



A COMPARATIVE STUDY ON MAJOR PLAYERS IN INDIAN STEEL INDUSTRY AND METAL INDEX WITH REFERENCE TO NATIONAL STOCK EXCHANGE

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Abstract

This study is aimed at finding the optimum security in which investments are to be made in the steel industry. The efficiency of the companies in the portfolio will be confirmed by conducting analytical studies, i.e. both security analysis and portfolio analysis. Security analysis will be conducted by analyzing both the fundamental and the technical aspects. Here for the study technical analysis used and it includes Mathematical Indicators (Moving Averages) and Oscillators (MACD-Moving Average Convergence and Divergence, and ROC- Rate of Change) with correlation coefficient. It provides additional strength to the investor in choosing the option of buy/sell strategies. This study mainly depends upon the secondary data published in the various websites of the companies and stock exchanges.

Keywords: *Investment, Portfolio, Security Analysis, Technical Analysis.*

Introduction

Investment refers to the process of putting money or money's worth in some opportunity for the purpose of making or reaping returns out of it. This money or money's worth is the excess after expenditure, i.e., savings. It is mainly done in order to ensure safety and also to hedge against inflation (devaluation of money value). Investing in various types of assets is an interesting activity that attracts people from all walks of life irrespective of their occupation, economic status, education and family background. When a person has more money than he requires for current consumption, he would be coined as a potential investor. The investor who is having extra cash could invest in shares, securities, bonds or any other assets like gold or real estate or could simply deposit in (credit to) his bank account.

Stock Exchange

Stock Exchange is the place where buyers and sellers of stocks meet. The prices of the shares are decided by demand and supply of the shares. The buyers and sellers are represented by the brokers. Hence, the stock exchange is an association of individual members called member brokers (or simply members or brokers), formed for the express purpose of regulating and facilitating the buying and selling of securities by the public and institutions at large. A stock exchange in India operates with due recognition from the government under the Securities and Contracts (Regulations) Act, 1956. The member brokers are essentially the middlemen, who carry out the desired transactions in securities on behalf of the public (for a commission) or on their own behalf. Some exchanges are formed and managed by limited companies whose shareholders may be members of the exchange and thereby have license to offer brokerage services to members of public. Some exchanges which are formed by limited companies may have brokers who are not necessarily shareholders of the exchange company.

Stock Market in India

In terms of legal structure, the stock exchanges in India could be segregated into two broad groups- 20 stock exchanges were set up as companies, either limited by guarantees or by shares, and the 3 stock exchanges which are functioning as 'Associates Of Persons'(AOP) viz, BSE, ASE and Madhya Pradesh Stock Exchange. The 20 stock exchanges which are companies are the stock exchanges of Bangalore, Bhubaneswar, Calcutta, Cochin, Coimbatore, Delhi, Gauhati, Hyderabad, and Interconnected stock exchange, Jaipur, Ludhiana, Madras, Magadh, Mangalore, NSE-Pune, OTCEI, Sourashtra-Kutch, Uttar Pradesh and Vadodara. Apart from NSE, all stock exchanges whether established as corporate bodies or AOPs, are non-profit making organizations.

National Stock Exchange (NSE)

The NSE is India's leading stock exchange covering 364 cities and towns across the country. It was established in the year 1994. NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach. The Exchange has brought about unparalleled transparency, speed and efficiency, safety and market integrity. It has set up facilities that serve as a model for the securities industry in terms of systems, practices and procedures.

Security Analysis

Security analysis refers to the analysis of trading securities from the point of view of their prices, returns and risks. All investments are risky and the expected return is related to their risk. Their analysis will help in understanding the behaviour



of security prices and the market in decision-making for investment. If it is an analysis of only one scrip, it is called micro-analysis of a company. If it is an analysis of market of securities, it is referred to as a macro-picture of the behaviour of the market.

It is mainly out in two approaches namely: fundamental analysis and technical analysis. Under fundamental analysis the share value depends on the intrinsic worth of the shares. It is basically an economy-industry-company analysis. It considers the external as well as the internal factors that determine a company's efficient functioning. In technical analysis the prices move in a predictable manner and in waves and trends. The present prices are the result of past trends and can accordingly be predicted. Thus security analysis forms the first step towards devising an efficient portfolio of securities.

Need for the Study

Security analysis and portfolio management gives a clear picture of the 'pros' and 'cons' involved in making a particular kind of investment. It helps the investor to reduce his risks and maximize returns by not putting all the eggs in a single basket. It provides the investor a competitive advantage over other investors.

The present scenario proves that investment in steel industry is almost a risk-free (guaranteed) investment. This is because of the growing need for steel products around the globe and also because of the developed R&D facilities available.

Through this project, the researcher tries to point out the best avenues (that ensures maximum return and minimum risk) in steel industry wherein the investments could be made. The results are supported by statistical data and various analytical techniques.

