

Fundamental as Analysis Tool for Decision Making in the Stock Market

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Abstract.

Every day, many of the investors buy or sell shares based on the tips, news, and rumors, and they lose money. Some of them make money by using some analysis like technical analysis and fundamental analysis. This paper explains what fundamental analysis is, how to use it, and how it will help to make money and reduce risk. In this paper we will understand fundamental analysis by comparing the few companies. The reader will understand exactly how to read financial ratios, what they tell, and how to use them to pick stocks in any sector.

1. Introduction

India now has more than 13 crore people who have invested in the stock market. This number is growing every month.

Mutual fund SIPs, Zerodha and Groww have made it easy for anyone with a smartphone to invest.

Just because it is easy to invest does not mean you will be successful.

A lot of investors still lose money and it is not because the market is bad but because they buy things without knowing what they are buying.

The way to avoid this problem is to do something called analysis.

It is a way to figure out which company is really worth. Not just what people are willing to pay for it now.

A time ago a man named Benjamin Graham said that the price of stocks goes up and down based on how people feel but over time the price will be close to the real value of the company.

If you can figure out what a company is really worth before everyone else does you will do better than people who just follow what is popular.

This paper will explain the process of fundamental analysis in simple terms starting from the big picture like the economy and the industry and then looking at the details of individual companies.

It will end with a comparison of TCS, Infosys and Wipro to show how fundamental analysis can help you make a decision, about where to invest.

2. What is Fundamental Analysis — and How Do You Start?

Fundamental analysis is the process of answering one question: Is this company worth what the market is charging for its shares right now? To answer that question, you examine the business from three levels, starting broad and zooming in — a method called the Top-Down Approach.

Level	What You Examine	Key Questions to Ask
Level 1	The Economy	Is India's GDP growing? What is RBI doing with interest rates? Is inflation under control?
Level 2	The Industry / Sector	Is this sector growing or shrinking? How intense is the competition? Are government policies helping or hurting?
Level 3	The Company (Ratios & Financials)	Is the company profitable? Does it carry too much debt? Is management using money well? Is the stock cheap or expensive?

Table 1: Top-Down Framework — Three Levels of Fundamental Analysis

Level 1. The Economy

Before choosing a stock you need to look at the picture. Indias economy is doing well. The countrys GDP grew by 8.2 percent in FY2024, which is one of the highest in the world. The Reserve Bank of India did not change the interest rates. The inflation rate went down to than 5 percent. This is news for the stock market: companies can grow people can get loans and people have money to spend. When the economy is strong you look for areas that will benefit the most from it. A strong economy is like a foundation of a building. When it is strong everything else can grow.

Level 2. The Industry

The IT sector in India is doing well. It made over USD 245 billion in FY2024 which's a lot of money. The sector also gives jobs to over 5.4 million people. People over the world want to use cloud computing, artificial intelligence and cybersecurity services and Indian IT companies are good at providing these services. They have engineers. Can do the work at a low cost. The IT sector is also very transparent which makes it easy to trust them. Indias IT sector is one of the best in the world.

Level 3. The Company

Now we look at the company itself. This is where you really get into the details. You read the companys reports, like the Income Statement, which shows how money the company made and spent. You also look at the Balance Sheet, which shows what the company owns and owes. Then there is the Cash Flow Statement, which shows how cash the company actually has. From these reports you can calculate some numbers, like ratios. These ratios help you compare one company to another so you can see which one is doing better. The companys financial reports are like a report card and the financial ratios are, like the grades.

You should check companys reports.

The reports help you understand the company. The financial ratios help you compare companies.

3. Key Financial Ratios — What They Are and How to Use Them

When we want to understand a company. Ratios will help you to understand the company performance.

Each company ratio helps us learn something about the business of that company.

Here are the five main company ratios and what these company ratios mean is explained in a way.

Company ratios are the tools that people use to do an analysis of a company business.

Ratio	Formula	Good Level	Red Flag	What It Tells You
P/E Ratio	Market Price ÷ EPS	15x – 35x	Above 60x	Am I overpaying?
ROE (%)	Net Profit ÷ Equity × 100	Above 15%	Below 10%	Is mgmt efficient?
EPS Growth	EPS this yr ÷ last yr	Above 12% CAGR	Falling EPS	Are profits growing?
D/E Ratio	Total Debt ÷ Equity	Below 1.0x	Above 2.0x	Is debt dangerous?
Current Ratio	Current Assets ÷ Current Liabilities	Above 1.5x	Below 1.0x	Can it pay its bills?

