A STUDY ON FUNDAMENTAL ANALYSIS: EVIDENCE FROM SELECTED INDIAN IT STOCKS

Varsha Sharma[1] & Sanjay Biyani[2]

[1]Research Scholar, Rajasthan Technical University, Kota, India

[2]Director, Biyani Group of Colleges, Jaipur, India

ABSTRACT

Security analysis should be the first step to be undertaken in the process of investment decision. There are two ways to analyse fundamental and technical. Fundamental analysis is based on intrinsic value at any given point of time. There is proper and set process following which we can perform fundamental analysis. Following are the steps involved:To start with, analyse overall economy, and securities market.The next step is an analysis of the industry specific, to which the company to be analysed belong.And, finallythe analysis of the company specifically chose. The objectiveof this paper is to study the fundamental analysis of selected Indian IT companies. Economic Analysis is the study of economic trends indicated by the rate of growth in gross national production, aggregate corporate profits, and balance of payment positions, money supply, and government spending. The second stepinvolves the fundamental analysis of common stocks in industry analysis. Industry analysis is based on industry life cycle, types of industry, government interference, and models like Porters five force model. When it comes to company analysis, financial statement is the primary source of information for evaluating the investment prospects of the companies.Ratio Analysis is the best known, and widely used tool of financial market. With the help of this research paper, we would analyse the fundamental aspect of selected Indian IT stocks, and intrinsic value of the scripts.

KEYWORDS: *Fundamental Analysis, Economy Analysis, Industry Analysis, Company Analysis*

INTRODUCTION:

Fundamental analysis is an approach that determines "what ought to be the price" for the securities. Its significant objective is to determine whether the security is underpriced or overpriced. This determination is helpful in making buy sell decisions. A securities said to be underpriced when the current market price is below the price determined by what ought to be the price, otherwise known as true value or intrinsic value. Overpriced securities are those whose current market prices are more than intrinsic value. It may be noted that the end objective of the fundamental analysis is not to make speculative profits, whichare the result of frequent entry, and exit in the market. Framework of fundamental analysis includes economic analysis, industry analysis, and company analysis. Economic analysis is the study ofglobal economic trends and their impact on Indian economy and is considered helpful in analysingthe relationship between economic trends and economic policies. Industry analysis is the second step of fundamental analysis. The importance of industry analysis can be improved by comparing the performance of two different industries. This analysis helps the investorsby the way of continuing analysis of industries by revealing the inconsistencies of the industrial performance year on year. After

analysing at the industry level, we move to the next step - company analysis. Here, to identify the companies that are doing relatively better than the others in the industry, we have to perform penetrative analysis of the financial, and non-financial strengths, and weakness of the companies.

Statement of Problem

With the help of this study, we would be able to derive the strategies that investors can adopt while trading in IT stocks. Fundamental Analysis is a significant tool to gaze the company's fundamental strength, and plays avital role in investment decisions making by the investors.

OBJECTIVE OF THE STUDY

- To review the performance, growth and developments in the IT sector.

- To fundamentallyanalysethe major five IT giant companies' security prices and recommend,basis this analysis, asa better investment option.

SCOPE OF THE STUDY

Our study is related to the major IT companies that are listed on the exchanges - BSE and NSE.IT industry, in this age of technology plays a vital role in Indian economy, and the companies are selected on the basis of their revenue, performance, and market capitalization.

REVIEW OF LITERATURE

DynaSeng, and Jason R.Hancock,Fundamental analysis and the prediction of earnings, (2012) this paper takes fundamental analysis, research beyond the spatial and temporal bounds of previous studies. The authorshere investigated how detailed financial statement data enter the decisions of market makers by examining how current changes in the fundamental signals chosen can provide information on subsequent earning changes.

Suresh A.S, A study on Fundamental and technical analysis, (2013) provide the detail knowledge about the concept of fundamental and technical analysis. According to hisstudy,It is highly essential for the investor to do both fundamental and technical analysis for deciding the suitable stock.

Ahmed S.WafiHassan, and Adel Mabrouk, Fundamental Analysis Models in Financial market (2015) – review study,2015 the major objective of this paper is an attempt to reach a better stock valuation of the fundamental analysis approach by reviewing the theoretical foundation and literature reviews.