It is only through rational decision making that anyone can sustain in this competitive environment. Capital is the most scarce factor among the other factors of production. Unless it is optimally utilized, it leads to wastage of time, effort and money. Therefore, it is essential that an investor should take only those kinds of decisions which are supported by facts and figures. These required facts and figures are provided by the various tools used in 'Security Analysis & Portfolio Management', viz, RSI, MACD, ROC, MA, etc.

Objectives

- To find out the correlation of top performers with the metal index.
- To find out how the average prices of each scrip are moving with the steel index
- To find out the change in price rate of each scrip with the index
- To undertake the technical analysis of the major securities in steel industry and interpret them for the future.

Scope of Study

- From the technical analysis the investors and traders can take decision when to sell and when to buy or whether to hold the scrip etc.
- Based on the analysis they can make self-analysis with these scrip for the future and decisions can be taken
- This will help the investors and traders to select their further scrip in any other industry
- This will help the investor to get an idea about the current scenario in Indian stock market.
- The study will help those who are doing projects based on technical analysis.

Research Methodology

Type of Research

Descriptive and Narrative research was used .Five companies are in turn selected from a bigger list of ten companies which were taken on a random basis from the NSE(National Stock Exchange). It gives investor an idea as to the avenues in steel industry where in he could make his investment.

Period of Study

The research work was conducted for a period of one year, i.e., from the 1st January 2014 to the 31st December 2014.

Scripts under Observation

Out of the various scrip listed in the NSE, five scrip of steel industry were selected on a random basis. Following are the five scrip selected for this study.

 BHUSHAN STEEL



- JINDAL
- JSW STEEL
- SAIL
- TATA STEEL

Tools for the Analysis

Technical Tools

a. Moving Average (MA):

b. Rate Of Change Indicator (ROC):

$$ROC = (\text{Current closing price} / \text{Closing price 'n' period back}) - 1$$

c. Correlation

$$\text{Correlation Coefficient, } r = \frac{n \sum xy - \sum x \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \sqrt{n \sum y^2 - (\sum y)^2}}$$

Data Analysis and Interpretation

I. Correlation Coefficient

Correlation coefficient between CNX METAL (NSE index-Steel) and Other steel scrip

Table-1

Correlation Coefficient	
	CNX METAL (X)
BHUSHAN (Y1)	-0.295
JINDAL (Y2)	0.307
JSW (Y3)	0.885
SAIL (Y4)	0.898
TATA (Y5)	0.979

II. Moving Average

CHARTs for DMA (Day Moving Average)

1. BHUSHAN STEEL with CNX METAL

Chart-1 20DMA

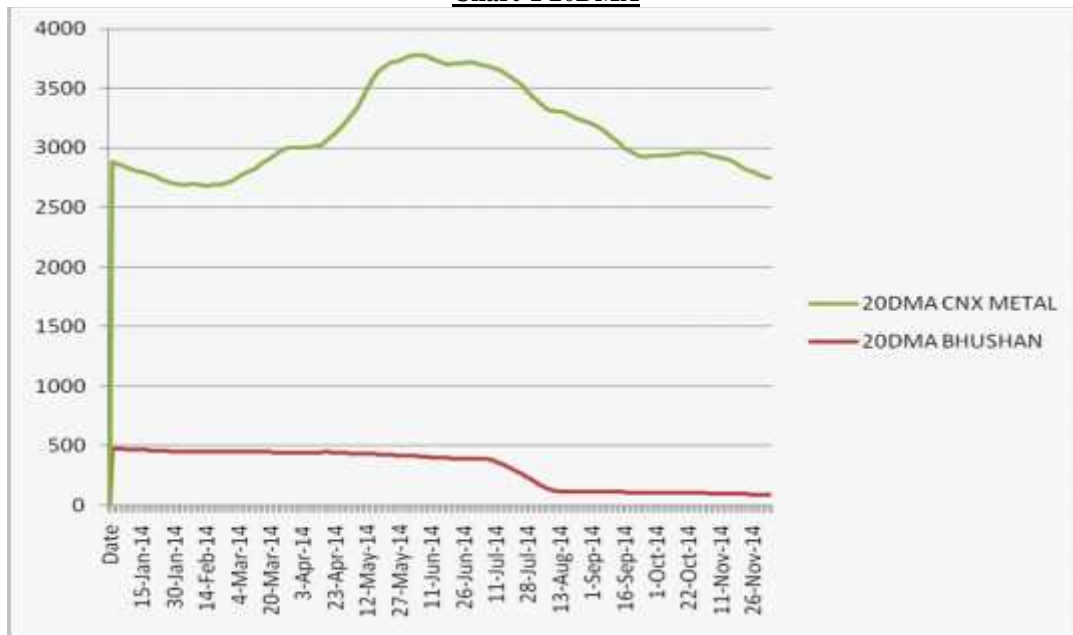
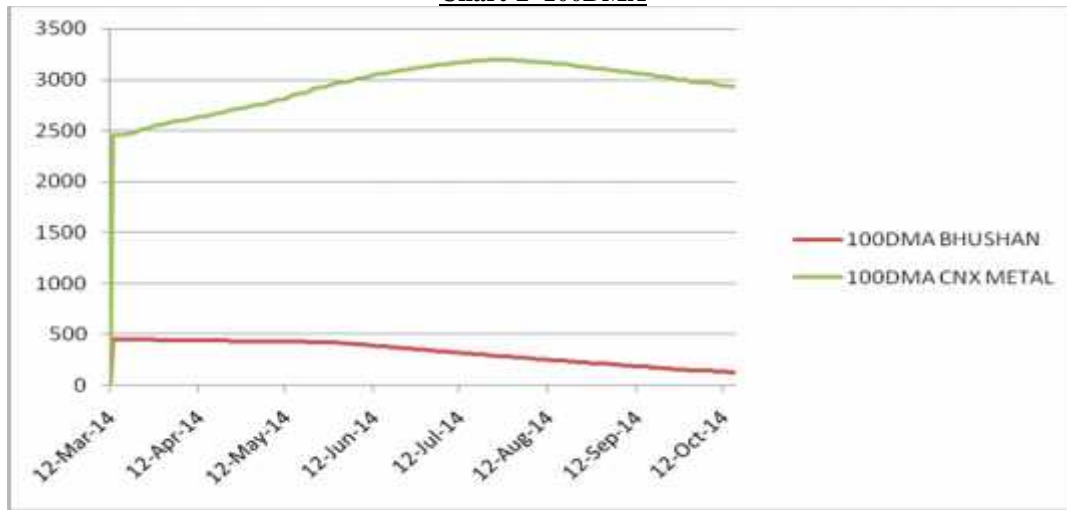




