Can Good Investment Decisions be Made – Technical Analysis of Auto Sector with Special Reference to Three Indian Companies in Market

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Abstract

Can we turn bad investment in to good investment, is it possible? The answer is yes, an investor can turn bad investment in to a good by making proper for investment decisions. This Investment decision in terms of Indian stock market depends on security analyses which fall into two very broad categories: fundamental analysis and technical analysis. Fundamental analysis involves analyzing thecompany's intrinsic value but technical analysis takes a completely different approach; it doesn't care one bit about the "value" of a company or a commodity. Technical analysis focuses on the price movements of the company in the market. This paper is focused on technical analysis of Auto sector of Indian Stock market and selected randomly three companies (Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd & Tata Motors Ltd) for analysis by using candlestick charts which will be a basis or aid for the investors to make investment decisions in the market.

Key Words: Investment Decisions, Technical Analysis, intrinsic value, price Movement

Introduction:

Technical analysis is a trading tool employed to evaluate securities and attempt to forecast their future movement by analyzing statistics gathered from trading activity, such as price movement and volume. Technical analysts focus on charts of price movement and various analytical tools to evaluate a security's strength or weakness and forecast future price changes. Technical analysis involves can be used to predicting future price movements for stocks, commodities, currency, and bonds. Mass investor psychology is analyzed using historical market data. Mass investor psychology refers to the overall investor optimism, pessimism, and expectation in the market. Since these psychological factors move share prices,

technical analysis is considered the "study of mass investor psychology."

Brief history of technical analysis: Technical analysis comes from the 17th century Dutch markets. Candlestick charts were a form of technical analysis that evolved in Asia during the 18th century. Candlestick charting techniques are still used in financial market analysis.

Components of technical analysis: Chart Types (Line, Bar & candlestick charts), Price Pattern (continuation and reversal patterns, Trends (uptrend, downtrend and sideways trend), Technical indicators (MACD, RSI, Stochastic& Bollinger bands),Theories (DOW theory & Elliott Wave theory), Support and resistances.

Objective of the study

- To study the relevance of technical analysis in Indian Stock Market with special reference to Auto sector.
- To understand the entry & exit point in the selected companies
- To predict the future price movement of the selected companies
- To aid investors to make Investment Decisions in the stock market.
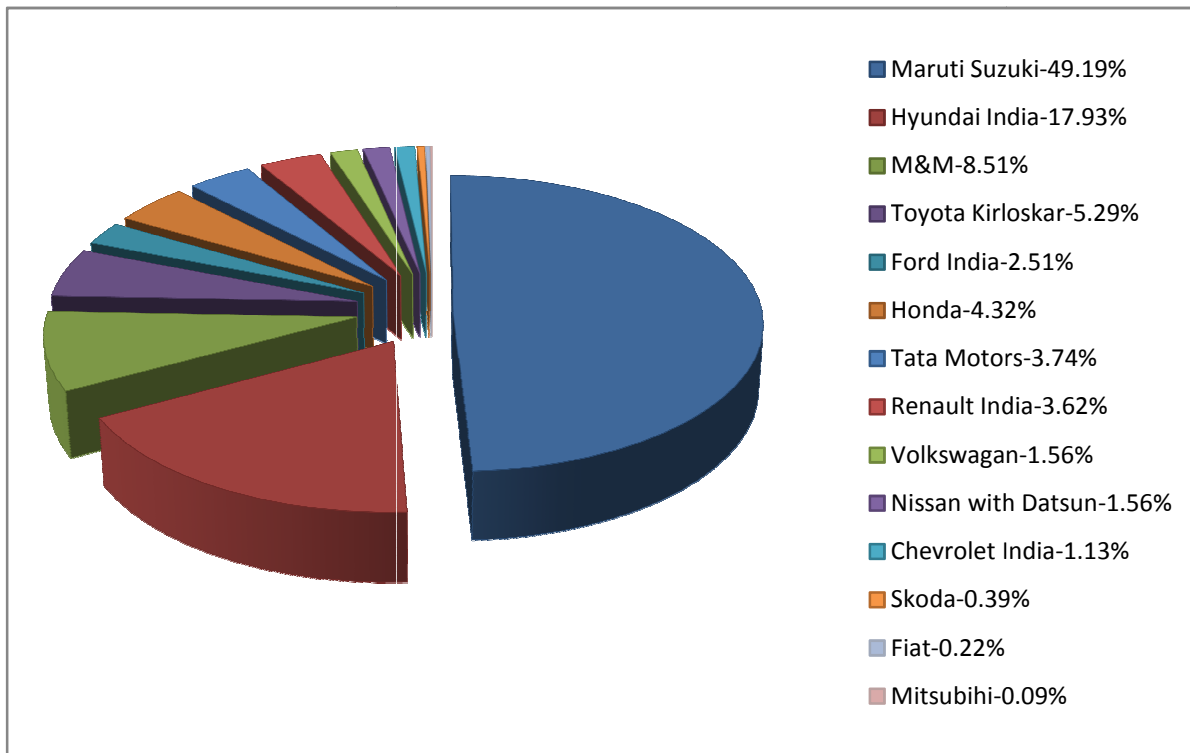
Research Methodology

The study aims at analyzing the price movements of selected companies' scrip. As the study describes the existing facts and figures given in the financial statement and the price movements companies, the research design followed is descriptive and analytical in nature. For Technical Analysis, Secondary Data were used. Data were collected from trading of equitymarket in NSE, various books, journals, magazines and websites. All the listed companies in Auto sector of NSE three companies which are randomly taken for analysis for the study. The selected companies are: Mahindra & Mahindra, Maruti Suzuki India Ltd & Tata Motors Ltd. Time period of the study is from20[th] December 2016 to 08th February 2017.

