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IMPACT OF EQUITY ANALYSIS OF BANKING STOCKS ON SHARE MARKET: A STUDY

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As we all know firsthand, humans expectations are neither easily quantifiable nor predictable. If prices are based on investor expectations, then knowing what a security should sell for (i.e., fundamental analysis) becomes less important than knowing what other investors expect it to sell for. That's not to say that knowing what a security should sell for isn't important—it is. But there is usually a fairly strong consensus of a stock's future earnings that the average investor cannot disprove. Fundamental analysis and technical analysis can co-exist in peace and complement each other. Since all the investors in the stock market want to make the maximum profits possible, they just cannot afford to ignore either fundamental or technical analysis.

Keywords: Market Analysis, Equity Shares, Fundamental Analysis, Technical Analysis

INTRODUCTION

India is a developing country. Nowadays many people are interested to invest in financial markets especially on equities to get high returns, and to save tax in honest way. Equities are playing a major role in contribution of capital to the business from the beginning. Since the introduction of shares concept, large numbers of investors are showing interest to invest in stock market. In an industry plagued with skepticism and a stock market increasingly difficult to predict and contend with, if one looks hard enough there may still be a genuine aid for the Day Trader and Short Term Investor. The price of a security represents a consensus. It is the price at which one person agrees to buy and another agrees to sell. The price at which an investor is willing to buy or sell depends primarily on his expectations. If he expects the security's price to rise, he will buy it; if the investor expects the price to fall, he will sell it. These simple statements are the cause of a major challenge in forecasting security prices, because they refer to human expectations. As we all know firsthand, humans expectations are

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Fundamental analysis and technical analysis can co-exist in peace and complement each other. Since all the investors in the stock market want to make the maximum profits possible, they just cannot afford to ignore either fundamental or technical analysis.

NEED OF THE STUDY

To start any business capital plays major role. Capital can be acquired in two ways by issuing shares or by taking debt from financial institutions or borrowing money from financial institutions. The owners of the company have to pay regular interest and principal amount at the end. Stock is ownership in a company, with each share of stock representing a tiny piece of ownership. The more shares you own, the more of the company you own. The more shares you own, the more dividends you earn when the company makes a profit. In the financial world, ownership is called **"Equity".**

Advantages of selling stock:

- A company can raise more capital than it could borrow.
- A company does not have to make periodic interest payments to creditors.
- A company does not have to make principal payments.

OBJECTIVES OF THE STUDY

The objective of this project is to deeply analyze our Banking Sector for investment purpose by monitoring the growth rate and performance on the basis of historical data.

The main objectives of the Project study are:

- To study the overall growth of Indian Economy which is growing at a fast pace.
- Detailed analysis of Banking Sector which is gearing towards international standards
- Analyze the impact of qualitative factors on industry's and company's prospects

Industry Profile: Finance is the pre-requisite for modern business and financial institutions play a vital role in the Economic system. It is through financial markets and institutions that the financial system of an economy works. Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bank deposits, bills, bonds, equities, etc. Financial market is a broad term describing any marketplace where buyers and sellers participate in the trade of assets such as equities, bonds, currencies and derivatives. They are typically defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade.

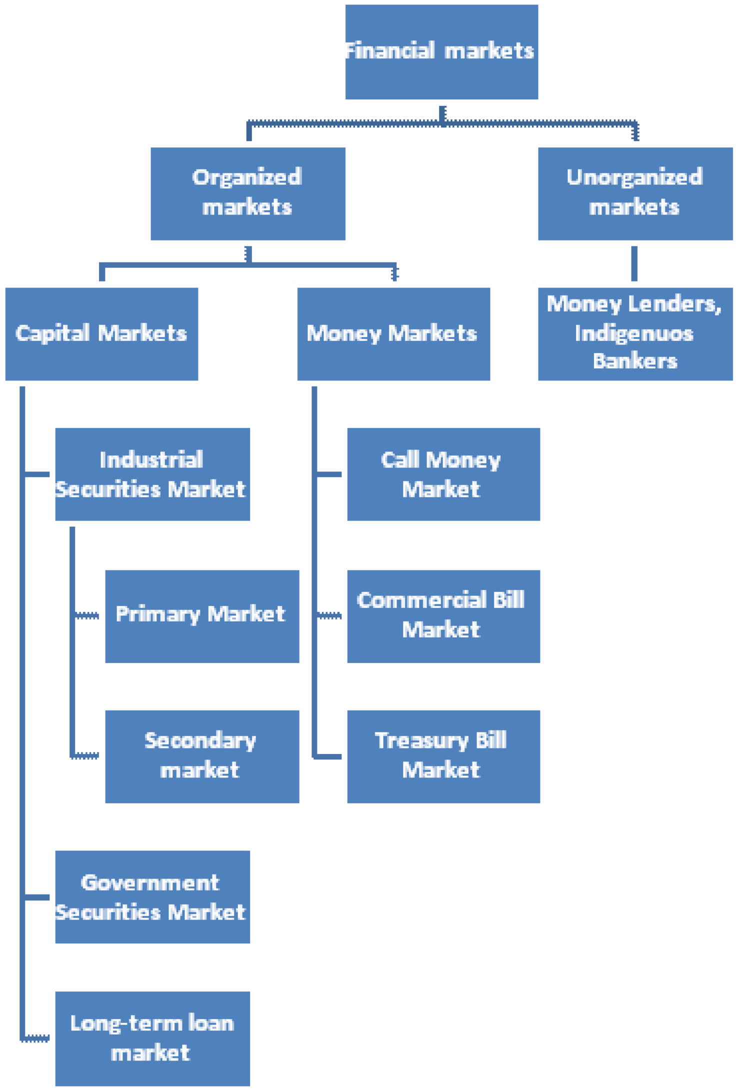
Generally, there is no specific place or location to indicate a financial market. Wherever a financial transaction takes place, it is deemed to have taken place in the financial market. Hence financial markets are pervasive in nature since financial transactions are themselves very pervasive throughout the economic system. For instance, issue of equity shares, granting of loan by term lending institutions, deposit of money into a bank, purchase of debentures, sale of shares and so on.

