

# Fundamental Analysis of Five Major Companies in Information Technology Sector

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## ABSTRACT

The study 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. In India, the information technology industry is an appealing investment target to both domestic and foreign investors. These days IT index is highly volatile. so, it is inevitable to evaluate the performance of each security before investing.

**KEYWORDS** Investment decision, Fundamental analysis, Intrinsic value, Share price, Indian IT industry.

## I. INTRODUCTION

A technology-driven knowledge economy, the Information Technology (IT) industry is critical to the evolution of the 21st century. India's impressive IT industry has led to the country being recognized internationally as a knowledge economy. In addition to improving the productivity of virtually every other sector, the industry has a very discernible effect on how the economy operates. Additionally, the country continues to have huge potential to accelerate growth and economic development. In this paper, we examine five companies listed in the NSE based on a fundamental analysis of hedge stocks.

Indian capital markets are well developed, providing investors with many investment opportunities. In India, the information technology industry is an appealing investment target to both domestic and foreign investors. These days IT index is highly volatile. so, it is inevitable to evaluate the performance of each security before investing. The study 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.

The project is based on tools like fundamental analysis and ratio analysis. Further the study is based on information of the last 5 years. The analysis is made by taking into consideration 5 IT sector companies The study gives overview of IT industry to investors while investing. This study consists of Economic, Industry and Company framework of analysis with the following aspects-

- Economic analysis consists of various variables such as-GDP and inflation rate
- Industry analysis consist of Porter's five force model.
- Company analysis consists of financial statement analysis and companies' prospects growth.

## OBJECTIVES

- 1.To do the fundamental analysis of scrips of top 5 IT companies of India.
- 2.To analyse the intrinsic value of the selected companies through fundamental analysis and suggest whether to buy the scrip and not to invest based on valuation of shares.

## RESEARCH METHODOLOGY

The paper relies mainly on secondary data for its analysis. The company's financials, annual reports, news releases and internet are the sources of data. The sample stocks were selected by considering various stocks having high market capitalization in IT industry. The five companies selected for the study are:

1. WIPRO
2. INFOSYS TECHNOLOGIES
3. TATA CONSULTANCY SERVICES
4. HCL TECHNOLOGIES
5. MINDTREE

## ECONOMY ANALYSIS

Macro-economic environment impacts all businesses and organizations inside the industry. Financial and monetary strategy impacts the

business environment of the enterprises and organizations. a careful macroeconomic gauge is needed to esteem an area/firm/equity. Any macroeconomic conjecture ought to incorporate assessments of the entirety of the significant including gross domestic product, inflation rates, interest rates unemployment and so forth the main thing an expert does is to look for arrivals of different monetary insights by the public authority Reserve Bank of India and private sources. Particularly, they keep a sharp eye on the Record of monetary pointers like the WPI, CPI, monthly inflation indices, Gross domestic product growth rate and so forth. 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	2015-16	2016-17	2017-18	2018-19	2019-20	Compound Annual growth rate (CAGR)%
GDP (%)	8	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
BOP	-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

Economic growth can be resolved utilizing the Gross domestic product of the country. Gross domestic product is showing a descending pattern for past four years as increment can be seen year after year. As the inflation rate falls, the purchasing power of the economy increases which help the market execution.

Inflation in Indian economy is descending from 4.9 percent in 2015-16 to 3.88 percent in 2019-20, in this manner shows a diminishing pattern during last five years. Industrial productions in an economy build up efficiency of the country. List of industrial production at first increases from 2015 to 2017 than diminished in 2018 and again increases in 2019. In 2014-15 and 2015-16 IIP somewhat increased. Balance of payment portrays the financial exchange of country with rest of the world. Balance of payment is profoundly fluctuating year after year. The highest negative balance of payment is - 1.07 in 2015-16. Furthermore, most elevated positive balance of payment is 1.8 in 2018-19. Financial deficit is excess of all consumption over absolute receipt

selective of borrowings during the given financial year.

