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AN EQUITY ANALYSIS OF BANKING SECTOR WITH REFERENCE TO MOTILAL OSWAL FINANCIAL SERVICES LIMITED

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Abstract

A term such as "stock analysis" represents the examination of an exact trading instrument, a particular making investments sector, or the market as a whole. Analysts of equities attempt to predict where a market, business, or instrument will perform in the future. Fundamental analysis and technical analysis are the two main kinds of stock analysis. Attention is placedon data from sources such as financial records, economic statistics, company assets, and market share in fundamental analysis. Technical analysis is the study of historical market movements with the intent of determining future price movement. The ownership interest that investors have in an organisation is known as equity. Common stock or preferred stock are two various methods that investors might own equity shares in a company. The initial business owner no longer holds any equity in the organisation if it has equity ownership.

Keywords: Equity Analysis, Banking Sector, Stock Analysis

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1. Introduction

In the banking industry, equity analysis is the process of evaluating a bank or group of banks' financial performance and overall health through an examination of their equity or ownership shares. Equity is a property ownership stake that can be reduced by debts or other liabilities in the world of finance. For accounting reasons, equity is calculated by deducting liabilities from the value of the held assets.

Equity Analysis:-
Smart stock selection, timing, and matching purchases to an investor's risk tolerance are the three main components of investment success. An investor must conduct thorough securities research before engaging in selection, timing, and matching actions.
Investors buy equity shares with two primary goals in mind:

1. To make capital profits by selling shares at higher prices
2. To earn dividend income

Numerous factors influence these two variables. All of these elements need to be carefully understood and analysed by an investor. Fundamental analysis and technical analysis are the two main methods used to study security pricing and valuation.
There are two basic types of stock analysis:

a) Fundamental Analysis
b) Technical Analysis

a) Fundamental Analysis:
The goal of fundamental analysis is to understand and predict a company's intrinsic worth through a thorough investigation of many macroeconomic, company-specific, qualitative, and quantitative factors. There are two approaches to approach fundamental analysis as well. Top-down and bottom-up methodologies are also used.

b) Technical Analysis
This kind of analysis is predicated on the idea that history is circular and that the stock will continue to behave in the same way it has in the past.

Objectives for the Study
- To research and compare the efficiency of banks in the banking industry.
- In way to assist investors in making decisions about whether or not to participate in the banking sector.
- To calculate the risk-return stock of the banking industry.
- To comprehend the notion of investing in equity shares.

2. Research Methodology

Research it refers to findings logical solution to practical problem. An organised, systematic, data-driven critical, objective, scientific inquiry or investigation into a specific topic with the goal of discovering an answer or solution.
A Random sampling was used to choose equities in order to get secondary data. The stocks are chosen unbiasedly, with each stock selected independently of the others. The stocks come from the banking sector.
The finance department and the Motilal Oswal finance service audit report of the preceding three years' data are the primary and secondary sources of the data gathering for the research.

1. Primary data collection
- Discussion with branch manager
- Live trading in the market

2. Secondary data collection
- Books Related to financial management
- Websites can be applicable as vital information science

Review of Literature

1. Vesa Pursiainen (2022)
Cultural biases influence analyst stock recommendations and target prices, with pro-growth nations benefiting from more favorable recommendations, while trust bias is more prevalent in business sectors and recessions.

2. Matthew Palm and Mischa Young (2021)
New mobility technologies (NMTs) are being tested for transit inclusion, enhancing social equality in ride-hailing, on-demand transit, microtransit, and active travel networks. Future pilots should measure equity for policy implications.

3. Andrie Kurniawan (2021)
The study examines the impact of debt to equity ratio, return on assets, and total asset turnover on stock returns in property and real estate businesses listed on IDX.