In a nutshell, financial markets are the credit markets catering to the various needs of the individuals, firms and institutions by facilitating buying and selling of financial assets, claims and services.

CLASSIFICATION OF FINANCIAL MARKETS

Capital Market: The capital market is a market for financial assets which have a long or indefinite maturity. Generally, it deals with long term securities which have a period of above one year. In the widest sense, it consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises and public authorities. As a whole, capital market facilitates rising of capital.

The major functions performed by a capital market are:



1. Mobilization of financial resources on a nation-wide scale.
2. Securing the foreign capital and know-how to fill up deficit in the required resources for economic growth at a faster rate.
3. Effective allocation of the mobilized financial resources, by directing the same to projects yielding highest yield or to the projects needed to promote balanced economic development.

Capital Market Consists of Primary Market and Secondary Market.

Primary market: Primary market is a market for new issues or new financial claims. Hence it is also called as New Issue Market. It basically deals with those securities which are issued to the public for the first time. The market, therefore, makes available a new block of securities for public subscription. In other words, it deals with rising of fresh capital by companies either for cash or for consideration other than cash. The best example could be Initial Public Offering (IPO) where a firm offers shares to the public for the first time.

Secondary market: Secondary market is a market where existing securities are traded. In other words, securities which have already passed through new issue market are traded in this market. Generally, such securities are quoted in the stock exchange and it provides a continuous and regular market for buying and selling of securities. This market consists of all stock exchanges recognized by the government of India.

Money Market: Money marketsare the markets for short-term, highly liquid debt securities. Money market securities are generally very safe investments which return relatively low interest rate that is most appropriate for temporary cash storage or short term time needs. It consists of a number of sub-markets which collectively constitute the money market namely call money market, commercial bills market, acceptance market, and Treasury bill market.

Derivatives Market: The derivatives market is the financial market for derivatives, financial instruments like futures contracts or options, which are derived from other forms of assets. A derivative is a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. The important financial derivatives are the following:

Forwards: Forwards are the oldest of all the derivatives. A forward contract refers to an agreement between two parties to exchange an agreed quantity of an asset for cash at a certain date in future at a predetermined price specified in that agreement. The promised asset may be currency, commodity, instrument etc.

Futures: Future contract is very similar to a forward contract in all respects excepting the fact that it is completely a standardized one. It is nothing but a standardized forward contract which is legally enforceable and always traded on an organized exchange.

Options:A financial derivative that represents a contract sold by one party (option writer) to another party (option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date). Call options give the option to buy at certain price, so the buyer would want the stock to go up. Put options give the option to sell at a certain price, so the buyer would want the stock to go down.

Swaps: It is yet another exciting trading instrument. Infact, it is the combination of forwards by two counterparties. It is arranged to reap the benefits arising from the fluctuations in the market – either currency market or interest rate market or any other market for that matter.

Foreign Exchange Market

It is a market in which participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail forex brokers and investors. The forex market is considered to be the largest financial market in the world. It is a worldwide decentralized over-the-counter financial market for the trading of currencies. Because the currency markets are large and liquid, they are believed to be the most efficient financial markets. It is important to realize that the foreign exchange market is not a single exchange, but is constructed of a global network of computers that connects participants from all parts of the world.

Commodities Market

It is a physical or virtual marketplace for buying, selling and trading raw or primary products. For investors' purposes there are currently about 50 major commodity markets worldwide that facilitate investment trade in nearly 100 primary commodities. Commodities are split into two types: hard and soft commodities. Hard commodities are typically natural resources that must be mined or extracted (gold, rubber, oil, etc.), whereas soft commodities are agricultural products or livestock (corn, wheat, coffee, sugar, soybeans, pork, etc.)