Fiscal deficit is having a descending pattern in Indian economy since 2015-16. The highest financial shortfall is 3.9 percent of Gross domestic product in 2019-20. A current account deficit is the worth of speculations or administrations, or merchandise imported more noteworthy than that of the worth of fares. The highest current account deficit is recognized in 2016 which is - 0.53 percent. After 2016, the current account deficit is appeared to be expanding progressively and 0.1 percent on Gross domestic product is most reduced current account deficit in April 2016.

The most noteworthy pace of unemployment was in 2015-16 for example 6.1 percent in 2019 and least unemployment was in 2015-16 for example 2.57 percent. After 2015 the employment rate has increased.

## INDUSTRY ANALYSIS

The IT business represented 8% of India's Gross domestic product in 2020. Export from the Indian IT industry are expected to increase by 1.9% to arrive at US\$ 150 billion in FY21. In 2020, the IT business recorded 138,000 fresh recruits. The IT and BPM industry's income is assessed at ~US\$ 194 billion in FY21, an increment of 2.3% YoY.

An industry is analysed using Porter's five force model, which is based on five major factors: competition, substitutes, threats of new entrants, suppliers' bargaining power, and customers' bargaining power.

**Bargaining Power of Buyers:** With so many buyers in this industry, it's safe to say that we see the customer take control. Customers have so many options (in this industry, there are many firms), and switching costs are low, so they're not usually locked into one provider.

**Bargaining Power of Supplier:** There is little bargaining power for suppliers and since high levels of standardization prevail in the sector, it is unlikely that the suppliers will be able to negotiate effectively.

**Threat of New Entrants** In addition, the industry is characterised by high levels of human dependence, which means veterans are pulled out of prevailing firms in favour of new ventures. Innovative technologies offer new entrants the chance to join niche organizations without being dependent on experienced constraints or size.

**Threats from substitute:** In a digital age, we rely on IT for our everyday lives and businesses. A scientific calculator, for example, is a suitable

substitute, but to compare the two is a stretch. There is really no substitute for the role computers play in our society today.

**Existing Competition:** Network management services, datacentre services, infrastructure management services, application development and maintenance, etc. provide IT services that are competitive in nature. Many companies within the field provide similar services, making it difficult for them to claim differentiation.

### Company Analysis

It is conducted to identify the company's strengths, weaknesses, opportunities, and threats. These are inputs used by the analysts in determining the intrinsic value of the company's stock. The intrinsic value is then compared to the price of the stock.

To analyse a company, different ratios are used, such as the EPS, book value, P/E ratio, return on equity, dividend pay-out ratio, etc.

• **EARNING 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 depicts HCL TECH is having a positive CAGR while Wipro Infosys TCS Mindtree is having negative CAGR. Positive CAGR reveals

• **PRICE TO EARNINGS RATIO** The P/E Ratio measures how much investors are willing to pay for a share of their company in relation to the company's revenue or profit.

Table 3 depicts shows a positive CAGR in all Wipro, Infosys, TCS, HCL Tech and Mindtree

• **RETURN ON EQUITY** Profitability of a company is measured by the return on equity, meaning how the company generates. Table 4 depicts return on equity.

	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020	CAGR
Wipro	36.26	34.98	16.85	14.99	16.67	-14.39
Infosys	55.26	62.88	71.07	35.44	38.97	-6.7
TCS	117.11	133.41	134.19	83.05	86.19	-5.94
HCL	35.42	60.33	62.23	73.58	40.75	2.84
Mindtree	43.85	24.93	34.39	45.94	38.35	-2.644

Table 2: Table showing EPS ratio

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	CAGR
Wipro	5.53	12.51	17	11.8	30.12	40.35
Infosys	8.5	7.94	22.1	17.65	32.29	30.59
TCS	9.11	10.62	24.1	21.19	36.65	32.1
HCL	7.25	7.78	7.39	10.71	23.93	26.97
Mindtree	10.17	22.45	22.55	21.51	22.2	11.2

