

A Study on Fundamental Analysis of E – Commerce and E - Commerce Industries in India

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Abstract

This paper studies the fundamental analysis of E – commerce Industry. The E - Commerce Industry is one of the major sectors in contribution to Index of Industrial Production. E - Commerce is one of the core industries and plays a vital role in the growth and development of a nation. The E - Commerce industry has been expanding on the back of increasing E - Commerce activities and demand from the housing sector over the past many years. Investment in E - Commerce is the main growth driver for the E - Commerce industry. And with new government and new promises it seems that the E - Commerce development will be government's first priority.

Key Words: E- Commerce, Fundamental Analysis

Introduction

An overview of Indian E – Commerce industry: -

The Indian e-commerce industry is now two decades old. It started with online classifieds back in 1997 and now it has been predicted to grow to \$16 billion by Deloitte and ASSOCHAM by the end of 2015. Although e-commerce is present in India since two decades, major developments have occurred only in the last five year. The causes for the same will be described in the next sections.

There are many segments in e-commerce business. Those are online travel, online retail, Online Classifieds, Financial services and Digital Downloads. Out of these segments online travel comprised 70% of the e-commerce market size. But gradually online retail is catching up with online travel and both make up to 90% of total e-commerce market.

Company Profile

Amazon Inc.: -

Amazon.com, Inc., incorporated on May 28, 1996, offers a range of products and services through its Websites. The Company operates through three segments: North America, International and Amazon Web Services (AWS). The Company's products include merchandise and content that it purchases for resale from vendors and those offered by third-party sellers. It also manufactures and sells electronic devices.

The Company's North America segment primarily consists of retail sales of consumer products (including from sellers) and subscriptions through North America-focused Websites, such as www.amazon.com, www.amazon.ca and www.amazon.com.mx. The North America segment includes export sales from its North America-focused Websites. The International segment primarily consists of retail sales of consumer products (including from sellers) and subscriptions through internationally-focused Websites, such as www.amazon.com.au, www.amazon.com.br, www.amazon.cn, www.amazon.fr, www.amazon.de, www.amazon.in, www.amazon.it, www.amazon.co.jp, www.amazon.nl, www.amazon.es and www.amazon.co.uk.

Ebay Inc.:-

EBay Inc. (eBay), incorporated on March 13, 1998, is a commerce company, which operates through its Marketplace, StubHub and Classifieds platforms. The Company connects buyers and sellers around the world. Its platforms enable sellers around the world to organize and offer their inventory for sale, and buyers to find and purchase it. The Company's platforms are accessible through an online experience (desktop and laptop computers), from mobile devices (smartphones and tablets) and by application programming interface (API) (platform access for third-party software developers). The Company's platform is based on open source technologies that enable software developers and merchants to access its APIs for developing software and solutions for commerce.

Flipkart: -

Flipkart is an electronic commerce company headquartered in Bangalore, Karnataka. It was founded in 2007 by Sachin Bansal and Binny Bansal. The company is registered in Singapore. Flipkart has launched its own product range under the name "DigiFlip" with products including tablets, USBs, and laptop bags.

Flipkart was founded in 2007 by Sachin Bansal and Binny Bansal, both alumni of the Indian Institute of Technology Delhi. They worked for Amazon.com, and left to create their new company incorporated in October 2007 as Flipkart Online Services Pvt. Ltd. The first product they sold was the book *Leaving Microsoft To Change The World* to a customer from Hyderabad. Flipkart now employs more than 33,000 people. After the failure of its 2014 Big Billion Sale, Flipkart carried out a second Big Billion Sale. Where it is reported that they saw a business turnover of \$300 million in gross merchandise volume.

SnapDeal: -

SnapDeal is an Indian e-commerce company based in New Delhi, India. The company was started by Kunal Bahl, a Wharton graduate as part of the dual degree M&T Engineering and Business program at Penn, and Rohit Bansal, an alumnus of IIT Delhi in February 2010. Snapdeal currently has 275,000 sellers, over 30 million products and a reach of 6,000 towns and cities across the country.

Investors in the company include SoftBank Corp, Ru-Net Holdings, Tybourne Capital, Premji Invest, Alibaba Group, Temasek Holdings, Bessemer Venture Partners, IndoUS Ventures, Kalaari Capital, Saama Capital, Foxconn Technology Group, Blackrock, eBay, Nexus Ventures, Intel Capital, Ontario Teachers' Pension Plan, Singapore-based investment entity Brother Fortune Apparel and Ratan Tata. Snapdeal acquired FreeCharge for \$400 million.

