

COMPARATIVE STUDY OF FUNDAMENTAL AND TECHNICAL ANALYSIS METHODS IN PREDICTING STOCK PRICE MOVEMENTS WITH REFERENCE TO RELIGARE

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ABSTRACT

Forex traders use two types of research when trying to predict the future value movement of a cash pair. There are vendors who put all their eggs in the specialised examination basket, some who think about financial events via the lens of primary investigation, and yet others who do both. Since the two techniques are situationally dependent, neither is inherently correct nor is either strategy immediately applicable.

Understudies in both specialised and large research eventually reach the same conclusions, even though the two types of research are highly different. In the long run, some researchers think that essential examination will generally be more successful with its predictive forces.

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1. INTRODUCTION

When attempting to predict what the future price action of a currency pair will be forex traders use two types of analysis. There are traders who concentrate solely on the skills of technical analysis, while there are other traders who concentrate solely on economic events by studying fundamental analysis, whilst other choose to study both. Neither approach is wrong nor is either approach right as both approaches are dependant on the situation at the time.

Whilst technical and fundamental analysis is not the same thing, students of each type of analysis invariably arrive at the same conclusions. Some analysts believe that over the long term fundamental analysis tends to have better success with its predictive powers.

Fundamental versus Technical Analysis:

Fundamental analysis is the study and analysis of economic data and the flow of important news. Compared to technical analysis there exists a bigger array of indicators used in fundamental analysis. This is because fundamental analysis encompasses not only the economic indicators that are published in the daily economic calendar but a whole series of other factors such as other areas of economics, politics, law

and social outlooks, in short all aspects of life in general. The fundamental analyst is never convinced that the price action is where it should be and is always looking for alternative explanations for why the market is where it is at any moment in time. In fact fundamental analysis really studies the cause and effect of economic and social data on market movements. Overall fundamental analysis has been reliable and competent in the past, however whilst it can warn us that there is a gap between the market and the economic conditions it cannot predict when that gap will be closed. The biggest benefit a trader can derive from fundamental analysis is the capability to comprehend what drives the price action in the markets.

Being a new discipline technical analysis is continually being perfected by its followers although many years of use has made it an important and integral part of a trader's tool set. Technical analysis has proved successful in identifying entry and exit points and also proved a very strong predictor of price action in the short term periods. The three main columns that technical analysis is supported by are:

Technical analysis therefore uses past price action to predict future price action. In consequence we can assume that the price action is a purposeful effort by a large collection of traders who collectively execute the same actions at the same moment in time and that price action is not random but systematic. Therefore, if the collective actions of traders are logical and based on past patterns it stands to reason that if there is a strong connection between the past and the present, the future price action is predictable and profitable

Technical analysis tools are available to everyone who is involved in trading from the retail novice to the hedge fund manager and as they are much easier to understand than fundamental analysis indicators, they are more simple and clear-cut.

A method of evaluating a security by attempting to measure its intrinsic value by examining related economic, financial and other qualitative and quantitative factors. Fundamental analysts attempt to study everything that can affect the security's value, including macroeconomic factors (like the overall economy and industry conditions) and individually specific factors (like the financial condition and management of companies).

The end goal of performing fundamental analysis is to produce a value that an investor can compare with the security's current price in hopes of figuring out what sort of position to take with that security (under priced = buy, overpriced = sell or short).

This method of security analysis is considered to be the opposite of technical analysis

Fundamental analysis is the cornerstone of investing. In fact, some would say that you aren't really investing if you aren't performing fundamental analysis. Because the subject is so broad; however, it's tough to know where to start. There are an endless number of investment strategies that are very different from each other, yet almost all use the fundamentals.

The goal of this tutorial is to provide a foundation for understanding fundamental analysis. It's geared primarily at new investors who don't know a balance sheet from a statement. While you may not be a "stock-picker extraordinaire" by the end of this tutorial, you will have a much more solid grasp of the language and concepts behind security analysis and be able to use this to further your knowledge in other areas without feeling totally lost.

The biggest part of fundamental analysis involves delving into the financial statements. Also known as quantitative analysis, this involves looking at revenue, expenses, assets, liabilities and all the other

financial aspects of a company. Fundamental analysts look at this information to gain insight on a company's future performance. A good part of this tutorial will be spent learning about the balance sheet, income statement, cash flow statement and how they all fit together.