Auto Sector - Profile:

The Automotive industry in India is one of the largest in the world with an annual production of 23.96 million vehicles (in FY 2015-16). There is a growth of 2.57% in the auto sector last year. Automobile industry contributes 7.1% to the country's GDP. The two wheeler segment, with 81% market share is the leader of the Indian Automobile market. And passenger vehicle segment has 13% share. India exported $14.5 billion worth of automobiles in 2014. India is the Asia's fourth largest exporter of cars (as on 2014).

Chart 1: Auto Sector Companies and its market share (as of May 2016)

- Maruti Suzuki-49.19%
- Hyundai India-17.93%
- M&M-8.51%
- Toyota Kirloskar-5.29%
- Ford India-2.51%
- Honda-4.32%
- Tata Motors-3.74%
- Renault India-3.62%
- Volkswagan-1.56%
- Nissan with Datsun-1.56%
- Chevrolet India-1.13%
- Skoda-0.39%
- Fiat-0.22%
- Mitsubihi-0.09%

Source: please mention from where you took the information

Insight on Impacts of Budget 2017-18:

- ➢ Auto sector found no mention in the Budget 2017-18.
- ➢ But it was expected a couple of sops to recover from demonetization effect.
- ➢ Finance Minister ArunJaitley noted that more than 1.25 crore cars were sold in the last five years.
- ➢ A cut in tariff rate of excise duty to 12.5% on motor vehicles is the only note on the auto sector.

Mahindra & Mahindra:

Mahindra and Mahindra is an Indian MNC which manufacturers vehicles. It is specialized in manufacturing tractors. It is one of the largest vehicle manufacturing companies by production in India. It was established on October 2, 1945 by Mahindra brothers with the help of Ghulam Mohammed. M&M satisfies the market expectations by manufacturing the vehicles by using latest technology. The work environment of M&M is very challenging and satisfying for their employees. The group employees 50,000 people on an average.

The EPS is Rs.11.34 as of September, 2016. After Demonetization the market was ruled by bears and price is very low. Still it is in recovering stage. The investor can take long position as the bulls are regaining their positions. It holds 8.51% of the market share. It is one of mostly traded stock.

Chart 2: Positioning of Mahindra and Mahindra Ltd

Source: National Stock Exchange

Table 1: Positioning of Mahindra and Mahindra Ltd along with Risk and Return

Positions	Price
Entry	Rs. 1240
Target	Rs. 1305
Profit	5.24% (Profit between entry and target)

Stop loss	Rs. 1180
Risk	4.83%

Interpretation:

- ✓ It is expected that the stock can perform well in future.
- ✓ The investor is suggested to take long position as there is a possibility for uptrend.
- ✓ If the investor holds the position in 1240, it is expected that the profit may be more than 5% and risk in the trade in around 4.83%

Maruti Suzuki India Limited:

Maruti Suzuki India limited formerly known as MarutiUdyogLimited,is a subsidiary of Japanese automobile and motorcycle manufacturer Suzuki Motor Corporation.The company is headquartered at New Delhi.In February 2012,the company sold its 10 millionth vehicle in India. It was established in the year 1981.The first launch was Maruti 800.

The EPS is Rs.155.5. The impact of demonetization is low when compared to other companies. It holds 49.9% of the market share.

Chart 3: Positioning of Maruti Suzuki India Ltd

Source: National Stock Exchange

Table 2: Positioning of Maruti Suzuki India Ltd along with Risk and Return

Positions	Price
Entry	Rs. 5768
Target	Rs. 6220
Profit	7.8%(Profit between entry and target)
Stop loss	Rs. 5645
Risk	2.1%

Interpretation:

- ✓ The investor is suggested to take long position as the price is expected to go up.
- ✓ If the investor holds the position, can gain more than 7.8 % profit in the upcoming days.
- ✓ The possibility of risk is 2.1in this trade %.

Tata Motors Limited:

Tata motors limited headquartered in Mumbai,which was established in the year 1945.the company is the country's market leader in commercial vehicles. It showed the revenue of rs.2.7 trillion as of 2016.

The EPS is R.32.5. The market was ruled by the bears after demonetization. But now it has changed. Bulls are regaining their position. It holds 3.51% of market share.

Chart 3: Positioning of Tata Motors Ltd

Source: National Stock Exchange

Table 3: Positioning of Tata Motors Ltd along with Risk and Return

Positions	Price
Entry	Rs. 542
Target	Rs. 502
Profit	7.38%(Profit between entry and target)
Stop loss	Rs. 552
Risk	1.8%

Interpretation:

- ✓ The investor is suggested to take short position as the bears are ruling the market.
- ✓ The investor is suggested not to hold the position after the price reaches to Rs. 552.

- ✓ By taking short position, investor can gain 7.38% profit from the investment.

Conclusion:

Technical analysis is a tool which gives an idea about future share prices of selected companies in which investor invest. On the basis of the

knowledge of technical analysis one can predict the company's share price movement. Technical analysis aid investors to take benefit not only in long run but also in short run. But one has to remember that investor should give equal importance for both fundamental and technical analysis. Fundamental is a base on which technical analysis will be fruitful for investors. After a clear rally, auto sector shares are moving positively. So, any investor can invest in auto sector shares, especially M&M and Tata Motors. Both are having a potential to generate profit to the investors. After demonetization effects, the market has witnessed a positive rally and it is not affected that much after the disclosure of Budget 2017. This positioning with the help of technical analysis can be followed for any company in the market.

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