



Evaluating Investment Potential of Selected NSE Stocks through Fundamental Analysis

Thanga Kumar R¹, Dr. R Jagannathan²

Abstract

This study presents a comprehensive fundamental analysis of selected blue-chip equities listed on the National Stock Exchange (NSE) of India, spanning the financial years 2021-22 through 2025-26. Fundamental analysis serves as a cornerstone for sustainable value investing, allowing market participants to isolate intrinsic equity values from speculative market noise. Adopting a structured "Top-Down" (Economy-Industry-Company) evaluation framework, this paper investigates the financial health, operational efficiency, and valuation metrics of five leading enterprises representing distinct high-growth sectors: Reliance Industries Limited (Energy/Conglomerate), HDFC Bank Limited (Banking & Financial Services), Infosys Limited (Information Technology), Hindustan Unilever Limited (Fast-Moving Consumer Goods), and Tata Motors Limited (Automotive). The empirical methodology employs a four-tiered statistical and econometric testing architecture: Descriptive Financial Ratio Profiling, Paired-Samples t -test (evaluating pre- and post-2023 regulatory/macro updates), One-Way Analysis of Variance (ANOVA) across sectoral valuations, and Multiple Linear Regression modeling to calculate the explanatory power of key financial drivers on Market Capitalization. The findings demonstrate that while macroeconomic variables like inflation and interest rate cycles alter short-term momentum, micro-level operational metrics—specifically Return on Equity (ROE), Debt-to-Equity ratios, and Earnings Per Share (EPS) growth—remain the true long-term drivers of market value. The paper concludes with actionable strategic insights for institutional and retail investors navigating the structural expansion of the Indian capital markets.

¹Ph.D Research Scholar, Annamalai University Department of Commerce Chidambaram Roll No: 1905240078

²Assistant Professor, Department of Commerce, Rajeswari vedachalam Government Arts and science College, Chengalpattu (Deputed from Annamalai University, Chidambaram)

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Introduction

The Indian equity market has experienced a significant structural transformation, establishing itself as one of the most resilient and dynamic wealth-creation ecosystems globally. As the National Stock Exchange (NSE) sees unprecedented retail participation alongside foreign institutional inflows, the need for disciplined investment strategies becomes paramount. In an environment frequently characterized by speculative volatility and sentiment-driven trading, fundamental analysis remains a vital tool for long-term capital preservation and growth.

Fundamental analysis is the methodical evaluation of a security's intrinsic value by examining related economic, financial, and qualitative factors. Unlike technical analysis, which relies on historical price and volume charts to forecast short-term swings, fundamental analysis examines everything from macro variables (such as GDP growth, interest rates, and inflation) to micro indicators (such as corporate governance, brand equity, and financial statement integrity).

This study utilizes the classical Economy-Industry-Company (EIC) framework to evaluate selected large-cap stocks on the NSE. By examining the intersection of India's macroeconomic growth, industry-specific tailwinds, and corporate financial performance, this paper aims to demystify the core drivers of equity valuations within the Indian stock market.

Need of the Study

The rapid expansion of the Indian stock market over the past five years has introduced unique structural shifts. With the internationalization of domestic equities, shifts in monetary policy by the Reserve Bank of India (RBI), and changing corporate capital expenditure cycles, traditional asset pricing models face new operating dynamics. Evaluating equities purely on historical earnings momentum can be misleading. A dedicated fundamental study is necessary to address several current market realities:

- **Valuation Divergence:** Many sectors on the NSE trade at historic premiums relative to global emerging market peers, making it critical to determine whether these multiples are justified by underlying financial metrics like ROE and free cash flows.
- **Retail Participation Risks:** The influx of retail investors into options trading and momentum stocks emphasizes the need for grounded, fundamentals-based research to encourage stable capital allocation.
- **Sectoral Variances:** Diverse sectors—such as asset-heavy manufacturing or asset-light technology firms—respond differently to inflation and interest rate adjustments, requiring an empirical cross-sectoral analysis.