NEED OF THE STUDY:

Fundamental analysis is a technique that attempts to determine a security's value by focusing on underlying factors that affect a company's *actual* business and its future prospects. On a broader scope, you can perform fundamental analysis on industries or the economy as a whole. The term simply refers to the analysis of the economic well-being of a financial entity as opposed to only its price movements.

- Is the company's revenue growing?
- Is it actually making a profit?
- Is it in a strong-enough position to beat out its competitors in the future?
- Is it able to repay its debts?
- Is management trying to "cook the books"?

Of course, these are very involved questions, and there are literally hundreds of others you might have about a company. It all really boils down to one question: Is the company's stock a good investment? Think of fundamental analysis as a toolbox to help you answer this question.

The term fundamental analysis is used most often in the context of stocks, but you can perform fundamental analysis on any security, from a bond to a derivative. As long as you look at the economic fundamentals, you are doing fundamental analysis. For the purpose of this tutorial, fundamental analysis always is referred to in the context of stocks.

OBJECTIVE OF THE STUDY

- The purpose of the study is to understand fundamental analysis of equity shares and the factors that affect the company's performance
- To examine the internal and external factors effecting the future price of the company
- The purpose also serves the investors to decide whether to invest in a particular company shares or not

SCOPE OF THE STUDY

- The scope is limited to financial study of only one sector companies with Profit and Loss accounts, Balance sheets and Key financial ratios.
- One of the primary assumptions of fundamental analysis is that the price on the stock market does not fully reflect a stock's "real" value. After all, why would you be doing price analysis if the stock market were always correct? In financial jargon, this true value is known as the intrinsic value.

2. METHODOLOGY:

For the preparation of this report the collection of relevant data is very essential. The type of research adopted is descriptive nature and the data collected for the study is secondary data.

Secondary data:

It was collected from the following sources:

- ✓ Newspapers
- ✓ Business Magazines
- ✓ Internet
- ✓ Textbooks

LIMITATIONS:

- The study is based on accounting information so all limitations of accounting apply for this study.

- The data issued for calculation is historical and may have some adjustments to be made.
- Sample size is restricted to only one sector.
- It is limited to only one company and depends on both market and financial performance.
- Proponents of technical analysis and believers of the efficient market hypothesis.
- Technical analysis is the other major form of security analysis. We're not going to get into too much detail on the subject.

3. DATA ANALYSIS AND INTERPRETATION

CALCULATIONS FOR FUNDAMENTAL ANALYSIS

AXIS CAPITAL

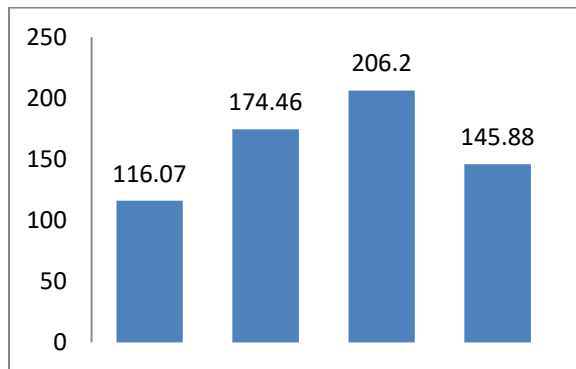
$$1. \text{EARNINGS PER SHARE} = \frac{\text{netprofit after tax}}{\text{number of outstanding equity shares}}$$

$$2024 = \frac{108911700000}{746573092} = 145.88$$

$$2023 = \frac{141049800000}{684033971} = 206.20$$

$$2022 = \frac{117072900000}{671044838} = 174.46$$

$$2021 = \frac{73703500000}{634998991} = 116.07$$



Interpretation: From the above calculation in 2021 year recorded EPS is 116.07 and in 2023, 206.20 highest EPS is recorded. The higher the EPS figure, the better it is. A higher EPS is the sign of higher earnings, strong financial position and, therefore, a reliable company to invest money.

