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A STUDY ON FUNDAMENTAL ANALYSIS OF SELECTED IT COMPANIES WITH REFERENCE TO VENTURA SECURITIES

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ABSTRACT

Every investor is advised to have enough knowledge about the stock market before making any investment decision. Analysis of capital market can be either by Fundamental analysis or by Technical analysis. This paper aims to study on Fundamental analysis of selected IT companies. Fundamental analysis is studied in three parts. It includes economic analysis, industry analysis and company analysis. Economic analysis deals with fundamental factor like GDP, IIP, fiscal deficit, inflation, current account deficit etc. Industry analysis deals with entry barriers, type of industry, government interference, Porters five force model. Finally, company analysis deals with various ratios such as current ratio, quick ratio, EPS, P/E ratio, debt equity ratio, return on assets, return on equity, etc, are used. It also focuses on the calculation of intrinsic value of shares and compared with market value. This study helps to the investors to choose a safe investment and to identify the growth opportunities in the future.

INTRODUCTION:

Fundamental analysis studies the core underlying elements that influence the economy of a particular entity, like a stock or currency. Fundamental analysis analyses the economic indicators and financial statements. It attempts to predict price action and trends by analysing economic indicators, government policy, societal and other factors within a business cycle framework. The fundamental analyst would love to purchase the stock if the current market price is below its intrinsic value and would sell the stock when the market price goes far above the intrinsic value. Hence, fundamental analysis is important in stock picking.

Fundamental analysis assesses the fair market value of equity shares by examining the assets, earnings prospects, cash flow projections, and dividend potential. Fundamental analysis differs from technical analysis that essentially relies on price and volume trends and other market indicators to identify trading opportunities.

Fundamental analysis of a business involves analysing its financial statements and health, its management and competitive advantages, and its competitors and markets. Fundamental analysis is performed on historical and present data, but with the goal of making financial forecasts.

EIC analysis of a company:

Economic analysis
Industry analysis
Company analysis

Economic Analysis:

Every common stock is susceptible to the market risk. This feature of almost all types of common stock indicates their combined movement with the fluctuations in the economic conditions towards the improvement or deterioration. Stock prices react favourable to the low inflation, earnings growth, a better balance of trade, increasing gross national product and other positive macroeconomic news. Indications that unemployment is rising, inflation is picking up or earnings estimates are being revised downward will negatively affect the stock prices.

Industry Analysis:

Industry analysis is a tool used to analyse the environment and competitive dynamics of an industry. It is a method to assess the ecosystem in which companies of the same industry operate. In simple words, it is the process of researching and understanding the competitive environment of a particular industry.

Company Analysis:

Company analysis is a process carried out by investors to evaluate securities, collecting info related to the company's profile, products and services as well as profitability. It is also referred as fundamental analysis.' A company analysis incorporates basic info about the company, like the mission statement and apparition and the goals and values. During the process of company analysis, an investor also considers the company's history, focusing on events which have contributed in shaping the company.

NEED OF THE STUDY

- This study provides insights into overall performance of the selected companies, helping investors make informed decisions.
- This study helps the investors understand the current economic scenario and the current sector performance of the selected industry.
- This study determines the fair value of IT stocks based on their financial performance, which is essential for making investment decisions.

OBJECTIVES OF THE STUDY

- To study the financial position of selected companies through ratio analysis.
- To study the Growth and Performance and the estimated growth of selected companies.
- To study the short-term and long-term solvency position of the selected companies
- To study the comparative analysis of Intrinsic value and market value of the selected companies
- To give suggestion to the investors in making better investment decision.

SCOPE OF THE STUDY

This study is to analyse and suggest the best stock to buy and hold for long term in this portfolio and helps the investor to choose a safe investment and to identify the growth opportunities in the future. This analysis provides a precise presentation of data and guidelines that will help a new investor as well as long term investor to know vital aspects of investing. The scope of the study is limited to analyse the tools like ratio analysis, financial statement report published by the company limited for the period of five years.

LIMIATIONS OF THE STUDY

- This study was confined to five companies in IT sector only, the findings of the study suffer from the limitation of generalization.
- The study is completely done based on secondary data.
- The study period is limited to only 5 years i.e., from 1st April 2018 to 31st march 2023.