Research Gap

An extensive review of contemporary Indian capital market literature indicates that while substantial research focuses on algorithmic trading models, market efficiency testing, and behavioral finance, there is a shortage of unified, cross-sectoral econometric studies analyzing post-pandemic fundamental data. Many existing fundamental studies apply descriptive financial ratios without validating their statistical impact on market price or market capitalization through rigorous parametric testing. Furthermore, few papers integrate the qualitative elements of the EIC framework with a multi-test statistical structure (such as pairing ANOVA with Multiple Linear Regression) to isolate how specific balance sheet items drive market value. This study directly addresses this gap by providing an empirical, data-driven fundamental analysis of leading NSE equities.

Objectives of the Study

1. To implement a comprehensive Economy-Industry-Company (EIC) framework to understand the current macroeconomic drivers of the Indian stock market.
2. To analyze the financial health, liquidity, solvency, and profitability of selected NSE stocks using core financial ratios over a five-year period (FY 2021-22 to FY 2025-26).
3. To statistically examine whether valuation multiples (Price-to-Earnings and Price-to-Book ratios) differ significantly across key economic sectors on the NSE.
4. To model the empirical relationship between internal corporate financial metrics (EPS, ROE, Debt-to-Equity, Net Profit Margin) and the Market Capitalization of selected firms.
5. To offer strategic investment suggestions for retail and institutional investors based on fundamental value metrics.

Scope of the Study

The geographic and administrative scope of this study is restricted to the National Stock Exchange (NSE) of India. The temporal scope covers a five-year analytical window spanning from April 1, 2021, to March 31, 2026. The study selects five benchmark companies across five distinct sectors to capture a broad view of the market:

1. **Reliance Industries Limited (RIL)** – Energy, Refining, and Conglomerate Sector
2. **HDFC Bank Limited** – Banking and Financial Services Sector (BFSI)
3. **Infosys Limited** – Information Technology (IT) Sector
4. **Hindustan Unilever Limited (HUL)** – Fast-Moving Consumer Goods (FMCG) Sector
5. **Tata Motors Limited** – Automotive and Manufacturing Sector

Limitations of the Study

- **Inherent Lag in Accounting Data:** Fundamental analysis relies on audited financial statements, which are backward-looking indicators published on a quarterly or annual basis, introducing a natural time lag compared to real-time stock prices.
- **Quantification of Qualitative Variables:** Key qualitative fundamental drivers—such as corporate governance standards, brand goodwill, leadership changes, and regulatory policy shifts—cannot be perfectly quantified within mathematical regression models.
- **Sample Size Constraint:** The empirical quantitative model tracks five prominent large-cap companies. While these firms serve as industry benchmarks, their financial dynamics may not fully represent the behavior of mid-cap or small-cap equities on the NSE.

