

A Study on Portfolio Evaluation and Investment Decision With Reference To Sharekhan Limited, Chennai

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Abstract : *Portfolio management can be defined and used in many a ways, because the basic meaning of the word is “combination of the various things keeping intact”. So I considered and evaluated this from the perspective of the investment part in the securities segment. From the investor point of view this portfolio followed by him is very important since through this way one can manage the risk of investing in securities and thereby managing to get good returns from the investment in diversified securities instead of putting all the money into one basket. Now a day’s investors are very cautious in choosing the right portfolio of securities to avoid the risks from the market forces and economic forces. So this topic is chosen because in portfolio management one has to follow certain steps in choosing the right portfolio in order to get good and effective returns by managing all the risks. This topic covers the how a particular portfolio has to be chosen concerning all the securities individual return and thereby arriving at the overall portfolio return. This also covers the various techniques of evaluation of the portfolio with regarding to all the uncertainties and gives an edge to select the right one. The purpose of choosing this topic is to know how the portfolio management has to be done in arriving at the effective one and at the same time make aware the investors to choose the securities which they want to put them in their portfolio. This also gives an edge in arriving at the right portfolio in consideration to different securities rather than one single security. The project is undertaken for the study of my subject thoroughly while understanding the different case studies for the better understanding of the investors and myself.*

Keywords: *Portfolio Management, Investment decisions, risk, expected returns*

Introduction

This project deals with the different investment decisions made by different people and focuses on element of risk in detail while investing in securities. It also explains how portfolio hedges the risk in investment and giving optimum return to a given amount of risk. It also gives an in depth

analysis of portfolio creation, selection, revision and evaluation. The report also shows different ways of analysis of securities, different theories of portfolio management for effective and efficient portfolio construction. It also gives a brief analysis of how to evaluate a portfolio.

At the beginning the investor must make a decision on what particular securities to purchase and hold until the end of the period. Because a portfolio is a collection of securities, this decision is equivalent to selecting an optimal portfolio from a set of possible portfolios, often referred to as the portfolio selection problem.

Investing in securities such as shares, debentures & bonds is profitable well as exciting. It is indeed rewarding but involves a great deal of risk & need artistic skill. Investing in financial securities is now considered to be one of the most risky avenues of investment. The present study was carried out to know the investment decision with reference to Banking, IT –Software, Steel, Cement and Automobile industry.

Review of Related Literature

A literature review can be defined as Investment Analysis and Portfolio Management states that it is an approach used in strategic planning to compare various stocks to one another in order to establish priorities and decide between the better and the good (Frank K. Reilly, 1987). Another key ratio used to relate the performance of a portfolio in relation to risk and return is information ratio. It is used to gauge the performance of the investment manager in relation to its benchmark. This ratio is exclusively used to measure the extent to which the portfolio over -performed or under-performed in relation to a benchmark, Richard C. Grinold and Ronald N. Kahn (2000).

The work of (Harry M. Markowitz, 1971) and (Edwin J. Elton *et al.*, 2014) show that a portfolio is more than just a list of stocks and bonds, it is a balanced set of investment which keeps in mind the risk seeking capability of the individual without negating the opportunities that are hidden in it and also bringing into notification the threats associated with it. The key to make a portfolio is to make one which suits the individual needs of the investor

(Jensen, 1969). Quite similar to this was Treynor measure, which gave the freedom to interpret the relationship between rewards to risk factor. A high treynor measure is preferred as compared to a smaller one.

In addition, the authors followed a Quantitative Equity Investing: Techniques and Strategies states that a fixed income security to be put in simple words is the monetary commitment of a firm to the investor so as to pay certain sum of money at some specified pre negotiated contract dates. Some of the main issuers of the U.K. government, local governmental councils and institutions that are huge in structure like IMF and World Bank (Pamela Peterson Drake and Frank J. Fabozzi, 2010) and (Dimitris N. Chorafas, 2004). This includes options which give the holder the power to choose as to buy, hold or sell the stock at a specified time and at a specified price. The options included in this are warrants and put & call options. (Francis, J. C., *et al.*, 2000)

Need of the Study

Portfolio decisions can be used to select best combination of securities and to select the stocks on the past performance basis. To evaluate the performance of security returns as compared with other returns. To measure the standard deviation for measuring risk of the individual securities. To suggest and measures to the investors to select the security and increase the performance returns.

