A Study of Indian Banking Sector using Fundamental Analysis

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Abstract

Banking sector is the major source of finance for modern trade and commerce. The economic progress of a country depends upon financial intermediaries such as banks. The performance of Indian banks has remained robust during the past few years despite the challenges due to both domestic and international developments. From the point of investment decisions, fundamental analysis is quite significant. It provides an insight into the economic performance of a business enterprise. This research was undertaken to understand the performance of the Indian Banking system. The present study makes it clear that EPS is the strongest indicator for an investor to look for before investing his money in a company. A company may have high OPM, NPM, ROE, PER, DPS and DPR but there is no significant relationship found between these variables and EPS. Moreover in order to which company will be more profitable, an investor should compare the EPS of all companies taken into consideration because a company may be having profits but it may not always give dividends and can keep the profits as retained earnings. Therefore EPS becomes the best indicator for investment decision.

Keywords: Operating Profit Margin (OPM), Net Profit Margin (NPM), Return on Equity (ROE), Earnings per Share (EPS), Price Earnings Ratio (PER), Dividend per Share (DPS), Dividend Payout Ratio (DPR), Banking system, Fundamentals.

Introduction

The banks are financial intermediaries which help in the mobilization of savings of the society and provide credit to people and different sectors in the economy. Banking sector is the major source of finance for modern trade and commerce. With the coming of the era of liberalization, privatization and globalization the profitability, efficiency and productivity have become more important because of the increase in competition. As financial intermediaries the banks play an important role in the economic growth and development of the country.

The world economy saw a lot of ups and downs between 2006 and 2012. After the collapse of the Lehman Brothers there was a financial crisis throughout the world. The economic development is

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not possible without a sound financial system. For the efficient allocation of scarce resources a well-developed and well-regulated financial sector is very important.

An effective banking system is necessary for healthy growth of the Indian economy. The Indian Banking system should be able to cope up with the technological challenges caused by external or internal sources. India's banking system has extensive reach. An important factor for the economic growth of India has been the presence of banks in the remotest corners of the country. The performance of Indian banks has remained robust during the past few years despite the challenges due to both domestic and international developments. The improvement in the capital base, asset quality, and profitability shows the resilience of the banking sector.

Fundamental analysis is a method that attempts to predict the intrinsic value of an investment. It is based on the theory that the market price of an asset tends to move towards its 'real value' or 'intrinsic value'. Fundamental analysis attempts to find out the true

value of securities so that the investors can decide to buy or not to buy the securities at the current market prices. Understanding of the direction and velocity of the company is essential to make successful investment in stocks. Velocity means the speed and distance a company achieves over time, this may be earnings, profit, sales or margin. On the other hand, direction indicates the way the company is going, up or down. In this paper three banking companies listed on the Sensex have been taken for study to understand the banking sector of India in general.

Literature Review

The literature on the subject throws ample light on the importance of strong fundamentals of banks.

Ayanda et al (2013) identified the main factors affecting profitability by a study on First Nigerian Bank Plc covering a period of three decades from 1980 to 2010. The following conclusions were drawn after consideration of the bank specific and micro economic factors (a) broad money, labour efficiency were the factors that had a positive and significant affect (b) the factor that affected positively but insignificantly was size(c) the factor that affected negatively and significantly was inflation and (d) the factors that affected negatively but insignificantly were capital adequacy, credit risk, liquidity, real GDP and management efficiency.

Bhatia et al (2012) have made a study on 23 Indian private banks for the data period 2006-07 to 2009-10 aimed at identifying the determinants of profitability.

Kavitha (2012) has made an investigation into the determining factors of profitability of Scheduled Commercial Banks in India covering 56 banks. In order to find out if there was any significant difference in the mean value of two groups (one whose profitability exceeded the mean and the other whose profitability was less than the average). The researcher found that the main variables that discriminated between the different bank categories were credit deposit ratio, percentage of priority sector advances and government securities to asset ratio.