REVIEW OF LITERATURE

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 analysed 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 - Silp arya mol, DR. A Samiily(2017). Application of financial and fundamental analysis evaluate the selected company performance using financial analysis and fundamental analysis tools and compare it with leading technology industry peers in this sector. The theoretical framework of financial and fundamental reports is described in the first chapter, the second part introduces the technology industry under the current economic and financial conditions in the area, and the final section presents the valuations and final investment recommendations. - Zavercena prince, elie nehme (2020). Fundamental Analysis of Five Major Companies in Information Technology Sector - will give the investor insight into the strategies they can use to trade in equity markets using fundamental analysis. Investors can use Fundamental Analysis to determine how well a company is performing based on its fundamentals. Indian capital markets are well developed, providing investors with many investment opportunities.. Sakshi Shukla (2021). As fundamental analysis comprises of three primary components of EIC for example Economic, Industry, and Company analysis. This exploration is primarily cantered around the organization examination of TOP 10 Pharma Companies. Fundamental analysis tells an investor where to invest in the long the market capitalization of a company is determined by the company's market value multiplied by the number of shares. B. N. L. Pavan (2023). Fundamental Analysis of Financial Ratios on Stock Prices - This study analyses more deeply the effect of financial ratios including Return on Assets (ROA), Net Profit Margin (NPM) and Debt to Equity Ratio (DER) on stock prices before and after the publication of financial statements. Using panel data with STATA, it was found that the effect of ROA and NPM on stock prices after publication was stronger than before publication, while the effect of DER was found to be the opposite. With these results concluded that financial ratios are still one of the benchmarks used by investors in their transactions in the stock market. Deden Tarmidi1 Rachmat Pramukty, Taufik Akbar (2018)Fundamental analysis is nothing but examining the forces that will destroy the well -being of the economy, industry groups, and companies. This system will be utilized will be used to assess the worth of a company's stock. It can additionally make utilized for estimating esteem of any sort of security, like securities or particular cash. This transform of key dissection includes looking at those economic, monetary Also other qualitative and additionally quantitative variables identified with A security in this way Similarly as will determine its innate worth. J.V.V. Meghanath, K.S. Sekhara Rao, 3C.H. Sathyaja and Bhavani (2018). The Role of Fundamental Analysis of Companies in Investment Management - Fundamental analysis is a method for assessing the financial statements of companies in order to determine the attractiveness of investments in these companies. The research objective of this article is to try to prove the relevance of fundamental analysis in the field of management during the evaluation process of potential investments. The main research hypothesis states that: "Fundamental analysis of business activity has a positive impact on the quality of decisions in the field of investment management. Dr. Azra Brankovic (2017).

RESEARCH METHODOLOGY

RESEARCH DESIGN

The type of research used in this study is Analytical Research. Analytical research is the process of gathering, analysing and interpreting information to make inferences and reach conclusions it can be conducted using various methodologies based on the research objectives and the available dataset.

SAMPLE:

For the purpose of the study the companies under the IT industry were selected.
TCS
INFOSYS
WIPRO
HCL
TECH MAHINDRA

STUDY PERIOD:

A total of five companies are selected from the information sector and their annual reports were taken for last 5 years from 2018 April 1st to March 30th 2023

SAMPLING TECHNIQUE:

Purposive sampling is used for the study, Purposive sampling refers to intentionally selecting participants based on their characteristics, knowledge, experiences, or some other criteria. In our study it companies were selected based on most activated stocks.

DATA COLLECTION:

Data was collected from secondary source. Secondary data collection involves using existing data collected by someone else for a purpose different from the original intent. Researchers analyse and interpret this data to extract relevant information. Secondary data can be obtained from various sources.

DATA ANALYSIS AND INTERPRETATION

NET PROFIT MARGIN

$$\text{NET PROFIT MARGIN} = \frac{\text{NET PROFIT}}{\text{NET SALES}} \times 100$$

Table showing Net profit margin (in %)

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2019	21.54	18.63	15.28	16.74	12.53
2020	20.67	18.32	15.97	15.64	10.58
2021	19.83	19.33	17.52	14.81	11.49
2022	20.05	18.20	15.42	15.78	12.60
2023	18.76	16.42	12.56	14.63	9.16
AVERAGE	20.17	18.18	15.35	15.52	11.27

Sources: Data collected and compiled from NSE and BSE website.

Interpretation:

From the above analysis about the performance of Net profit margin, it is found that the NPM of TCS, from 2019 TO 2021 is decreased from 21.54% to 19.83% due to economic uncertainties like COVID 19. In 2022 the company is recovered from covid and the NPM is increased to 20.05%. In 2023 the NPM of TCS is again decreased to 18.76% due to increase in expenses. The INFOSYS and WIPRO is decreased from 2021 to 2023 due to changes in pricing, competition, and increase in operating expenses. From 2019 to 2023 the HCL is also affected by COVID.. In 2020 the TECH MAHINDRA is also affected by covid and it increases its net profit to 11% in 2021 and shows a decline again in 2023 due to increase in expenses like administration expense, depreciation expense, interest rate etc. Therefore, TCS has highest Net profit margin which indicates this company is more efficient in converting sales in to actual profit.

