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A Study on Equity Analysis of Selected Automobile Companies

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Abstract-This study analyzes equity in the automobile industry, assessing financial performance and valuation using ratios like price earnings, debt to equity, and earnings per share. It also examines risk and return for better understanding. Data is gathered from secondary sources, and major players like Tesla, Mahindra & Mahindra, and Toyota are studied. Findings provide insights for informed investment decisions

Key Words: Automobile Industry, Beta, Financial Ratios, Risk, Return, Stock Price.

INTRODUCTION

In India, individuals venturing into financial markets, especially the stock market, must grasp both fundamental and technical analysis. Fundamental analysis assesses intrinsic value based on financial and economic factors, while technical analysis uses charts and past data to predict price trends. Indian automobile industry has evolved due to liberalization and globalization, foreseeing robust sales amid rising demand. Detailed fundamental analysis is essential for credible insights. Equity research guides investors with financial analysis and recommendations for investments. It unveils industry trends, patterns, and competition.
In conclusion, informed investors must master both fundamental and technical analysis. Analyzing India's automobile industry offers valuable insights for well-informed decisions.

NEED OF THE STUDY

The Indian automobile industry is highly favored by investors due to its status as the world's largest and fastest-growing sector. Many automakers are investing in this lucrative market. While the industry's equity offers significant rewards, it also comes with high-risk elements. Therefore, thorough equity research is essential before investing. This analysis provides necessary information for potential investors to make reasonable and informed decisions.

OBJECTIVES OF THE STUDY

1. To study and analyse the stocks of the selected companies for the financial year 2021 on quarterly basis using financial ratios and also to study the risk and returns of the selected companies.

RESEARCH METHODOLOGY

The Indian equities market is attractive to investors due to its rapid growth and potential for higher returns, but it also carries higher risk. This study analyzes the equity of selected Indian automobile businesses, providing insights into the risk and return characteristics of the industry in the Indian stock market. The research is descriptive, focusing on detailed risk and return analysis of the chosen equity shares in the Indian automobile sector.

PERIOD OF THE STUDY

This study analyzes financial ratios of Indian automobile companies from January to December 2021 and examines weekly opening and closing prices. Provides current insights on equity shares in the industry.

SELECTED AUTOMOBILE COMPANIES

1) Mahindra & Mahindra Ltd.
2) Toyota Motor Corporation
3) Tesla

DATA COLLECTION

This study is entirely based on secondary data gathered mostly from several financial and stock market websites. In addition, data was gathered from published sources such as newspapers, management reports, scholars, and researchers, among others. The major source of data is published from the opening and closing stock prices of TESLA, MAHINDRA, and TOYOTA.

LIMITATIONS OF THE STUDY

This study has limitations, relying on accuracy of secondary data from various sources like NSE website, published works, and annual reports. Different perspectives on equity analysis may affect the conclusions. Statistical tools used may have inherent limitations. The study's scope is limited to the available data from a specific time period and only three selected companies, making it unsuitable for investment decisions.

REVIEW OF LITERATURE

1. Rehman et al. (2021) study US sector returns' sensitivity to economic policy uncertainty and investor sentiment. Results show both factors influence sectoral returns, with implications for portfolio diversification and policymaking.
2. Nagarajan and Prabhakaran (2018) studied FMCG businesses, finding Nestle India Ltd's share price has a 53% association with smart file, making it cheaper than similar companies in the FMCG market.
3. Suresh and Harshitha (2017) compares the risk-return relationship of stocks using Markowitz and Sharpe's model. The goal is to assess the consistency of results between the two models and determine the level of divergence in returns. The research indicates that both models yield similar values for individual return, risk, and portfolio.
4. Pushpa BV, Sumithra C.G, Madhuri Hegde (2017) They studied in their article how, using technical analysis, investors might identify trend reversals in stock prices at an early stage and develop buy-hold-sell strategies.
5. Valarmathi A and Kowsalya P presented a paper in 2016 that projected share prices of chosen IT businesses using technical analysis.

OBJECTIVE-1 The study analyzes selected companies' stocks for the financial year 2021 on a quarterly basis using financial ratios. It aims to understand their stock values and suitability for investment. Financial ratios like Price to Earnings (P/E) Ratio, Debt to Equity (D/E) Ratio, Return on Equity (ROE), and Earnings per Share (EPS) are considered in the analysis.

