

An Analysis of Fundamentals of Selected It Companies Listed At NSE

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ABSTRACT

Every investor is advised to have enough knowledge about the stock market before making any investment decisions. Analysis of capital market can be done either by Fundamental analysis or by Technical analysis. This paper aims to study on Fundamental analysis of selected IT companies listed at NSE. Fundamental analysis is studied in three parts. Economic analysis deals with fundamental factors like GDP, IIP, fiscal deficit, inflation, current account deficit etc. Industry analysis Indian IT sector is analyzed based on entry barriers, type of industry, government interference, Porter's five force model. Finally, Company analysis deals with various ratios such as dividend payout ratio, EPS, P/E ratio, Debt-Equity ratio are used. It also focuses on the calculation of Intrinsic value of shares and compared with Market value. If intrinsic value is greater than market value the share is said to be undervalued whereas if market value is greater than intrinsic value, the share is overvalued. From the study Wipro, TCS and Infosys shares are undervalued and suggested to buy and hold the shares.

KEY WORDS: *Investment decision, Fundamental factors, Intrinsic value, Share price, Indian IT industry.*

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I. INTRODUCTION

The Indian IT sector is one of the ongoing shining sectors of the Indian economy showcase with rapid development and promise. According to a report by NASSCOM called "Perspective 2020: Transform India" the exports element of the Indian Industry is anticipated to reach US\$ 175 billion in revenue by 2020. India is considered as the home town to a huge number of potential IT professionals who could congregate the demands and global industry expectations with their eminent skill and expertise. IT sector in India is high cost efficient in terms of skilled professionals as in comparison with the developed countries. This is also the reason for increase in IT services like knowledge process outsourcing and business process outsourcing have extended in the job market of Indian economy. The average purchasing powers of the individual consumers have increased. With this aggregate demand and aggregate supply has increased which resulted improvement in gross domestic production of goods and services in the India. Therefore IT sector plays a very important role in Indian Economy as whole. This paper attempt to study the fundamental analysis on selected five IT companies listed in NSE with respect to Hedge Equities Ltd.

THE PROBLEM

The study will help to know what strategies the investor can adopt while trading in equity market with the help of fundamental analysis. Fundamental Analysis is the upcoming tool and helps the investor to know how the company is fundamentally strong and who want to invest in a systematic manner in the competitive world, the study reveals the importance for the investment decision which acts as guidance and helps them in decision making and predicts the figure price of the scrips.

OBJECTIVE OF THE STUDY

The following are the objective of the study:

- To study the growth and performance of IT sector.
- To study on the Fundamental Analysis for five company scrips to recommend for better choice of investment.
- To analyse the Intrinsic value and forecast the future value through fundamental analysis.

II. RESEARCH METHODOLOGY

In this paper mainly secondary data is used. Data are collected from sources such as internet, websites 'of selected companies, company balance sheets, annual reports, press release etc. Analysis of data is done with help of Fundamental tools for selected five companies.

SCOPE OF THE STUDY

The study is conducted based on the selected IT companies listed in NSE. The companies are selected with respect to their market capitalization, revenue, sales and performance.

III. REVIEW LITERATURE

- J Hema and V Ariram (2016) in their research paper titled, “ Fundamental analysis with special reference to pharmaceutical companies listed in NSE” stated that an investor should analyze the market fundamentally and technically before investing in shares. They also noticed growth in the pharmaceutical industry in India.
- Ahmed s Wafi, Hassan Hassan and Abel Mabrouk (2015) in their learning headed, “ Fundamental analysis models in financial market” presented in third economic and finance conference in Rome.
- Sugandharaj kulkarni (2011) in his research paper titled, “ A study on fundamental analysis of ONGC” explains about the relevance of fundamental analysis along with the attempt to find the intrinsic value of shares.
- Venkatesh C K and Madhu Tyagi (2011) in their research paper titled, “ Fundamental analysis as a method of share valuation in comparison with technical analysis” detailed about different movement of share prices in comparison with fundamental and technical analysis. It also emphasized on the market capitalization and organizational structure.
- Hemraj Verma and Prakash Tiwari (2009) in their study headed, “A Fundamental analysis of public sector banks in India” detailed the growth of the Indian banking industry and current performance of the bank with the help of various ratios.

This paper aims to find the better stock valuation model using the fundamental analysis approach.