Data Analysis and Interpretation

1. Net Profit Margin Ratio
The percentage of sales income a company retains after paying all of its expenses, including interest

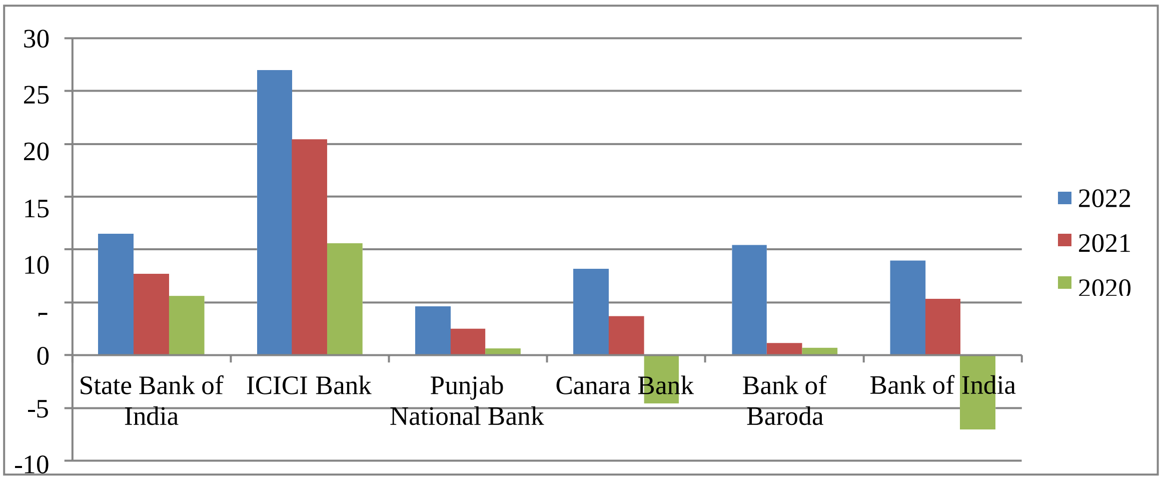
and taxes, is indicated by the net profit margin ratio. As shown below, the net profit margin ratio is calculated.

Net Profit Margin = Net Profit ⁄ Total Revenue x 100Table 1.1

Year	**2022**	**2021**	**2020**
SBI	11.49	7.69	5.63
ICICI Bank	27.02	20.46	10.60
PNB	4.61	2.50	0.62
Canara Bank	8.18	3.69	-4.56
BoB	10.40	1.17	0.71
BoI	8.94	5.32	-6.98

Analysis: Table 4.1 shows a falling trend for State Bank of India until 2020, followed bya rising trend in 2022. ICICI Bank shows an increasing trend, while Punjab National Bank fluctuates but starts increasing in 2020. Canara Bank may incur losses in 2020, but it will rise after 2020, indicating a good profit margin. Bank of Baroda's profit margin will be significantly greater in 2022.

Chart 1.1 Shows the Net Profit Ratio of selected banks are as follows:



Interpretation
Net profit margin is a useful metric for comparing businesses across industries, as they often face similar business conditions. It helps determine which organizations are more profitable. The operating performance ratio, or profit margin ratio, measures a company's ability to convert revenues into net profits, and is calculated by dividing net income by net revenue.

2. Return on equity:
The return on equity measures how much an equity shareholder's investment earns. The return on equity informs the investor how much the rupee invested earns from the company. The formula for calculating return on equity is as follows:

Return on equity = (Net profit to owners / Value of the specific owners contribution to the business) × 100

