



GE-International Journal of Management Research

ISSN (O): (2321-1709), ISSN (P): (2394-4226)

Vol. 8, Issue 03, March 2020 Impact Factor: 5.779

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## A Study on Why Management Analysis is Important in Indian Stock Market

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### Abstract:

A person, who invests in stock market, would be interested in analyzing the stock price. Analyze that, “What is the perfect time to buy the stock?” and “What is the perfect time to exit from stock?”

Price of stock is fluctuating due to volatility in the market. And, commonly two approaches used in stock market for analyzing the stock price.

One is **Technical Analysis** and second one is **Fundamental Analysis**.

In Technical Analysis, analyze the stock price movement in short term with the help of **Chart Structure, Moving Average, Bollinger Bands** and **OBV** etc.

Basically, in technical analysis, investors read the stock price chart and volatility in stock price. And, In Fundamental Analysis, Analyze the stock price target in long term.

In fundamental analysis, investor analyzes the various types of ratio and ratio combination. E.g. **Earnings Per Share, Price to Earnings Ratio, Price to Book Value, Return on Equity** etc. But, in this many of investors forget the analyzing **Management of Company**. Many things in company depend on the management. That, “Is management trustworthy?” “Management thinking about company’s shareholders?”

The aim of this study is to evaluate the **Management Analysis** from Indian perspective and to find out its importance in Indian stock market.

**Key Words:** Management Analysis, Stock Market, Long Term Investment

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A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories.

## Introduction:

Management analysis means check the honesty of the management of the company. Is management of company is trustworthy or not? Some time company shows good fundamental and enough capital, reserve and profit in balance sheet. But real picture is different from the that financial records.

Reason of showing wrong picture and window dressing is to raise the fund from market and investors. Instead of showing real picture, companies show the attractive figure.

And, Sometime company has enough fund but didn't pay their EMIs on time by showing losses in the balance sheet. Many times upper level management is do the insider training for their own profit. In that situation retail investor is face losses.

Some years back, investors didn't pay attention towards the management analysis. But, now a day many cases of management frauds become the headlines of the news. Big corporate names are also doing these types of frauds. They show the good fundamentals of company. But real picture is different. And, when real picture is comes toward. Then big losses are face by the investors.

Current example of management fraud is **Yes Bank**.

Yes Bank is the India's 4<sup>th</sup> largest private bank with good fundamentals and good returns.

And all investors who do the technical and fundamental analysis of Yes Bank are bullish on this bank. They didn't think about the management of the bank. They only focus on the financials of the bank.

Here is the **Dec. 2018** financial of the bank.

*Table 1 Yes Bank Financials*

Particular	Amount (RS. CR.)
Net Profit	1,001.85
Gross NPA	5158.62
Net NPA	2876.35
% of Net NPA	1.18

*Source www.moneycontrol.com*

This numbers shows the good fundamental of the bank.

But, in 2018 RBI found the fraud in Yes Bank related with NPA numbers that hide by the management of bank with the help of **Window Dressing**.

And, after the research real image of bank comes toward and all the fundamental analysis becomes big zero.