Slpa K S, Arya Mol J andDr. ASAmbily, in their study on Fundamental Analysis of selected IT companies listed at NSE (2017). The purpose of the paper is to study the fundamental analysis for five company'sscriptsto recommend for better choice of investment. They also give focus to analyse the intrinsic value and forecast the future value through fundamental analysis.

Data Analysis and Interpretation

Economy Analysis

Economy Analysis is the study of economic trends as indicated by the rate of growth in gross national product, aggregate corporate profits, balance of payment positions, money supply, and government spending. It also includes

economic policies of the government like industrial policy, monetary policy, fiscal policy, and exim policy. The Table shows the major economic indicators for last 5 years.

Table 1: Major Economic Indicators

Years	2014	2015	2016	2017	2018
GDP (%)	7.41	8.16	7.11	6.68	7.3
Inflation (%)	5.8	4.9	4.5	3.6	4.74
Fiscal Deficit (%)	-4.1	-3.89	-3.52	-3.53	-
Current account (%)	-1.3	-1.1	-0.6	-1.8	-
Unemployment rate (%)	3.41	3.49	3.51	3.52	6.1

India recorded a Government Budget deficit equal to 3.53 percent of the country's Gross Domestic Product in 2017. Government Budget in India averaged a deficit of -5.05 percent of GDP from 1970 until 2017, reaching an all time high of -2.53 percent of GDP in 1973 and a record low of -8.13 percent of GDP in 1986.

Unemployment Rate in India increased to 6.10 percent in 2018 from 3.52 percent in 2017. Unemployment Rate in India averaged 4.12 percent from 1983 until 2018, reaching an all time high of 8.30 percent in 1983 and a record low of 3.41 percent in 2014.

India recorded a Current Account deficit of 1.90 percent of the country's Gross Domestic Product in 2017. Current Account to GDP in India averaged -1.15 percent from 1970 until 2017, reaching an all time high of 2.30 percent in 2003 and a record low of -4.80 percent in 2012.

The GDP (gross domestic production) of India is expected to reach US$6 trillion by FY27 and gain upper middle income status on the basis of digitalization, favourabledemographics, globalization and reforms. India becomes third largest consumer economy as its consumption may triple to US$4 trillion by 2025, according to a Boston consulting group Report; and is estimated to surpass the USA to become the second largest economy in terms of purchasing power parity (PPP) by the year 2040, according to a report by PWC (PricewaterhouseCoopers). India's labour force is expected to touch 160-170 million by 2020, based on the rate of population growth, increased labour force participation, and higher education enrolment, among other factors, according to a study by ASSOCHAM, and Thought Arbitrage Research Institute. As per Mr. T V Mohan Das Pai, Chairman, Manipal Global Education. India is expected to have 100,000 startups by 2025, which will create employment for 3.25 million people and US$ 500 billion in value. India's revenue receipts are estimated to touch Rs 28-30 trillion (US$ 436- 467 billion) by 2019, owing to the Government of India's measures to strengthen infrastructure and reforms like demonetization and Goods and Services Tax (GST). The World Bank has stated that private investments in India are expected to grow by 8.8 per cent in FY 2018-19 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19.

Industry Analysis

In IT industry India is the world's largest sourcing destination, close to 55 percent of the US $173-178 billion market in 2016-2017.India is IT services provider country at competitive prices, that is generally 1/3 or 1/4 of the US market; and continuesto work in global sourcing markets as the pricing being it's Unique selling proposition (USP). IT sectors plays important role in growing foreign direct investment, has a 3rd rank in FDI share and has received US $27.72 billion of FDI inflows between April 2000 and September 2017.India has largest talent pool of qualified technical graduates and is available at a cost saving of the 60-70 percent to sourcing countries, and this pool was helpful for the

clients to save US $200 billion in last five years. The expected growth of Indian IT-BPM sector is expected to be US $350 billion by 2025, and BPM is expected to account for US $ 50-55 billion out of the total revenue. The Indian government hasincreased tax holidays to the IT sector for software technology parks of India (STPI) and special economic zone (SEZs) and also providing procedural ease and single window clearance for setting up the facilities.