Chart-2 100DMA



2. JINDAL STEEL with CNX METAL

Chart-3 20DMA

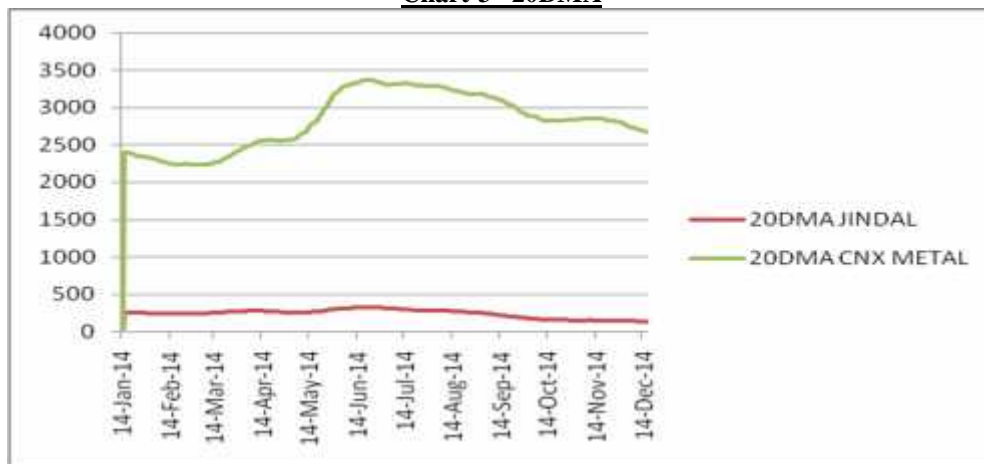
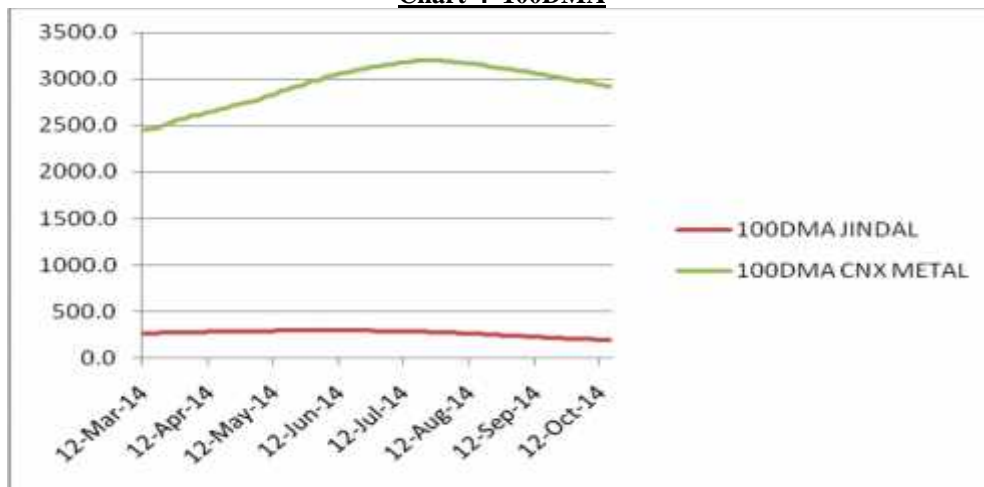