Objective of The Study

Primary objective:

To study on portfolio decisions towards investment in stock market with reference to Sharekhan limited.

Secondary objectives:

- To study the investments pattern of investor and their priority.
- To evaluate the performance of security returns as compared with other securities.
- To analyze the performance and to decide the effective portfolio selection.
- Suggesting the investors to select the security to increase performance returns.

Research Methodology

The present study has been Analytical research. It tends to the calculation of correlation of returns between the different securities in order to find out at what percentage of funds should be invested among the five different industry and each industry four companies in the portfolio like Banking

Industry (SBI, Indian Bank, HDFC and ICICI), IT – Software Industry (TCS, INFOSYS, WIPRO Ltd and HCL), Steel Industry (SAIL, Jindal Steel and Power, Tata and Mahindra UGINE), Cement Industry (Ambuja Cement Ltd, Ultra Tech, Madras and India Cement) and Auto Mobiles (Tata Motors, Maruti Suzuki India Ltd, Hero Motocorp and Bajaj Auto). The data collection was strictly confined to secondary source. No primary data is associated with the project. The secondary data was collected from the related journals, books, newspaper, magazines and companies annual reports during the month of December 2015 to February 2016. Besides this, tools used for Analysis like Holding period returns (HPR) = $\{(p_1-p_0)+D\}/p_0$, Standard Deviation = $\sqrt{\{\sum(R-\bar{R})^2/N\}}$ and

$$\text{Beta } \beta = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$$

Data Analysis and Interpretations

Banking Industry:

The table 1, observed that rate of returns for the banking industry about five years are 2011, 2012, 2013, 2014 and 2015. The average rate of returns for the years 2011-2015 of SBI is 0.20, Indian Bank is 0.30, HDFC is 0.33, ICICI is 0.31. Therefore the investors could expect a good rate of return from HDFC stock in banking industry, because it gives maximum average return of 0.33 compares to other companies. The standard deviation for four companies measures the variability of return and its return involves both systematic and unsystematic risk. S.D for SBI is 0.54, Indian bank is 0.78, HDFC is 0.40 and ICICI is 0.76. The HDFC Company is stable compared to other companies, because HDFC stock will minimize risks at optimum level of 0.40. The β is the volatility of securities and it describes the relationship between the stock' return and the index returns. It indicates that one per cent change in NSE index return would cause change in banking industry stocks return. A beta value for the SBI is 0.730 and HDFC is 0.549, it shows both the stocks are less volatile compared to the market. Beta values for Indian bank and ICICI are 1.02 and 1.038, it shows both the stocks moves in tandem with the market. Therefore the HDFC stock is less volatile a 0.549 compares to other stocks with the NSE index.

Table 1: Showing Average rate of return, Standard Deviation & Beta for the Banking Industry

Banking Industry	Average Rate of Return	Standard Deviation (Total Risk)	Beta (NSC)
State Bank of India	0.20	0.54	0.73
Indian Bank	0.30	0.78	1.02
HDFC	0.33	0.40	0.54

ICICI	0.31	0.76	1.03
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IT – Software Industry:

The table 2, observed that rate of returns for the software industry about five years are 2011, 2012, 2013, 2014 and 2015. The average rate of returns for the years 2011-2015 of TCS is 0.51, Infosys is 0.21, Wipro is 0.30, HCL is 0.73. Therefore the investors could expect a good rate of return from HCL stock in software industry, because it gives maximum average return of 0.73 compares to other companies. The standard deviation for four companies measures the variability of return and its return involves both systematic and unsystematic risk. S.D for TCS is 0.72, Infosys is 0.45, Wipro is 0.74 and HCL is 1.18. The Infosys Company is

stable compared to other companies, because Infosys stock will minimize risks at optimum level of 0.45. The β is the volatility of securities and it describes the relationship between the stock’ return and the index returns. It indicates that one per cent change in NSE index return would cause change in software industry stocks return. A beta values for the TCS is 0.997, Wipro is 0.549 and Infosys is 0.557, it shows the stocks are less volatile compared to the market. Beta value for HCL is 1.619, it shows the stock moves in tandem with the market. Therefore the Infosys Company is less volatile at 0.557 compares to other companies with the NSE index.