Javaid et al (2011) have studied the key internal factors affecting banking profitability in Pakistan considering the top ten banks (covering more than 75% of the assets) for the period 2004 to 2008. They showed on the basis of regression that return on assets was affected negatively by asset size, positively by loan percentage positively and significantly by both capital ratio and deposit ratio.

Ramadan et al (2011) studied ten commercial banks listed in the Amman Stock Exchange during period from 2001 to 2010. The profitability indicators used were Return on asset and return on equity. The findings revealed the presence of mixed result. In the case of ROA as the explained variable, capital adequacy ratio total liability percentage, credit risk, cost management and market concentration showed significant effect. In the other case, the only change was the insignificant affect of credit risk.

Mishra, Sarma and Avadhanam (2011) found that after liberalization in the 90s and the entry of private players there has been an increase in the levels of competition as experienced by the Indian banks and financial institutions.

Mandal and Sahoo (2011) in their study between 1997 and 2005 found that the nationalized banks have not yet exercised their cost minimizing principles as compared to other banks.

Alexiou and Safoklis (2009) studied six banks of the Greek banking sector which had more than 80% of the market share (in terms of assets, loans and deposits) for the period 2000 to 2007. The identification of determinants of profitability showed that of all the macroeconomic factors, inflation, private consumption and GDP were found to have an insignificant effect. In terms of the bank-specific factors, only size affected positively and significantly in contrast to the significant, negative effect of credit risk, bank productivity and efficiency.

Pushpakumara and Fernando (2009) have focused on the profitability analysis of the Sri Lankan banking industry covering banks listed on Colombo Stock Exchange over period 2004-08. The regression using PBIT as the dependent variable and bank specific factors like total assets, share capital, number of branches and products as the independent variable revealed that all above factors proved to be critical ones.

Aburime (2009) has analyzed 33 Commercial Banks and Merchant Banks in Nigeria covering data for the period 2000 to 2004. The application of regression method revealed that capital size, credit portfolio size and ownership concentration had significant effect, whereas deposit size, labour productivity, state of IT, ownership and control-ownership disparity had no significant effect. The bank-risk profitability relationship proved to be inconclusive.

Flamini *et al* (2009) have studied 389 banks covering 41 sub Saharan countries over the period 1998 to 2006 to identify the factors affecting return on asset. The independent variables were divided into two categories: bank specific factor and micro economic factors. Some of the main finding were:-(a)The variables having a positive affect included capitalization extent , credit risk (significant)size overhead costs, inflation , non-fuel prices(b) the variable having no affect were market concentration, GDP per capita and foreign ownership and (c) the variables having negative affect included fuel prices and public ownership.

Badola and Verma (2006) have made a study on the profitability aspect of banks in India. They covered 27 public sector banks for the period from 1991-92 to 2003-04. The application of stepwise regression method showed that non-interest income, operating expenses, provisions and spread had a dominating effect. On the other hand, credit-deposit ratio, non-performing assets and staff productivity had an insignificant effect.

Morgan Stanley recommended raising exposure to Indian bank credit despite deteriorating fundamentals in the sector. According to Morgan Stanley, attractive technical's, low capital deficits, and fair sector valuations make Indian bank credit attractive. Morgan Stanley credit analyst Desmond Lee admitted that Indian banks had been the biggest underperformers in the region for the past 18 months leading to June 2012, but he claimed that opportunities existed within the sector ("Morgan Stanley increases exposure to Indian credit as fundamentals deteriorate,"2012).

Athanasglou *et al* (2005) also have made an analysis of the Greek banking industry to identify the main factors affecting return on asset by considering bank specific, industry specific and microeconomic factors. Of all the factors, following observations were made (a) the factor that affected positively and significantly were capital ,productivity growth , business cycle (b) operating expenses and industry concentration affected negatively but the affect was insignificant and(c) inflation affected positively that too significantly.