Economic Analysis

In economic analysis, the present performance of the economy as a whole is identified using economic factors like GDP, Inflation rate, IIP, Balance of Payment, Fiscal deficit, Current account deficit, Unemployment rate. Table 1 depicts the five year data of economic factors from 2015 to 2019 which indeed help the investors to take better investment decision

YEAR	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	Compound Annual growth rate(CAGR)%
GDP (%)	8.0	8.2	7.2	6.8	6.9	-2.92
Inflation Rate (%)	4.9	4.5	3.6	3.48	3.88	-4.56
IIP	3.1	4.1	4.4	3.6	4.3	6.76
Balance of payment	-1.07	-1.53	-1.4	1.8	0.7	8.14
Fiscal Deficit (%)	3.9	3.5	3.2	3	3.4	-2.71
Current account deficit (%)	1.2	-0.53	1.9	1.8	1.9	9.63
Unemployment rate (%)	2.78	2.73	2.56	2.55	6.1	-17.02

Table 1: Table showing economic factors

Source: Secondary data

Economic growth can be determined using the GDP of the country. GDP is showing an downward trend for the past four years as it increase year after year. As the inflation rate falls down the purchasing power of the economy increases which boost the market performance. Inflation in Indian economy is coming down from 4.9 percent in 2015-16 to 3.88 percent in 2019-20, therefore shows a decreasing trend during last five years.

Industrial productions in an economy establish productivity of the country. Index of Industrial production initially increased from 2015 to 2017 than decreased in 2018 and again increased in 2019.

In 2014-15 and 2015-16 IIP slightly increased. Balance of Payment depicts the economic transaction of country with rest of the world. Balance of payment is highly fluctuating year after year. The highest negative balance of payment is -1.07 in 2015-16. And highest positive balance of payment is 1.8 in 2018-19. Fiscal deficit is surplus of total expenditure over total receipt exclusive of borrowings during the given fiscal year. Fiscal deficit is having a downward trend in Indian economy since 2015-16. The highest fiscal deficit is 3.9 percent of GDP in 2019-20.

A current account deficit is the value of investments or services or goods imported greater than that of the value of exports. The highest current account deficit is identified in 2016 which is -0.53 percent. After 2016, the current account deficit is seemed to be increasing gradually and 0.1 percent on GDP is lowest current account deficit in April 2016. The highest rate of unemployment was in 2015-16 i.e. 6.1 percent in 2019 and lowest unemployment was in 2015-16 i.e. 2.57 percent. After 2015 the unemployment rate has increased .

INDUSTRY ANALYSIS

In Industry analysis, Information technology industry is studied in terms of its problems and prospects. India is considered as world's leading sourcing destination for the information technology industry, as in figures it comes to just about 67 percent of the US \$ 124-130 billion market. The IT industry has shaped momentous command in education sector, in particular for engineering and computer sciences.

Information Technology is fragmented industry and not a concentrated one. In fragmented industries, there is absence of big dominant players such that small companies also prevail in the market but it is difficult for one company to establish a vigorous operation. Information technology industry is a fragmented industry, which emphasis on free entry and exit of firms into the sector. Even though such a situation prevails in the market, the major role is played by the big giant corporate like IBM, Infosys, TCS, Inforte, Wipro and others.

Government can make their interference into the technology sector which has its own effect in the industry. Government interference and intervention can be explained in two fundamental parts i.e. directly and indirectly. Direct method means support given by the government for the development of new technology and market mechanisms to present incentives for change done by the industry. On the other hand, indirect approach deal with the persuasion to regulate project standards and direct government purchases by the IT sector.

Porter's five force models consist of five major indicators to analyze an industry i.e. existing competition, availability of substitutes, threat of new entrants, bargaining power of suppliers and bargaining power of customers.

- **EXISTING COMPETITION:** IT services such as network management services, data-center services, infrastructure management services, application development and maintenance etc which leads to competition. Many companies in the industry are offering the similar services and therefore difficult to differentiate each other.
- **BARGAINING POWER OF CUSTOMERS:** Buyers bargaining power is large and chance of pressure on rates prevails in the industry. Both the international and Indian IT firms have negated the advantages all the way through global delivery and mature procurement.
- **BARGAINING POWER OF SUPPLIERS:** Supplier's bargaining power is very low and as high standardization prevails in the industry there is modest chance for the suppliers to have any thump.
- **THREAT OF NEW ENTRANTS:** Industry is also characterized by high people dependence and consequently can observe veterans isolate from prevailing companies to devote in new ventures. The innovative technology allows the opportunity of entrants to new niche players which are not dependant on experience constraints or size.
- **AVAILABILITY OF SUBSTITUTES:** IT sector has been a mixed bag for newer services as well since internal specialization is low and most of the work is outsourced generally. Therefore there is no substantial substitute to information technology industry from internal perspective, and are thinner in numbers and significance.

