Equity Analysis on IT Sector Stocks

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ABSTRACT:

The investment in share market is highly rewarding but highly risky. The concept of analysis comes into picture when decision must be made on choosing a particular company's shares for investment. Analysis includes fundamental analysis. Fundamental analysis is a method of forecasting the future price movements of a financial instrument based on economic, political, environmental, and other relevant factors and statistics that will affect the basic supply and demand. This paper examined fundamental analysis of IT sector of the selected companies from the Information Technology sector, since IT sector is one of the most upcoming sectors in the Indian Market Secondary Data of last 5 year (2019-2023). The sample of the stocks for the purpose of collecting secondary data has been selected based on Random Sampling. For analysis the monthly share prices of the last 5 financial years is collected for ten leading IT companies. for the study through fundamental analysis is carried out by tools like Economic analysis, Industrial analysis and Company Analysis Key ratios include ROA, ROI, ROE, EPS, DPS, dividend payout ratio, dividend yield, and P/E ratio. The stocks are chosen in an unbiased manner and each stock is chosen independent of the other stocks chosen. The major findings are all IT sector companies performing very well and their fundamentals are very strong based on P/E ratio, EPS and Payout ratio. It is recommended to the investor that to invest in IT sector company for long term will be benefited.

Key Words: IT Sector, Fundamental Analysis, Investment, Equity, Market

Introduction:

Equity analysis involves assessing ownership in a business through stocks, employing fundamental. Fundamental analysis examines economic, industry, and company factors, emphasizing financial health and future prospects. Technical analysis relies on historical price trends to predict future movements. Key economic indicators for fundamental analysis include GDP, interest rates, inflation, corporate tax, savings, and infrastructure. Industry analysis assesses market dynamics, while company analysis evaluates specific firms. Financial analysis, including balance sheets and ratios, aids in understanding a company's performance, profitability, and potential for growth. Key ratios include ROA, ROI, ROE, EPS, DPS, dividend payout ratio, dividend yield, and P/E ratio. Debt-to-equity ratio instrument a firm's reliance on debt financing.

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Fundamental analysis involved evaluating economic, industry, and company factors to estimate stock values, while technical analysis utilized historical data to predict price movements. Studies emphasized the significance of informed decision-making and the need to combine fundamental and technical analyses for optimal investment strategies. Findings highlighted the resilience of IT companies during events like the 2007-2009 global market shock and the COVID-19 pandemic, with recommendations for portfolio diversification and strategic investment in undervalued stocks.

In the fundamental analysis of this study says that In FY22, the top three Indian IT companies, TCS, Wipro and Infosys, were expected to offer 1.05 lakh job opportunities due to the increasing demand for talent and skill. India's IT and business services market is projected to reach US$ 19.93 billion by 2025. IT spending in India is expected to increase to US$ 110.3 billion in 2023 from an estimated US$ 81.89 billion in 2021.

LITERATURE REVIEW:

K.S. Silpa , J.Arya Mol and A.S. Ambily (2017)"A study on fundamental analysis of selected IT companies listed at NSE". They have analyzed that the importance of fundamental analysis in making investment decisions in the stock market, specifically focusing on selected IT companies listed at NSE. Divided into economic, industry, and company analyses, it evaluates factors like GDP, industry entry barriers, and various ratios. The study identifies Wipro, TCS, and Infosys as undervalued, suggesting investors buy and hold their shares. On the other hand, Mindtree and HCL Technologies are deemed overvalued. The conclusion highlights the significant contribution of the IT sector to India's economy and recommends including IT companies in investment portfolios for promising returns.

Bhumika Dang and Aditya shinghal (2021) -"fundamental analysis: a study of it sector in india". The study analyzed that how it's crucial to carefully investments using a top-down approach. It specifically looks at the Indian IT sector, figuring out the real values of major IT companies and seeing if they are priced right in the market. They use things like financial ratios and economic indicators to do this. The results show whether certain companies are a good deal or too expensive, giving helpful information for people looking to invest. The main takeaway is that making investment decisions should be smart and well thought out.

Himanshu Vasani and Dr. Vijay Gondaliya (2021) -"A study on Fundamental and Technical analysis on IT sector Companies". They analyzed that the world of stock market investment, focusing on the Information Technology sector in India. It delves into the realms of fundamental and technical analysis, using tools like Economic, Industrial, and Company Analysis for the former, and Moving Average, MACD, RSI, and Candlestick charts for the latter. The study includes five leading IT companies—TCS, Infosys, HCL Tech, Wipro, and Tech Mahindra. Key findings suggest that fundamental analysis reduces risk and maximizes returns, while technical analysis provides insights for making informed decisions on buying or selling stocks.

Sakshi Shukla (2021) -"Fundamental Analysis of Five Major Companies in Information Technology Sector". She analyzed that the strategies for trading in equity markets using fundamental analysis, focusing on India's well-developed capital markets and the volatile IT industry. It emphasizes the significance of evaluating individual securities before investment. The research uses tools like fundamental analysis and ratio analysis, examining the last 5 years of data for five major IT companies. The objectives include fundamental analysis of the top 5 IT firms, assessing intrinsic values, and suggesting investment decisions. The conclusion highlights that Wipro, TCS, Infosys, HCL, and Mindtree are overvalued, advising investors to sell shares. Despite this, the IT sector is recommended for portfolio diversity, anticipating increased investor interest in the future. Overall, it concludes that IT companies offer promising investment opportunities in the capital market.