Calomiris and Manson (2003) assembled bank-level and other data for Fed member banks to model determinants of bank failure.

Cheema and Aggarwal (2002) found that commercial banks operating in India were operating below the average level of efficiency.

Sathye (2001) observed that the mean efficiency score of Indian banks compares well with the world mean efficiency score.

Molyneux and Thornton (1992) have found that the expense variable affected European Banking profitability positively. They proposed that high profits earned by firms in a regulated industry could be appropriate in form of higher salary and wage expenditures. Their findings supported the efficiency wage theory, which stated that the productivity of employees increased with the wage rate.

Bisky (1982) reported on the operations methods of banks for success and profit in business in the U.S. He ascertained the impact of good relations with customers and employees on the banking business. The bank's success was also attributed to diligent asset/liability management and tight control of non-interest expenses as well as simplicity of the fundamentals of banks.

Objectives of the Study

As investment decision making is continuous in nature therefore it should be attempted systematically. Fundamental analysis and technical analysis are the two important approaches of investment decision making. In fundamental analysis, the investor attempts to look at the fundamental factors that affect risk and return characteristics of the security. Economic and industry analysis are part of the fundamental analysis. The main objective of the present study is to analyze the profitability position of the banking sector by

taking few sample banking companies. The secondary objective is to make a comparative analysis among the fundamentals of the sample banking companies.

Hypotheses

H0: There is no significant relationship between the selected variables of the sample companies.

H1: There is a significant relationship between the selected variables of the sample companies.

Research Methodology

Research Design – The present study is descriptive and analytical in nature.

Sample: The present study is descriptive and analytical in nature. The sample consists of three Banking companies chosen from the BSE Sensex. The banking companies which are a part of the BSE sensex are Punjab National Bank, Axis Bank and Indusind Bank.

Key variables: The variables which have been considered in the study are:-

1. Operating Profit Margin (OPM)
2. Net Profit Margin (NPM)
3. Return on Equity (ROE)
4. Earnings Per Share (EPS)
5. Price Earnings Ratio (PER)
6. Dividend Per Share (DPS)
7. Dividend Payout Ratio (DPR).

Time Period: The period of the study is from 2010-11 to 2014 -15.

Source of Data: The data on key variables was compiled from the annual report of the respective banks.

Statistical Tools: The statistical tools that have been used in this study include Arithmetic Mean, Multiple Regression and One-way Analysis of Variance (ANOVA).

Data Analysis and Interpretation

The various variables used in the study have been defined as under:-

Operating Profit Margin (OPM): The operating profit margin is a ratio of operating profit to total revenue. It indicates the effectiveness with which a company controls the cost and expenses associated with their normal business operations.

Net Profit Margin (NPM): Net Profit Margin is the ratio of net profit to total revenue earned by a company. This indicates how much a company is able to earn after meeting all direct and indirect expenses for every rupee of revenue.

Return on Equity (ROE): It is a ratio of earnings after taxes and preferred dividend to owner's Equity. It indicates how much profit is generated using the owner's capital.

Earnings per Share (EPS): It indicates how much earning is being generated for each share. It is the ratio of earning available to an equity shareholder to the total number of outstanding equity shares. Higher the EPS, the greater is the profitability of the company.

Price Earnings Ratio (PER): The price earnings ratio is the ratio of the market price per share to earnings per share. It indicates the responsiveness between earning capacity and share price in the market.

Dividend per Share (DPS): The dividend per share is the ratio of dividend paid and the total number of outstanding shares. The higher the DPS, the higher is the earning for the Shareholders.

Dividend Payment Ratio (DPR): The dividend payment ratio expresses the relationship between Dividends share and earnings per share. It indicates as to what percentage of earnings are being distributed to the shareholders.