Market Size

The digital industry in India is expected to be double and reach US $250 billion by 2020, growing to 7.5 percent of GDP. The counting of the number of users is likely to reach 730 million by 2020, supported by fast acquiring of digital technology, according to a report by the National Association of software and services companies. Indian IT and BPM industry is anticipated to increase US$350billion by 2025 and BPM is expected to grow US$50-55 billion out of the total revenue. In India E commerce market is regularly growing at the rate of 30percent annually and hit US$200 billion gross merchandise value by 2026.

Government Initiatives

As per the statement of Mr. N ChandraBabu Naidu, chief minister of Andhra Pradesh, The Government of Andhra Pradesh is targeting to attract investments worth US$ 2 billion and create 100,000 jobs in the information technology (IT) sector in the state.The government of Telanganahas also worked to provide broadband connections to every household in the state by2018, which is helpful to revolutionary changes in the education and health sector. Mr.Manoj Sinha Minister of communication launched Project DARPAN(digital advancement of rural post office for new India). The project is very helpful for improving the quality and adding the value of services and achieving the financial inclusion for the unbanked rural population. President of India, Mr. Ram NathKovid has awarded four major projects like Andhra Pradesh Fiber-grid, Andhra Pradesh Surveillance Project, Drone Project, and Free Space Optical Communication (FSOC) to the people of Andhra Pradesh. For the development of rural area,Government of India is planning to set Wi-Fi facility for around 5.5 Lakh villages by march 2019 with an approx investment of Indian rupees 9700 crores the government expects to start broadband services with about 1,000 megabit per second (1 gbps) across 1 Lakh gram panchayats by the end of this year.

Company Analysis

In company analysis financial performance of the selected companies are analyzed in order to analyze the profitability of the firm. For the purpose of analysis various ratios such as EPS, Liquidity, dividend payout, Return on equity ratio is used.

Earnings per Share Ratio

The EPS is calculated by dividing the profits available to equity shareholder by the number of share issued. The rate of dividend on shares depends upon the amount of profits earned by the firms. The higher the ratio indicates better are performance and growth of the company and greater would be the market price of the company shares or vice versa. Table shows, TCS has the highest earning per share, it helps the company in raising additional capital without any difficulty.

Table 2

	2018	2017	2016	2015	2014
TCS	134.19	133.41	123.18	101.35	97.67
Infosys	71.07	62.80	59.02	108.26	186.49
HCL	62.23	60.33	39.79	52.09	93.18
WIPRO	16.85	17.49	36.26	35.28	32.37
Tech Mahindra	43.02	32.14	34.51	27.46	130.25

Profitability Analysis

The firm's ability to earn the maximum profit by utilization of its resources is called profitability. These ratios are intended to measure the end result of business operation that is profitable.

Net Profit Margin

The ratio expresses the relationship between net profit and sales. A high net profit means to adequate return to the owners. The table indicates that TCS and Infosys have high ratio. It shows the overall efficiency and profitability of the business.

Table 3

	2018	2017	2016	2015	2014
TCS	21.02	22.34	22.40	21.19	23.63
Infosys	22.82	21.00	21.60	23.20	21.25
HCL	17.22	18.08	17.97	19.89	20.24
WIPRO	14.68	15.36	17.47	18.55	18.40
Tech Mahindra	12.30	9.79	11.41	11.75	16.26

Return on Net Worth/Equity

This ratio is also known as Return on Proprietors Funds. The ratio expresses the percentage relationship between net profit and shareholders fund. TCS carries the highest ratio and afterwards Infosys, HCL, Tech Mahindra and Wipro. The higher the ratio more favourable is the interpretation of the company uses of its resources contributed by the shareholders.

Table 4

	2018	2017	2016	2015	2014
TCS	30.33	30.49	34.14	39.20	38.95
Infosys	24.68	20.80	21.84	24.38	23.92
HCL	23.96	26.11	20.45	30.20	33.31
WIPRO	16.69	16.43	19.30	23.34	24.73
Tech Mahindra	20.16	17.11	20.51	21.45	32.99

Return on Capital Employed

The significant objective of making investment in any business is obtaining adequate return on capital invested. This ratio is the barometer of overall performance of the enterprise. Data shows the TCS maintain the high ratio, it measures the how efficiently capital employed in the business being used. HCL and Infosys also have good ratio of capital employed.

