16.88925 = 2722.03$
	(Dividend Per Share for Current year) * (1+Growth Rate)
	$= 30 * (1+0.11635) = 33.4905$

Interpretation:

The stock is said to be under priced as the intrinsic value of the security (2722.03), is higher

than the current market price (as on 31st Dec 2013). Such a share is considered to be underpriced and it suitable for the investment purposes. The projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 161.167 and Rs 33.4905.

Table 12. Intrinsic Value Calculation - ICICI Bank

Average Dividend Pay Out Ratio for 4 years	Sum of DPOR for 4 years
	4
	$(0.28918+0.2943+0.3258+0.3324) / 4$
	= 0.31042
Average Retention Ratio	1-Avg. DPOR
	= $1-0.31042= 0.68958$
Average Return on Equity	Sum of ROE for 4 years
	4
	$(12.6107+8.8802+7.5871+7.7976) / 4$
	=9.2189%
Long Term Growth Rate in Dividend & Earnings	Avg. retention Ratio * Avg. Return on Equity
	= $0.68958 * 0.09812 = 0.06766$
Normalized Average Price Earnings Ratio	Sum of WE ratios for 4 years
	4
	$(30.942+23.261+18.250+27.579) / 4$
	=25.0072
Projected Earnings per Share	(Earning Per Share for current year) *
	$(1+Growth Rate)= 36.10 * (1+0.06766)$
	= 38.54252
Intrinsic Value	Projected EPS * Normalized Avg. P/E Ratio
	= $38.5425 * 25.0072 = 963.383$
Projected Dividend Per Share	(Dividend Per Share for Current year) *
	$(1+GrowthRate) = 12 * (1+0.06766)$
	=12.7628

Interpretation:

The stock is said to be under priced as the intrinsic value of the security (963.3 83), is higher than the current market price (as on 31st Dec 2013). Such a share is considered to be underpriced and it suitable for the investment purposes. The projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 38.54252 and Rs.12.7628.

Table 13. Intrinsic Value Calculation - HDFC Bank

Average Dividend Pay Out Ratio for 4 years	Sum of DPOR for 4 years
	4
	$(0.1958+0.189+0.1895+0.1862) / 4$
	= 0.190125
Average Retention Ratio	1- Avg.DPOR
	=1 - 0.190125 = 0.8098
Average Return on Equity	Sum of ROE for 4 years
	4
	$(17.71+13.83+15.322+13.700) / 4$
	=15.1405%
Long Term Growth Rate in Dividend & Earnings	Avg. retention Ratio * Avg. Return on Equity
	= 0.8098 * 0.151405 = 0.1226
Normalized Average Price Earnings Ratio	Sum of P/E ratios for 4 years
	4
	$(7.507+5.831+4.951+6.347)/4$
	=6.15925
Projected Earnings per Share	(Earning Per Share for current year) * (1+Growth Rate)
	= 64.42 * (1+0.1226) = 72.3178
Intrinsic Value	Projected EPS * Normalized Avg. P/E Ratio
	= 72.3178 * 6.15925 = 445.419
Projected Dividend Per Share	(Dividend Per Share for Current year) * (1+Growth Rate)
	= 12 * (1+0.1226) = 13.4712

Interpretation:

The stock is said to be under priced as the intrinsic value of the security (445.419), is higher than the current market price (as on 31st Dec 2013). Such a share is considered to be underpriced and it suitable for the investment purposes. The projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 72.3178 and Rs 13.4712.

Table 14. Intrinsic Value Calculation - AXIS Bank

Average Dividend Pay Out Ratio for 4 years	Sum of DPOR for 4 years
	4
	$(0.192+0.2004+0.1977+0.1933) / 4$
	= 0.19585
Average Retention Ratio	1 - Avg. DPOR
	= 1 - 0.19585 = 0.80416
Average Return on Equity	Sum of ROE for 4 years
	$(19.42190+12.21451+17.77+15.6724) / 4$
	=16.2696%
Long Term Growth Rate in Dividend & Earnings	Avg. retention Ratio * Avg. Return on Equity
	= 0.80416 *
	0.162696
	= 0.130828
Normalized Average Price Earnings Ratio	Sum of P/E ratios for 4 years
	4
	$(30.36+27.45+13.272+20.7271) / 4$
	=22.9522
Projected Earnings per Share	(Earning Per Share for current year)
	* (1+Growth Rate) = 62.06*
	$(1+0.130828) = 63.1908$
Intrinsic Value	Projected EPS * Normalized Avg.
	P/E Ratio
	= 63.1908 * 22.9522 = 1450.36
Projected Dividend Per Share	(Dividend Per Share for Current year) *
	(1+Growth Rate) = 12*
	$(1+0.130828) = 13.5696$

Interpretation:

The stock is said to be under priced as the intrinsic value of the security (1450.36), is higher than the current market price (as on 31st Dec 2013). Such a share is considered to be underpriced and it suitable for the investment purposes. The projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 63.1908 and Rs 13.5696.