INDIAN FINANCIAL MARKETS

India Financial market is one of the oldest in the world and is considered to be the fastest growing and best among all the markets of the emerging economies. The history of Indian capital markets dates back 200 years toward the end of the 18th century when India was under the rule of the East India Company. The development of the capital market in India concentrated around Mumbai where no less than 200 to 250 securities brokers were active during the second half of the 19th century. The financial market in India today is more developed than many other sectors because it was organized long before with the securities exchanges of Mumbai, Ahmadabad and Kolkata were established as early as the 19th century. By the early 1960s the total number of securities exchanges in India rose to eight, including Mumbai, Ahmadabad and Kolkata apart from Madras, Kanpur, Delhi, Bangalore and Pune. Today there are 21 regional securities exchanges in India in addition to the centralized NSE (National Stock Exchange) and OTCEI (Over the Counter Exchange of India).However the stock markets in India remained stagnant due to stringent controls on the market economy that allowed only a handful of monopolies to dominate their respective sectors. The corporate sector wasn't allowed into many industry segments, which were dominated by the state controlled public sector resulting in stagnation of the economy right up to the early 1990s. Thereafter when the Indian economy began liberalizing and the controls began to be dismantled or eased out; the securities markets witnessed a flurry of IPO's that were launched. This resulted in many new companies across different industry segments to come up. A remarkable feature of the growth of the Indian economy in recent years has been the role played by its securities markets in assisting and fuelling that growth with money rose within the economy. This was in marked contrast to the initial phase of growth in many of the fast growing economies of East Asia that witnessed huge doses of FDI (Foreign Direct Investment) spurring growth in their initial days of market decontrol. During this phase in India much of the organized sector has been affected by high growth as the financial markets played an all-inclusive role in sustaining financial resource mobilization. Many PSUs (Public Sector Undertakings) that decided to offload part of their equity were also helped by the well-organized securities market in India.

FINANCIAL MARKET REGULATIONS

Regulations are an absolute necessity in the face of the growing importance of capital markets throughout the world. The development of a market economy is dependent on the development of the capital market. The regulation of a capital market involves the regulation of securities; these rules enable the capital market to function more efficiently and impartially.

A well regulated market has the potential to encourage additional investors to partake, and contribute in, furthering the development of the economy. The chief capital market regulatory authority is Securities and Exchange Board of India (SEBI). **SEBI** is the regulator for the securities market in India. It is the apex body to develop and regulate the stock market in India It was formed officially by the Government of India in 1992 with SEBI Act 1992 being passed by the Indian Parliament. Chaired by C B Bhave, SEBI is headquartered in the popular business district of Bandra-Kurla complex in Mumbai, and has Northern, Eastern, Southern and Western regional offices in New Delhi, Kolkata, Chennai and Ahmadabad. In place of Government Control, a statutory and autonomous regulatory board with defined responsibilities, to cover both development & regulation of the market, and independent powers has been set up.

The basic objectives of the Board were identified as:

- to protect the interests of investors in securities;
- to promote the development of Securities Market;
- to regulate the securities market and
- For matters connected therewith or incidental thereto.

Since its inception SEBI has been working targeting the securities and is attending to the fulfillment of its objectives with commendable zeal and dexterity. The improvements in the securities markets like capitalization requirements, margining, establishment of clearing corporations etc. reduced the risk of credit and also reduced the market. SEBI has introduced the comprehensive regulatory measures, prescribed registration norms, the eligibility criteria, the code of obligations and the code of conduct for different intermediaries like, bankers to issue, merchant bankers, brokers and sub-brokers, registrars, portfolio managers, credit rating agencies, underwriters and others. It has framed bye-laws, risk identification and risk management systems for Clearing houses of stock exchanges, surveillance system etc. which has made dealing in securities both safe and transparent to the end investor.

Another significant event is the approval of trading in stock indices (like S&P CNX Nifty & Sensex) in 2000. A market Index is a convenient and effective product because of the following reasons:

- It acts as a barometer for market behavior;
- It is used to benchmark portfolio performance;
- It is used in derivative instruments like index futures and index options;
- It can be used for passive fund management as in case of Index Funds.

Two broad approaches of SEBI is to integrate the securities market at the national level, and also to diversify the trading products, so that there is an increase in number of traders including banks, financial institutions, insurance companies, mutual funds, primary dealers etc. to transact through the Exchanges.

STOCK EXCHANGES IN INDIA

Stock Exchanges are an organized marketplace, either corporation or mutual organization, where members of the organization gather to trade company stocks or other securities. The members may act either as agents for their customers, or as principals for their own accounts.As per the Securities Contracts Regulation Act, 1956 a stock exchange is an association, organization or body of individuals whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities.Stock exchanges facilitate for the issue and redemption of securities and other financial instruments including the payment of income and dividends. The record keeping is central but trade is linked to such physical place because modern markets are computerized. The trade on an exchange is only by members and stock broker do have a seat on the exchange.

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