Table 2: Five Key Ratios — Quick Reference Guide

Quick Example. How Ratios Work in Practice

P/E Ratio: Let us say a stock is selling for ₹500 and the company makes ₹25 per share. To figure out the price to earnings ratio we do the math: 500 divided by 25 equals 20 times. What this means is that for every ₹1 the company makes you have to pay ₹20.

Now let us compare this to another stock that also sells for ₹500. The company only makes ₹10 per share. For this stock the price to earnings ratio is 50 times.

The first stock is actually a deal even though they both cost ₹500.

The price, to earnings ratio of a stock only makes sense when we compare it to stocks in the same sector.

ROE: TCS made a profit of ₹46,099 crore from shareholder equity of ₹91,343 crore in FY2024.

To find the return on equity we do this calculation: we take ₹46,099. Divide it by ₹91,343 then we multiply by 100 and this gives us 50.5%.

The return on equity of TCS means that for every ₹100 that shareholders put in TCS TCS made ₹50.50 in profit. These companies might have a return on equity of 4 to 5 percent. The return on equity of TCS is very high at 50.5 percent, which's very good, for TCS.

D/E Ratio: Safe Company: Total Debt = ₹200 Cr, Equity = ₹800 Cr → D/E = 0.25 (Very safe). Risky Company: Total Debt = ₹3,500 Cr, Equity = ₹1,000 Cr → D/E = 3.5 (Dangerously over-leveraged — if revenues fall, this company may not survive).

4. IT Sector Comparison — TCS vs Infosys vs Wipro

The below company are the big and famous, in the IT business world. Are listed on the stock market. They do the kind of work have similar customers and deal with the same big picture issues.. The companies are very different when you look at the basics. This is why comparing them to each other is so useful. When you look at the numbers show which company is really doing a better job. The companies have fundamentals and that is what makes the comparison of the

companies make so interesting. The comparison of the companies helps to see which company is actually running a good business the companies fundamentals.

Valuation & Profitability — TCS vs Infosys vs Wipro (FY2023-24)