Chart-4 100DMA





3. JSW STEEL with CNX METAL

Chart-5 20DMA

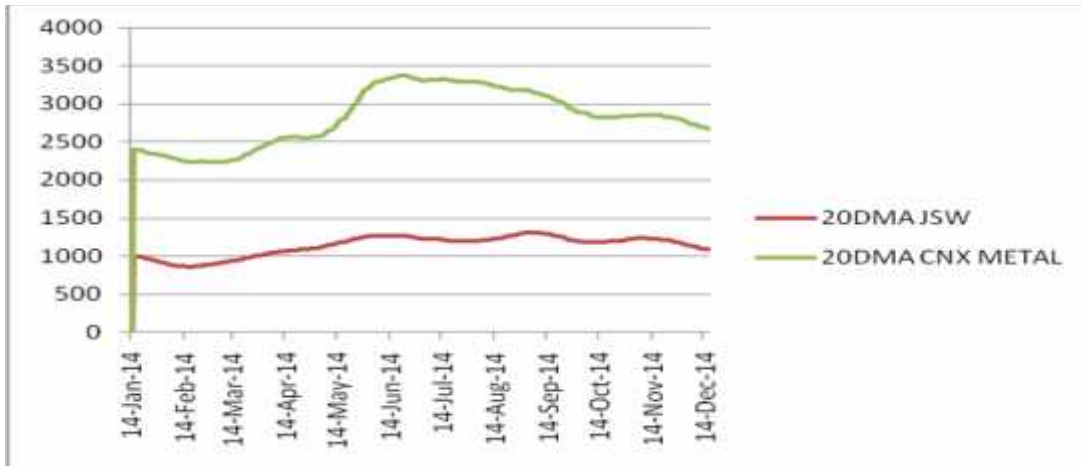
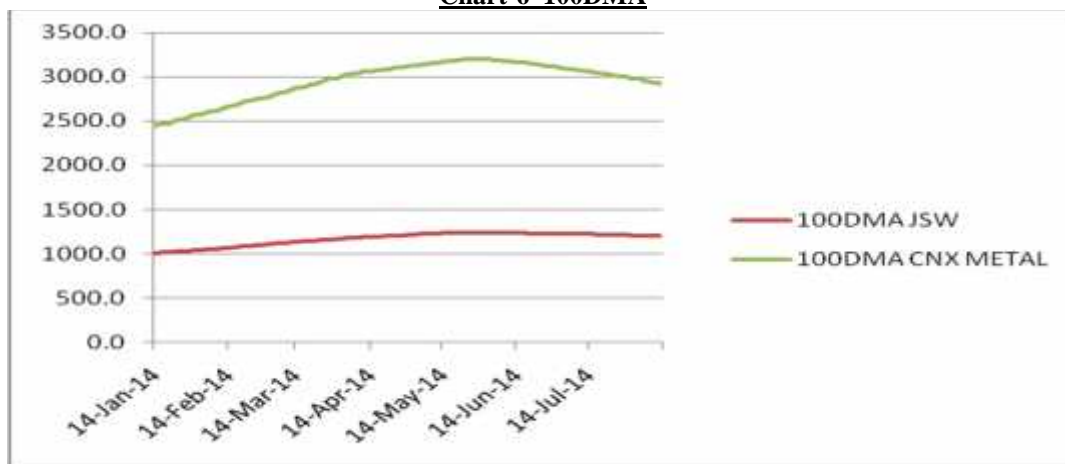


