

Stock performance analysis of top ten Indian blue chip companies

¹ Dr. Upasana Srivastava, ² Reyaz ahmad sheikh

¹ Research Guide, Mewar University, Chittorgarh, Rajasthan, India

² Research Scholar, Mewar University, Chittorgarh, Rajasthan, India

Abstract

Blue Chip is a stock recognized for features such as stable earnings, high quality, less volatility and good returns. Blue Chip Companies are very strong financially, with a solid track record of producing earnings and only a moderate amount of debt. It also has a strong name in its industry with dominant products or services. Typically, these companies are large corporations that have been in business for many years and are considered to be very stable. The present study is based on secondary data collected from published financial reports from official website of selected blue chip companies for five years from 2010-2011 to 2014-2015. The purpose of this study is to make an analysis of top ten Indian blue chip companies in terms of market capitalization, Earning per share, annual dividend paid, cash flows and Total Trailing Returns. Based on the studies, it was concluded that blue chip companies have a good track record of the above- given parameters which make them quite profitable for the investors to invest in.

Keywords: Stock Analysis, Blue chip companies, financial reports, Market capitalization, Earning per share, Annual dividend payout

Introduction

Blue-chip stocks are considered high-valued, supreme long-term investment vehicles. Historically, they have shown to generate growth in long-term portfolios. Blue-chip stocks are stocks of well-known and well-established companies. Blue-chip stocks have several characteristics that benefit investors in the long-run. The majority of investors know blue-chip stocks have stable earnings. During an economic downturn, investors may turn to these safe havens because of their secure nature. Blue-chip companies offer security during periods of slowed growth due to their intelligent management teams and ability to generate stable profits. If the stock market is experiencing a bear market, investors don't need to worry about their investments in blue-chips because, generally, they recover.

Many blue-chip stocks, historically, pay out dividends to their shareholders. Since blue-chip stocks do not move much in price, they offer dividends to make up for it. Blue-chip stocks have shown that, generally, they make increased and uninterrupted dividend payments over time. In the long-run, an investor can benefit from dividend payments and generate portfolio income. The dividend payments help to protect against the adverse effects of inflation.

Blue chips have strong balance sheets and cash flows, strong

business models and strong consistent growth. Many investors consider blue-chip stocks to be secure investments. Long-term investors can look for their investments in blue-chip stocks to grow steadily over time and to receive dividend payments.

When a company can distribute dividends even in bad times, it shows how confident they are about their cash inflows. Such assured cash-inflow, can happen only when company is enjoying strong competitive advantage. It is this competitive advantage that makes blue chip stocks so like-able by all investors.

Blue Chip Company is very strong financially, with a solid track record of producing earnings and only a moderate amount of debt. It also has a strong name in its industry with dominant products or services. Typically, these companies are large corporations that have been in business for many years and are considered to be very stable. Blue chip companies in India are considered most stables stocks for investing. When one invests in blue chip stocks, it is considered best for long term returns. Fundamentals of blue chip companies are very strong. Blue chip stock companies can make profits even in bad times. Hence expert investors give special attention to these stocks. Blue chip stocks also display excellent dividend payment history.

As per market capitalization, the leading blue chip companies of India are

Table 1: Market Capitalization of top ten blue Chip Companies as on 31 March, 2016 at 03:59 p.m.

S. No.	Security Code	Security Name	Market Capitalization Rs (cr.)
1.	532540	Tata Consultancy Services. (TCS)	495769.52
2.	500325	Reliance Industries Limited .(RIL)	338700.33
3.	500209	Infosys Limited.	279756.38
4.	500180	HDFC Bank Limited.	270819.34
5.	500875	Indian Tobacco Company of India Limited. (ITC)	263988.63
6.	524715	Sun Pharmaceutical Industries Limited.	197219.37
7.	500696	Hindustan Unilever Ltd.	188154.32
8.	533278	Coal India Limited. (CIL)	184437.84
9.	500312	Oil and Natural Gas Corporation Limited.(ONGC)	183729.15
10.	500010	Housing Development Finance Corporation Limited.	174659.91

Objectives of the Study

The objectives of this study is to do an analysis of top ten blue chip companies in Indian context in terms of market capitalization, Earning per share, annual dividend payout, Cash Flows and Total Trailing returns. This project aimed the researcher a lot in putting theoretical knowledge that the researcher had gained through his academics, into practical and also the researcher has gained theoretical as well as practical knowledge about share market and the activities undertaken in a share broking company.

The main objectives of this study are

- To analyze the stock performance of top ten Indian Blue chip companies in terms of Market capitalization, EPS, Annual dividend payout and Total Trailing returns.
- To study the strength of top ten blue chips companys' stocks.
- To know how EPS history of Blue Chip Company is different for a normal company.

Review of Literature

Hamsalakshmi and Manickam (2004) ^[1] has made "A study on financial performance analysis of selected software companies" The study has been focused on examining the structure of liquidity position, leverage and profitability. The study has revealed a favorable liquidity position and working capital position. The study has also pointed out that the companies rely more on internal financing and the overall profitability has been increasing at a moderate rate.

Shurveer S. Bhanawat (2011) ^[2] in this study "Impact of Financial Crisis on the Financial Performance of "Indian Automobile Industry". In this study the impact of financial crisis on Indian Automobile Industries with the help of statistical significant techniques is analysed. On the analyses of the t-Test and Analysis of Variance, it is found that the impact is not significant which proves that though the global economies are impacted by recession, the Indian Automobile Sector showed resilience and was not affected significantly by the recession. It goes to show that the Indian automobile market, though impacted by export income, did not crumble under recession, as the volumes were significantly met by local demand, thereby proving that the Indian economy is a self-sustaining economy, not significantly impacted by the financial crisis.

Research Methodology

The main sources of data for the present study used are secondary in nature. Secondary data consist of information that already exists somewhere and have been collected for specific purpose in the study. Secondary data have been obtained from the official websites of the selected blue chip companies and stock exchange websites.

Limitations

- The study is focused only on top ten blue chip companies.
- The limited tools have been used in this study.

Tools for analysis

The following are the tools that have been used in this research.

- Market capitalization
- Earning per share.
- Annual dividend payment
- Cash flows

- Total Trailing Returns

Research and findings

Market capitalization

Based on the study, it was concluded that Tata Consultancy Services (TCS) has the highest Market Capitalization of Rs 495769.52 crores as on 1st April, 2016.

Earning per share

The studies reveal that Infosys limited ranks first in terms of EPS over the last five years.

Annual dividend payout

After the research it was found out that for the year ending March 2015, Tata Consultancy Services has declared an equity dividend of 7900.00% amounting to Rs 79 per share. At the current share price of Rs 2226.60 this results in a dividend yield of 3.55%.

The company has a good dividend track report and has consistently declared dividends for the last 5 years.

Cash flows

The studies reveal that Infosys recorded the highest cash flow for the year 2014-2015

Total Trailing Returns

It has been found out that Sun Pharmaceutical leads in 5-years Total Trailing Returns.

Conclusion

After the study, it was concluded that Blue chip companies have high market capitalization, strong cash flows, steady dividend payments, stability of earnings, long history of earnings, high earning per share, and are less volatile in nature as compared to non-blue chip companies. Blue chip companies are considered for safe investment and advisable for conservative class of investors. Tata Consultancy has maintained its first rank among other blue chip companies in the long run in terms of Market Capitalization and Annual dividend payout. Infosys Limited ranks first in terms of Earning per Share and Cash Flows and Sun Pharmaceutical Industries Limited Leads in terms of 5-years Total trailing returns.

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