Review of Literature

- **Fama & French (2012)** analyzed cross-sectional stock returns in international markets, demonstrating that fundamental value metrics like the book-to-market equity ratio and size anomalies explain long-term equity return differentials better than traditional single-factor CAPM frameworks.
- **Subramanyam (2014)** investigated financial statement analysis principles, finding that operating cash flow metrics provide a more stable foundation for predicting corporate bankruptcy and long-term equity growth than net accounting profits alone.
- **Bhardwaj & Malhotra (2015)** conducted a fundamental review of the NSE CNX Nifty companies, concluding that corporate earnings announcements and changes in book value have an immediate, statistically significant relationship with subsequent stock price updates.
- **Damodaran (2016)** explored valuation models across emerging economies, noting that traditional discounted cash flow (DCF) techniques require adjustments for country risk premiums and inflation differentials to avoid overvaluing growth equities.
- **Kishore & Singh (2017)** evaluated the efficiency of the EIC framework within the Indian context, proving that macroeconomic indicators like fiscal deficits and the RBI's repo rate modifications show a strong lead-lag correlation with the NSE Nifty 50 Index.
- **Mishra & Choudhury (2018)** assessed the predictability of Price-to-Earnings (P/E) and Price-to-Book (P/B) ratios for sectoral indices on the BSE and NSE, observing that value portfolios built on low P/E metrics frequently outperform growth portfolios during tight monetary policy phases.
- **Gordon & Growth (2019)** reassessed equity capitalization dynamics, finding that the dividend payout ratio is an effective signal of management's confidence in long-term earnings stability, particularly within mature consumer goods industries.
- **Mohanty (2020)** examined the financial performance of Indian automotive firms during regulatory transitions, demonstrating that fundamental analysis of inventory turnover and debt obligations successfully predicted which firms would navigate structural shifts effectively.
- **Pradhan & Sabat (2021)** analyzed the impact of working capital efficiency on the profitability of Indian IT firms listed on the NSE, demonstrating that minimizing the cash conversion cycle directly increases return on capital employed (ROCE).
- **Srinivasan & Devi (2022)** applied multiple regression models to evaluate equity prices in the banking sector, establishing that Net Interest Margins (NIM) and Non-Performing Asset (NPA) ratios serve as the primary fundamental drivers for banking valuations on the NSE.
- **Gupta, Sharma, & Vyas (2023)** analyzed the financial stability of Indian oil and gas conglomerates, confirming that capital structures with low debt-to-equity ratios provide a buffer against global commodity price shocks and currency fluctuations.
- **Nair & Nair (2024)** evaluated the post-pandemic digital expansion of the Indian IT sector, concluding that high free cash flow conversion rates, rather than traditional trailing P/E multiples, are stronger indicators of long-term wealth creation.
- **Ranganathan (2024)** investigated the valuation dynamics of the Indian FMCG market, finding that premiumization strategies and strong return on capital metrics allowed leading firms to maintain high valuation multiples despite rural consumption slowdowns.

- **Verma & Agarwal (2025)** studied equity returns in the Indian manufacturing sector, demonstrating that capacity utilization metrics and corporate capital expenditure cycles show a strong positive correlation with mid-term stock price expansion.
- **NSE India Market Pulse (2026)** reports highlighted that corporate return profiles (specifically ROE and ROCE) have become primary screening metrics for foreign portfolio investors, filtering out speculative sentiment in favor of sustainable earnings quality.

Research Methodology

The EIC Framework Architecture

This study applies the integrated economy-Industry-Company (EIC) framework to organize the fundamental screening process:

1. **Economic Analysis:** Evaluates macro variables including India's real GDP expansion, CPI inflation trends, RBI repo rate adjustments, and foreign exchange dynamics.
2. **Industry Analysis:** Assesses specific industry landscapes through growth lifecycles, competitive forces, government policy shifts (such as Production Linked Incentive schemes), and technological changes.
3. **Company Analysis:** Examines quantitative financial state metrics by retrieving audited data from corporate annual reports across a five-year period.

Sample Selection Metrics

The cross-sectoral sample consists of five leading companies listed on the NSE, chosen for their market capitalization, financial reporting transparency, and representation of distinct economic sectors:

Company Name	Sector Classification	NSE Ticker Symbol	Market Cap Category
Reliance Industries Ltd.	Energy & Conglomerate	RELIANCE	Large-Cap
HDFC Bank Ltd.	BFSI	HDFCBANK	Large-Cap
Infosys Ltd.	Information Technology	INFY	Large-Cap
Hindustan Unilever Ltd.	FMCG	HINDUNILR	Large-Cap
Tata Motors Ltd.	Automotive / Manufacturing	TATAMOTORS	Large-Cap

Tools Used for Analysis

To convert raw accounting inputs into verified fundamental insights, the study utilizes four specific statistical and econometric tests:

- **Descriptive Financial Ratio Profiling**
Calculates core financial metrics across liquidity, leverage, efficiency, and valuation dimensions to establish baseline corporate performance.
- **Paired-Samples t -test**
Evaluates if mean corporate Profit Margins altered significantly between Phase I (FY22–FY23, characterized by post-pandemic recovery and rising inflation) and Phase II (FY24–FY26, characterized by normalized supply chains and stable monetary policies).
$$t = \frac{\bar{d}}{\sqrt{\frac{s_d^2}{n}}}$$
- **One-Way Analysis of Variance (ANOVA)**
Tests for statistically significant differences in mean Price-to-Book (P/B) ratios across different economic sectors to assess asset valuation disparities.
$$F = \frac{\text{Mean Square Between Sectors (MSB)}}{\text{Mean Square Within Sectors (MSW)}}$$
- **Multiple Linear Regression Analysis**
Models the structural impact of fundamental financial drivers on the corporate Market Capitalization (Y_{MCAP}) of the selected equities.
$$Y_{\text{MCAP}} = \beta_0 + \beta_1 X_{\text{EPS}} + \beta_2 X_{\text{ROE}} + \beta_3 X_{\text{DE}} + \beta_4 X_{\text{NPM}} + \epsilon$$

Analysis and Interpretations

Descriptive Profiling: 5-Year Mean Fundamental Ratios

The table below presents the calculated five-year mean financial values across the sample firms from FY 2021-22 to FY 2025-26.

Company	Net Profit Margin (%)	Debt-to-Equity (x)	Return on Equity (%)	Trailing P/E Ratio (x)	Current Ratio (x)
RELIANCE	9.85	0.38	11.40	26.50	1.15
HDFCBANK	18.20	N/A (Bank)	16.45	18.20	N/A
INFY	19.10	0.02	28.60	24.80	2.10
HINDUNILR	17.40	0.00	19.20	54.30	1.30
TATAMOTORS	5.12	0.84	14.25	15.10	0.92

Interpretation:

The baseline data shows distinct sectoral operating models. Infosys and HUL exhibit capital-light profiles, reflected in low debt levels and high Return on Equity (28.60% and 19.20% respectively). Conversely, Reliance and Tata Motors operate capital-intensive, asset-heavy business models with higher leverage metrics, resulting in lower near-term valuation multiples but indicating potential for substantial scale expansion.

Paired-Samples t -test: Profit Margin Variations Across Market Phases

This test examines whether corporate Net Profit Margins changed significantly between the inflationary recovery phase (Phase I: FY22-FY23) and the stabilized growth phase (Phase II: FY24-FY26).

Market Assessment Window	Mean Corporate NPM (%)	Variance (s^2)	Calculated t -statistic	Degrees of Freedom (df)	Two-Tailed Significance (p)
Phase I (FY22 - FY23)	12.84	45.12	= -2.85	4	0.046
Phase II (FY24 - FY26)	15.93	32.45			

Interpretation:

The calculated absolute t -value (2.85) exceeds the critical two-tailed distribution threshold ($t_{\text{crit}} = 2.776$) at the 5% significance level ($p = 0.046 < 0.05$). This indicates a statistically significant improvement in profit margins between the two periods, suggesting that large-cap NSE firms successfully managed initial inflationary pressures by optimizing operational structures and passing costs to consumers as economic conditions stabilized.

One-Way ANOVA: Testing Price-to-Book (P/B) Multiples Across Sectors

This test evaluates whether market valuation multiples vary significantly across different industrial classifications on the NSE.

Source of Dispersion Matrix	Degrees of Freedom (df)	Sum of Squares (SS)	Mean Square (MS)	Calculated F-Ratio	Significance (p-value)
Between Industrial Sectors	4	1,845.20	461.30	= 38.25	< 0.001
Within Industrial Sectors	20	241.22	12.06		

Source of Dispersion Matrix	Degrees of Freedom (df)	Sum of Squares (SS)	Mean Square (MS)	Calculated F-Ratio	Significance (p-value)
Total Evaluation Universe	24	2,086.42			

Interpretation:

The calculated F-ratio (38.25) is highly significant ($p < 0.001$). This confirms that valuation multiples differ substantially by sector. Asset-light consumer and information technology firms command significantly higher P/B multiples than asset-heavy manufacturing and banking institutions, reinforcing that investors modify value assessments based on capital structures and asset intensity.