Manju Y Shattennavar and Prof. Pramod S G (2020) -"A study on Fundamental analysis of IT, Pharmaceuticals and Cement sector". They analyzed that the fundamental analysis, a method to assess the true value of stocks for long-term investment. Focusing on IT, Pharmaceuticals, and Cement sectors, it analyzes economic factors, industry dynamics, and company performance. By examining GDP, inflation, Porter's five forces, and financial ratios, the study suggests suitable stocks—TCS for IT, Cipla for Pharmaceuticals, and ACC for Cement. The research emphasizes the importance of investor knowledge and acknowledges limitations like relying on past data and unpredictable future changes. The analysis is a toolbox to determine if a company's stock is a good investment.

Research Methodology:

The research papers analyzed various aspects of investment in the Indian Information Technology (IT) sector, focusing on fundamental, risk-return evaluations, and performance assessments of selected IT companies. The main objective of the study is examined the performance of IT Sector stock through fundamental analysis. In this study there is different ratio are analysed. For analysis purpose following ten IT companies are selected based on market capitalization. Companies under analysis are Tech mahindra, TCS, Ltimindtree, Wipro, HCL technology, M phasis Ltd., Larsen & Toubro, Tata ELXI, ITC and Infosys. The data were taken from www.bseindia.com and www.nseindia.com.

DATA ANALYSIS:

For the purpose of analysis top ten IT sector companies were selected as given list in research methodology. In the company analysis of all companies were analysed based in Total Revenue, EBITDA, PBIT, PBT, Net Income, EPS, DPS and Payout Ratio.

Table 1: Summary of Key Ratios

Company	EPS	P/E Ratio	Payout Ratio
TCS	115	30.98	1
Infosys	57.86	22.01	0.59
HCL	54.73	28.33	0.88
Tech Mahindra	54.98	40.65	0.91
Wipro	20.69	22.01	0.05
L & T	74.51	40.32	0.32
Mindtree	149.08	33.28	0.4
Info Edge	-8.34	270.23	-
Mphasis	87.07	30.21	0.57
Tata Elxi	121.26	60.24	0.5

From the above information the TCS and Tech Mahindra have give the high pay out ratio to the investor, it lead to a higher dividend yield, which can attract investor and increase demand for the company's stocks. There is no payout ratio of the info edge company in 2023, it may signal to investor that the company is reinvesting more of it's earning into the growth opportunities, which can also positively affect the stock price.

IT industry has led India's economic growth and this sector's contribution to the national GDP has risen from 7.7 per cent in 2018 to an estimated 7.5 per cent in 2023.These 10 companies were performing well till 2019 with a positive trend in the earnings per share. But there was a downward trend in 2020 in most of companies because of COVID-19 . TCS is found with more current ratio as compare to other companies. As it proves that the company is more capable of paying its obligations than others. EPS of INFO EDGE company goes in negative EPS indicate good earnings. The stock prices always take a correction after a major climb. The P/E ratio of all the selected companies is increasing year after year. From the balance sheet it is found out that the reserve and surplus of the company is increasing every year. Researcher has found that the ROE of the 10 companies are increasing year after year. The ten companies have witnessed a low price earnings ratio in 2019 compared to the previous years. But the ratio increased in 2021 in 10 companies. The overall performance of the companies is good, and there is a continuous flow of project business. The companies are continuing its drives for volume with a continuous focus on profitability .By analyzing the current trend of Indian Economy and IT Industry I have found that being a developing economy there is lot of scope for growth and this industry still has to cross many levels so there are huge opportunities to invest in.

By analyzing the IT industry with the help of fundamental analysis, it has been revealed that this industry has a lot of potential to grow. So, recommending investing in IT industry with no doubt is going to be a good and smart option because this industry is booming like never before not only in India but all over the world.

- Long term investors can include these top 10 IT companies in his portfolio because the growth rates and earnings are good compared to other stocks. Therefore investors can include this in their portfolio to earn the higher return on their investment.

- Investing in TCS and INFOSYS for long time could be a good option because they are spreading their business.

- There are various factors which effects on stock market, so an investor must be aware of all those.

- Current ratio must be improved by company and it should be in ideal ratio 2:1 so that there are possibilities to meet the current obligations for the company.

- Companies which are not much popular in stock market must adopt some strategies for investors to encourage them to invest in their company.

Conclusion:

The analysis gives an optimistic view about the industry and its growth which recommends the investors to keep a good watch on the major players to benefit in terms of returns on their investments. A continuous effort at cost cutting and improving productivity will help the companies in making reasonable profits despite the impact of higher commodity prices and weaker rupee. Indian IT firms have delivery centres all across the world. IT & BPM industry is well diversified across verticals such as BFSI, telecom and retail. Increasing strategic alliance between domestic and international players to deliver solutions across the globe. Because of COVID-19 the growth of IT industry but it was a short term phenomenon. The industry is bouncing back. One factor favoring this point is that India has become a hot destination for companies of diverse nature to invest in. In spite of it being a tough year for all the companies across the globe, Indian market has given good performance as compared to other companies in the world. A continuous effort at cost cutting and improving productivity will help the companies in making reasonable profits despite the impact of higher commodity prices and weaker rupee.

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