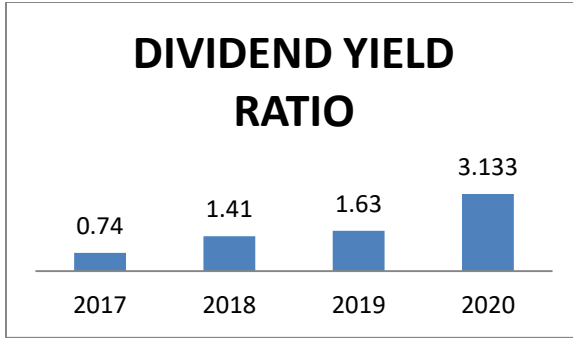
$$2. \text{DIVIDEND YIELD RATIO} = \frac{\text{DIVIDEND PER SHARE}}{\text{MARKET PER SHARE}}$$

$$2024 = \frac{56}{1787.404} = 3.133$$

$$2023 = \frac{35}{2141.158} = 1.634$$

$$2022 = \frac{30}{2119.179} = 1.4156$$

$$2021 = \frac{20}{2697.842} = 0.7413$$



INTERPRETATION:-Dividend yield is a measure of investor return. While dividend payout ratio judges the amount of dividend in relation to the company's earnings for the period, dividend yield ratio provides a comparison of amount of dividend in relation to investment needed to purchase its share. In the year of 2024 recorded Highest Dividend yield is 3.133 comparing to 2017. 0.74, in 2024. 3.133 good Dividend yield ratio.

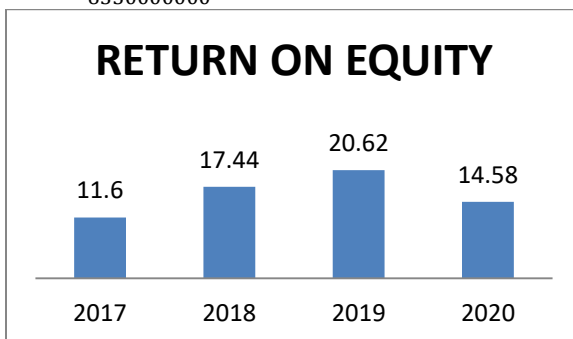
$$3. \text{RETURN ON EQUITY} = \frac{\text{NET INCOME AFTER TAX}}{\text{EQUITY CAPITAL}}$$

$$2024 = \frac{108911700000}{7465700000} = 14.5882$$

$$2023 = \frac{141049800000}{6840300000} = 20.6204$$

$$2022 = \frac{117072900000}{6710400000} = 17.446$$

$$2021 = \frac{73703500000}{6350000000} = 11.6068$$



Interpretation:- The return on equity ratio or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company. In 2021 recorded only 11.60 2021 highest recorded 20.62 comparing from 2021, 2023 and 2024 good ROE.

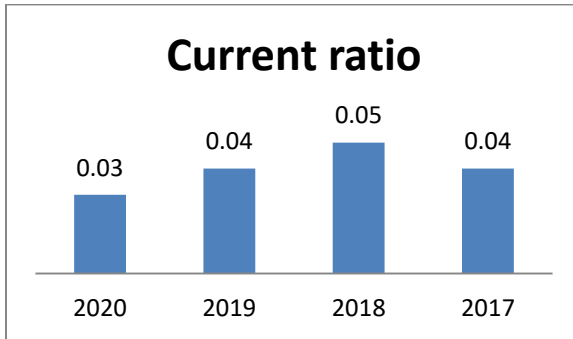
$$4. \text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$2024 = \frac{435459000000}{964129600000} = 0.03$$

$$2023 = \frac{478920300000}{954550700000} = 0.04$$

$$2022 = \frac{531130200000}{809150900000} = 0.05$$

$$2021 = \frac{437778500000}{1052483900000} = 0.04$$



Interpretation:-Current ratio gives an idea of company's operating efficiency. A high ratio indicates "safe" liquidity, but also it can be a signal that the company has problems getting paid on its receivable or have long inventory turnover, both symptoms that the company may not be efficiently using its current assets .in 2022 IS 0.05 Company recorded highest Current Ratio.