Table 15. Intrinsic Value Calculation - Kotak Mahindra Bank

Average Dividend Pay Out Ratio for 4 years	Sum of DPOR for 4 years
	Sum of DPOR for 4 years
	4
	$(0.1616+0.0879+0.093+0.0508) / 4 = 0.098325$
Average Retention Ratio	1- Avg. DPOR
	$= 1 - 0.098325 = 0.901675$
Average Return on Equity	Sum of ROE for 4 years
	4
	$(8.5063+8.1790+7.0694+12.3594) / 4$
	$= 0.901675\%$
Long Term Growth Rate in Dividend & Earnings	Avg. retention Ratio * Avg. Return on Equity
	$= 0.901675 * 0.0901675 = 0.08140$
Normalized Average Price Earnings Ratio	Sum of P/E ratios for 4 years
	4
	$(102.76+49.178+33.108+26.1461) / 4$
	$= 52.796$
Projected Earnings per Share	(Earning Per Share for current year) * (1+Growth Rate)
	$= 16.72 * (1+0.08140) = 18.0810$
Intrinsic Value	Projected EPS * Normalized Avg. P/E Ratio
	$= 18.0810 * 52.796 = 954.604$
Projected Dividend Per Share	(Dividend Per Share for Current year) * (1+Growth Rate)
	$= 0.85 * (1+0.08140) = 0.91919$

Interpretation:

The stock is said to be under priced as the intrinsic value of the security (954.604), is higher than the current market price (as on 31st Dec 2013). Such a share is considered to be underpriced and it suitable for the investment purposes. The projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 18.0810 and Rs 0.91919.

Company Wise Comparison for the Year 2012-13

Table 16. Fundamental Analysis

ITEMS	SBI	ICICI	HDFC	AXIS	KOTAK
Current Ratio	0.80	1.94	0.28	0.63	0.49
Debt/Equity Ratio	13.75	14.85	7.78	8.81	5.26
Net Profit Margin	10.54	12.17	14.76	16.10	15.23
EPS	144.37	36.10	64.42	62.06	16.72
DPS	30	12.00	12.00	12.00	0.85
Avg. DPOR	0.19575	0.31042	0.1901	0.19585	0.09832
Avg. ROE	14.46	9.218	15.14	16.2696	9.0285
Projected EPS	161.167	38.39	72.31	63.1908	18.081
Projected DPS	33.49	12.76	13.47	13.569	0.9191
Market Value	1684.60	619	427	806.75	432.25
Intrinsic value	2722.03	960.14	445.41	1450.36	954.604
Suggestions	BUY	BUY	BUY	BUY	BUY

Interpretation:

From the above table, it can be seen that intrinsic value is high for all the banks taken up for the study and their market prices are low. So it is worthwhile to invest in any of these five banks as the market value can raise and that will lead to more profitability and returns for the investors. Among the five banks taken for the study, it can be found that SBI shares have the highest intrinsic value and hence it can be considered to be the best investment option.

FINDINGS

ICICI Bank

The short term and long term solvency of the company is unsatisfactory. The current ratio of ICICI Bank for the year 2012-13 is 1.94, which is below the benchmark of 2:1 and the Debt-Equity ratio of the company is 14.85, which is above the maximum limit of 2:1.

The stock is said to be under priced as the intrinsic value of the security (960.14), is higher than the current market price (as on 31st Dec, 2013) 684.60. This means that the investor should buy the share as the price of the security may rise in future.

In the year 2012-13, the Net-Profit margin has slightly decreased, Earnings per Share (EPS)

and Average P/E Ratio have increased and the Return on Equity (ROE) has decreased slightly. The projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 38.54 and Rs 12.76 respectively.

· **SBI Bank**

The short term and long term solvency of the company is unsatisfactory. The current ratio of SBI Bank for the year 2012-13 is 0.80, which is below the benchmark of 2:1 and the Debt-Equity ratio of the company is 13.75, which is above the maximum limit of 2:1. The stock is said to be under priced as the intrinsic value of the security (2722.03), is higher than the current market price (as on 31st Dec 2013) 1619. This means that the investor should buy the share as the price of the security may rise in future.

In the year 2012-13, the Net-Profit margin has slightly increased, Earnings per Share (EPS) and Average P/E Ratio have increased and the return on equity (ROE) has decreased slightly. The Projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 161.16 and Rs 33.49 respectively.