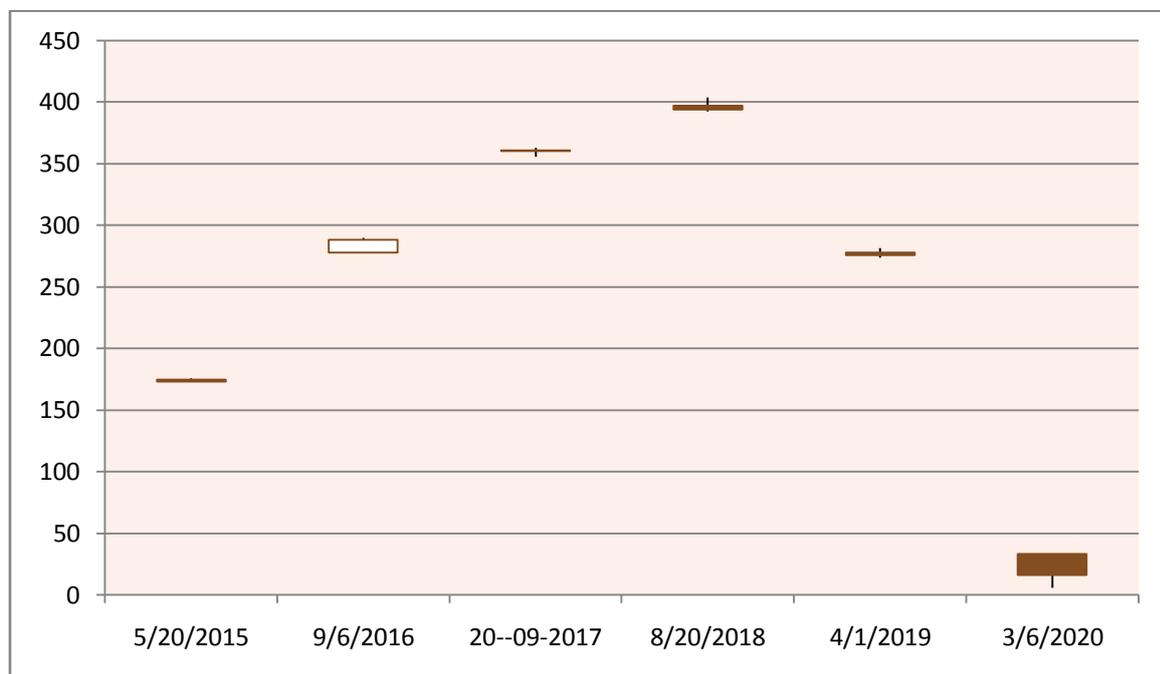
Here is the **Dec. 2019** financials of the bank

*Table 2 Yes Bank financials Dec. 2019*

Particular	Amount (RS. CR.)
Net Loss	18,560.31
Gross NPA	40,709.20
Net NPA	11,114.72
% of Net NPA	5.97

Source [www.moneycontrol.com](http://www.moneycontrol.com)

And Graph of the share price is also decrease and touches all the low from all time high in just 1 year.



Price source [www.moneycontrol.com](http://www.moneycontrol.com)

As you seen in this graph and data, how good fundamental company also comes near to end due to management.

### ***REVIEW OF LITERATURE***

- **Vivek and Sarika (2016)** analyzed the different techniques to predict the stock price. The result found that various factor should be consider, while analysis the stock price.
- **Charles** (Ashima & Anuja, 2019) (Ashima & Anuja, 2019) (Ashima & Anuja, 2019) **and Kasilingam (2016)** analyzed whether emotions of people determined their investment personality or not. The results found that their emotion affects their investment personality.
- **Alleyene and Broome (2010)** analyzed the factors that were most likely to affect the investment groups and their beliefs regarding opportunities significantly affect their investment decisions.
- **Prasad (2009)** analyzed the behaviour of the investors and the knowledge on various investment instruments available. A sample of 100 investors has been taken from the two cities of Hyderabad and Secunderabad. The result showed 75% traders were using online stock trading, strong technology but raditional traders felt online trading not an right way of stock trading and they didn't use net trading due to risk of a system failure. (Ashima & Anuja, 2019)

### **Objectives of Management Analysis:**

- To understand the real value of stock.
- To understand the real image of management.
- To do the quality analysis of company.
- To understand the management view point towards shareholders.

## **Research Methodology:**

### **Research Design**

The present study is based on the secondary data and figures that collected from the various news paper articles, journals, magazines etc.

### **Sample Design:**

For the achievement of the above objectives, a criteria is being framed with the help of research papers and experts opinion. After that data is collected by various newspapers and magazines etc. Which companies is file bankruptcy in past few years and then two companies from different industries is selected.