Table 5

	2018	2017	2016	2015	2014
TCS	38.59	38.92	33.00	37.21	37.23
Infosys	30.92	28.81	21.71	24.36	23.71
HCL	29.22	30.87	24.09	28.92	31.38
WIPRO	19.91	20.76	17.75	22.24	23.31
Tech Mahindra	22.38	20.25	17.72	18.58	26.65

Total Debt to Equity

This ratio expresses the relationship between internal and external sources of funds. Normally the debt equity ratio 1:1 is reasonable. The table shows all the companies have a low debt equity ratio. A low debt equity ratio provides sufficient margin to creditors due to high stake of owners in the capital of the company.

Table 6

	2018	2017	2016	2015	2014
TCS	0.00	0.00	0.00	0.01	0.01
Infosys	0.00	0.00	0.00	0.00	0.00
HCL	0.01	0.01	0.03	0.02	0.02
WIPRO	0.26	0.26	0.26	0.21	0.16
Tech Mahindra	0.09	0.07	0.07	0.06	0.01

Liquidity Ratio

These ratios are used to measure the ability of the firm to meet its short term obligation out of its short term resources.

Current Ratio

This ratio shows the relationship between current assets and current liabilities. A current ratio of 2:1 is considered satisfactory. TCS and Infosys current ratio is higher than the ideal ratio. If the current ratio is higher, it is good from the creditor's point of view, but not good from the management point of view.

Table 7

	2018	2017	2016	2015	2014
TCS	4.56	5.53	4.06	2.40	2.74
Infosys	3.55	3.83	3.91	3.05	3.58
HCL	0.01	0.03	0.02	0.01	2.09
WIPRO	2.37	2.35	2.30	2.22	2.22
Tech Mahindra	2.29	2.55	2.66	2.15	2.31

Quick Ratio

This ratio is the measure of the instant debt paying ability of the business enterprises.1:1 is considered as an ideal ratio. Table data show that all five companies carry the high side of liquidity ratio. If the liquidity ratio is more than1:1, the financial position of the firm seems to be sound and good.

Table 8

	2018	2017	2016	2015	2014
TCS	4.55	5.53	4.06	2.40	2.74
Infosys	3.55	3.83	3.91	3.05	3.58
HCL	2.41	2.31	2.51	2.30	2.08
WIPRO	2.35	2.33	2.28	2.20	2.21
Tech Mahindra	2.28	2.54	2.65	2.14	2.30

Coverage Ratio

Interest coverage ratio: this ratio measure the debt servicing capacity of a firm, and particularly, where payment of fixed interest on long term considered. The ratio is very significant from the lender's point of view. TCS has a highest ratio from other companies it shows that TCS has more interest paying capacity and safety margin available to long term creditors.HCL and Tech Mahindra also carry good interest coverage ratio.

Table 9

	2018	2017	2016	2015	2014
TCS	656.62	1,079.53	965.85	248.71	660.45
Infosys	-	-	-	-	-
HCL	160.58	119.43	96.21	100.93	70.15
WIPRO	18.57	19.58	21.59	33.08	27.38
Tech Mahindra	31.04	30.98	40.73	122.01	47.24

Dividend Payout Ratio

The dividend payout ratio gives the percentage of earnings that are distributed through dividends and is usually expressed as a percentage. TCS pays highest dividend in the year 2015. Infosys also pays the good percentage of dividend to their shareholders.

Table 10

	2018	2017	2016	2015	2014
TCS	35.94	34.85	32.93	77.94	32.70
Infosys	46.59	48.43	50.51	41.14	33.83
HCL	19.40	39.34	48.15	32.60	10.75
WIPRO	5.62	8.53	39.84	34.00	24.65
Tech Mahindra	24.83	44.05	18.53	22.04	15.41

CONCLUSIONS

In Indian context, Information technology industry plays vital, and significant role in GDP of India. Information technology sector of India has a major contribution in the growth, and development of India in terms of GDP, generation of employment, and foreign exchange earnings. From the study of company analysis, TCS is a market leader and play significant contribution in IT industry. Infosys and HCL are also growing companies and adding good contribution in IT industry. In concluding words, we can say that the information technology sector companies are one of the most promising platforms of investment in capital market,and in turns give considerable returnfor the risk taken by investors.

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