Equity Analysis of Selected Small cap stocks listed in BSE

Suresh A.S., Srinivas Bandi.

Abstract: The research paper is organized to analyze the risk and return of selected small cap stocks listed on BSE and also to compare the performance of each stock against the benchmark. The data is collected for a period of 5 years i.e., from 1st January 2014 to 31st December 2018. The paper compares the performance of each stock taking BSE Small cap index as benchmark. The study is purely based on secondary data collected from BSE. The data were collected based on monthly prices of the selected small cap stocks, and with the help of monthly prices annual return were calculated for a period of 5 years. The study shows that Aarti drugs, Wintac pharmaceuticals and TATA Elxsi have given highest returns during the study period. Whereas the return of DCB bank is lowest during the same period. The beta of all the stocks are positive except TATA Elxsi, indicating that all the shares carry a higher risk.

Keyword: Benchmark, BSE, returns, risk, small cap.

I. INTRODUCTION

Investing in stock market provides many investors a way to earn money in a short span of time. Many of the new investors or aspiring investors fall short in understanding the stock market and get confused and often frustrated, leading them to make mistakes and incur losses which further demotivates them from investing and as a result of this, they resort to traditional ways of investing in bank fixed deposits or such which yield them not much returns.

The purpose of this study is to provide a clear vision on how to navigate through the stock market with a view to make higher profits in a short span of time, or how to have moderate profits with moderate risk factor governing the investments made by the investor. The knowledge about the financial investment is increasing amongst the investors who are looking for new ways of income other than job and to earn additional income other than salary, as they want to increase their standard of living. Investing in stock market is highly risk oriented task but high returns on the investment is obtained through vigilance on market and careful investing.

II. LITERATURE REVIEW

Swapna (2016): The study creates awareness to the investors about the stock to invest in the best sector as it calculates the risk and return of particular stocks and also to assess the performance of return and risk of those companies. The objectives of investment is to get earn maximize return. More over the investment is depend upon the investor how much to invest in the stocks or companies stock based on risk. The author suggests to invest in Wipro is best and good to invest which lowest risk and highest return.

Suresh and Harshitha (2017): This research is about comparing risk and return relationship of stocks by using Markowitz and Sharpe’s model. The study aims to identify the level of deviation in returns by comparing these two models and to check whether the results obtained are constant or not. The result of beta will allow the investors to know about the market risk of the particular investments. The research shows that both the models give almost the same value for both individual return and risk and also portfolio. Suresh (2018): The study was organized to analyse the risk and returns of selected logistic stocks listed on BSE and to compare their performance against the benchmark for the period of 5 years i.e. from 1st January 2013 to 31st December 2017. This paper analyses the performance of logistic sector taking BSE Sensex as benchmark. This study is based on secondary data collected from BSE. The date were collected based on monthly prices of the logistic sector and with the help of monthly prices, annual returns were calculated for a period of five years.

III. OBJECTIVES OF THE STUDY:

➢ To analysis the return and risk of the selected Small cap stocks
➢ To compare the return and risk of selected small cap stocks against benchmark
➢ To rank all the stocks based on return and risk
➢ To construct portfolio and to provide necessary suggestions based on the study

IV. RESEARCH METHODOLOGY:

The study mainly focuses on the price movement of selected small cap stocks. The study is descriptive in nature. For the equity analysis, the data of monthly share price are collected from the BSE Sensex. The date were collected for past the past 5 year i.e. JAN-2014 to DEC-2018. Various tools such as Return, Standard deviation, Beta, Alpha etc., the data are collected from BSE Sensex, journals and websites.

A. Duration of the study:
The data is collected for a period of 5 years starting from 1st Jan 2014 to 31st Dec 2018

B. Data collection

The study is based on secondary data collected from BSE website. Data is collected for a period of 5 years (i.e. from 1st January 2014 to 31st December 2018) from Media and Entertainment sector listed in BSE. Additionally the data are also collected from newspaper, websites, journals, books reports by researchers and scholars

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C. Selection of sample companies

- DCB Bank
- RSS software
- TATA Elxsi
- Aarti Drugs
- Wintac Pharmaceuticals

D. Analytical tools for data analysis:

1. Return
2. Standard deviation
3. Variance
4. Beta
5. Alpha
6. Correlation

E. Limitations of the study

- The study is limited to only one sector from BSE Sensex.
- Analysis is based on secondary data collected from BSE website, published literature etc.
- Only five companies have been selected for conducting this study.