First company is Manpasand Beverages ltd. From beverages industry.

### **Manpasand Beverages Ltd.:**

Manpasand Beverages ltd. based on Vadodra, Gujarat, producing the food drink products.

In May 2019, the GST department arrested the top management of company for conducting the GST fraud. The amount of fraud is RS. 40crore. The GST department said, company is using fake 30 units for availing the illegal credit.

After this news, a good fundamental company is decrease by 94% in one year.

Here is some Table and Graph to show the collapse of the company.

*Table 3 Value decease by 94% in on year*

Particular	Nov 7, 2018	Nov 8, 2019	Decline (RS Crore)
Market Cap (RS Crore)	1,063.40	68.3	-995.02

Source [www.economictimes.com](http://www.economictimes.com)

Chart 2 Stock price chart of Manpasand Beverages ltd.



Price source [www.moneycontrol.com](http://www.moneycontrol.com)

Second company is Dewan Housing Finance Corporation

**Dewan Housing Finance Corporation (DHFL):**

DHFL is Mumbai based company. DHFL is grappling with a RS. 31,000 Crore fraud. According to Cobrapost in Jan. 2019, the promoters of DHFL have raised the loans of RS. 97,000 Crore through shell companies.

After this, the company has default on repay the loan amount to the bank and payment of bonds is also stopped.

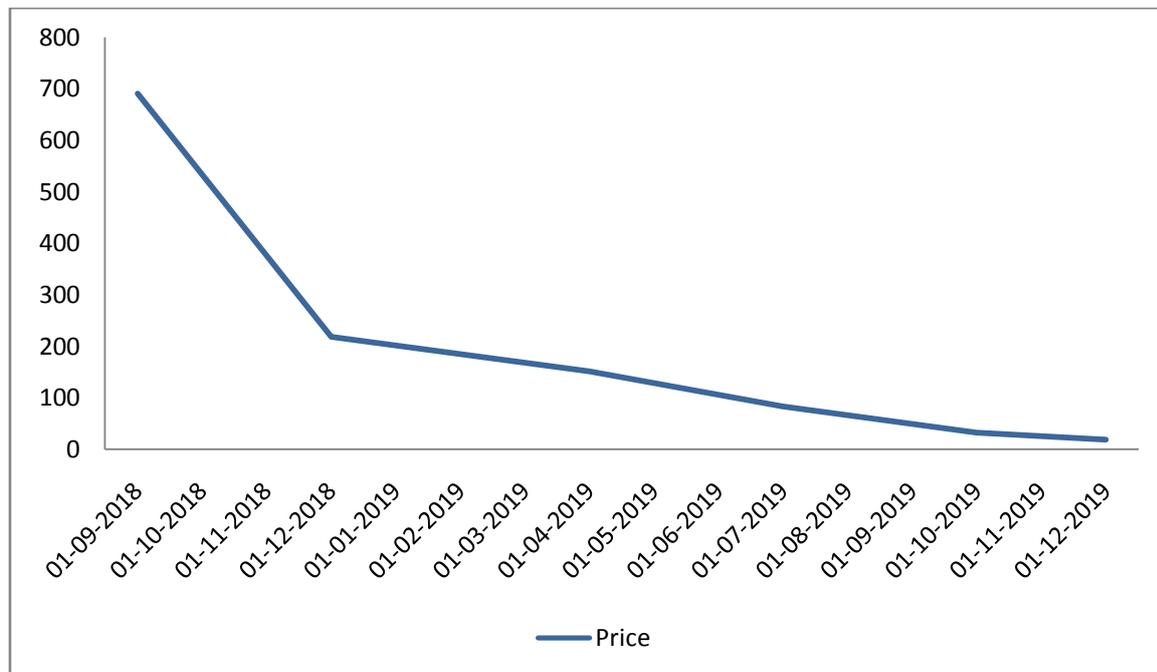
After the fraud, Market value of company decrease by 90%, again a good fundamental company is near to bankruptcy.

