



# The Fundamental Analysis on Small Cap Companies with Respect to Healthcare Sector

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## ABSTRACT

The Fundamental analysis is essential for investors in the healthcare sector, enabling them to evaluate securities based on economic, financial, and qualitative factors. This analysis aids in understanding the financial health of companies across various healthcare segments like hospitals, pharmaceuticals, and medical devices. In India, the healthcare sector shows promising growth, driven by increasing demand and advancements in biotechnology. By analyzing key financial metrics and ratios, investors can assess companies like MEDI ASSIST, SHALBY LTD., THYROCARE TECHNOLOGY, KOVIA MEDICAL, and KRSNAA DIAGNOST to make informed investment decisions and optimize their portfolios effectively.

**Keywords:** *Fundamental Analysis,*

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## INTRODUCTION

Fundamental analysis is a comprehensive method used to evaluate securities and make investment decisions by examining various economic, financial, and qualitative factors that can affect their value. Unlike technical analysis, which focuses solely on market statistics and price movements, fundamental analysis delves into the intrinsic worth of a company or asset.

### Key components of fundamental analysis include:

- 1. Economic and Financial Factors:** This involves assessing macroeconomic conditions such as GDP growth, inflation rates, interest rates, and exchange rates, as well as industry-specific factors like market trends and competition. Understanding these factors provides a broader context for analyzing individual securities.
- 2. Qualitative and Quantitative Analysis:** Fundamental analysis looks at both qualitative aspects (e.g., management quality, brand reputation) and quantitative metrics (e.g., financial statements, ratios) to gain insights into a company's health and potential for growth.
- 3. Financial Statements:** Analysts scrutinize financial statements like the income statement, balance sheet, and cash flow statement to assess a company's profitability, financial health, and cash flow dynamics.
- 4. Valuation Metrics:** Various financial ratios such as price-to-earnings ratio (P/E), price-to-book ratio (P/B), and earnings per share (EPS) are calculated to determine whether a security is overvalued or undervalued relative to its peers or historical averages.
- 5. Industry and Market Trends:** Understanding industry dynamics, market trends, regulatory factors, and competitive landscape is crucial for predicting a company's future performance.

### Approaches to Fundamental Analysis

There are two primary approaches to conducting fundamental analysis:

- 1. Top-Down Approach:** This method begins with analyzing broad economic factors, such as global economic indicators (GDP growth, inflation), and then narrows down to specific industries and companies. Analysts focus on identifying sectors that are poised for growth based on economic trends.
- 2. Bottom-Up Approach:** In contrast, the bottom-up approach starts with analyzing individual companies irrespective of industry or economic conditions. Analysts seek out companies with strong fundamentals, growth potential, and competitive advantages.

### Healthcare Sector Overview

Within the healthcare sector, there are diverse opportunities for investment, including:

- **Hospitals and Infrastructure:** The Indian hospital industry is experiencing robust growth due to rising domestic demand and medical tourism, presenting investment prospects in medical infrastructure.
- **Pharmaceuticals:** India's pharmaceutical sector is a significant global player with substantial export potential and anticipated growth due to cost competitiveness.
- **Biotechnology:** With a growing market and numerous companies operating in various biotech sub-segments, India's biotechnology sector offers promising investment avenues.
- **Medical Devices and Equipment:** This sector is projected to grow significantly, although it faces challenges such as import dependency and technological limitations.
- **Diagnostics:** The diagnostics market in India is expanding rapidly, driven by increasing healthcare standards and regulatory improvements.
- **Medical Tourism:** India's medical tourism industry is gaining traction due to quality healthcare services at competitive prices.

#### Sector Trends and Investment Insights

- **Valuation Metrics:** The healthcare industry is trading at reasonable P/E and PS ratios, with optimistic growth prospects in sub-sectors like medical equipment and biotech.
- **Earnings Growth:** Companies in the healthcare industry have shown consistent earnings and revenue growth over the past few years, especially in segments like medical equipment and biotech.
- **Analyst Forecasts:** Biotech is expected to experience substantial earnings growth, outpacing its past performance, while other segments like life sciences also show promising growth potential.