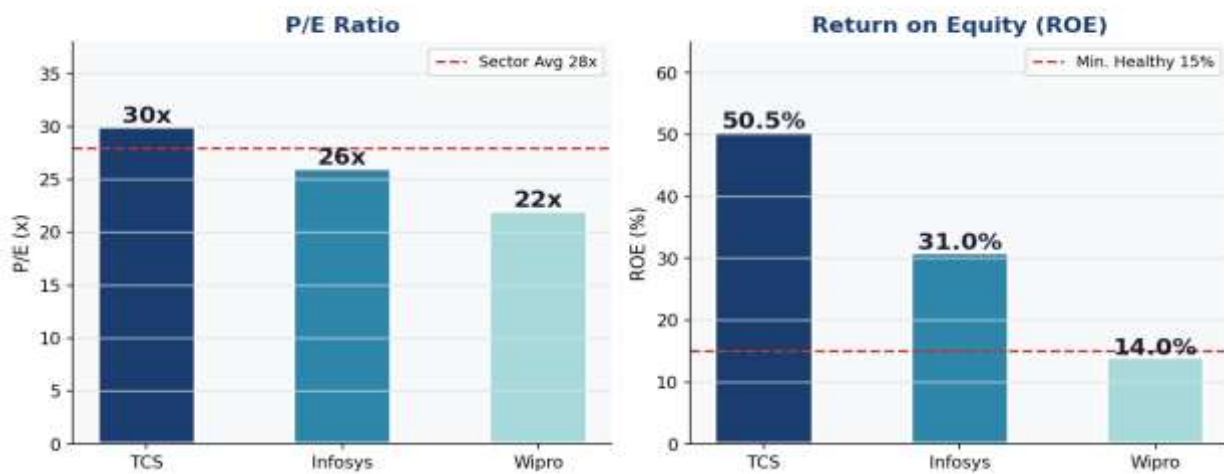
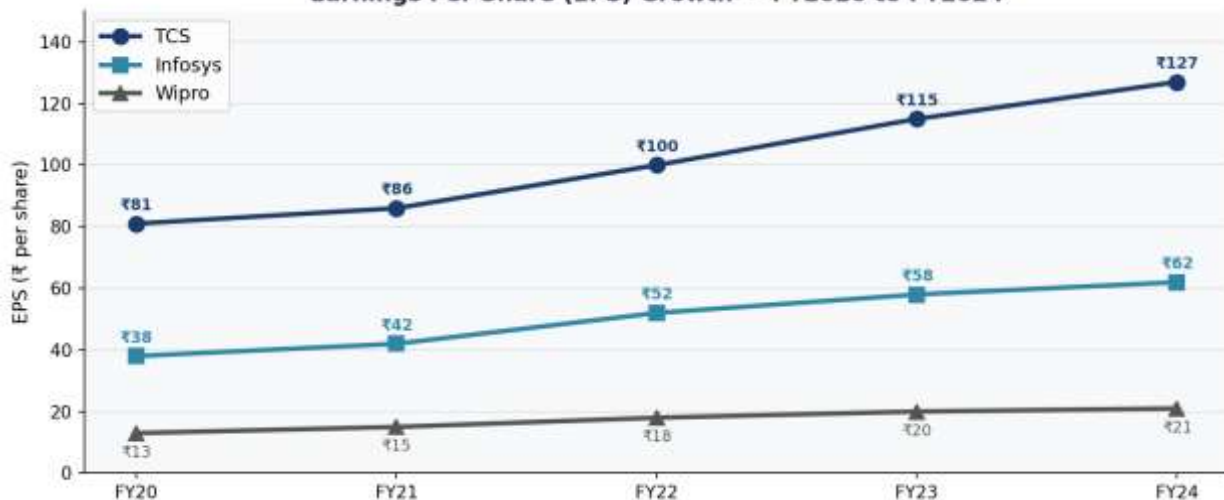


Figure 1: P/E Ratio and ROE Comparison — TCS vs Infosys vs Wipro (FY2023-24)

The above graph shows, TCS has the highest ROE at 50.5% — more than double Infosys (31%) and more than three times Wipro (14%). TCS's P/E of 30x is the highest, meaning investors pay a premium for its quality. Wipro has the lowest P/E (22x), but that low price exists because its returns are also the weakest. Cheap is not always good value — context is everything.

Earnings Per Share (EPS) Growth — FY2020 to FY2024



Graph 2: EPS (₹ per share) Growth. FY2020 to FY2024

Graph 2 is really interesting. It shows what happened to the EPS of these companies. TCS started with ₹81 in FY2020. It went up to ₹127 in FY2024. So TCS grew at 12 percent every year for 5 years. This growth happened when COVID was a big problem.

Infosys did well too. It started with ₹38. Then it went up to ₹62. That is a growth rate of 10 percent. Wipro started with ₹13. It went up to ₹21. That is also a growth rate of 10 percent. If we look at the money Wipro made it is the least, among them.

The EPS Growth of TCS and other companies, like Infosys and wipro tells the growth.

Financial Safety & Liquidity — TCS vs Infosys vs Wipro (FY2023-24)