EARNINGS PER SHARE

$$\text{EARNING PER SHARE} = \frac{\text{NET PROFIT}}{\text{NO OF EQUITY SHARES}}$$

Table showing Earnings per share (in Rs)

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2019	83	35.44	14.99	73.58	48.47
2020	86.19	38.97	16.67	40.75	46.21
2021	86.71	45.61	19.11	41.07	50.64
2022	103.62	52.52	22.37	49.77	63.32
2023	115.19	57.63	20.73	54.85	54.76
AVERAGE	94.94	46.03	18.87	52	52.68

Sources: Data collected and compiled from, NSE and BSE website.

Interpretation:

From the above analysis about the performance of Earnings per share, it is found that, the EPS of TCS, INFOSYS, and WIPRO has increased in the past five years from 2019 – 2023. This consistent increase in every year is due to reasons like efficient cost management. The EPS of HCL in 2019 is 73.58% and in 2022 it decreases to 40.75% due to COVID 19 pandemic. From 2021 to 2023 the HCL has increased its EPS as it is recovered from the impact of COVID 19 . The EPS of TECH MAHINDRA in 2019 is 48.47% and in 2020 it decreased to 46.21%. This decrease is also due to COVID 19 and from 2020 to 2022 the EPS has increased and in 2023 it again has a decline. In this period the expenses of the company increases and this indicates that company profit has reduced and is not utilizes it funds efficiently. Therefore, investors should consider TCS, INFOSYS, WIPRO for investment as these has a consistent increase in EPS every year.

PE RATIO

$$\text{PRICE EARNINGS RATIO} = \frac{\text{MARKET PRICE PER SHARE}}{\text{EARNINGS PER SHARE}}$$

Table showing PE ratio

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2019	24.1	20.99	17	7.28	16.03
2020	21.19	16.46	11	10.72	12.21
2021	36.65	29.99	21.67	23.96	19.57
2022	36.06	36.31	26	23.40	23.64
2023	27.83	24.78	17.60	19.79	20.07
AVERAGE	29.166	25.70	18.65	17.03	18.30

Sources: Data collected and compiled from NSE and BSE website.

Interpretation:

From the above analysis about the performance of price earning ratio, it is found that, the TCS has the highest PE RATIO. The PE ratio of TCS is in increasing trend from 2020 and it declines in 2023 because the earning of the company are more than the previous year. Followed by TCS, INFOSYS has the highest PE ratio. The PE ratio of WIPRO shows a decrease in 2020 and in 2023 this indicates low stock price is relative to its earnings. The PE ratio of HCL in 2019 is 7.28 and in increased to 23.96 and decreased to 19.79 in 2023. The pe ratio of TECH MAHINDRA in 219 is 16.03% and it has fluctuation every year relative to its earnings and change in its stock price. Hence it is concluded that TCS, INFOSYS has the highest PE RATIO as their stocks are more expensive and overvalued than other companies.

DIVIDEND PAYOUT RATIO

$$\text{DIVIDEND PAYOUT RATIO} = \frac{\text{DIVIDEND PER SHARE}}{\text{EARNINGS PER SHARE}} \text{ x } 100$$

Table showing Dividend payout ratio (in %)

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2019	36	60	7	11	29
2020	85	45	6	25	32
2021	43	59	5	24	89
2022	41	59	27	84	47
2023	99.8	58	57	88	91
AVERAGE	61	56.2	20.4	46.4	57.6

Sources: Data collected and compiled from money control, NSE and BSE website.

Interpretation:

From the above analysis about the performance of dividend payout ratio it is found that, in 2019 the DPR of TCS is 36% and it increases to 85% in 2020. The DPR of INFOSYS in decrease in 2020 due to Economic uncertainty. The dividend payout ratio of WIPRO is low as compared to other companies because it is giving only I time dividend every year. The HCL dividend payout ratio is increasing every year and HCL is paying dividend every quarter. TECH MAHINDRA has lowest dividend payout ratio in 2019 and 2020. In 2023 the dividend payout ratio is 91%, this clearly indicates the company is distributing majority of its profit as dividend to its shareholders. DPR indicates that if it is around 30% to 50% it is positive and it means that the company is giving 50% of its earnings. If is above 50% the company is considered to be risky and unsustainable. Therefore the DPR of HCL is falls between 30% to 50% and this company is paying dividend every quarter.