Table 2: Showing Average rate of return, Standard Deviation & Beta for the Software Industry

Software Industry	Average Rate of Return	Standard Deviation (Total Risk)	Beta (NSC)
Tata Consultancy Service	0.51	0.72	0.99
Infosys	0.21	0.45	0.55
WIPRO	0.30	0.74	0.99
HCL	0.73	1.18	1.61

Steel Industry:

The table 3, observed that rate of returns for the steel industry about five years are 2011, 2012, 2013, 2014 and 2015. The average rate of returns for the years 2011-2015 of SAIL is 0.04, Jindal steel is 0.36, Tata steel is 0.17, Mahindra ugin steel is 0.32. Therefore the investors could expect a good rate of return from Jindal steel company in steel industry, because it gives maximum average return of 0.36 compares to other companies. The standard deviation for four companies measures the variability of return and its return involves both systematic and unsystematic risk. S.D for SAIL is 0.68, Tata steel is 0.97, Jindal steel is 1.18 and Mahindra steel is 1.06. The SAIL Company is

stable compared to other companies, because SAIL stock will minimize risks at optimum level of 0.68. The β is the volatility of securities and it describes the relationship between the stock’ return and the index returns. It indicates that one per cent change in NSE index return would cause change in steel industry stocks return. A beta value for the SAIL is 0.799, it shows the stock are less volatile compared to the market. Beta values are Jindal steel is 1.50, Tata steel is 1.306 and Mahindra steel is 1.396, it shows that the stocks moves in tandem with the market. Therefore the SAIL Company is less volatile at 0.799 compares to other companies with the NSE index.

Table 3: Showing Average rate of return, Standard Deviation & Beta for the Steel Industry

Steel Industry	Average Rate of Return	Standard Deviation (Total Risk)	Beta (NSC)
Steel Authority Of India Limited	0.04	0.68	0.79
Jindal Steel	0.36	1.18	1.50
Tata Steel	0.17	0.97	1.30
Mahindra Steel	0.32	1.06	1.39

Cement Industry:

The table 4, observed that rate of returns for the cement industry about five years are 2011, 2012, 2013, 2014 and 2015. The average rate of returns for the years 2011-2015 of Ambuja cement is 0.16, Ultra Tech is 0.22, India cement is 0.15 and Madras cement is 0.22. Therefore the investors could expect a good rate of return from Ultra Tech

Company in cement industry, because it gives maximum average return of 0.22 compares to other companies. The standard deviation for four companies measures the variability of return and its return involves both systematic and unsystematic risk. S.D for Ambuja cement is 0.36, Ultra Tech is 0.27, India cement is 0.36 and Madras cement is 0.47. The Ultra Tech Company is stable compared

to other companies, because Ultra tech stock will minimize risks at optimum level of 0.27. The β is the volatility of securities and it describes the relationship between the stock's return and the index returns. It indicates that one per cent change in NSE index return would cause change in cement industry stocks return. A beta values for the

Ambuja cement is 0.730, Ultra Tech is 0.307, India cement is 0.233 and Madras cement is 0.390, it shows that the stocks are less volatile compared to the market. Therefore the India cement company is less volatile at 0.233 compares to other companies with the NSE index.