Chart-6 100DMA



4. SAIL with CNX METAL

Chart-7 20DMA

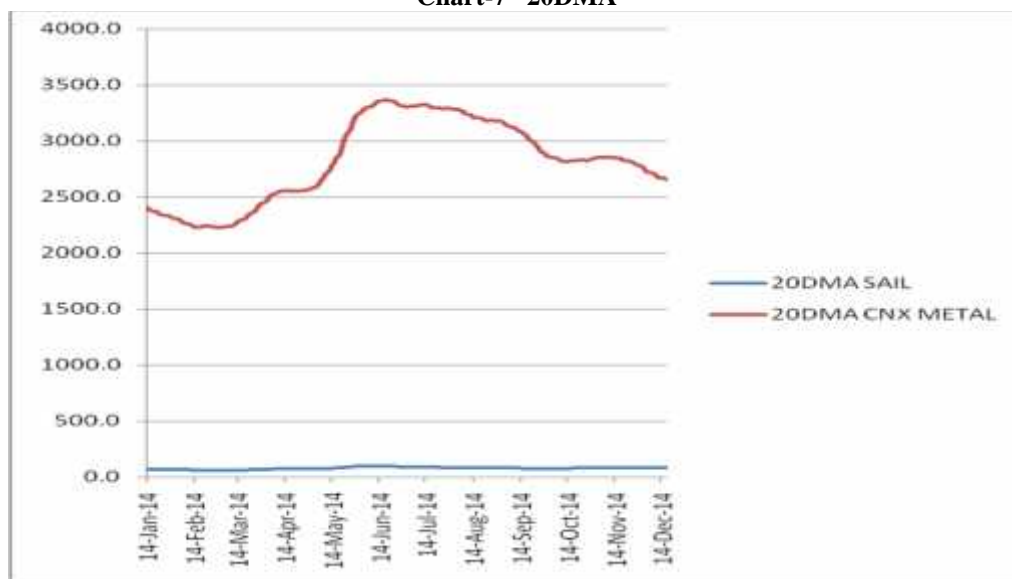
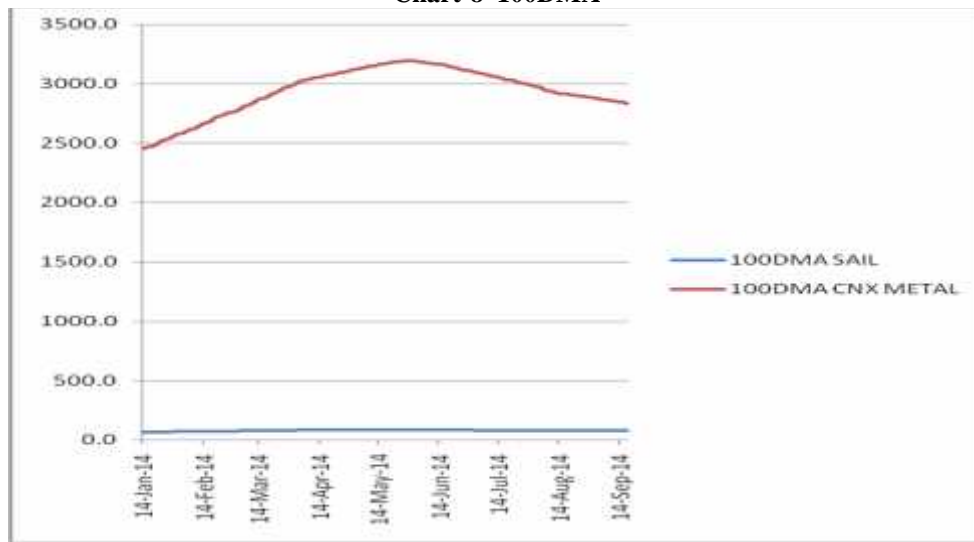




Chart-8 100DMA



5. TATA with CNX METAL

Chart-9 20DMA

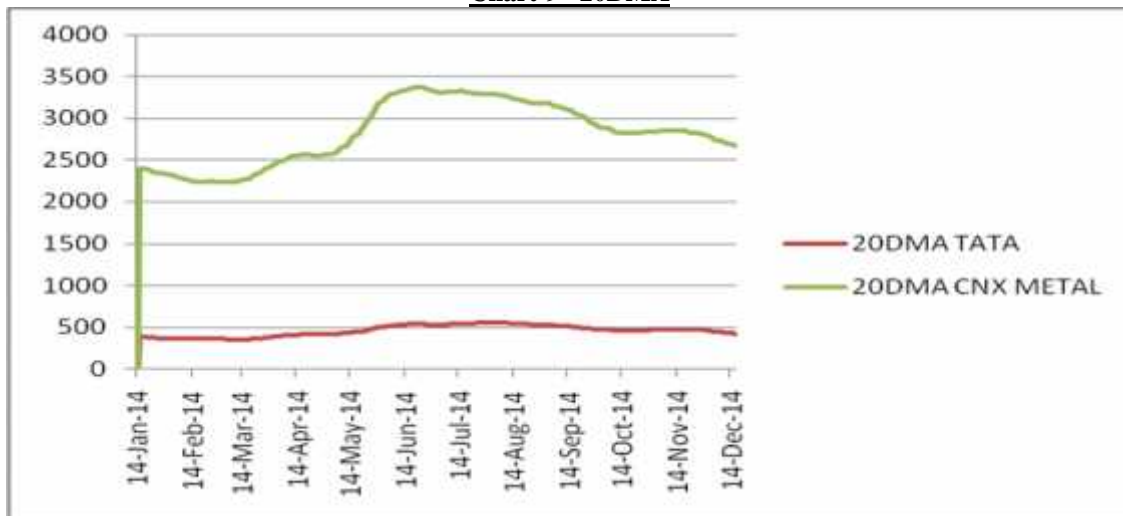
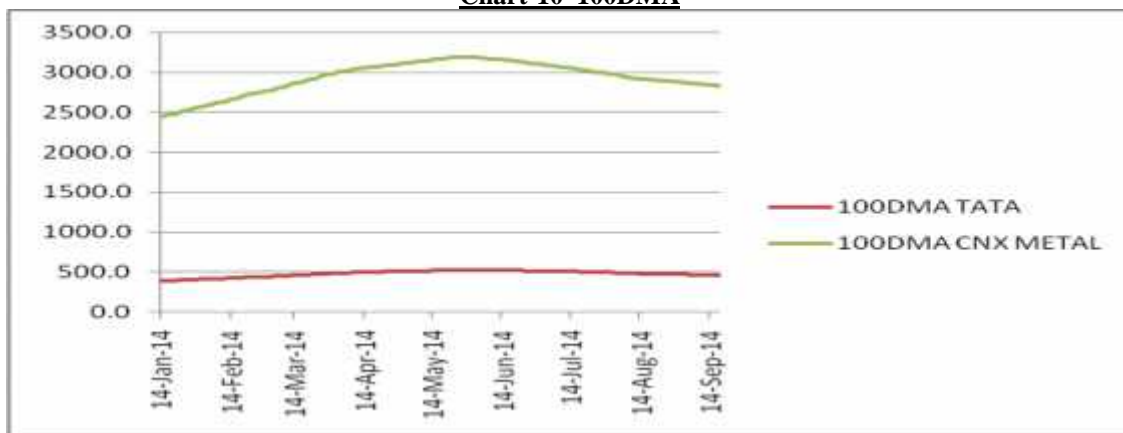


