TECHNICAL ANALYSIS OF INDIAN PHARMACEUTICAL COMPANIES

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Abstract— Globalization has led to a considerable growth in financial markets especially stock market in past two decades. Stock markets act as a barometer of economy progress. It facilitates and encourages the mobilization of funds, provision of equity capital to the corporate sector and provides adequate returns for the investors. Technical analysis is a price forecasting technique using past trends to project the future price movements of stock, trading in the stock market. In the present study, an evaluation of stocks of Pharmaceutical Companies of India trading in stock exchange has been made on the basis of technical indicators used in analysis. An attempt has been made to forecast the company’s return in forthcoming period by using the Beta under the Capital Asset Pricing Model (CAPM). Beta of a stock is used to describe the correlated volatility of an asset to the volatility of the benchmark.

Keywords- Beta; Relative Strength Index; Technical Analysis Component.

I. INTRODUCTION

Investment is the present sacrifice for the uncertain future reward, sacrifice of present earning with the hope of gaining some future benefits. Such decision making is a continuous and rational process which requires the features of knowledge, projection, risk bearing etc. Investment decision which is better known as tradeoff between risk and return.


Stock market is a lucrative but risky domain of investment. Without stock exchange the savings of the community the sinews of economic progress and productive efficiency would remain underutilized. A stock market is a public market for the trading of a company’s stocks and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. Many methods have been applied for stock market prediction ranging from time series forecasting, statistical analysis, fundamental and technical analysis (Rajan and Parimala)[15] Investment analysts and investors examine historical price and volume data and other market related indicators to get an in dept view of securities trading on stock exchange for better results. Technical analysis helps in determining the future levels by examining the past price movements and trading volumes of stocks and indices.

John Magee, [6] whose book is considered a classic for technical analysts, says:

The technician has elected to study, not the mass of fundamentals, but certain abstraction, namely the market data alone. He is fully aware that it is not at all......also he is aware that what he is looking it is indeed a fairly high order of abstraction and that on the back of it lies the whole complicated world of things and events. But this technical view provides a simplified and more comprehensible picture of what is happening to the price of a stock.

II. LITERATURE REVIEW

In the last two decades, forecasting of stock has become an important field of research. In the current uncertainty and despite the surprising rally in the market, technical analysts continue to forecast specific target levels for stocks and indices. Survey evidence shows that it dominates fundamental analysis at short horizons. These findings were first established for traders in the London market. (Christopher J. Neely and Paul A, Weller)[12].

Taylor and Allen (1992) [9] analyses that 90% of the respondents to their survey report using some form of technical analysis to inform their trading decisions.

Yingzi Zhu and Guofu Zhou [1] analyses the usefulness of technical analysis, specifically the widely used moving average trading rule from an asset allocation perspective. Technical analysis adds value to commonly used allocation rules that invest fixed proportions of wealth in stocks.


Gehrig and Menkhoffe (2006) [4] argue that technical analysis is as important as fundamental analysis to currency managers.

Jack Clark Francis (1986) revealed the importance of the technical analysis by stating the rate of return in investments and the possibility of default and bankruptcy risk. He opined that in an uncertain world, investors can formulate a probability distribution of the possible rates of return.

opined that calculated risk might reduce the intensity of loss of investing in corporate securities.

The technical approach to investment analysis is essentially a reflection of the idea that prices move in trends which are determined by the changing attitudes of investors toward a variety of economic, monetary, political and psychological forces…… (Ping (1991; pp2-3)) [8].

A technical analysis of stocks is a study of past price and volume trends to judge the direction of future price movements of scrips. All investors would like to invest in securities or stocks that yield a high return. Generally share prices follow a random pattern. This makes investment a risky and unpredicted venture. Technical analysis is a series of graphics, ratios, averages generated by market activity to forecast price rise or fall in projected on the assumption that price patterns and trends exist in the market and they can be identified.

III. OBJECTIVES OF THE STUDY

- It aims at analyzing the tools of technical analysis used for forecasting stock prices and interpreting whether to buy or sell them.
- To interpret the movements of stock prices
- To analyze the Company’s performance and project the returns the investor can get.
- To give suitable investment suggestions to an investor.

IV. METHODOLOGY

The study aims at extracting the price movements and analyzing the price movements of selected companies stocks. Secondary method has been used to collect the data. The research design is descriptive and conclusive in nature. For technical analysis, the daily price movements of the selected companies were studied for the 3 years i.e. 01.02.11 to 01.02.14. The closing prices of share prices is taken and the future price movements are analyzed using various tools. The top companies in the Indian Pharmaceutical industry were assessed on the basis of market share. Data were collected from various websites. Stocks selected for analysis includes:

- Dr. Reddy Laboratory
- Cipla
- Lupin
- Ranbaxy Laboratory
- Aurobindo Pharma
- Cadila Health
- Sun Pharma
- Wockhardt.

A. Bollinger Band

In 1980’s John Bollinger, a long time technician of the market developed the technique of projecting the price of stock by indicating price range of the stock based on the stock volatility. The Bollinger bands are calculated based on the range of price movement relative to the moving average. Bollinger Bands provide a range of high and low price.