COMPANY ANALYSIS

In company analysis the financial performance of the selected companies are analyzed in order to analyze the profitability of the firm. An investor should be aware of the financial performance of the company to know the risk and return associated with particular share. For the purpose of analysis various ratios such as EPS, Book Value, P/E ratio, Return on equity and Dividend payout ratio are used.

● EARNINGS PER SHARE

Earnings per share is computed by dividing profit after interest and preference dividend by number of equity shareholders. EPS indicates the earning capacity of the company.

Table 2: Table showing EPS

YEAR	WIPRO	INFOSYS	TCS	HCL TECH	MINDTREE
2014-2015	13.22	105.91	98.31	47.27	75.99
2015-2016	13.60	55.26	117.11	35.42	43.85
2016-2017	13.11	60.16	120.04	51.59	36.68
2017-2018	12.64	71.28	131.15	59.39	47.60
2018-2019	14.99	33.66	79.34	69.82	55.91
CAGR	2.54	-20.49	3.56	8.11	-5.95

Source: Secondary data

Table 2 depicts that Wipro, TCS. And HCL TECH. is having a positive CAGR while Infosys, and MindTree is having negative CAGR. Positive CAGR reveals increase of EPS over years and Negative CAGR reveals decrease in EPS over years.

● **PRICE TO EARNINGS RATIO**

The P/E Ratio is a measure of the price paid for share relative to income or profit earned by the firm per share. A higher P/E ratio means that investors are paying more for unit of income.

Table 3: Table showing P/E ratio

YEAR	WIPRO	INFOSYS	TCS	HCL TECH	MINDTREE
2014-2015	23.04	19.73	20.87	16.93	4.51
2015-2016	19.06	17.29	24.1	14.98	5.58
2016-2017	18.11	17.87	22.6	8.75	6.09
2017-2018	18.92	20.29	25.91	20.41	10.22
2018-2019	17.18	20.82	21.67	24.26	18.09
CAGR	-5.7	1.08	0.75	7.46	32.02

Source: Secondary data

Table 3 shows a positive CAGR in Infosys, TCS, HCL Tech and Mindtree whereas Wipro shows negative CAGR as its P/E ratio during last five years have a downward trend.

● **RETURN ON EQUITY**

Return on equity is a measure of profitability of company that reveals how profit is generated by the company with the money shareholders have invested. It is computed by dividing profit after tax with net worth.

Table 4: Table showing Return on equity

YEAR	WIPRO	INFOSYS	TCS	HCL TECH	MINDTREE
2014-2015	19.23	28.46	49.62	33.06	25.37
2015-2016	23.31	25.28	44.69	44.81	29.97
2016-2017	25.16	24.21	48.29	47.33	30.66
2017-2018	23.66	25.3	43.05	36.82	29.38
2018-2019	19.79	27.61	43.89	23.5	27.44
CAGR	0.57	-0.60	-2.42	-6.60	1.58

Source: Secondary data

Table 4 depicts that Return on equity of Wipro and Mindtree is moving in positive trend. On the other hand Infosys, TCS and HCL Tech show a downward trend.

● **DIVIDEND PAYOUT RATIO**

The DPR measures what a company's pay out to investors in the form of dividends. It can be calculated by dividing the annual dividends per share by the Earnings per share. It can be computed by DPS divided by EPS.

Table 5: Table showing Dividend payout ratio

YEAR	WIPRO	INFOSYS	TCS	HCL TECH	MINDTREE
2014-2015	31.48	31.86	47	8.4	7.4
2015-2016	30.52	26.45	30.9	11.4	14.66
2016-2017	26.71	35.49	32.7	10.3	23.07
2017-2018	36.17	42.01	77.9	10.8	26.65
2018-2019	18.3	35.28	21.8	57.6	29.12
CAGR	-10.28	2.06	-14.2	46.97	31.5

Source: Secondary data

Table 5 shows dividend payout ratio for last five years, in that Infosys, HCL Tech and Mindtree is providing shareholders with high dividend whereas Wipro and TCS declined in their dividend payout ratio.

● **BOOK VALUE**

This ratio indicates the share of equity shareholders after the company has paid all its liabilities, creditors, debenture holders and preference shareholders.