Chart-10 100DMA





III. RATE OF CHANGE (ROC)

Chart-11 BHUSHAN STEEL with CNX METAL

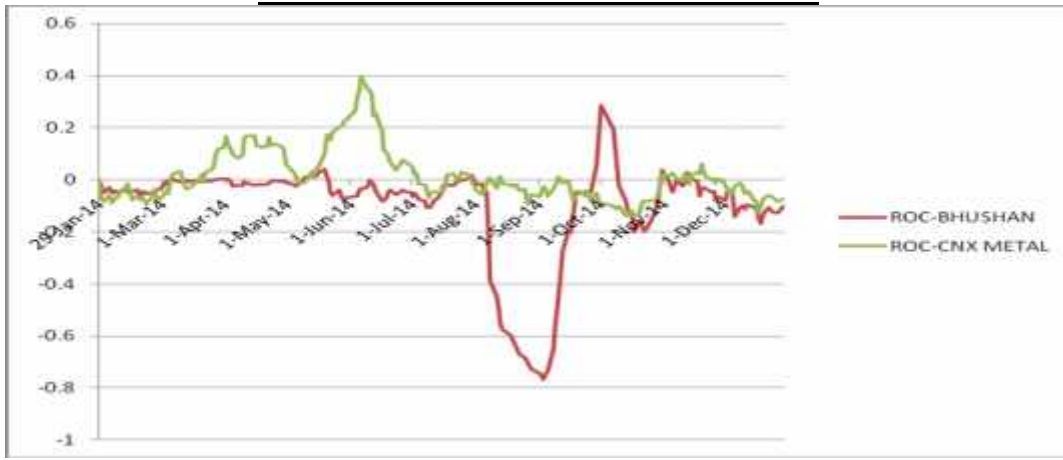


Chart-12 JINDAL with CNX METAL

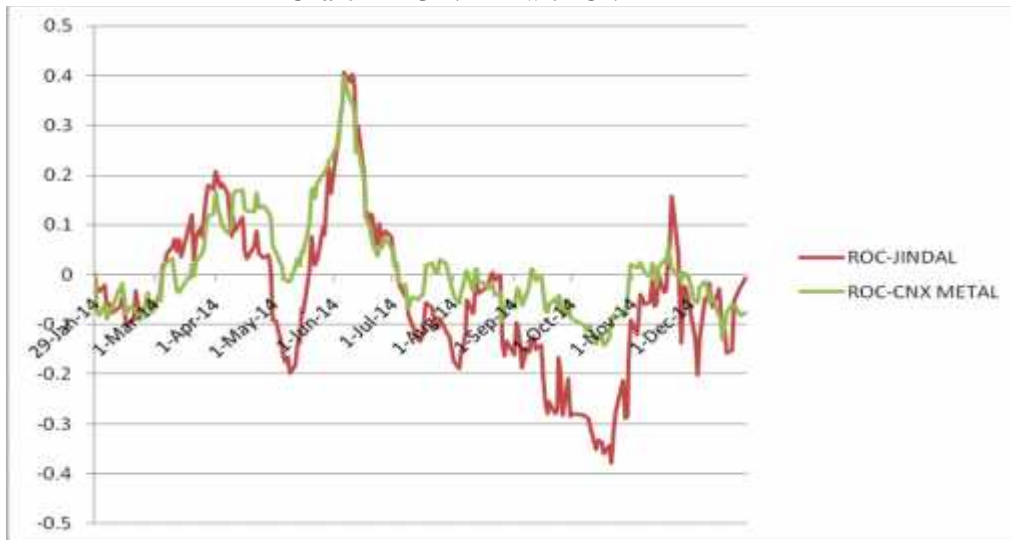


Chart-13 JSW with CNX METAL

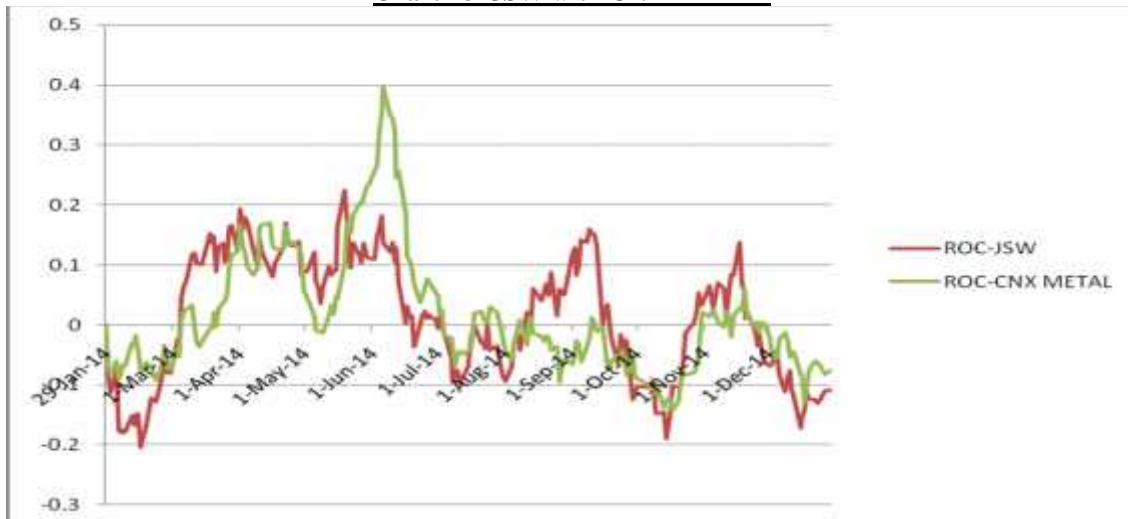




Chart-14 SAIL with CNX METAL

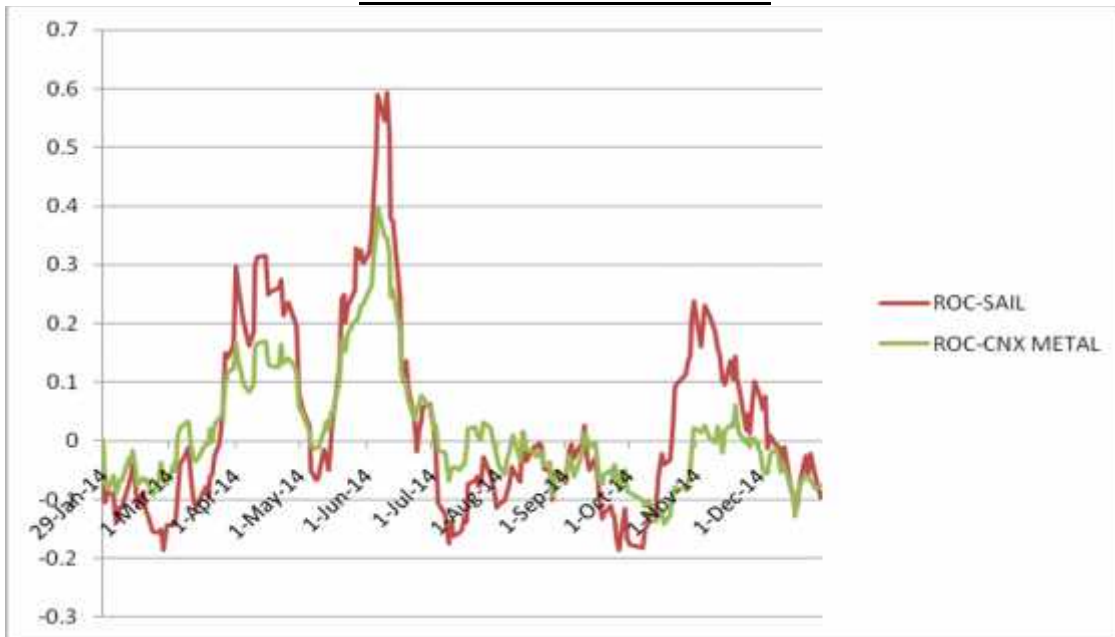
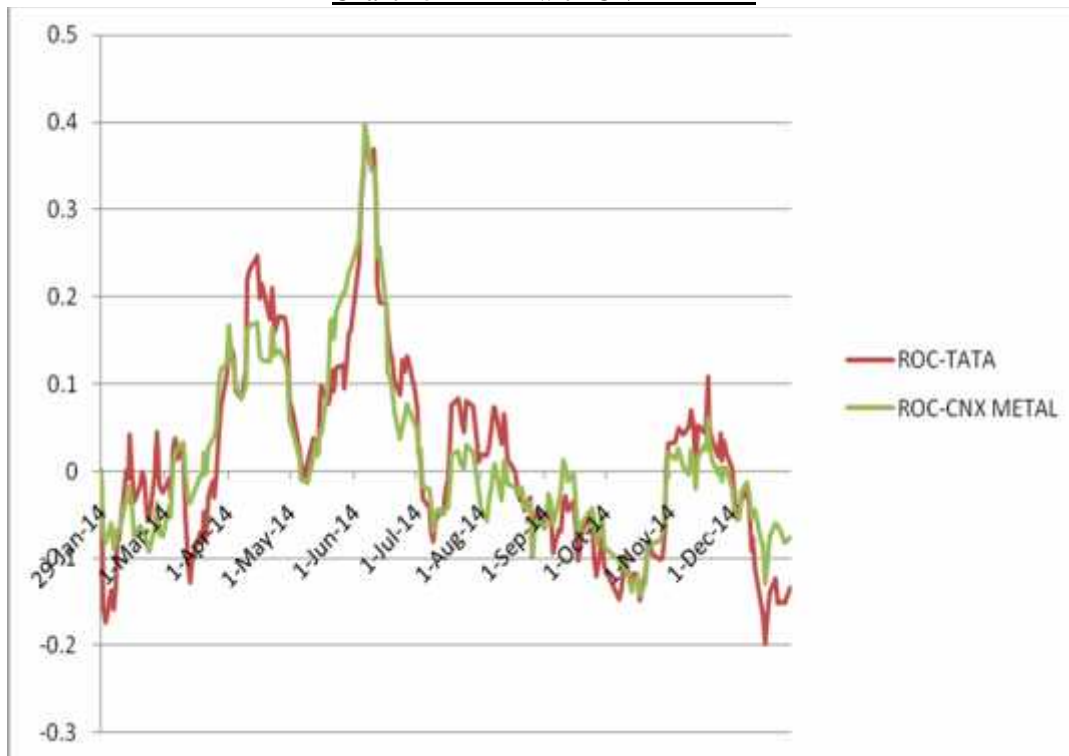


Chart-15 TATA with CNX METAL



Results & Discussion

Correlation

From Table-1 only the correlation between Bhushan steel with CNX metal shows a -ve relationship, also Jindal steel having less correlation with the Index and others having high correlation especially TATA steel with the index .



Moving Average

20DMA (Day Moving Average)

From charts-1, 3, 5, 7 & 9 JSW and TATA Steel are moving in almost the same pace with the INDEX (CNX METAL) with an upward trend and showing the strategy to buy..BHUSHAN and JINDAL showing a downward trend with the METAL index and showing the strategy to sell. SAIL not showing any trend with the METAL index showing the strategy to hold the share.

