



A STUDY ON PERFORMANCE OF MAJOR IT COMPANIES OF INDIA

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Introduction

Globalisation, liberalisation and privatisation were initiated by the Narsimha Rao government in early nineties. The new economic policy of the government of India generated industrial growth. It led to unprecedented development of industries. I T industry became one of the most flourishing industries in India.

The investment in I T Sector has increased since India opened up the economy for private sector. Emergence of Globalised economy witnessed growth of I T industry. Many new cooperates entered the industry. Different types of investors showed keen interest in investing in I T stocks because of the higher rate of return. In portfolio selection the investors are confronted with an issue of identifying the right company having intrinsic value for the investment. The issue to be discussed with is how to select the right company in the context of mushroom growth of IT companies with plenty of new entrance with little history but with great volume of profit.

Literature Review

The origin of Fundamental analysis for the share price valuation can be dated back to Graham and Dodd (1934) in which the authors have argued the importance of the fundamental factors in share price valuation. Theoretically, the value of a company, hence its share price, is the sum of the present value of future cash flows discounted by the risk adjusted discount rate. This conceptual valuation frame work is the spirit of the renowned dividend discount model developed by Gordon (1962). However, the dividend discount model valuation involves the forecast of future dividend payment which is difficult due to the changes in firm's dividend policy. Thus, the subsequent studies along this line of literature searched for the cash flow that is unaffected by the dividend policy and can be obtained from the financial statements. Ou and Penman (1989) use financial statement analysis of income statement and balance sheet ratios to forecast future earnings. The primary motivation for this research is to identify mispriced securities. However, these authors demonstrate that the information in the earnings prediction signals is helpful in generating abnormal stock returns. Fama and French (1992) show that value stocks (high book/market) significantly outperform growth stocks (low book/market). The average return of the highest book/market decile is reported go be one percent per month higher than the average return for the lowest book/market decile. Jagadeesh and Titman (1993) document that over a horizon of three to twelve months, past winners on an average continue to outperform past losers by about one percent per month. Lev and Thiagarajan (1993) use conceptual arguments to study their ratios. They demonstrate that the earnings prediction signals in variables like growth in accounts receivables relative to sales growth and gross margin rate are incrementally associated with contemporaneous stock returns and are significant in predicting future earnings. Joseph. D. Piotroski (2000) examines whether a simple accounting based Fundamental Analysis strategy, when applied to a broad portfolio of high Book to Market firms, can shift the distribution of returns earned by an investor. The research shows that the mean returns earned by a high Book to Market investor can be increased by at least 7.5% annually through the selection of financially strong high Book to Market firms. Pascal Nguyen, (2003) constructs a simple financial score designed to capture short term changes in firm operating efficiency, profitability and financial policy. The scores exhibit a strong correlation with market adjusted returns in the Current fiscal period and the same continues in the following period also.

Objective of Study

To analyze the selected IT stocks through fundamental analysis for the right investment.

1. To study the performance and growth of the IT sector



2. Applying the Fundamental Analysis for five company scrip's to choose for investment
3. To know the Intrinsic value and forecast the future value through fundamental analysis

Scope of Study

By analyzing the economy, strategy, management, product, financial status and other related information will help to choose shares that will outperform the market and provide consistent gains to the investor.

Relevance of The Study

Major five companies in the IT sector viz. Tata Consultancy Services Ltd., HCL Technologies, Infosys, Wipro Ltd. and Tech Mahindra control the industry. It is relevant to understand whether the new entrants have intrinsic worth to match them in stock values.

Research Methodology

Fundamental analysis is a method of finding out the future price of a stock which an investor wishes to buy. It relates to the examination of the intrinsic worth of a company to find out whether the current market price is fair or not, whether it is overpriced or under-priced.

Methods of Data Collection

The data collected are mainly from internet, websites of selected companies, company balance sheets, annual reports, press release, etc.