Shopclues: -

ShopClues.com is an online marketplace, headquartered in Gurgaon, India. The company was founded in California's Silicon Valley in 2011. It has over 12,000 registered merchants retail 2, 00,000+ products on the platform to over 42 million visitors every year across 9500 locations in the country. The e-commerce company is incorporated in Delaware. ShopClues joined as 35th entrant in the Indian e-commerce in 2011. The company employs about 700 people across different locations.

ShopClues is the subsidiary of Clues Network Inc... a US Corporation and was founded in November 2011 by Radhika Aggarwal, her husband, Wall Street internet analyst Sandeep Aggarwal and Sanjay Sethi.

With Series E, ShopClues is now valued at more than \$1.1 billion (Rs 7,300 crore) following undisclosed funding led by Singapore's sovereign wealth fund

Literature Review

Ben McClure (2004), in his study revealed that each industry has differences in terms of its customer base, market share among firms, industry-wide growth, competition, regulation and business cycles. Learning about how the industry works will give an investor a deeper understanding of a company's financial health.

Larson and Holz (2005), in his study revealed that fundamental analysis studies reasons of price changes at the macroeconomic level and represents analysis of economic and political conditions in countries or separate industries.

Charles Savage and Ken Standfield (2006), in their study depict that, Advances in Fundamental Analysis & Technical Analysis. In the Knowledge Economy, traditional "flat-world" accounting cannot deal with knowledge - its value, importance, or true worth.

Chung Yan Yee and Charles Yeah (2006), in their study suggest that there is no significant correlation between firm size and profitability. Large firms, which are endowed with greater resources and prowess, are not guaranteed to be more profitable. However, firm size has some influence on generic strategies, as large firms tend to adopt either a broadly targeted or a non related diversification strategy.

Ehab Mohamed and Mohamed Azim (2007), in their study examines the extent to which the disclosed fundamental financial information is transparent to shareholders in Egypt's stock market.

The speed of adjusting market-to-book ratio can fairly be used to examine the issue of transparency and concluded that the disclosed financial information can fairly be used in the course of fundamental analysis in the Egyptian stock market.

Manual Garcia (2009), in his provides evidence on the extent to which the quality of human resources is related to the value of accounting variables that are used in fundamental analysis due to their perceived usefulness as proxies for investors' expectations on the firm's future profitability and growth in both, earnings and shareholders' equity.

Krishna Kumar (2013), in his study investigated the performance of cements industry in India for 15 years and also estimated the growth rate for next five years. The researcher used the only secondary sources of data published by Cement Manufacturers Association, EXIM Bank and Centre for Monitoring Indian Economy. To estimate the future growth the researcher used trend analysis, cyclical variation and seasonal variation.

Wafi et al. (2015), in his study investigated the fundamental analysis model using discounted dividend model (DDM) through a multiplier models and finally the discounted cash flow model (DCFV). The researcher built strength on these models for analyzing the fundamental analysis of securities.

Objectives of the study

- A study on fundamental analysis of E-commerce and E-commerce industries in India
- A study on Long-term investment decisions in E-commerce Industries
- To find out the Determining the intrinsic value of a company
- To analysis the Reducing loss and maximizing profits

Scope of the Study

- The significance of the study lies in the fact that it helps to make decision as regard to whether it is wise to invest in E-Commerce Industry in India and in case of investment which is already made in the with On-line marketing/Shopping companies whether it is wise to hold or to sell the shares.
- The investment decision is made on the basis of analysis of general trend on E-Commerce sector.
- The study helps to select securities which maximizes the yield and minimizes risk.

Limitations of the Study

- The problem with fundamental analysis is that you are still making predictions about the future that may not come true.
- Fundamental analysis can be a lengthy, complex process.
- Remember that even if a stock looks financially healthy and is relatively cheap compared to its peers, that doesn't mean that it will always rise in value. The study is limited to companies taken into consideration
- Time was a limiting factor.
- The companies may not have provided true information in their websites due to their own concerns
- The calculations yielded only approximate results.

