

What is Fundamental Analysis and How to do it?



Fundamental analysis is a technique for analyzing the intrinsic value of a stock. It basically incorporates the financial statements, external influences, events, and industry trends. It's very crucial to note that the intrinsic value or a fair value of a stock does not differ overnight. Such analysis will encourage you to identify key attributes of the company and analyze its actual worth, taking into consideration macro and microeconomic factors.

Fundamental analysis of a stock is a very important procedure to determine the financial and business health of a company. So, it's recommended to perform a complete fundamental analysis of the stock before investing if you are planning for a long-term investment. In this article, points will be discussed on how to conduct a fundamental analysis of stocks. Also, the article will elaborate on a few guidelines you must follow with discipline and how they can easily be able to choose the best fundamentally strong companies. Here are the six necessary steps you need to execute to analyze the fundamentals of a company in the Indian stock market.

1. Use the financial ratios for Initial Screening

There are beyond 5,500 stocks listed on the Indian stock exchange. If you start browsing the financials of all these companies i.e. the balance sheet, profit-loss statement, etc., then it might take years. So, it's better to shortlist a few good companies based on a few criteria and then review these screened companies one by one to pick the one that suits you the best. For initial screening of the stocks, you can utilize these various financial ratios such as Price to Earnings (PE) ratio, Price to Book Value (PBV) ratio, ROE, CAGR, Current ratio, Dividend yield, and many more.

2. Understand the company

Know the company in which you are investing because without knowing them, you won't be able to decide whether the company is performing well or badly, whether the firm is making the right decisions towards its future goal or not. An easy and simple way to understand the company is to visit its website. Go to the company's site and have a look at its 'about', 'products', 'promoters/board of directors' page, etc. If you can get the annual report of the company, download and read it. This report will give you an in-depth knowledge of the firm. Also, read the vision and the mission of the company, if it looks appealing then go for it.

3. Examine the financial results of the company

Once you have understood the firm and found it appealing, next you are required to examine the financials of the company like the Balance sheet, Profit loss statements, and cash flow statements. Generally, if the revenue/sales, net profit, and margin increase over the last five years, then it's considered to be a healthy sign for the company. After this, you are also required to check the other financials such as operating costs, expenses, assets, liabilities, etc.

4. Check the Debt and Red Flags

The total debt of a firm is one of the significant factors to check before investing in a stock. If a company does not perform well and rewards its shareholders if it has a huge debt then they have to repay the debt and also pay interest on the borrowed money before anything else. In short, try to avoid firms with huge debts. It's better to invest in companies with a debt/equity ratio of less than one. You can utilize this ratio while initial screening the stocks or else check it while reading the financials of a company. In extension, other red flags in the firm can lead to continuously decreasing profit/ margin, low liquidity, and pledging of shares.

5. Find the company's competitors

It's always better to research the associates of a company before investing. Make sure to determine what this company is doing that its competitors aren't. Also, you must be able to answer the question of why you are investing in this company and not any of its competitors. The answer should include these convincing points like Unique selling points (USP) of the company, Competitive advantage, Low-cost products, Brand Value, prospects (upcoming projects, new plant), etc. You can even do a google search to find the competitors of the company and study the competitors in detail before investing.

6. Analyze prospects

Most of the good investments are based on the coming aspects/potential of the company and barely on their current situation. Investors are enthusiastic about how much returns they get in return from their investments in the future. However, always invest in a company with healthy long prospects. Choose those companies to invest in whose products or services will still be used twenty years from now.

So, these are the six detailed steps to performing fundamental analysis on stocks. Follow our website <https://www.stockknocks.com> for more information on fundamental analysis and listed share research.



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6 steps to analyze the fundamentals of a company.

- Use the financial ratios for Initial Screening
- Understand the company
- Examine the financial results of the company
- Check the Debt and Red Flags
- Find the company's competitors
- Analyze prospects

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