Analysis of the relation between different variables of Punjab National Bank by using Multiple Regression

YEAR	EPS	OPM	NPM	ROE	PER	DPS	DPR
2014	92.32	16.56	6.99	10.17	8.06	10	10.83
2013	134.31	16.73	10.29	16.48	5.34	27	23.51
2012	144	18.4	12.02	21.05	6.43	22	15.27
2011	139.94	21.11	14.48	24.45	8.72	22	15.72
2010	123.86	24.63	15.64	26.59	8.18	22	20.74

Table 1: Multiple Regression Analysis of PNB

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	ROE, OPM, NPM	.	Enter

a. All requested variables entered.
b. Dependent Variable: EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.997[a]	.993	.974	3.35123

a. Predictors: (Constant), ROE, OPM, NPM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1711.146	3	570.382	50.788	.103[a]
	Residual	11.231	1	11.231		
	Total	1722.377	4			

a. Predictors: (Constant), ROE, OPM, NPM
b. Dependent Variable: EPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	180.226	12.253		14.708	.043
	OPM	-9.551	1.280	-1.568	-7.463	.085
	NPM	3.172	6.906	.526	.459	.726
	ROE	4.814	3.289	1.526	1.464	.382

Interpretation:

From the Variables Entered/Removed Box, the variables entered are OPM, NPM and ROE. The method used is Enter Method and EPS is the dependent variable.

From the Model Summary Box since the value of R is 0.997 so we can say that there is high degree of correlation between OPM, NPM, ROE and EPS.

From the ANOVA table since the significant value is 0.103 which is greater than 0.05 so the Regression Model is not fit.

From the Coefficient Box since the significant values of OPM, NPM and ROE are greater than 0.05 so we can conclude that EPS is not dependent on either of these.

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPR, PER, DPS	.	Enter

a. All requested variables entered.
b. Dependent Variable: EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.994[a]	.989	.956	4.35155

a. Predictors: (Constant), DPR, PER, DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1703.441	3	567.814	29.986	.133[a]
	Residual	18.936	1	18.936		
	Total	1722.377	4			

a. Predictors: (Constant), DPR, PER, DPS
b. Dependent Variable: EPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	72.050	19.927		3.616	.172
	PER	.941	1.832	.064	.514	.698
	DPS	5.645	.690	1.716	8.176	.077
	DPR	-3.971	.873	-.951	-4.548	.138

a. Dependent Variable: EPS

Interpretation:

From the Variables Entered/Removed Box, the variable entered are PER, DPS, DPR. The method used is Enter Method and EPS is the dependent variable.

From the Model Summary Box since the value of R is 0.994 so we can say that there is high degree of correlation between PER, DPS, DPR and EPS.

From the ANOVA table since the significant value is 0.133 which is greater than 0.05 so the Regression Model is not fit.

From the Coefficient Box since the significant values of PER, DPS, DPR are greater than 0.05 so we can conclude that EPS is not dependent on either of these.

Therefore the Hypothesis H1 i.e there is significant relationship between the selected variables of Punjab National Bank is rejected and Null Hypothesis i.e there is no significant relationship between the selected variables of Punjab National Bank is accepted.

Analysis of the relation between different variables of Axis Bank by using Multiple Regressions

YEAR	EPS	OPM	NPM	ROE	PER	DPS	DPR
2014	132.33	14.4	16.34	17.43	2.21	20	15.11
2013	110.68	11.41	15.35	18.53	11.76	18	16.29
2012	102.67	10.69	15.47	20.29	11.16	16	15.51
2011	82.54	13.67	17.12	19.34	17.01	14	16.91
2010	62.06	25.58	16.1	19.15	18.84	12	22.56

Table 2: Multiple Regression Analysis of Axis Bank

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	ROE, OPM, NPM	.	Enter

a. All requested variables entered.
b. Dependent Variable: EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.945[a]	.893	.571	17.61932

a. Predictors: (Constant), ROE, OPM, NPM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2581.379	3	860.460	2.772	.410[a]
	Residual	310.441	1	310.441		
	Total	2891.820	4			

a. Predictors: (Constant), ROE, OPM, NPM
b. Dependent Variable: EPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	583.107	276.708		2.107	.282
	OPM	-3.053	1.501	-.685	-2.034	.291
	NPM	-7.871	12.771	-.210	-.616	.648
	ROE	-16.480	8.448	-.648	-1.951	.302

a. Dependent Variable: EPS

Interpretation:

From the Variables Entered/Removed Box, the variables entered are OPM, NPM and ROE. The method used is Enter Method and EPS is the dependent variable.