· **HDFC Bank**

The short term and long term solvency of the company is unsatisfactory. The current ratio of HDFC bank for the year 2012-13 is 0.28, which is below the benchmark of 2:1 and the Debt-Equity Ratio of the company is 7.78, which is above the maximum limit of 2:1. The stock is said to be under priced as the intrinsic value of the security (445.41), is greater than the current market price (as on 31st Dec, 2013) 427.95. This means that the investor should buy the share as the price of the security may rise in future.

In the year 2012-13, the Net-Profit margin has slightly decreased, Earnings per Share (EPS) and Average P/E ratio have increased and the Return on Equity (ROE) has decreased slightly. The Projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 72.31 and Rs 13.47 respectively.

· **AXIS Bank**

The short term and long term solvency of the company is unsatisfactory. The current ratio of AXIS bank for the year 2012-13 is 0.63, which is below the benchmark of 2:1 and the Debt-Equity Ratio of the company is 8.81, which is above the maximum limit of 2:1. The stock is said to be under priced as the intrinsic value of the security (1450.36), is higher than the current market price (as on 31st Dec, 2013) 806.75. This means that the investor should buy the share as the price of the security may rise in future.

In the year 2012-13, the Net-Profit margin has slightly decreased, Earnings per Share (EPS) and Average P/E ratio have increased and the Return on Equity (ROE) has decreased slightly. The Projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 63.19 and Rs 13.56 respectively.

· **Kotak Mahindra Bank**

The short term and long term solvency of the company is satisfactory. The current ratio of Kotak Mahindra Bank for the year 2012-13 is 0.49, which is above the benchmark of 2:1 and the Debt-Equity Ratio of the company is 5.26, which is above the maximum limit of 2:1. The stock is said to be under priced as the intrinsic value of the security (954.60), is higher than the current market price (as on 31stDec, 2013) 432.25. This means that the investor should buy the share as the price of the security may rise in future.

In the year 2012-13, the Net-Profit margin has slightly decreased, Earnings per Share (EPS) and Average P/E ratio have increased and the Return on Equity (ROE) has decreased slightly. The Projected Earnings per Share (EPS) and Dividend per Share (DPS) of the security is estimated to be Rs 18.08 and Rs 0.91 respectively.

SUGGESTIONS

· **SBI Bank**

The intrinsic value of **SBI BANK** is higher than the current market price. So in order to gain the advantage over the future increase in market prices, the investors may choose for a buy option. If investors have already bought the scrip, they are advised to hold them. The investors are recommended to hold the shares.

· **ICICI Bank**

The intrinsic value of ICICI Bank is higher than the current market price. So the investors may buy the share. He can buy the scrip as early as possible because there is possibility of rise in market prices towards intrinsic value as the time passes.

· **HDFC Bank**

The intrinsic value of HDFC Bank is higher than the current market price. So in order to gain the advantage over the future increase in market prices, the investors may choose for a buy option. If investors have already bought the scrip, they are advised to hold on. The investors are recommended to hold the shares.

· AXIS Bank

The intrinsic value of the scrip AXIS Bank is higher than the current market price. So the investors may buy the shares. He should buy the scrip as early as possible because there is possibility of rise in market prices towards intrinsic value as the time passes. The analysis indicates that scrip shows bullish trend and recommends it is better to buy.

· Kotak Mahindra Bank

The intrinsic value of the scrip Kotak Mahindra Bank is higher than the current market price. As there is a chance for the future increase in market prices, the investors may choose for a buy option. If investors have already bought the scrip, they are advised to hold on. The investors are recommended to hold the shares.

CONCLUSION

The study is meant to do the analysis of the share price movements of selected banking companies in India. The market is fluctuating very quickly. Real worth of the shares is unstable. The value of the shares of a company is either undervalued or overvalued. To arrive at the intrinsic value, share prices and their intrinsic values were computed. The share values of the companies that are under study were observed. Through this study, we could find that these banking companies have grown well and if we invest in such companies it will be fruitful.

Real worth of the shares may not be always reflecting in the market price. The selected banking companies and the real worth of their shares have to be evaluated and the intrinsic value of the shares computed. In this way, the appropriate investment decisions could be made with the help of intrinsic value of shares. The study has thrown more light on the strength of banking sector performance and as a tool for generating and distributing the wealth of nation.

It can be concluded that fundamental analysis is always the proper method of arriving the results of the company or industry over its financial performance. If the company is fundamentally strong, that will help the investor to get a return in the long run. Hence, before making an investment decision the investor has to check the results of the fundamental analysis of the companies.

References

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