1. Price-to-Earnings Ratio:

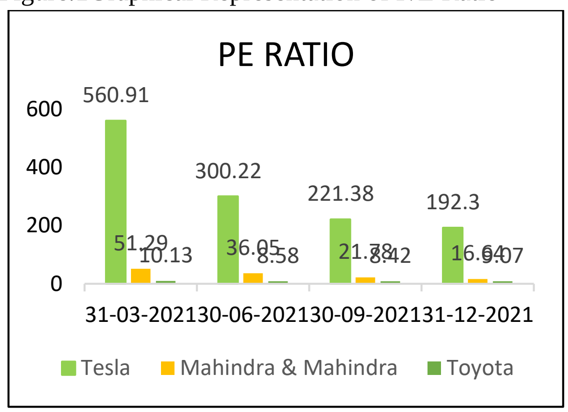
Investors and analysts use P/E ratios to compare the relative value of a company's shares. The P/E ratio compares a firm's share price to its earnings per share.

Table.1 Calculated Price Earnings Ratio

Quarter Ended	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Tesla	560.91	300.22	221.38	192.3
Mahindra & Mahindra	51.29	36.05	21.78	16.64
Toyota	10.13	8.58	8.42	9.07

Source: investopedia.com

Figure.1Graphical Representation of P/E Ratio



Source: Computed from secondary data

Interpretation: The graph indicates a downward trend in Price Earnings Ratio values for 2021 on a quarterly basis. High PE ratios suggest overvaluation and potential for rapid growth. The first quarter appears favorable for investment compared to the other three quarters.

2. Return on equity (ROE)

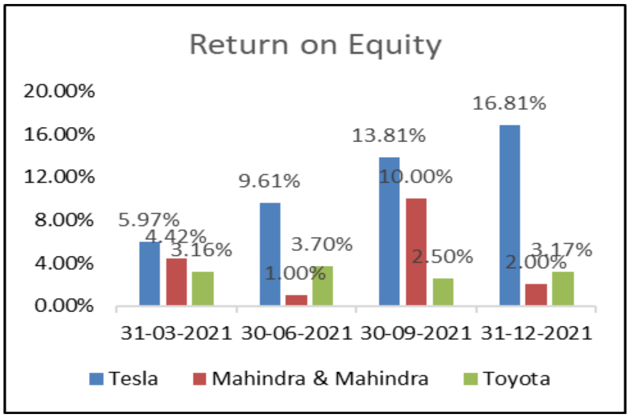
ROE (Return on Equity) measures a company's profitability and efficiency in generating profits from equity financing. Higher ROE indicates better utilization of equity to generate profits. ROEs vary across industries and sectors.

Table.2 Calculations on Return on Equity

Quarter Ended	3/31/21	6/30/21	9/30/21	12/31/21
Tesla	5.97%	9.61%	13.81%	16.81%
Mahindra & Mahindra	4.42%	1.00%	10.00%	2.00%
Toyota	3.16%	3.70%	2.50%	3.17%

Source: investopedia.com

Figure.2 Graphical Representation of ROE



Source: Computed from secondary data

Interpretation: Tesla's ROE showed a notable increase from the first to the last quarter, with values ranging from 5.97% to 16.81%. M&M and Toyota had mixed trends with varying ROE values. Overall, Tesla stocks seem promising for investment due to their high ROE.

3. Earnings per share (EPS)

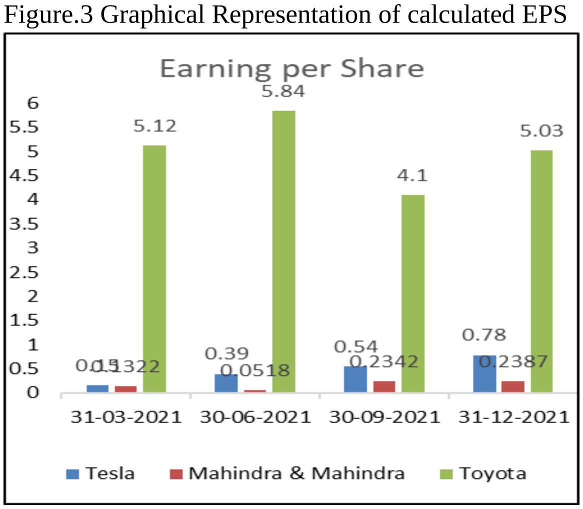
Earnings per share (EPS) is a widely used metric to assess corporate value. It indicates how much money a company generates for each share of stock it has. A higher EPS implies better value, as investors are willing to pay more for shares of a valuable company.