From the Model Summary Box since the value of R is 0.945 so we can say that there is high degree of correlation between OPM, NPM, ROE and EPS.

From the ANOVA table since the significant value is 0.410 which is greater than 0.05 so the Regression Model is not fit.

From the Coefficient Box since the significant values of OPM, NPM and ROE are greater than 0.05 so we can conclude that EPS is not dependent on either of these.

Variables Entered/Removed Box

Model	Variables Entered	Variables Removed	Method
1	DPR, PER, DPS	.	Enter

a. All requested variables entered.
b. Dependent Variable: EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	.998	1.09040

a. Predictors: (Constant), DPR, PER, DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2890.631	3	963.544	810.407	.026[a]
	Residual	1.189	1	1.189		
	Total	2891.820	4			

a. Predictors: (Constant), DPR, PER, DPS
b. Dependent Variable: EPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	54.939	15.359		3.577	.174
	PER	-1.041	.247	-.251	-4.216	.148
	DPS	5.199	.591	.612	8.793	.072
	DPR	-1.585	.309	-.179	-5.123	.123

a. Dependent Variable: EPS

Interpretation:

From the Variables Entered/Removed Box, the variable entered are PER, DPS, DPR. The method used is Enter Method and EPS is the dependent variable.

From the Model Summary Box since the value of R is 1.000 so we can say that there is perfect correlation between PER, DPS, DPR and EPS.

From the ANOVA table since the significant value is 0.026 which is less than 0.05 so the Regression Model is fit.

From the Coefficient Box since the significant values of PER, DPS, DPR are greater than 0.05 so we can conclude that EPS is not dependent on either of these.

Therefore the Hypothesis H1 i.e there is significant relationship between the selected variables of Axis Bank is rejected and Null Hypothesis i.e there is no significant relationship between the selected variables of Axis Bank is accepted.

Analysis of the relation between different variables of Indusind Bank by using Multiple Regression

YEAR	EPS	OPM	NPM	ROE	PER	DPS	DPR
2014	26.8	9.73	13.88	17.56	18.7	3.5	13.07
2013	20.3	7.87	12.71	17.81	19.95	3	17.31
2012	17.17	14.75	12.59	19.28	18.69	2.2	14.89
2011	12.4	17.69	13.43	19.31	21.27	2	18.76
2010	8.53	14.73	10.63	19.51	20	1.8	24.59

Table 3: Multiple Regression Analysis of Indusind Bank

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	ROE, NPM, OPM	.	Enter

a. All requested variables entered.
b. Dependent Variable: EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.948[a]	.898	.594	4.50556

a. Predictors: (Constant), ROE, NPM, OPM

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	179.552	3	59.851	2.948	.399[a]
	Residual	20.300	1	20.300		
	Total	199.852	4			

a. Predictors: (Constant), ROE, NPM, OPM
b. Dependent Variable: EPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-17.020	281.650		-.060	.962
	OPM	-1.129	2.713	-.644	-.416	.749
	NPM	3.480	4.555	.613	.764	.585
	ROE	.250	14.023	.033	.018	.989

Dependent Variable: EPS

Interpretation:

From the Variables Entered/Removed Box, the variables entered are OPM, NPM and ROE. The method used is Enter Method and EPS is the dependent variable.

From the Model Summary Box since the value of R is 0.948 so we can say that there is high degree of correlation between OPM, NPM, ROE and EPS.

From the ANOVA table since the significant value is 0.399 which is greater than 0.05 so the Regression Model is not fit.