Sample Size

Five top IT companies rated by NASSCOM for the year 2011-2012 are taken for this study. Tata Consultancy Services Ltd, Infosys Ltd, Wipro Ltd, HCL Technologies Ltd and Tech Mahindra

Tools used for Analysis

The following specific tools and statements are used;

1. Ratio Analysis
2. Valuation Ratios
3. Five year Balance Sheet
4. Profit and Loss Account

Data Analysis

Valuation Ratios

Tata Consultancy Services
 $P/E Ratio = Market Value / EPS$

Table No:1

	2009	2010	2011	2012	2013
Market Value	261.38	780.8	1151.35	1167.85	1571.8
EPS	47.92	28.62	38.62	55.97	65.23
P/E Ratio	7.686	2.574	1.746	1.722	1.280

Source: field survey

Intrinsic value	Market value (BSE 31-12-2013)
1715.436	2173.00
Intrinsic Value < Market value	

Inference: TCS has a higher market value than its intrinsic value, that is, it is overvalued, so it is preferable to sell the stocks as the current market value would have a tendency to fall to its intrinsic value.



HCL Technologies

Table No:2

	2009	2010	2011	2012	2013
Market Value	250.7	185.7	364.9	493.45	476.2
EPS	11.72	14.88	15.57	17.40	28.13
P/E Ratio	21.390	12.479	23.436	28.359	16.928

Source: financial statements.

Intrinsic value	Market value (BSE 31-12-2013)
653.15	1250.55
Intrinsic Value < Market value	

Inference: HCL Technologies has a higher market value than its intrinsic value, that is, it is overvalued, so it is preferable to sell the stocks as the current market value would have a tendency to fall to its intrinsic value

Infosys

Table No:3

	2009	2010	2011	2012	2013
Market Value	1297.85	2615.1	3170.15	2864.95	2889.9
EPS	101.58	101.13	112.22	147.50	158.75
P/E Ratio	12.776	25.858	28.249	19.423	18.204

Source: financial statements

Intrinsic value	Market value (BSE 31-12-2013)
3876.486	3498.00
Intrinsic Value > Market value	

Inference: Infosys has a higher intrinsic value than its market value, that is, it is undervalued, so it is preferable to buy the stocks of Infosys as the current market value would have a tendency to rise to its intrinsic value.

Wipro

Table No: 4

	2009	2010	2011	2012	2013
Market Value	144.66	421.41	472.85	439	437.15
EPS	20.30	33.36	17.73	19.05	22.94
P/E Ratio	7.126	12.632	26.669	23.044	19.056

Source: financial statements

Intrinsic value	Market value (BSE 31-12-2013)
478.3389	551.15
Intrinsic Value < Market value	

Inference: Wipro has a lower intrinsic value than its market value, that is, it is overvalued, so it is preferable to sell the stocks of Wipro as the current market value would have a tendency to rise to its market value.



Tech Mahindra

Table No: 5

	2009	2010	2011	2012	2013
Market Value	261.5	883.1	675.45	719.65	1059.15
EPS	26.84	81.05	60.73	55.31	36.13
P/E Ratio	9.742	10.895	11.122	13.011	29.314

Source: financial statements

Intrinsic value	Market value (BSE 26-7-2013)
672.392	1847.40
Intrinsic Value < Market value	

Inference: Tech Mahindra has a higher market value than its intrinsic value, that is, it is overvalued, so it is preferable to sell the stocks as the current market value would have a tendency to fall to its intrinsic value.