Table.3 Calculations of Earnings per Share

Quarter Ended	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Tesla	0.15	0.39	0.54	0.78
Mahindra & Mahindra	0.1322	0.0518	0.2342	0.2387
Toyota	5.12	5.84	4.1	5.03

Source: investopedia.com

Figure.3 Graphical Representation of calculated EPS



Source: Computed from secondary data

Interpretation: Tesla's EPS shows a consistent increasing trend, making it a good investment option. M&M and Toyota have fluctuating values.

4. Debt-to-equity (D/E) ratio

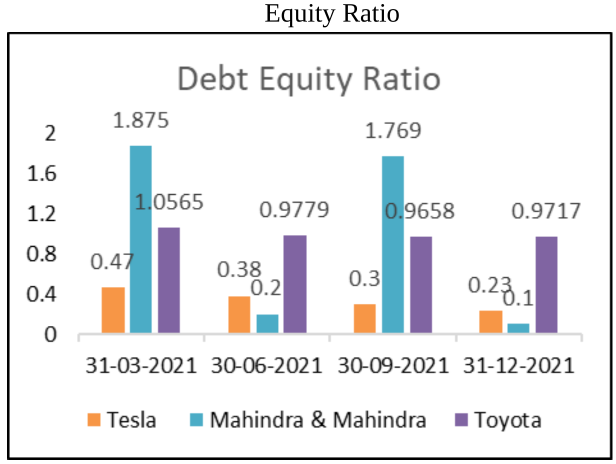
A higher D/E ratio suggests greater risk for comparable companies, while a particularly low ratio may indicate underutilization of debt funding for expansion. To assess risk more accurately, investors often focus on long-term debt, as it carries more risk than short-term obligations.

Table.4 Calculation of Debt to Equity Ratio

Quarter Ended	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Tesla	0.47	0.38	0.3	0.23
Mahindra & Mahindra	1.875	0.2	1.769	0.1
Toyota	1.0565	0.9779	0.9658	0.9717

Source: investopedia.com

Figure.4 Graphical Representation of Debt to Equity Ratio



Source: Computed from secondary data

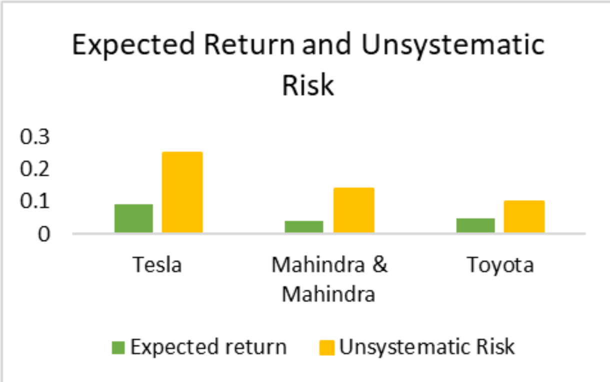
Interpretation: Tesla shows a decreasing D/E ratio trend, making it a favorable investment. Toyota and M&M have fluctuating trends, requiring consideration of lower D/E ratio values for investment decisions.

Table.5 Calculated Return and Risk (Annually) of selected Companies

Company Name	Expected return	Unsystematic Risk
Tesla	0.09	25%
Mahindra & Mahindra	0.04	14%
Toyota	0.049	10%

Source: Calculated from secondary data

Figure.5 Graphical Representation of Calculated Risk and Return of select companies



Source: Computed from secondary data

Interpretation:
From above three company's data, it is observed that even though Tesla risk is highest risk (25%) compared to two other companies (MAHINDRA & MAHINDRA: 14% and Toyota: 10%), return is highest (0.18 yearly) compared to other two companies (MAHINDRA & MAHINDRA: 0.05 and Toyota: 0.1019).

RESULTS AND DISCUSSIONS

Equity analysis, including Fundamental and Technical analysis, provides financial insights and recommendations. Primary data is preferred for accuracy. Investors should assess multiple firms to find the best stock to invest. Financial ratios, Alpha, and Beta values help understand fluctuations and performance. Maximizing returns requires evaluating risk and potential across companies. Equity analysis is vital for determining risk and return. Toyota has low beta (less risky) but low alpha. Tesla offers high returns but high beta (higher risk).

CONCLUSION

Equity analysis, combining Fundamental and Technical analysis, guides investment decisions. Primary data is preferred for accuracy. Evaluating multiple firms is crucial to find the best stock to invest in. Financial ratios, Alpha, and Beta values help understand fluctuations and performance. Maximizing returns requires assessing risk and potential across companies. Equity analysis is essential for determining risk and return. Toyota has low beta (less risky) but low alpha. Tesla offers high returns but high beta (higher risk).

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