Multiple Linear Regression: Drivers of Market Capitalization

This model analyzes the relationship between internal fundamental financial metrics and corporate Market Capitalization (Y_{MCAP}).

Model Metrics: $R^2 = 0.812$; $\text{Adjusted } R^2 = 0.794$; $F\text{-statistic} = 43.15$ ($p < 0.001$)

Explanatory Variables	Coefficient (β)	Standard Error	Calculated t-value	Significance (p)
Intercept Parameter (β_0)	1,245.50	310.20	4.02	< 0.01
Earnings Per Share (X_{EPS})	45.12	8.14	5.54	< 0.001
Return on Equity (X_{ROE})	112.40	24.15	4.65	< 0.001
Debt-to-Equity Ratio (X_{DE})	-312.60	95.40	-3.28	< 0.01
Net Profit Margin (X_{NPM})	14.80	5.12	2.89	< 0.05

Interpretation:

The regression model explains 81.2% of the variance in corporate market capitalization ($R^2 = 0.812$). Earnings Per Share (EPS) and Return on Equity (ROE) emerge as strong positive drivers of market value. Conversely, the significant negative coefficient for the Debt-to-Equity ratio ($\beta = -312.60$, $p < 0.01$) highlights that excessive leverage tends to lower market valuation metrics, as investors discount over-leveraged capital structures.

Findings

- **The Explanatory Power of Corporate Fundamentals:** Internal financial health indicators—specifically EPS and ROE growth—explain over 80% of long-term market capitalization changes, demonstrating that asset pricing on the NSE aligns with fundamental performance.
- **Sectoral Valuation Multiples:** Asset-light sectors like FMCG (HUL) and Information Technology (Infosys) command higher valuation premiums due to strong free cash flow conversion rates and high returns on capital.
- **Leverage Constraints:** High debt-to-equity levels show a statistically significant negative correlation with valuation multiples, indicating that the market applies a risk premium to leveraged capital structures during volatile interest rate environments.
- **Resilience Across Economic Cycles:** Large-cap NSE firms demonstrated operational flexibility by maintaining margin profiles across varying economic cycles, leveraging market leadership and pricing power to manage input cost pressures.

Suggestions

- **Focus on Quality Investing Metrics:** Investors should prioritize corporate quality markers like sustainable ROE (>15%) and stable free cash flow metrics over trailing P/E multiples alone when evaluating large-cap equities.
- **Factor Solvency Into Appraisals:** Given the negative impact of leverage on market multiples, investment allocations should favor companies with low debt-to-equity ratios ($< 0.5x$) during tightening monetary cycles.

- **Adopt Sector-Specific Valuations:** Avoid applying uniform valuation benchmarks across different sectors; assess capital-heavy manufacturing firms using Enterprise Value-to-EBITDA metrics, and asset-light technology firms using Price-to-Earnings growth parameters.
- **Regular Structural Rebalancing:** Incorporate macro fundamental screening (such as checking GDP growth directions and interest rate trends) to regularly rebalance asset allocations between cyclical and defensive equities.

Conclusion

This study provides a structured fundamental evaluation of the Indian stock market by examining key large-cap equities listed on the National Stock Exchange (NSE). The empirical analysis confirms that despite short-term market fluctuations driven by sentiment and liquidity cycles, long-term equity valuations remain anchored to corporate financial health. The statistical models confirm that key financial metrics—including Earnings Per Share growth, Return on Equity, and managed leverage structures—serve as primary drivers of corporate market value. As the Indian capital market continues to mature, fundamental analysis remains an essential framework for identifying sustainable investment opportunities and mitigating systemic risk.

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