Table 6: Table showing Book Value

YEAR	WIPRO	INFOSYS	TCS	HCL TECH	MINDTREE
2014-2015	140.25	418.71	231.87	138.02	240.24
2015-2016	166.87	266.04	330.02	152.41	144.00
2016-2017	192.16	296.24	396.05	182.27	155.96
2017-2018	93.42	290.76	397.20	198.29	173.16
2018-2019	81.86	143.96	210.39	224.64	201.34
CAGR	-10.21	-19.23	1.93	10.23	-3.47

Source: Secondary data

Table 6 depicts book value where Wipro, TCS and HCL Tech shows a positive CAGR and Mindtree as well as Infosys is showing a negative CAGR.

VALUATION OF SHARE

RATIOS	WIPRO	INFOSYS	TCS	HCL TEC	H MINDTREE
Average DPR (Σ DPS / No. of Years)	0.286	0.342	0.421	0.348	0.335
Average Retention Ratio (1- DPR)	0.714	0.658	0.579	0.651	0.665
Average ROE (ROE/ No. of years)	0.237	0.284	0.459	0.371	0.285
Growth in Equity (Avg. Retention Ratio * Avg. ROE)	0.169	0.186	0.265	0.241	0.189
Normalized Average P/E ratio (Σ P/E ratio/ No. of years)	19.26	19.2	23.03	17.06	8.89
Projected EPS (Current EPS * (1 + Growth in equity))	38.34	81.59	146.98	41.67	42.89
Intrinsic Value (Projected EPS * Normalized Avg. Ratio)	738.42	1566.52	3384.94	710.89	381.29
Market Value(as on 31-Mar-2019)	493.92	627.11	788.98	304.39	330.6

Table 7 Source: Secondary data

IV. DECISION

- WIPRO: Intrinsic Value > Market Value, it is undervalued, so it is recommended to buy the stock as value of share may increase in future.
- INFOSYS: Intrinsic Value > Market Value, it is undervalued, so it is recommended to buy the stock as value of share may increase in future.
- TCS: Intrinsic Value > Market Value, it is undervalued, so it is recommended to buy the stock as value of share may increase in future.
- HCL TECH: Intrinsic Value < Market Value, it is overvalued, so it is recommended to sell the stock as value of share may fall in future.
- MINDTREE: Intrinsic Value < Market Value, it is overvalued, so it is recommended to sell the stock as value of share may fall in future.

V. FINDINGS

- In concern with EPS, Wipro is maintaining a constant increase whereas Infosys, HCL Technologies and Mindtree is showing increasing trend initially and then falls down. On the other hand TCS is showing increasing trend throughout the five years.
- In case of Price earnings ratio, Infosys and HCL Technologies are showing decreasing trend in opening three years and gradually increased in next two years. Wipro showed decreasing trend whereas TCS is having fluctuating price earnings ratio, but Mindtree is having an increasing pattern.
- Mindtree is having an increasing trend in dividend payout ratio throughout the five year. On the other hand TCS, Infosys and HCL Technologies showed an increasing trend in initial four years and finally declined. Wipro have a fluctuating dividend payout ratio
- Book value of Wipro is maintaining a consistency with minute increase in each year. HCL Technologies,

Infosys and Mindtree initially showed an increase in the book value and decreased in last two years. TCS is showing increasing trend throughout the last five years.

- TCS is showing decreasing trend in case of Return on equity. Mindtree and Infosys is having considerable line of consistency during last five years. HCL Technologies and Wipro is showing increasing trend in initial three years and decreasing trend in last two years.

VI. SUGGESTIONS

- It is recommended to buy and hold the shares which are undervalued such as Wipro, TCS, and Infosys as their share prices have a propensity to raise in the future.
- Every investor is recommended to make a thorough analysis of the capital market, about the company and industry before making any investment decisions.
- It is suggested to sell the overvalued shares such as HCL Technologies and Mindtree as their shares prices have a tendency to decrease in the future.
- Investing in one share alone is not suggested as returns may not be favorable always. Investing in multiple or diversified shares reduces the risk and provides a stable returns.

VII. CONCLUSION

Information technology sector of India has been significantly contributed to the growth of Indian economy in terms of gross domestic products, generation of employment and foreign exchange earnings. In Indian context, IT sector industries are major contributors of GDP of India.

From the study, Wipro, TCS, Infosys is undervalued as its intrinsic value is higher than its market value and suggested to buy the share since the price of the same may increase in future. In contrast, Mindtree and HCL Technologies is overvalued as its market value is higher and preferred to sell the share as the share price may fall. It is recommended to each investor to have IT sector companies in their portfolio since they are faster growing industry according to Indian context of research. In near future it is expected that number of investors will be flooding into the capital market that increases the relevance of fundamental analysis of various sectors. It can be concluded that the Information Technology sector companies are one most promising platform of investment in capital market and in turns give considerable return for the risk taken by investors.

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