

Executive Summary

First, in 1934, Graham and Dodd in seminal text 'Security Analysis' recognized the significance of fundamental analysis while valuing the stock for investment purpose. Fundamental analysis is an approach to determine 'what ought to be price' or 'intrinsic value'. Market prices for stocks fluctuate at great amplitudes around intrinsic value but, over the long term, intrinsic value is virtually always reflected at some point in market price. Profits are made by purchasing the mispriced /undervalued security and then waiting for the market to rectify 'the incorrect valuation'. Thus, the aim of fundamental analysis is to identify mispriced securities through valuation. Valuation can be done through many methods such as Dividend Discount Model, Free Cash Flow Model and Residual Value Model. In addition to this, when investing in the equity shares of a listed company, it is insufficient to focus solely on the company's internal aspects. This is because the market price and intrinsic value of a company are also influenced by the industry it operates within, as well as the broader economic conditions and the dynamics of the securities market. So, the present study suggests using Economy-Industry-Company(E-I-C) frameworks of fundamental Analysis while carrying out valuation and investing in equity shares of the company.

The main objective of the study is to evaluate the different Methods proposed for the valuation of equity shares and list out the influential variables related to Economy, particular industry & company itself affecting valuation and its reliable use with insinuation in investment decision.

The research is divided in to three parts: *Part One*, deals with examining emergence & acceptance of economic, industry & company approach in valuation. Further, it studies acceptance & practice of E-I-C approach among the investor of equity. *Part Two*, of this research incorporates the case study to investigate the validity, objectivity and efficiency of E-I-C Framework and to suggest E-I-C variables to be tracked for efficiently tracking the movement of stock prices. *Part Three*, deals with the qualitative analysis(survey) conducted with to take views and opinions of experts on valuation model to be used and variables to tracked while investing in the shares of listed Indian company. Efforts are made towards contributing in evolving a commonly accepted useful valuation model on the basis of the results of case study analysis and questionnaire survey.

The study will help the common investor to carry out efficient valuation of equity share and tracking the movement of equity shares. CASE STUDY 1 of Tata Consultancy Limited and CASE STUDY 2 of Infosys limited helped in finalisation of appropriate valuation method and E-I-C framework for service sector & CASE STUDY 3 of Bajaj Auto and CASE STUDY 4 of Hero MotoCorp became instrumental in finalisation of appropriate valuation method and E-I-C framework for manufacturing companies.

The following are suggestions to investors of service provider companies and manufacturing companies.

- Employ Residual income Valuation model (RIV) for carrying out valuation of the service provider company. While Employ Discounted Cash flow (DCF) for carrying out valuation of the manufacturing company. valuation helps to know the intrinsic value of the share; intrinsic value indicates the true value of shares of the company.
- The investor of Service provider company is suggested to track E-I-C variables i.e Gross Domestic Production (GDP), Wholesale Price Index (WPI), Size (Revenue) of the Industry and Residual Income of Company for getting idea about the possible movements of shares prices of company because these variables have significant influence on the movement of share price. The investor of Manufacturing company is suggested to track E-I-C variables i.e. Gross Domestic Production (GDP), Wholesale Price Index (WPI), Size (produced units) of the Industry and Free cashflow of the Company, for getting idea about the possible movements of shares prices of company because these variables have significant influence on the movement of share price.
- The investor of companies like Hero MotoCorp which are ‘Acyclical’ and/or ‘Sector-Agnostic’ that neither rise nor fall in tandem with the general economic cycles or sector specific variables but influenced by external variables are suggested to identify and track the movement of external variables also, for efficient tracking of movement of stock price.

To assess the efficacy of fundamental analysis in valuing the equity shares of public limited businesses for investment purposes, a structured instrument was created and circulated among financial analysts, valuation agencies, directors, professional, executives and academicians

working with the related discipline. The purpose of the survey study was collecting the views of experts on best valuation methods and variables to be considered while tracking shares prices of listed companies. The answers given by respondents to all the questions were quantified in categories and converted into tabular form for further analysis. The findings of survey study endorsed the results of case study. Both case and survey study collectively concluded that the suggested methods as well as variables are worth tracking while taking investment decision in the shares of listed company.