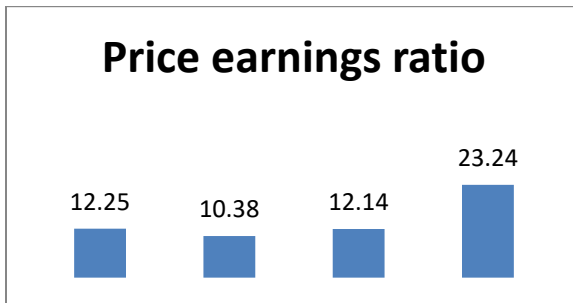
$$5. \text{Price earnings ratio} = \frac{\text{MARKET PRICE PER SHARE}}{\text{EARNINGS PER SHARE}}$$

$$2024 = \frac{1787.404}{145.88} = 12.252$$

$$2023 = \frac{2141.158}{206.20} = 10.3838$$

$$2022 = \frac{2119.174}{174.46} = 12.147$$

$$2021 = \frac{2697.842}{116.07} = 23.24$$



Interpretation:-A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. 2021. 23.24 Highest P/E Ratio and 2023 low P/E ration 10.38.

4. FINDINGS

- A high ratio indicates "safe" liquidity, but also it can be a signal that the company has problems getting paid on its receivable or have long inventory turnover, both symptoms that the company may not be efficiently using its current assets .in 2020 1.25 Company recorded highest Current Ratio.
- Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Comparing to other companies AXIS performance is Good at EPS Ration

- High P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E. **Comparing to other companies AXIS performance is Good at Price earnings Ratio**
- Return on equity (ROE) measures the rate of return for ownership interest (shareholders' equity) of common stock owners. It measures the efficiency of a firm at generating profits from each unit of shareholder equity. ROE shows how well a company uses investments to generate earnings growth. ROEs 15-20% are generally considered good. **Comparing to other companies AXIS performance is Good at Return on equity** Comparing to HDFC, **AXIS ICICI is best dividend yield.** AXIS SHARE Current ratio is near to “0”
- A ratio under 1 suggests that the company would be unable to pay off its obligations if they came due at that point.
- ROE shows how well a company uses investments to generate earnings growth. ROEs 15-20% are generally considered good. **Comparing to other companies AXIS performance is Good at Return on equity**

SUGGESTIONS

The strategies to improve the Financial Performance of the Company

It would be good for the company, if it can go for Options to reduce the risk.

It would be beneficial to the company to use Technical Analysis for forecasting the prices of the stock and take precautions beforehand.

It would be good to follow the same method since the company is growth stage.

By analyzing the automobile industry with the help of fundamental analysis, it has been revealed that this industry has a lot of potential to grow. So recommending investing in Automobile industry with no doubt is going to be a good and smart option because this industry is booming like never before not only in India but all over the world.

Few Suggestions for “Right Stock Selection”

There are three factors which an investor must consider for selecting the right stocks.

- **Business:** An investor must look into what kind of business the company is doing, visibility of the business, its past track record, capital needs of the company for expansion etc.
- **Balance Sheet:** The investor must focus on its key financial ratios such as earnings per share, price-earnings ratio; debt-equity ratio, dividends per share etc and he must also check whether the company is generating cash flows.
- **Bargaining:** This is the most important factor which shows the true worth of the company. An investor needs to choose valuation parameters which suit its business

5. CONCLUSION

Applied both technical and fundamental analysis to the stock price movement study. The stock prices were affected.

I used the day's close stock prices to calculate the risk and returns.

Stock price volatility is a dynamic concept that may fluctuate over time. Speculators, market circumstances, company performance, and the effect of exchange rate on PAT (profit after tax) are the factors that contribute to volatility.

Two elements form the basis of the whole study:

first, a study of the basics Second, a study of the technical aspects.

Two methods will be used to analyse the data. Annual reports will be the starting point for the basic examination. We can have a better understanding of the company's financial performance using this.

The underlying premise of fundamental analysis is that, notwithstanding these oscillations, the firm has an intrinsic, mathematically-determinable value that is separate from the herd mentality of the population. The disparity between the public's current valuation of the firm and your own estimation of its true value presents an enormous opportunity for profit, should you be able to ascertain that price. You may take advantage of the low prices by purchasing shares and then selling them when their value increases. Essentially, Buffett become the world's second-wealthiest man with this trading strategy. Secondly, technical analysis will be conducted on the closing price of the share in order to assess the return and risk on the company's share price. Stocks in the financial and technical sectors will be tracked for a year. Data analysis will also be carried out in conjunction with this graphic.

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