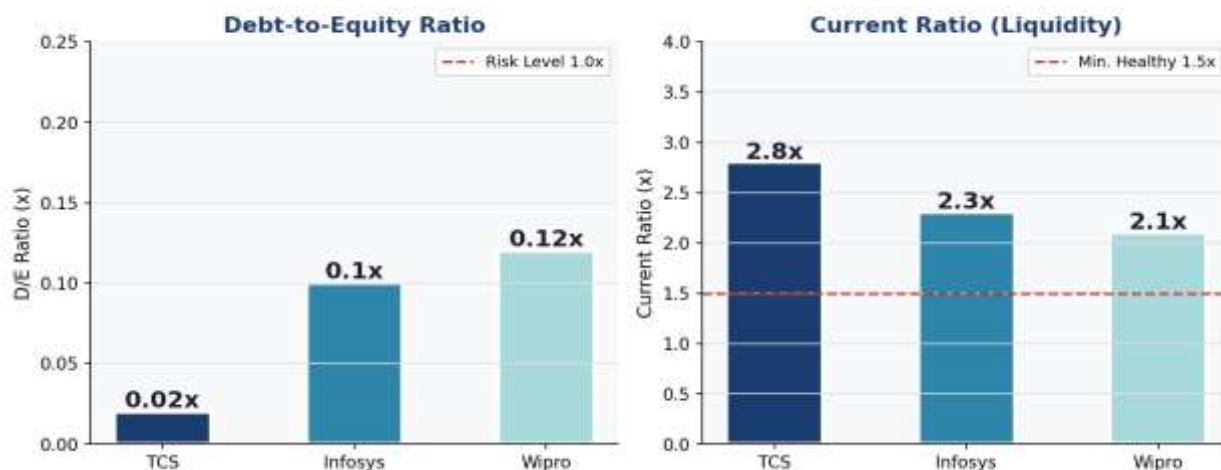


Figure 3: Debt-to-Equity and Current Ratio — Financial Safety Comparison (FY2023-24)

Graph 3 shows that all three companies are good at when it comes to risk. This is something that's true for the IT sector, in general. TCS is the company. It has a debt to equity ratio of 0.02 times which means it has no debt. The current ratio of TCS is 2.8 times.

This means TCS has money to cover its short term obligations almost three times over just from the money it has now. Even if things get really bad TCS will not run out of cash. TCS can handle its short term obligations with the assets of TCS.

Metric (FY2023-24)	TCS	Infosys	Wipro
P/E Ratio	~30x	~26x	~22x
ROE (%)	50.5%	31.0%	14.0%
EPS (₹)	₹127	₹62	₹21
EPS 5Y CAGR	~12%	~10%	~10%
D/E Ratio	0.02x	0.10x	0.12x
Current Ratio	2.8x	2.3x	2.1x
Net Profit Margin	~19%	~17%	~12%
Revenue (₹ Crore)	2,40,893	1,53,670	89,837

Table 3: Ratio comparison between three company's within same sector.

5. Investment Decision — Which Stock to Pick and Why

Company	Strengths	Weaknesses	Verdict	Reasoning
TCS	Best ROE, lowest D/E, strongest margins	Highest P/E — not cheap	STRONG BUY	Best quality business in the sector. Premium is justified by exceptional fundamentals.
Infosys	Good ROE, strong governance, slightly lower P/E than TCS	ROE below TCS, slower growth	BUY	Strong fundamentals with a small valuation discount. Good for value-conscious investors.
Wipro	Lowest P/E — cheapest entry	Weakest ROE, thinnest margins, slowest growth	HOLD / WAIT	Cheap on P/E but poor returns. Wait for 2–3 quarters of improving margins before investing.

Table 4: Final Investment Decision — Based on Fundamental Analysis

The main thing to remember is that when it comes to the IT sector you should not be looking for an option. You should be looking for a company at a price. TCS is not an option but it is a great company. This is because it delivers a 50.5 percent return on equity it has no debt and it consistently grows its earnings per share by 12 percent. If you hold TCS for 5 to 10 years and go through all the ups and downs of the market you will probably get returns than if you bought a weak company at a low price.

Infosys is a choice. The people in charge of Infosys are good at their jobs. They make decisions and handle money well just like TCS. Also the price of Infosys is lower. Now is a time to buy Infosys.

Wipro is a story. Wipro needs to show that it can turn things around. It needs to improve its return, on equity and make money over a quarters. You should wait before putting money into Wipro.

6. Conclusion

Fundamental analysis is not that hard. It is very disciplined. It uses data of guesswork, logic instead of tips and looks at long-term clarity instead of short-term noise. The five key ratios. Price to Earnings Return on Equity.

Earnings Per Share growth Debt to Equity and Current Ratio. Give a picture of a company's.

profitability, growth, safety and fair price. TCS, Infosys and Wipro are compared in the IT sector.

The comparison shows that in the same industry.

References

All sources below have been accessed for financial data, sector statistics, and theoretical frameworks used in this research paper.

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Note: All financial figures represent approximate values sourced from publicly available annual reports. This paper is for academic purposes only and does not constitute investment advice.