Methodology

Sample Design

The research design applied in the study is Analytical Research Design. Analytical study is a system of procedures and techniques of analysis applied to quantitative data. It may consist of a system of mathematical models or statistical techniques applicable to numeric data.

Population

The population for the study includes E-Commerce sector in India.

Sample Size

The following companies selected for data analysis constitute the sample size.

1. Ebay Inc. 2. Amazon 3. Flipkart 4. Snap Deal 5. Shop Clues

Tools for Analysis

Ratio Analysis

1. Inventory Turnover 2. Acid Test or Quick Ratio 3. Current Ratio 4. Gross Profit 5. Receivables turnover ratio

Inventory Turnover ratio

Companies	Amazon	Ebay	Flipkart	Shopclues	SnapDeal
Mar' 12	51.43	20.89	16.3	0.23	7.52
Mar' 13	15.86	11.01	15.78	9.1	7.17
Mar' 14	13.49	2.21	12.81	8.53	6.24
Mar' 15	15.29	6.16	12.32	1.93	6.49
Mar' 16	18.89	9.7	12.35	4.19	9.42

1. Operating Profit Margin of **Amazon** during last five years is in ups and down trend it indicates the favorable market situation.

2. Operating Profit Margin of **Ebay** during last five years is in decreasing trend, it indicates the favorable market situation.

3. Operating Profit Margin of **FlipKart** during last five years is in increasing trend, it indicates the favorable market situation.

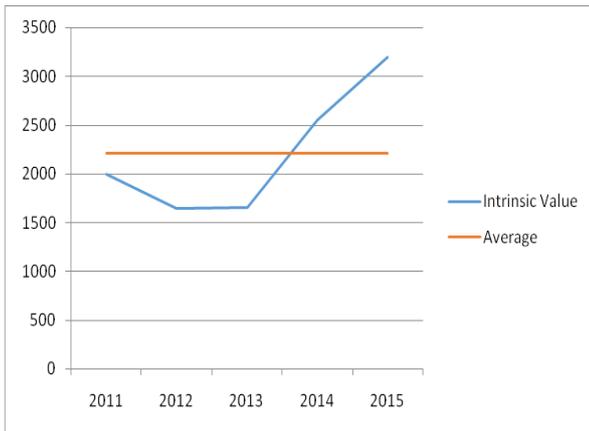
4. Operating Profit Margin of **Shopclues** during last five years is in constant trend it indicates the favorable market situation.

5. Operating Profit Margin **SnapDeal** of during last five years is in increasing trend, it indicates the favorable market situation.

By comparing past five years data for five companies the Inventory Turnover Ratio is favorable in **Amazon, Ebay, FlipKart, Shopclues and SnapDeal.**

Intrinsic value of Amazon Inc: -

Year	Market Price	Intrinsic Value
2011	541.32	1994.55
2012	325.21	1648.32
2013	476.32	1661.23
2014	674.36	2552.32
2015	654.23	3193.21
Average	534.288	2209.93



Interpretation:- By using the intrinsic value and ROI calculator, we can able to find out the intrinsic value, after that we are comparing it with the current market price and we conclude, that the market value is lower than the intrinsic value. Then the market of Amazon Inc Fertilizers is undervaluing the stock so the undervalued stocks are offered to the investors as discount.

Findings & suggesstion

- The operating profit of Ebay is decreasing but still it indicated favorable market situation
- The intrinsic price of equity determines the market price values has been great and promotes vital sorted reports in good manners.
- On the whole e-commerce make the fulfillment to business class peoples and youngsters and its pricing methods and offerings made the fact to engage in always.
- Amazon should try to contain the downward trend in current ratio and also take steps to reduce the higher price strategies.
- Snapdeal should improvise to reduce the difference between return on capital and current pricing strategy.

Conclusion

In investors point of view, Amazon Inc. Performed well during the period of study followed by Ebay. Even though Snapdeal came last, the company was consistent throughout giving a tough completion to FlipKart.

Survival of the companies largely depends on satisfaction of their investor and consumers for whom they are in business. Companies with positive ratio have to develop more efficiency in their approach and companies who are average and below average have to explore their effort with optimum utilization of their available resources.

It can be concluded that fundamental analysis is always the proper method of arriving the results of the company or industry over its financial performance. If the company is fundamentally strong, that will help the investor to get a return in the long run. Hence, before making an investment decision the investor has to check the results of the fundamental analysis of the companies.

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