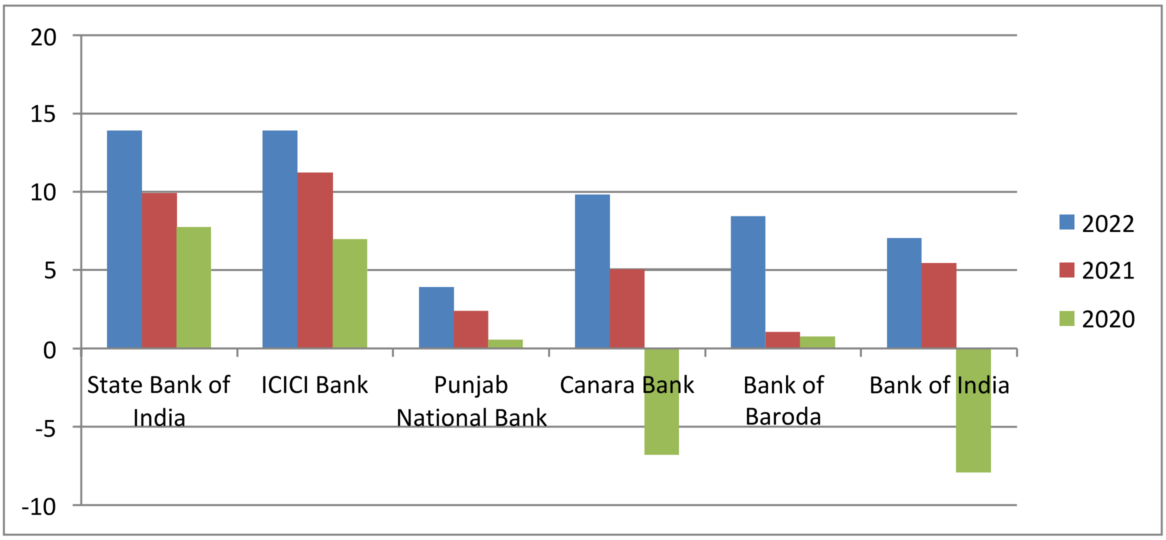
Table 2.1

Year	**2022**	**2021**	**2020**

SBI	13.92	9.94	7.74
ICICI Bank	13.94	11.21	6.99
PNB Bank	3.90	2.41	0.58
Canara Bank	9.85	5.05	-6.78
BoB	8.46	1.07	0.76
BoI	7.06	5.47	-7.88

Analysis: State Bank of India offers equity owners one of the best returns among banks in 2022. Bank of India offers moderate returns to equity owners in compared to other banks. Canara Bank and Bank of India experience losses in 2020, which causes the data to turn negative; nevertheless, in 2020 and 2021, they make a profit and give equity stockholders a decent return.

Chart 2 . 1 Shows the movement of bank positions below:



Interpretation: Except for Canara Bank and Bank of India, all banks provide positive returns to investors in the year 2020.In the years 2021 and 2022, all banks provide the best returns to equity shareholders. Return on Equity denotes the payment of a dividend to equity shareholders in the way of an investment

3. Price to Sales Ratio

The price-to-sales (P/S) ratio is a valuation ratio that compares a company's stock price to its revenues. It is an indicator of the value that financial markets have placed on each dollar of a company's sales or revenues.

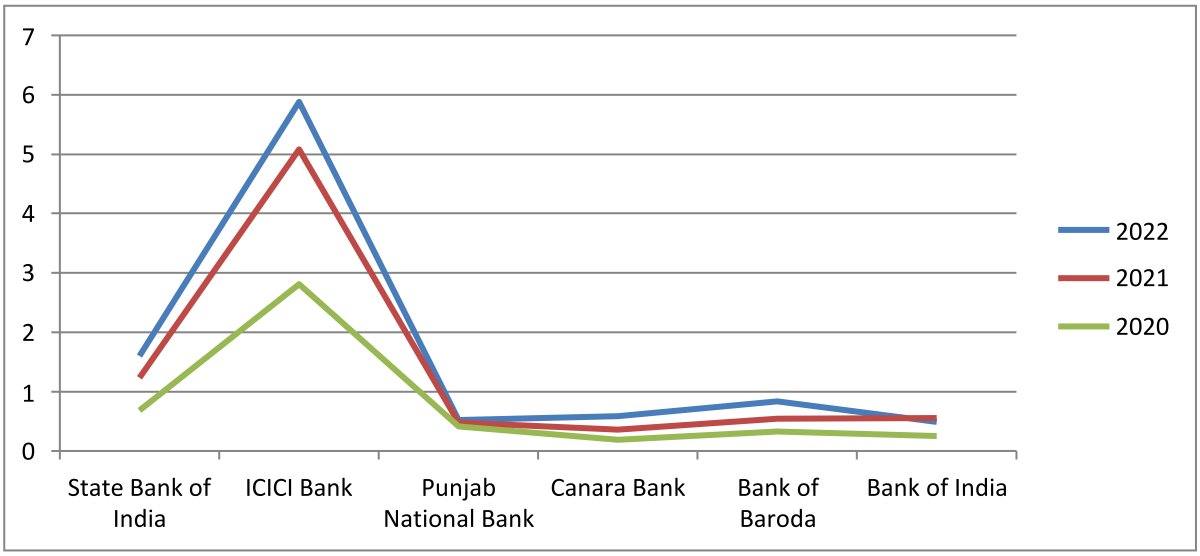
Price to sales ratio=Market Capitalization/Annual Sales