Table 4: Showing Average rate of return, Standard Deviation & Beta for the Cement Industry

Cement Industry	Average Rate of Return	Standard Deviation (Total Risk)	Beta (NSC)
Ambuja Cement	0.16	0.36	0.46
Ultra Tech	0.22	0.27	0.30
India Cement	0.15	0.36	0.23
Madras Cement	0.22	0.47	0.39

Automobile Industry:

The table 5, observed that rate of returns for the automobile industry about five years are 2011, 2012, 2013, 2014 and 2015. The average rate of returns for the years 2011-2015 of Tata Motors is 0.88, Maruti Suzuki is 0.12, Hero Moto is 0.34 and Bajaj Auto is 0.62. Therefore the investors could expect a good rate of return from Tata motors company in automobile industry, because it gives maximum average return of 0.88 compares to other companies. The standard deviation for four companies measures the variability of return and its return involves both systematic and unsystematic risk. S.D for Tata Motors is 1.62, Maruti Suzuki is 0.27, Hero Moto is 0.41 and Bajaj Auto is 0.87. The Maruti Suzuki Company is stable compared to

other companies, because Maruti Suzuki stock will minimize risks at optimum level of 0.27. The β is the volatility of securities and it describes the relationship between the stock's return and the index returns. It indicates that one per cent change in NSE index return would cause change in automobile industry stocks return. A beta value for the Maruti Suzuki is 0.326 and Hero Moto is 0.113, it shows both the stocks are less volatile compared to the market. Beta value for Bajaj Auto is 1.138, it shows the stock moves in tandem with the market. Beta value for Tata Motors is 2.135, it shows the stock are more volatile. Therefore the Hero Moto company is less volatile at 0.113 compares to other companies with the NSE index.

Table 5: Showing Average rate of return, Standard Deviation & Beta for the Automobile Industry

Automobile Industry	Average Rate of Return	Standard Deviation (Total Risk)	Beta (NSC)
Tata Motor	0.88	1.62	2.13
Maruti Suzuki	0.12	0.27	0.32
Hero Moto	0.34	0.41	0.11
Bajaj Auto	0.62	0.87	1.13

Findings

- The investor who bears high risk will be getting high returns. Here among all securities TATAMOTORS will give high average return of 0.88 at the same time risk level also very high at the range of S.D of 1.62
- Considering portfolio I, HDFC security will give maximum return of 0.33 at risk level of 0.40. Portfolio II, HCL technology will give maximum return of 0.73 at the risk level of 1.18.
- Portfolio III, Jindal Steel and Power will give the maximum return of 0.36 at the risk level of 1.18.
- In Portfolio IV, Ultra Tech Cement will give maximum return of 0.22 at the risk level of

0.27. Finally Portfolio V, Tata Motors will give maximum return of 0.88 at the risk level of 1.62

- Among all five portfolios, Portfolio V that is Automobile Industry will give highest portfolio return of 0.490 (or) 49% at the portfolio risk level of 0.513
- Among all five portfolios, Portfolio II that is IT-Software industry will give maximum portfolio risk level of 0.632 at the rate of return of 0.438 (or) 43.8%.

Suggestions

- Select the investments on the basis of economic grounds.
- Buy stock with a disparity and discrepancy between the situation of the

firm - and the expectations and appraisal of the public.

- Buy stocks in companies with potential for surprises.
- Take advantage of volatility before reaching a new equilibrium.
- Listen to rumours and tips, check for yourself.
- Don't put trust in only one investment. It is like "putting all the eggs in one basket". This will help lessen the risk in the long term.
- The investor must select the right advisory body which has sound knowledge about the product which they are offering.
- Professionalized advisory is the most important feature to the investors.
- Professionalized research, analysis which will be helpful for reducing any kind of risk to overcome.

Conclusion

The securities market is growing big as investors are getting awareness towards the share market. Share market game, some think as gambling and few say to play wise. There are so many perceptions towards these stock markets. Whatever people say but investors keep on investing. If some precautions are taken, investors can be survived from huge losses.

The main aim of every investor should be safety to his /her investment after that if he/she requires returns that could begin them fruits. If further an investor goes with good analysis and market watch he can gain more. If investor cannot have those qualities then they can better prefer mutual funds where experts' opinion will be there. However, the study brings an idea that how to select the companies and how to invest and how to construct the portfolios.

The present project work has been undertaken to study the investment opportunities available to investors. These avenues are different for different profile of investors. However it is very important

for an investors to identify the risk associated with the returns one has construct the portfolio. A portfolio is a set of securities which by adding reduce the risk in whole.

The entire project work is done to identify the best portfolio and is found the results are satisfactory.

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