Table 3: Table showing P/E ratio

	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	CAGR
Wipro	16.43	16.69	15.95	17.57	19.07	3%
Infosys	20.31	25.44	23.44	24.97	25.23	4%
TCS	30.49	30.33	35.18	38.44	37.52	4%
HCL	26.11	23.96	24.46	21.56	18.6	-7%
Mindtree	17.02	22.01	22.8	19.98	25.7	9%

Table 4: Table showing return on equity

Column1	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	CAGR
Wipro	9.52	6.23	6.38	7.01	0	-100
Infosys	50.51	46.42	93.64	61.46	50.74	0.09
TCS	38.73	36.78	33.54	95.89	35.04	-1.98
HCL	39.34	19.4	10.85	12.27	0	-100
Mindtree	37.64	23.81	23.93	78.2	25.94	-7.17

Table 5: Table showing dividend payout ratio

YEAR	2016-2017	2017-2018	2018-2019	2019-2020	2020-2021	CAGR
Wipro	192.13	93.42	81.86	76.99	82.57	15.5411
Infosys	296.24	290.76	143.96	146.16	161.91	11.3812
TCS	396.05	397.2	210.39	198.31	202.15	12.5852
HCL	232.44	261.77	306.04	189.4	221.3	0.97745
Mindtree	18.17	22.45	20.56	21.61	30.9	11.20408

Table 6: Table showing Book value

Return on equity (net worth) or ROE is a profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company. The greater the ratio the better it is. The ROE of Mindtree is good as compared to many other competitors. But the past trend of the company was very fluctuating and was not positive over the time. The ratio majorly declined in year 2019 from 22.8% in 2018 to

19.98% in 2019. Although after that the company had a positive trend.

#### • DIVIDEND PAYOUT RATIO

Dividend pay-out ratio is the ratio of the total amount of dividends paid out to shareholders relative to the net income of the company. It is the percentage of earnings paid to shareholders in dividends. A consistent trend in this ratio is usually more important than a high or low ratio.

#### VALUATION OF SHARE

RATIOS	WIPRO	INFOSYS	TCS	HCL	MINDTREE
Average DPR ( $\Sigma$ DPS f No. of Years)	0.05	0.6	0.47	0.16	0.37
Average Retention Ratio	0.95	0.4	0.53	0.84	0.63
Average ROE	0.17	0.23	0.34	0.22	0.21
Growth in Equity	0.16	0.09	0.18	0.184	0.13
Normalized Average P/E ratio	15.3	17.6	20.3	11.4	22.73
Projected EPS	34.93	35.19	43.24	28.33	34.91
Intrinsic Value	534.429	619.344	877.772	322.962	793.5043
Market Value	547.4	1574	3380	995	2552

Table 7: Table showing valuation of share

#### OBESERVATIONS

• WIPRO: Intrinsic Value < Market Value, it is overvalued, so it is recommended to sell the stock as value of share may decrease in future.

• INFOSYS: Intrinsic Value < Market Value, it is overvalued, so it is recommended to sell the stock as value of share may decrease in future

• TCS: Intrinsic Value < Market Value, it is overvalued, so it is recommended to sell the stock as value of share may decrease 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.

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### SUGGESTIONS

- Wipro, TCS, and Infosys have long-term strategies for taking advantage of their undervalued shares, and its price is likely to increase in the future.
- Investing in a company or industry should be preceded by an in-depth analysis of the capital market.
- The shares of overvalued companies such as HCL Technologies and Mindtree should be sold as their prices tend to decline in the future.
- It is better to invest in multiple or diversified shares since the risks are reduced and the returns are stable.

### II. CONCLUSIONS

- From the study, Wipro, TCS, Infosys, HCL and Mindtree all are overvalued as its intrinsic value is lower than its market value
- It is suggested to sell the share. since the price of the same may decrease in future.
- It is recommended to each investor to have IT sector companies in their portfolio since they are faster growing industry.
- 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 of the most promising platform of investment in capital market and in turns give considerable return for the risk taken by investors.

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