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## REVIEW OF LITERATURE

- **The study by J. Hema and V. Ariram (2016)** examines fundamental aspects of three randomly selected healthcare companies listed on the NSE over a five-year period (2011-2015), utilizing EIC analysis and ratio analysis (EPS, DPS, Net profit margin, Debt to equity ratio) to assess financial stability. Industrial analysis underscores high growth in the Indian healthcare sector, with Lupin and Torrent Pharma identified as financially stable during the study period.
- The study compares fundamental and technical analysis for sectoral stock evaluation, finding fundamental analysis most preferred for stock selection, highlighting real estate as the favored sector.
- Fundamental and technical analysis inform stock price changes, aiding in optimal investment timing and security selection, focusing on economic, industry, and company factors, while aiming to maximize returns and minimize risks.

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## OBJECTIVE OF STUDY

1. To conduct the fundamental analysis of top 5 healthcare companies according to the market cap.
2. To recommend best stock to investors. To evaluate individual investor pattern for fundamental analysis of health care sector.
3. To apply stock matrix on selected stock To identify financial health of company.
4. To identify the valuation of company

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## RESEARCH METHODOLOGY

#### Data Collection and Selection:

- **Financial Data Gathering:** Collect financial statements, annual reports, and other relevant financial data of small cap companies in the healthcare sector.
- **Market Research:** Conduct market analysis to understand industry trends, competitive landscape, and regulatory environment affecting small cap healthcare companies.

#### Fundamental Analysis Techniques:

- **Ratio Analysis:** Utilize financial ratios like P/E ratio, debt-to-equity ratio, and return on equity to evaluate the financial health and performance of small cap healthcare companies.
- **Qualitative Analysis:** Perform qualitative assessments by considering factors like management quality, competitive advantages, and growth prospects of the companies.

These research methodologies will provide a comprehensive framework for conducting a thorough fundamental analysis of small cap companies within the healthcare sector..

#### Method of Stock Selection:

The research emphasizes both qualitative and quantitative aspects, selecting companies with a market capitalization exceeding 5000crores. The study focuses on Fundamental Analysis and includes five health care companies listed on NSE:

1. Medi Assist Healthcare Services Ltd
2. Shalby Ltd.
3. Thyrocare Technologies Ltd.
4. Kovai Medical Center and Hospital Ltd
5. Krsnaa Diagnostics Ltd.

#### Tools of Fundamental Analysis:

This study has used the following tools of fundamental analysis for analysing the financial data of the selected companies.

1. Market capitalization Ratio
2. Sales Growth Ratio
3. Profit Growth Ratio
4. Return On Capital Employed
5. Operating Cash Flow
6. Debt to Equity Ratio
7. Price-to-Earnings Ratio (P/E Ratio)
8. Quick Ratio
9. Interest Coverage Ratio

## DATA COLLECTION AND INTERPRETATION

### 1. Market capitalization Ratio

NAME	MARKETCAP
KOVAI MEDICAL	4584
MEDI ASSIST	3537
THYROCORE TECH	3284
SHALBY Ltd.	3187
KRSNAA DIAGNOST	2154

**INTERPRETATION** - From the above data, Kovai Medical has the highest fixed assets and revenue at which show the investing status of the companies. as compared Krnsnaa Diagnost

### 2. Sales Growth Ratio

NAME	SALES VR (5Y)
KRSNAA DIAGNOST	34
MEDI ASSIST	16
SHALBY	16

KOVAI MEDICAL	12
THYROCARE TECH	8

**INTERPRETATION** - Growth rate benchmarks vary by company stage but on average, companies fall between 15% and 45% for year-over-year growth. Krsnaa Diagnost has growth 34% which indicates that the company has good sales growth whereas Medi Assist 16% Shalby 16%, Kovai Medical. 12%, thyrocare Tech. 8% which shows a poor growth.