DATA ANALYSIS AND INTERPRETATION

Table 1: Ranking of the Small cap stocks based on returns

<table>
<thead>
<tr>
<th>Rank</th>
<th>Small cap stocks</th>
<th>Industry</th>
<th>Average Returns (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aarti Drugs</td>
<td>Pharmaceuticals</td>
<td>84.51</td>
</tr>
<tr>
<td>2</td>
<td>RSS Software</td>
<td>Information Technology</td>
<td>83.31</td>
</tr>
<tr>
<td>3</td>
<td>TATA Elxsi</td>
<td>Information Technology</td>
<td>77.56</td>
</tr>
<tr>
<td>4</td>
<td>Wintac Pharmaceuticals</td>
<td>Pharmaceuticals</td>
<td>75.87</td>
</tr>
<tr>
<td>5</td>
<td>DCB</td>
<td>Bank</td>
<td>31.82</td>
</tr>
</tbody>
</table>

Graph 1: Ranking of Small cap stocks based on returns

Interpretation:
The above graph shows that all the small cap stocks has given the positive returns during the study period. Aarti drugs gave the highest return of 84.51% for the period 2014 to 2018 followed by RSS Software, TATA Elxsi and Wintac Pharmaceuticals. DCB bank has given the lowest return of 31.82% during the same period.

Table 2: Ranking of the Small cap stocks based on Standard deviation

<table>
<thead>
<tr>
<th>Rank</th>
<th>Small cap stocks</th>
<th>Industry</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DCB</td>
<td>Bank</td>
<td>47.15</td>
</tr>
<tr>
<td>2</td>
<td>Wintac Pharmaceuticals</td>
<td>Pharmaceuticals</td>
<td>99.85</td>
</tr>
<tr>
<td>3</td>
<td>TATA Elxsi</td>
<td>Information Technology</td>
<td>104.04</td>
</tr>
<tr>
<td>4</td>
<td>Aarti Drugs</td>
<td>Pharmaceuticals</td>
<td>119.05</td>
</tr>
<tr>
<td>5</td>
<td>RSS Software</td>
<td>Information Technology</td>
<td>148.74</td>
</tr>
</tbody>
</table>

Interpretation:
From the above table it can be found that DCB bank has the lowest risk followed by Wintac Pharmaceuticals, TATA Elxsi and Aarti Drugs. The stock which has highest risk is RSS Software.

Table 3: Ranking of the Small cap stocks based on Variance

<table>
<thead>
<tr>
<th>Rank</th>
<th>Small cap stocks</th>
<th>Industry</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>DCB</td>
<td>Bank</td>
<td>2223.38</td>
</tr>
<tr>
<td>2</td>
<td>Wintac Pharmaceuticals</td>
<td>Pharmaceuticals</td>
<td>9970.16</td>
</tr>
<tr>
<td>3</td>
<td>TATA Elxsi</td>
<td>Information Technology</td>
<td>10824.8</td>
</tr>
</tbody>
</table>
Aarti Drugs | Pharmaceutical | 14172.8 |
RSS Software | Information Technology | 22123.2 |

<table>
<thead>
<tr>
<th>Rank</th>
<th>Small cap stocks</th>
<th>Industry</th>
<th>Beta</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>TATA Elxsi</td>
<td>Information Technology</td>
<td>0.7</td>
<td>91.18</td>
</tr>
<tr>
<td>2</td>
<td>DCB Bank</td>
<td>Bank</td>
<td>1.4</td>
<td>16.3</td>
</tr>
<tr>
<td>3</td>
<td>Wintac Pharmaceuticals</td>
<td>Pharmaceutical s</td>
<td>2.4</td>
<td>9.0</td>
</tr>
<tr>
<td>4</td>
<td>RSS Software</td>
<td>Information Technology</td>
<td>3.8</td>
<td>3.0</td>
</tr>
<tr>
<td>5</td>
<td>Aarti Drugs</td>
<td>Pharmaceutical s</td>
<td>4.0</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Interpretation:
From the above table it can be found that the first stock with lowest variance is DCB Bank followed by Wintac Pharmaceuticals, TATA Elxsi and Aarti Drugs. The stock which has highest variance is RSS Software.

Table 4: Ranking of the Small cap stocks based on Beta and Alpha

Interpretation:
From the above table it can be found that TATA Elxsi has lowest beta of – 0.73, followed by DCB Bank and Wintac Pharmaceuticals with beta of 1.41 and 2.40 respectively. The stock with highest beta is Aarti Drugs. It can be concluded that all the stocks carry higher market risk.

Portfolio Return and Risk:
An attempt has been made to analyse the portfolio return and risk of selected small cap stocks.

Calculation of Correlation of Selected Small cap Stock

Interpretation:
From the above, it can be found that the portfolio return on selected small cap stock is 70.61% and the portfolio risk is 75.28%.

V. CONCLUSION:
The study is based on the analysis of small cap stocks listed on BSE. This study helps the investor in identifying the performance of selected small cap stocks for a given period. It can be concluded that stock with higher beta value is not preferred as it is exposed to higher market risk. All the small cap stocks has higher standard deviation, therefore it is advised to construct a portfolio to avoid higher risk. This study is an attempt to evaluate the performance of selected small cap stocks listed on BSE and to identify the best stock to invest and the worst stock to be ignored. If the investors are ready to take higher risk, then the investors are suggested to invest in Aarti drugs and RSS software, where the returns are highest but risk is also high. The investors who are looking for moderate returns are suggested to invest in Tata Elxsi and Wintac pharmaceuticals. The investors who are looking for low risk are suggested to invest in DCB bank. However by constructing a portfolio an investor can minimise the risk.
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