100DMA (Day Moving Average)

From charts-2, 4, 6, 8 & 10 JINDAL,JSW & TATA steel are moving in almost the same pace with the INDEX (CNX METAL) with an upward trend and showing the strategy to buy. BHUSHAN steel showing a downward trend against the METAL index and showing the strategy to sell. SAIL not showing any trend with the METAL index showing the strategy to hold the share.

Rate of Change (ROC)

ROC values may be positive, negative or zero. When the ROC line falls, it signals falling price and thus sell signal. When the ROC line rises, it indicates a buy strategy. Towards the end ROC line is coming towards zero line from above, indicating a sell signal.

Here the ROC is based on price before past 20days. From charts 11 to 15, for BHUSHAN steel and JINDAL steel the ROC lines is falling below zero and it continues to fall against the INDEX and indicating the investors to sell and these having risk while holding .For JSW & TATA steel ROC starts moving towards the zero curve and also its moving with the INDEX showing a buy signal. For SAIL,ROC line is moving towards the zero line from below indicating the investors to buy or hold the shares.

Conclusion

This study focusing on the Security Analysis in Indian Steel Industry. Sufficient care has been taken to make the study viable considering the market situation. Adequate efforts have been taken to minimize the discrepancy which may arise through technical problems. It is hoped that this project would be useful in providing a general idea on 'Security Analysis' based on steel industry by the traders and investors. And also technical analysis carried out with the help of various tools give a clear picture of the present situation as well as the future trend to occur. It is based on this that the investor or trader decides as to which strategy should he adopt and why.

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