### 3. Profit Growth Ratio

NAME	PROFIT VR (5Y)
KRSNAA DIAGNOST	35
KOVAI MEDICAL	15
MEDI ASSIST	15
SHALBY	11
THYROCARE TECH	-10

**INTERPRETATION** - For the above data, Krsnaa Diagnost has the large profit of 35% whereas Kovai Medical 15% as followed. Which show a huge difference in profit growth of the companies.

### 4. Return On Capital Employed

NAME	ROCE
MEDI ASSIST	25.90
KOVAI MEDICAL	18.80
THYROCARE TECH	15.3
KRSNAA DIAGNOST	11.9
SHALBY	10.6

**INTERPRETATION** - From the above data ,The higher the ROCE, the better the companies are which indicates that edi assist 25.90%, Kovai Medical 18.80% %, The ratio calculated as 20% or more are considered good, indicating the company is more profitable and has a stable financial position in the market

### 5. Operating Cash Flow

NAME	CF OPR (5Y)
KOVAI MEDICAL	997.64
THYROCARE TECH	668.94
SHALBY	495.06
KRSNAA DIAGNOST	422
MEDI ASSIST	338

**INTERPRETATION** - From the above data, Kovai Medical is having a high operating cash flow which indicates that the company can repay all its current liabilities and have savings for the future activities.

#### 6. Debt to Equity Ratio

NAME	DEBT/EQ
KOVAI MEDICAL	0.66
SHALBY	0.15
KRSNAA DIAGNOST	0.02
MEDI ASSIST	0.00
THYROCARE TECH	0.00

**INTERPRETATION** - From the above date, If the debt-equity ratio is greater than 1, then the Company assets are financed through debt or if the ratio is less than 1, its assets are primarily financed through equity.

#### 7. Price-to-Earnings Ratio (P/E Ratio)

NAME	P/E
THYROCARE TECH	49.73
MEDI ASSIST	47.61
KRSNAA DIAGNOST	42.15
SHALBY	39.11
KOVAI MEDICAL	27.60

**INTERPRETATION** - From the above data, Kovai Medical 27.60% which indicates a good P/E ratio, whereas Thyrocare Technology 49.73% has the worst P/E ratio.

#### 8. Quick Ratio

NAME	QUICK RATIO
THYROCARE TECH	3.18
MEDI ASSIST	2.88
KRSNAA DIAGNOST	2.12
SHALBY	1.71
KOVAI MEDICAL	1.54

**INTERPRETATION** - Form the above data, Thyrocare Technology 3.18%, Medi Assist 2.88% Krsnaa Diagnost 2.12% Shalby Ltd. 1.71% which indicates a good quick ratio whereas Kovai Medical has a poor quick ratio 1.54%.

#### 9. Interest Coverage Ratio

NAME	INTEREST COV
MEDI ASSIST	75.29

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THYROCCARE TECH	54.67
KRSNAA DIAGNOST	18.7
SHALBY	17.44
KOVAI MEDICAL	7.08

**INTERPRETATION-** From the above data , the companies are earning sufficient money in order to pay off the interests due on long term loans, which indicates that there is a very less chance of a financial default.

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## CONCLUSION

**Final Project Stage Importance:** - The ultimate goal of the project is to showcase the company's operational efficiency and performance to stakeholders like investors, creditors, and shareholders for informed investment decisions.

**Investing in Small-Cap Companies:** - Small-cap companies may require time to realize their growth potential, necessitating patience and a long-term perspective from investors for the market to recognize their value.

**Healthcare Industry Investment Insights:** - The healthcare sector, being heavily regulated, presents unique investment opportunities and risks, offering diversification benefits to portfolios when balanced with other sectors. Investors may also consider ethical factors when selecting healthcare investments aligned with their values.

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