

WealthAlpha Master Guide

Chapter 2: Fundamental Analysis System

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WealthAlpha Advantage: Our AI evaluates company fundamentals using these exact ratios and red-flag detectors, giving you a clean shortlist without manual effort.

Fundamental analysis answers the question: 'Is this business worth owning long term?' It blends quantitative metrics (numbers), qualitative judgment (business quality), and valuation discipline (price paid).

Three Layers of Fundamentals

1. Quantitative (Numbers): Ratios and metrics that reveal financial health.
2. Qualitative (Quality): Moats, governance, management integrity, and industry position.
3. Valuation (Price vs Worth): Is the stock cheap, fair, or overpriced relative to its fundamentals?

Key Ratios for Beginners

- Growth: Revenue & Net Profit CAGR > 10%.
- Profitability: ROE/ROCE > 15%.
- Leverage: Debt-to-Equity < 1; Interest Coverage > 3.
- Cash Flow: Operating Cash Flow tracks Net Profit; Free Cash Flow positive.
- Valuation: P/E and P/B vs peers; PEG < 1 is attractive.

Qualitative Checks

- Moats: Brand, Network, Cost leadership, Patents.
- Management: Promoter holding trend, Auditor reputation, Capital allocation history.
- Industry: Market share trajectory, Entry barriers, Sector tailwinds.

Valuation Discipline

Avoid overpaying, even for quality. Compare valuations with:

- Industry peers.
- Company's 5-year average multiples.
- Simple DCF models for advanced users.

Case Study: HDFC Bank vs Yes Bank

HDFC Bank: Consistent growth, strong ROE, low NPAs, clean audits → long-term compounder.

Yes Bank: Aggressive growth, rising NPAs, auditor resignations → collapsed shareholder wealth.

DIY Checklist (7-Point Rule)

- Pass at least 5 of these 7 before investing:
- 1. Growth > 10%.
- 2. ROE/ROCE > 15%.
- 3. Debt/Equity < 1.
- 4. OCF and FCF positive.
- 5. Valuation \leq peers.
- 6. Visible moat.
- 7. Clean management.

Psychology in Fundamentals

Avoid biases:

- • Confirmation Bias: Only looking for info that agrees with you.
- • Overconfidence: Assuming your research can't be wrong.
- • Short-termism: Reacting to quarterly noise over long-term trends.

Remember: You're buying a business, not a ticker symbol.