Table 3.1

Year	**2022**	**2021**	**2020**
SBI	1.60	1.23	0.68
ICICI Bank	5.88	5.08	2.81
PNB Bank	0.52	0.48	0.41
Canara Bank	0.59	0.36	0.19
BoB	0.83	0.54	0.33
BoI	0.49	0.55	0.25

Analysis: ICICI Bank has a higher price to sales ratio when compared to all other banks. With the exception of the Bank of India, all banks will increase their price to sales ratios in 2022. In the period from 2020 to 2022, all banks raised their price to sales ratios.

Chart 3.1 Shows that the position of the movement of the bank



Interpretation:
By dividing the stock price by the underlying company's share price of sales, the P/S ratio is calculated. A ratio that is below average may suggest that the company is undervalued, while a ratio that is above normal may suggest that the stock is overvalued.

Findings
The figures below were produced from data analysis and interpretations of six selected bank ratios:

1. **State Bank of India: -** NP Margin Ratio

decreased in 2020 to 5.63, but increased in 2021 and 2022. Dividend payout ratio steadily increased in 2022, and EPS increased by 8.09. Expected to lose money in 2020 and 2021, dividends per share and NPA decreased year after year. Current and quick ratios consistently increased.

2. ICICI Bank LTD: Net profit margin has increased annually, with a decrease in dividend payout ratio in 2020. In 2021 and 2022, the ratio abruptly increased, while EPS and dividends per share increased. In 2021, the quick ratio changed regularly, and the current ratio decreased.

3. Punjab National Bank: Net profit margin increases annually, with dividend payout ratios, per share, EPS, and current ratios also increasing. However, quick ratio decreases in 2022, and 2020 and 2021 remain unchanged.

4. Canara Bank: Net Profit Margin Ratio, Dividend Payout Ratio, and Earnings Per Share increase annually. In 2022, the ratio is 28.51, down from 2021 and 2020. However, the quick ratio is rapidly decreasing.

5. Bank of Baroda: Net profit margin, dividend payout ratio, and earnings per share increased in 2021 and 2020, but the current ratio decreased in 2022, reaching 14.60, compared to 15.64 in 2021.

6. Bank of India: Net profit margin, dividend payout ratio, and earnings per share increased in 2021 and 2020, but current ratio decreases to 14.60 in 2022.

Suggestion

- **Rapid growth in the Indian economy:** The banking industry's growth is closely linked to the overall economy, with India's rapid growth predicting improved business credit growth and increased opportunities for banks to lend to meet future criteria.

- **Increased per capita income:** Raising per capita income will drive retail lending expansion. Indians, primarily conservative towards credit, are more open to credit as disposable money and product choices expand. Young customers are more willing to take credit.

- **Financial Inclusion Programme:** India's 41% adult population lacks a bank account, presenting a significant untapped market for banking providers. The RBI is targeting this market through volume growth for banks as part of the financial inclusion program, providing low or no-cost financial services to disadvantaged and low-incomepopulations.

- Investors should not rely on rumours and television news, which may alter stocks for a short period of time.

- Banks can grow their networks by opening more branches. Investments are should be made in banks that provide reasonable returns and annual dividends.

- Financial inclusion activities must also be prioritised, as India ranks quite low in this area, with half of the population without access to financial services.

3. Conclusion

- The country's economic growth is a good predictor of the banking sector's growth. The Indian economy of the bank is forecast to grow at a 5 to 6 percent annual clip, and the country's banking industry is likely to keep pace.
- The onus is on the RBI as an able central regulatory institution, whose policies have protected Indian banks from excessive leveraging and high-risk ventures.
- The most of public sector banks failed to fulfil the priority sector target in 2022-2023.Though international banks performed better overall than domestic banks, data revealed that certain foreign banks also failed to fulfil the priority sector lending target.
- Bank performance in 2021-2022 was influenced by a slowing domestic economy combined with a higher interest rate environment.
- The Indian banking system has weathered the majority of the crisis thanks to the central bank's reassuring protection. However, the country's investment cycle has been shaky due to declining domestic GDP growth, prolonged inflation, concerns about asset quality, and high interest rates.

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