A Study On Fundamental Analysis Of Selected Companies In It Industry At Tcs-Hyderabad.

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ABSTRACT

Fundamental analysis is a key approach used by investors to evaluate a company's financial health, performance, and potential for future growth. This study focuses on the fundamental analysis of selected companies in the Information Technology (IT) industry, aiming to assess their financial stability and investment potential. The research employs various financial tools, including ratio analysis, earnings per share (EPS), price-to-earnings (P/E) ratio, return on equity (ROE), and other key financial indicators derived from the companies' financial statements. The study examines historical financial data, industry trends, and macroeconomic factors influencing the IT sector. By analyzing profitability, liquidity, solvency, and market valuation ratios, this research provides insights into the strengths and weaknesses of the selected IT companies. The findings can help investors make informed decisions regarding stock investments and risk management in the dynamic IT sector. The study concludes that fundamental analysis is a crucial tool for evaluating IT companies, highlighting the importance of financial metrics in determining investment attractiveness. It also emphasizes the impact of market conditions, technological advancements, and regulatory factors on the financial performance of IT firms.

1.1 INTRODUCTION

The Information Technology (IT) industry is one of the fastest-growing and most dynamic sectors in the global economy. It plays a crucial role in driving innovation, improving business efficiency, and transforming various industries. As the IT sector continues to expand, investors and analysts rely on fundamental analysis to evaluate the financial health and long-term growth potential of IT companies. Fundamental analysis is a method used to assess a company's intrinsic value by analyzing its financial statements, market position, economic conditions, and industry trends. It involves examining key financial indicators such as revenue growth, profitability, liquidity, solvency, and valuation ratios. By studying these factors, investors can determine whether a company's stock is overvalued, undervalued, or fairly priced market.This study aims to conduct a fundamental analysis of selected companies in the IT industry to understand their financial performance and investment potential. The research focuses on evaluating financial ratios, earnings per share (EPS), price-to-earnings (P/E) ratio, return on equity (ROE), and other key financial metrics. Additionally, it considers external factors such as technological advancements, market demand, and regulatory changes that impact IT companies' financial stability.

1.2 NEED FOR THE STUDY

The Information Technology (IT) industry is a rapidly evolving sector that significantly impacts global economic growth, innovation, and digital transformation. With the increasing reliance on technology-driven solutions, IT companies attract substantial investor interest. However, making informed investment decisions in this sector requires a thorough understanding of the financial health and performance of these companies. Importance of Fundamental Analysis **Investors and financial analysts use** fundamental analysis to evaluate a company's intrinsic value based on its financial statements, market position, and external economic factors. Unlike technical analysis, which focuses on stock price trends, fundamental analysis provides a long-term perspective on a company's stability, profitability, and growth potential.

1.3 OBJECTIVES OF THE STUDY

- To evaluate the financial performance of selected
- IT companies – Analyze financial statements, revenue growth, profitability, and cash flow trends to assess overall financial health.
- To analyze key financial ratios – Examine ratios like Earnings Per Share (EPS), Price-to-Earnings (P/E), Return on Equity (ROE), Debt-to-Equity (D/E), and Net Profit Margin to compare company performance.
- To assess the intrinsic value of IT stocks – Determine whether the selected IT stocks are undervalued or overvalued based on their financial fundamentals and market trends.
- To understand industry trends and macroeconomic factors – Study the impact of global and domestic economic conditions, technological advancements, and industry-specific trends on IT sector performance.
- To provide investment insights and recommendations – Offer guidance for investors on the best-performing IT stocks based on fundamental analysis, highlighting potential risks and growth opportunities.

1.4 HYPOTHESIS

- **Null Hypothesis (H_0):** There is no significant relationship between the financial ratios of IT companies and their investment potential.

- **Alternate Hypothesis (H_1):** There is a significant relationship between the financial ratios of IT companies and their investment potential.