From the Coefficient Box since the significant values of OPM, NPM and ROE are greater than 0.05 so we can conclude that EPS is not dependent on either of these.

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	DPR, PER, DPS	.	Enter

a. All requested variables entered.
b. Dependent Variable: EPS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000[a]	1.000	1.000	.15749

a. Predictors: (Constant), DPR, PER, DPS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	199.827	3	66.609	2685.536	.014[a]
	Residual	.025	1	.025		
	Total	199.852	4			

a. Predictors: (Constant), DPR, PER, DPS
b. Dependent Variable: EPS

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.209	1.855		11.434	.056
	PER	-.541	.091	-.082	-5.949	.106
	DPS	6.537	.162	.667	40.353	.016
	DPR	-.555	.028	-.347	-19.752	.032

a. Dependent Variable: EPS

Interpretation:

From the Variables Entered/Removed Box, the variable entered are PER, DPS, DPR. The method used is Enter Method and EPS is the dependent variable.

From the Model Summary Box since the value of R is 1.000 so we can say that there is perfect correlation between PER, DPS, DPR and EPS.

From the ANOVA table since the significant value is 0.014 which is less than 0.05 so the Regression Model is fit.

From the Coefficient Box since the significant values of PER is greater than 0.05 so we can conclude that EPS is not dependent PER. However since the significant values of DPS, DPR are less than 0.05 so we can conclude that EPS is dependent on DPS and DPR in this case.

Comparison of Earning per Share of the Three Banks taken for Study:

Table 4: Comparison of EPS of PNB, Axis and Indusind Bank

Year	PNB	Axis Bank	Indusind Bank
2013	134.31	110.68	20.3
2012	144	102.67	17.17
2011	139.94	82.54	12.4
2010	123.86	62.06	8.53
Average	123.86	98.056	17.04

Therefore the Hypothesis H1 i.e there is significant relationship between the selected variables i.e OPM, NPM, ROE and EPS of Punjab Indusind Bank is rejected and Null Hypothesis i.e there is no significant relationship between these variables of Indusind Bank is accepted.

However for PER, DPS, DPR and EPS the Hypothesis H1 i.e there is significant relationship between the selected variables of Indusind Bank is accepted and Null Hypothesis i.e there is no significant relationship between the selected variables of Indusind Bank is rejected.

Interpretation:

By calculating the average EPS for all the three banks for the period under study we infer that Punjab National Bank gave the highest EPS to its shareholders. Thus any investor would like to choose PNB among all three for investment as it will give him more returns.

Findings

From the point of investment decisions, fundamental analysis is quite significant. It provides an insight into the economic performance of a business enterprise. The main findings of the study are as follows:

1. Punjab National Bank performed better than other banks on parameters like EPS, DPS.

2. Punjab National Bank paid the highest proportion of its earnings as dividend to shareholders.

3. There is no significant relationship between the selected variables of Punjab National Bank.

4. There is no significant relationship between the selected variables of Axis Bank.

5. There is no significant relationship between the variables like OPM, NPM, ROE and EPS of Indusind Bank. However there is significant relationship between some variables like PER, DPS, DPR and EPS of Indusind Bank.

Conclusion/Research Implication

The present study makes it clear that EPS is the strongest indicator for an investor to look for before investing his money in a company. A company may have high OPM, NPM, ROE, PER, DPS and DPR but there is no significant relationship found between these variables and EPS. So an investor should compare the EPS of all companies before investing.

Moreover in order to which company will be more profitable, an investor should compare the EPS of all companies taken into consideration because a company may be having profits but it may not always give dividends and can keep the profits as retained earnings. Therefore EPS becomes the best indicator for investment decision.

A retail investor may not have a huge investable surplus. Hence, he cannot invest his money in different sectors. His ability to diversify investment is very much limited. A rational investor should try to identify few sectors first and then should go for an in depth study of the sector. He should examine carefully the fundamentals of the sector before taking a final investment decision.

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