Ranking

Companies	D P	ARR	ROE	P E	EPS	Intrinsic Value
TCS	2	4	2	1	2	2
HCL	1	5	1	3	4	4
INFOSYS	3	3	4	2	1	1
WIPRO	4	2	5	4	5	5
TECH MAHINDRA	5	1	3	5	3	3

Findings

Tata Consultancy Services showed a gradual increase in its Net Profits, Infosys shows a gradual decline in its Net Profits. HCL Technologies, Wipro and Tech Mahindra show a similar trend of movement in its Net Profits which rose in 2010 and declined thereafter. Tata Consultancy Services, HCL Technologies and Wipro has not been showing much deviation from its operating profits where as Infosys and Tech Mahindra have shown a decline in their operating profits over the years. Tech Mahindra and Wipro showed an increase in their Dividend payout ratio through 2009 to 2013. HCL Technologies and Tata Consultancy Services show a decline in their dividend payouts. Tech Mahindra had a huge Return on Investment in the year 2009 after which it kept on declining at a high rate. Tata Consultancy Services, HCL Technologies, Wipro and Infosys do not show much deviation from their usual returns. Tech Mahindra and Infosys show a similar fall from 2009 on their Return on Equity and rise from 2012 onwards. HCL Technologies and Wipro do not show much deviation from their usual returns whereas Tata Consultancy Services showed an increase in their returns till 2012 and a slight fall in 2013. Infosys has been showing more earnings per share compared to the other companies also at a growing rate. Tata Consultancy Services and HCL Technologies have also been showing a growth in their earning per share but at a slow rate. Tech Mahindra showed a decline in its earnings per share since 2010.

Infosys has been at the top having the highest current ratio among all the companies. Whereas the other companies have not been having a high change in their current ratios.

Similar to the current ratio, Infosys has the highest quick ratio where all the other companies have a lower quick ratio. But all the companies do not show much change in the ratios over the years. Infosys has been and still remains a completely debt free company. Wipro shows a decline in its debt over the years. In 2011 Tech Mahindra had a very high debt during 2011 and it declined since but still has a very high debt compared to the rest of the companies. Tata Consultancy Services has the highest Price to Book Value compared to the rest of the



companies followed by Infosys and HCL Technologies. Tech Mahindra has the least of Price to Book Value among the other companies. Tata Consultancy Services, HCL Technologies and Tech Mahindra have their current market price more than its intrinsic value, i.e., overvalued, whereas Infosys and Wipro have their current market price less than their intrinsic value, i.e., undervalued, having a margin of safety of 24.22% and 14.51% respectively. On a related note, the potential upside on the Infosys and Wipro shares are 31.97% and 16.97% respectively. IT Industry in India was one of the industries that gained due to the Rupee fall against US Dollar as the income from US clients are in Dollars which converted to INR fetches more amount.

Suggestions

1. Every investor is suggested to make a detailed analysis of the share market, about the company and industry before making investment decisions.
2. Investing in one security alone is not recommended as returns may not be favorable always. Investing in multiple and diversified securities reduces the risk and provides a stable returns.
3. It is suggested to buy and hold the undervalued stocks, i.e., Infosys and Wipro as their shares' prices have a tendency to increase in the future.
4. Stock market fluctuates from time to time; therefore it is advised to check the market conditions each time before investing.
5. Information Technology industry of India is an industry which is closely related to the world economy and any changes to the world economy will affect the IT industry in the country. So, it is suggested to be aware of the global economy before investing in IT industry.
6. For long term investors, investments in Infosys and Wipro will fetch them good returns and capital appraisal.
7. Investing in share market using borrowed funds should be avoided as far as possible.
8. Every person should have his own strategy for investments in the share market and his decisions should not be influenced by others.
9. Don't mix investments with trading
10. It is always better to hold good stocks than to engage in rapid-fire trading for quick returns.
11. Invest regularly and systematically.
12. Buy low sell high. This is a basic rule, whatever approach you choose, you only make money if you sell a stock for more than you paid for it.

Conclusion

A Study based on fundamental analysis of five companies in the IT sector in India has brought in deep knowledge about the performance of the company moreover this study helped to acquire more knowledge and conception of financial aspects of the companies. As per the analysis, the figure says to investors that Infosys and Wipro are the stocks in which the money should be invested in. They can buy the share of the above mentioned companies because these are fundamentally strong companies compared to the rest of the companies under study. But Infosys is stronger than Wipro.

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