RETURN ON EQUITY

$$\text{RETURN ON EQUTIY} = \frac{\text{NET PROFIT AFTER INTERST TAX AND PREF.DIVIDEND}}{\text{SHAREHOLDER FUNDS}} \times 100$$

Table showing Return on Equity (in %)

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2018-2019	35.18	23.71	15.95	24.46	21.18
2019-2020	38.44	25.35	17.57	21.56	18.48
2020-2021	37.52	25.34	19.66	18.60	17.81
2021-2022	42.99	29.34	18.69	21.80	20.70
2022-2023	46.61	31.95	14.61	22.70	17.30
AVERAGE	40.148	27.138	17.296	21.824	19.094

Interpretation:

From the above analysis about the performance of Return on equity, it is found that the ROE of TCS in 2019 is 35.18% and in 2020 it increased to 38.44% and again it declines to 37.52% in 2021. This decrease is due to inefficient operation with in the company. From 2021 to 2023 the ROE has increased The ROE of INFOSYS has continuously increased from 2019 to 2023. The roe of WIPRO from 2019 to 2021 is increased from 15.95% to 19.66% and from 2021 it decreases due to increase in expenses. The ROE of HCL and TECH MAHINDRA is decreased from 2019 to 2022 due to economic uncertainties. The ROE of TECH MAHINDRA in 2022 to 2023 is decreased from 20.70% to 17.30% due to heavy competition. Therefore, TCS and INFOSYS were better than other three in maintaining ROE every year and these two companies were able to manage the money given by shareholder efficiently as compared to other companies.

CURRENT RATIO

$$\text{CURRENT RATIO} = \frac{\text{CURRENT ASSETS}}{\text{CURRRENT LIABLITIES}}$$

Table showing Current ratio

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2019	4.17	2.84	2.67	2.42	2.09
2020	3.33	2.62	2.40	1.62	2.12
2021	2.91	2.54	2.27	2.48	2.46
2022	2.56	2.00	2.01	2.56	1.96
2023	2.53	1.81	2.47	2.50	1.68
AVERAGE	3.1	2.36	2.36	2.31	2.06

Interpretation:

From the above analysis about the performance of current ratio, it is found that the company which falls under ideal ratio 2:1 indicates that the company has ability to meet short term solvency. The current ratio of TCS is decreased from 4.17 to 2.53 in 2019-2023 this always more than the ideal ratio The current ratio of Infosys is also decreased from 2.86 to 1.81 in 2019-2023. From 2019 to 2021 it is more than the ideal ratio and in 2022 and 2023 it is between the ideal ratio 2:1. The current ratio of WIPRO is decreased from 2.67 to 2.01 and in 2023 a small increase of 2.47.

HCL except 2020 all other years are more than ideal ratio. The current ratio of TECH MAHINDRA is increased from 2019 to 2021 and from 2021 it decreases. In 2022 and 2023 the current ratio is 1.96 and 1.68 which falls between ideal ratio. In an average all the companies are above the ideal ratio which means that the companies are capable to repay the debts but companies fail to invest in short term asset efficiently which shows that current assets are not used efficiently.

DEBT EQUITY RATIO

$$\text{DEBT EQUITY RATIO} = \frac{\text{TOTAL LONG TERM DEBT}}{\text{SHAREHOLDERS EQUITY}}$$

Table showing Debt Equity Ratio

YEAR	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
2019	0.00	0.00	0.10	0.09	0.07
2020	0.00	0.00	0.11	0.09	0.11
2021	0.00	0.00	0.12	0.06	0.07
2022	0.00	0.00	0.23	0.06	0.06
2023	0.00	0.00	0.19	0.03	0.06
AVERAGE	0.00	0.00	0.56	0.33	0.37

Interpretation:

From the above analysis about the performance of debt equity ratio it is found that the ideal ratio is 1:1. The debt equity ratio of TCS and INFOSYS is 0. This indicates a company has a strong financial position and is not burdened with debt payment. But this is below the ideal ratio. Having zero debt indicates the company may not able to take advantage of tax benefits associated with debt financing. The debt equity ratio of WIPRO is 0.10 and is increased to 0.19 in 2023. The debt equity ratio of HCL is decreased every from 2019 to 2023. TECH MAHINDRA in 2019 is 0.07 and in 2023 is 0.06. Therefore, all the 5 companies are below the ideal ratio. The long-term solvency of all the company is good. Comparatively WIPRO has the higher debt which is little risky than other companies**.**

Compound Annual Growth Rate

Formula

$$\text{CAGR} = \left(\frac{\text{Ending price}}{\text{Begining price}}\right)^{1/n} - 1$$

Table showing CAGR

COMPANIES	CAGR
TCS	13%
INFOSYS	19%
WIPRO	11%
HCL	16%
TECH MAHINDRA	10%

Interpretation:

From the above analysis about the performance of CAGR, it is found that the CAGR of INFOSYS is 19% which is higher among other companies, thus it indicates a sustainable growth over time.