Table 4 Show market value of the company

Particular	November 2018	November 2019	Decline (RS Crore)
Market value (RS Crore)	7,233	731	-6,502

Source [www.economictimes.com](http://www.economictimes.com)

Chart 3 Stock price chart of DHFL



Price source [www.moneycontrol.com](http://www.moneycontrol.com)

After study of this two companies from different industry. It is prove that, any company can cheat through window dressing. If management is not honest.

After study the many articles and experts' opinion, some techniques of management analysis given below.

### **Techniques of Management Analysis:**

There are no such verified techniques available for do the management analysis. But many experts give their own techniques and methods. And here is some commonly use techniques of management analysis.

- Draft Red Hearing Prospectus.
- Check social media profiles of management and read their point views on various situations.
- Interviews of Management.
- Read annual reports of company.
- Earning conference call.

### **Draft Red Hearing Prospectus:**

Companies issue their draft hearing prospectus at the time of IPO. In DRHP, all information about the management is available. Name of M.D, name of CEO, etc. And many other things are also mention in the DRHP. But those companies, which listed on stock exchange in many years ago, their DRHP is not so easily available. But you can search on their websites.

### **Check social media profiles of management and read their point views on various situations:**

Experts also advice to read out the management point of views on different situation. This thing helps in to find the attitude of management. And now a day, almost all M.Ds, CEOs, Directors use the social media. And give their opinion on the various situations. Investors can follow their Twitter and LinkedIn profiles for read out their opinion.

### **Interviews of Management:**

Investors can watch the interviews of management of companies that are given to the news channels. This types of things help in to understand the future prospective of the management. Many times, in interviews anchors ask some tricky questions from the interviewee to understand their attitude and nature.

### **Read annual report of company:**

Annual report of the companies publishes in year end. And, if investors is serious about the investing. Then they need to read the annual report. In annual report, everything about company is available e.g. company profit and loss, reserves, cash flow etc. In annual report salaries and remunerations is also given that receive by the management this year. Reason of checking this information is that investors can find that salary is not too much paid to the management. And one more thing is available in annual report is **Management Decision and Analysis**. In this all the decision and performance of management is given. With the help of this stuff, investors can understand management attitude and their working.

### **Earning conference call:**

Earning conference calls is held after the quarter results of the company. In this Institutional investors, Mutual Fund Agencies etc. Ask many questions from the company's management. They also ask their steps taken on various situations. Questions on bad performance of company in this quarter etc. Earning conference calls available on the company website. And some news channels also cover this conference.

With the help of these techniques, investors can make the decision on the company management. That management is good or not.

### **FINDINGS OF THE STUDY:**

- As per analysis, it has been found that any company cheat the investors for own profit.
- The research indicate that, at the time of stock price day by day but many people invest in the stock because company showing the good financials .
- People ignoring the news that comes through officials handles and only focus on the technical and fundamental analysis.
- Majority of time company cheat the investors from many years through window dressing but only few investors' analysis the management.
- Management analysis is as important as much other analysis techniques important, because its show the real image of the management.

### **CONCLUSION:**

Now a day, to invest in stock market. Technical and fundamental analysis is not enough. Because, some time charts show the upper trend in stock and fundamentals are also very strong. But in real, that entire thing is just a window dressing that is draw by the management of the company. That's why, management analysis is also become important at the time of analyze the stock. But in real management analysis doesn't show any data or any ratio to compare the company with other company. In management analysis only qualitative facts are check and quality of management. This analysis doesn't show anything; investors need to take decision on the base of their research.

And, in Indian stock market many examples of bad management. A good fundamental company is also become zero because of bad management. E.g. PC Jewelers, Satyam Computers, Yes Bank, PMC Bank and many more.

At the end management analysis is also important as much as technical and fundamental analysis.

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