Bollinger bands consist of a set of 3 lines drawn around the price structure. The middle band is a simple moving average which serves as the central reference for the upper and lower bands. The areas between the upper and lower bands and the middle band are determined by the standard deviation. Overbought situation arises when the price reaches the upper band which tends to fall back towards the central band. Similarly the prices reach the lower band, it is considered to be oversold.

B. Relative Strength Index

RSI, developed by J. Welles Wilder is a momentum oscillator that measures the speed and change in price. The value of RSI oscillates between 0 to 100. Traditionally, according to Wilder, When the RSI value reaches above 70, it is said to be overbought and when RSI is below 30 it is oversold situation.

C. Moving Average

It is average price of stock over a period of time. Moving Average depicts the trends of the market. A simple moving average is formed by calculating the average price of a security over a specific number of periods.

D. Beta

Beta factor describes the stock’s return with the market return. Stock’s with beta more than 1 will outperform in markets (on average) if market goes up but at the same time they have huge potential for losses if market goes down.

V. ANALYSIS

A. CIPLA

RSI is 50.2. In RSI analysis, the company’s price closes in oversold region. The beta value is 0.494, which shows the scrip is less volatile than the market. In simple moving average the price line is below the moving average so it shows the negative signal. Bollinger bands are interval drawn on Cipla price chart at Standard Deviation levels above and below the corresponding moving average. The current lower band of Cipla is 30 days horizon is 295.48. The upper band for the period is currently at 532.02. Given the current price of 415.4 the overall demand for shares of Cipla is increasing.

B. RANBAXY

RSI indicates the strength of stock. According to RSI analysis Ranbaxy is technically weak with 43. Moving average remove individual ups and downs which make it easier to see the direction of overall trend. Here price just got above its 20-day simple moving average which is a positive signal. Beta
value is 0.573 which still shows less volatility as value is less than 1. Bollinger Band indicates the relative supply demand for Ranbaxy. As the price moves close to the top of the interval, it indicates a strong and overbought situation.

C. DR. REDDY LABORATORY

According to RSI analysis, Dr Reddy is in a strong position, so as the trend of simple moving average which shows the positive signal that the price of share may increase. The Beta is 0.454 less than 1, so less volatile than the market.

D. CADILA

In RSI analysis, the company’s close price is uptrend which shows a strong position and projection of further increase in future price. %b is 0.827 with beta value of 0.189 which shows less volatility.

E. LUPIN

As the RSI value has crossed, it is considered to be bullish. Prices subsequently corrected and moving average trended upward. %b of 0.736 shows a strong demand of Lupin’s stock and may experience a pull back. The Beta is 0.392, less than 1, so less volatile than the market.

F. AURO PHARMA

The Beta is 0.996, less than 1, so less volatile than the market. %b is 0.761 which shows close is at the upper band. With RSI value of 68.84, the scrip is found to be bullish which can be interpreted to be a sell signal. Simple moving average shows strong uptrend.

G. SUN PHARMA

The beta is 0.4, which is considered to be less volatile. The stock has given a breakout at the upper end of the Bollinger band. In RSI analysis, it shows that it will increase in share prices. In moving average it shows the bur signal.

H. WOCK PHARMA

RSI is 48.0. According to RSI analysis, Wock pharma is technically weak. Price just got above its 20-day simple moving average which is a positive signal. %b of 0.352 the scrip is close to middle band, means a situation of neither oversold nor over purchase. The Beta is .0.779, less than 1, so less volatile than the market.

VI. CONCLUSION

India has emerged as a key destination for global pharmaceutical companies due to its high growth prospects. The government is committed to make India one of the world’s leading destinations for end to end drug discovery and innovation by 2020. Indian pharma sector would continue to experience strong growth in upcoming years. In 2013-14 Indian Pharma stocks have shown an uprising trend in the market largely driven by companies’ strong performance, increase in cash flows, and business in the U.S. market and rupee depreciation over the last few quarters. Change in growth trajectory from single digit to over 15% led by domestic sales as well as exports, front end presence in the US, sound management pedigree, consistent good quarterly financial results are projecting the stocks of Sun, Cipla, Dr. Reddy Laboratory, Cadila, Lupin to give good returns to investors. Lupin has planned for long product pipeline to address US demand for 2-3 years which will further increase its scrip value. Sun has been a consistent outperformer in the domestic market growing ahead of the industry. Ranbaxy and Wockhardt clearly disappointed.

Technical analysis helps in evaluating the current trend and risks of the scrip. It helps the investors in understanding the knowledge of financial market and necessary financial inputs for better investment.

REFERENCES

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AUTHORS PROFILE

Dr. Sakshi Varshney is Ph.D in Finance from Lucknow University (Year 2009) and is currently working as an Assistant Professor in JIIT, Noida. She is responsible for handling courses in Finance, Accounts and Economics. She has more than 6 years of teaching experience in various Institutes in India. She has to her credit various publications in the field of Accounts and Finance.