Table showing Valuation of Shares

RATIOS	TCS	INFOSYS	WIPRO	HCL	TECH MAHINDRA
Average DPR	0.629	0.614	0.099	0.446	0.572

Average Retention Ratio	**0.371**	**0.386**	**0.901**	**0.554**	**0.428**
Average ROE	**0.401**	**0.271**	**0.172**	**0.218**	**0.190**
Growth in Equity	**0.148**	**0.104**	**0.154**	**0.120**	**0.081**
Normalised Average PE Ratio	**29.16**	**25.70**	**18.65**	**17.03**	**18.03**
Projected EPS	**132.238**	**63.62**	**23.92**	**61.43**	**62.43**
Intrinsic value	**3856.06**	**1635.034**	**446.108**	**1046.15**	**1125.61**

Table showing Market value of Companies

COMPANY NAME	**MARKET VALUE AS ON 30th MARCH 2024**
TCS	**3786**
INFOSYS	**1498.05**
WIPRO	**480**
HCL TECHNOLOGIES	**1543.55**
TECH MAHINDRA	**1248.10**

Table showing the Comparison of Intrinsic value with Market value

COMPANY NAME	**INTRISIC VALUE**	**MARKET VALUE**	**RESULT**
TCS	**3856.06**	**3786**	**UNDERVALUED**
INFOSYS	**1635.034**	**1498.05**	**UNDERVALUED**
WIPRO	**446.108**	**480**	**OVERVALUED**
HCL	**1046.15**	**1543.55**	**OVERVALUED**
MAHINDRA	**1125.61**	**1248.10**	**OVERVALUED**

SUMMARY OF FINDINGS

- It is found that, the TCS has highest Net profit margin which indicates this company is more efficient in converting sales in to actual profit
- It is found that, Earnings per share of TCS and INFOSYS is continuously increasing every year which indicate stability and potential for future earnings.
- It is found that, the good dividend payout ratio is 30% to 50%. HCL satisfies this condition.
- It is found that, TCS, INFOSYS has the highest PE RATIO as their stocks are more expensive and overvalued than other companies.
- It is found that TCS and INFOSYS were able to manage the money given by shareholder efficiently as compared to other companies
- It is found that the current ratio of all the companies is above the ideal ratio (2:1) which means that the companies are capable to repay the debts but companies fail to invest in short term asset efficiently which shows that current assets are not used efficiently.
- It is found that, the debt equity ratio of all the 5 companies is below the ideal ratio 1:1. The long-term solvency of all the company is good.
- It is found that the CAGR of INFOSYS is 19% which is higher among other companies, thus it indicates a sustainable growth over time**.**
- It is found that, the intrinsic value of TCS and INFOSYS is more than market value, this indicates the stocks is undervalued the shares may increase in future.
- It is found that, the intrinsic value of WIPRO, HCL, TECH MAHINDRA is more than market value, this indicates the stocks is undervalued the shares may increase in future.

SUGGESTIONS

- INFOSYS is fundamentally good as this company has highest growth with a CAGR of 19% over the past 5 years. So Infosys is the best stock for long time investment.

- HCL and TCS is the best choice of investment on the basis of dividend, as this company is paying dividend every quarter, and the dividend payout ratio is also in increasing trend.
- TCS and INFOSYS shares are undervalued as its intrinsic value is greater than market value so the investors are recommended to buy and hold the shares, as their share price may raise in future.

CONCLUSION

The analysis conducted among five selected companies of IT sector and analysed the growth and performance through financial ratios. Based on the financial ratios calculated INFOSYS is fundamentally good as this company has highest growth with a CAGR of 19% over the past 5 years. So, for longtime investment Infosys is the best choice. The investors who expect a regular stream of steady income can go with HCL and TCS as these companies are giving dividend every quarter. TCS, INFOSYS shares are undervalued as its intrinsic value is higher than its market value and suggested to buy the shares since the price of the same may increase in future. In contrast, WIPRO, HCL TECHNOLOGIES, TECH MAHINDRA is overvalued as its market value is higher and preferred to sell the share as the share price may fall. Based on the liquidity ratios calculated the short term and long-term solvency of the all-selected company is good.

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