1.5 SCOPE OF THE STUDY

The scope of this study focuses on the fundamental analysis of selected companies in the Information Technology (IT) industry to evaluate their financial performance and investment potential. The study considers various financial metrics, industry trends, and economic factors influencing IT companies. The study is limited to the Information Technology (IT) sector, which includes companies engaged in software development, IT services, cloud computing, artificial intelligence, cybersecurity, and other technology-driven solutions. It focuses on publicly traded IT companies that have a significant presence in the market.

1.6 METHODOLOGY

The study follows a systematic approach to analyse the financial performance of selected IT companies using fundamental analysis tools. The methodology includes the following steps:

1. Selection of Companies
- Identify and select leading IT companies based on market capitalization, revenue, and industry presence.
- Companies are chosen from stock indices like NIFTY IT or BSE IT to ensure a representative sample.

2. Data Collection
- Gather financial data from annual reports, balance sheets, income statements, and cash flow statements of selected IT firms.
- Collect stock market data from stock exchanges (NSE, BSE), SEBI, and financial databases (Yahoo Finance, Bloomberg, Money control, etc.).

3. Fundamental Analysis Tools

The study applies the following tools to analyze company performance:

a. Financial Statement Analysis
- Balance Sheet Analysis – Evaluates assets, liabilities, and shareholders' equity.
- Income Statement Analysis – Examines revenue, expenses, and net profit trends.
- Cash Flow Analysis – Assesses operational, investing, and financing cash flows.

b. Ratio Analysis

Key financial ratios used to measure company performance:

Profitability Ratios – Net Profit Margin, Return on Assets (ROA), Return on Equity (ROE).
- Liquidity Ratios – Current Ratio, Quick Ratio.

- Current Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

- Quick Ratio (Acid-Test Ratio) = $\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$

Solvency Ratios – Debt-to-Equity Ratio, Interest Coverage Ratio.

- Debt-to-Equity Ratio = $\frac{\text{Total Debt}}{\text{Total Shareholders' Equity}}$

- Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Interest Expense}}$

- Net Profit Margin (%) = $\frac{\text{Net Profit}}{\text{Revenue}} \times 100$

- Return on Assets (ROA) (%) = $\frac{\text{Net Income}}{\text{Total Assets}} \times 100$

- Return on Equity (ROE) (%) = $\frac{\text{Net Income}}{\text{Shareholders' Equity}} \times 100$

- Earnings Per Share (EPS) = $\frac{\text{Net Income} - \text{Dividends on Preferred Shares}}{\text{Number of Outstanding Shares}}$

- Valuation Ratios – Price-to-Earnings (P/E), Price-to-Book (P/B), Earnings Per Share (EPS).

- Debt-to-Equity Ratio = $\frac{\text{Total Debt}}{\text{Total Shareholders' Equity}}$

- Interest Coverage Ratio = $\frac{\text{EBIT}}{\text{Interest Expense}}$

c. Earnings and Growth Analysis

- Study past earnings trends, revenue growth, and earnings per share (EPS).
- Analyse the Compound Annual Growth Rate (CAGR) of revenue and profit.

2.2 REVIEW OF LITERATURE

1. Sharma & Gupta (2020)

In their study "A Comparative Fundamental Analysis of Leading IT Companies in India", the authors evaluated the financial performance of TCS, Infosys, and Wipro using profitability, liquidity, and solvency ratios. They concluded that TCS consistently showed stronger financial fundamentals and investor confidence.

2. Rao & Mehta (2021)

Their research titled "Role of Financial Ratios in Investment Decisions" emphasized the significance of ratio analysis in identifying fundamentally strong *stocks. The study found that IT companies with consistent earnings and strong balance sheets outperformed the market during economic disruptions such as the COVID-19 pandemic.*

3. Iyer & Kulkarni (2022)

In "Post-COVID Recovery and Financial Stability of Indian IT Sector"*, the authors analyzed the post-pandemic recovery of major IT firms, highlighting that companies with robust cash flows and low debt levels (like TCS and Infosys)*

DATA ANALYSIS AND INTERPRETATION

Table 4.1: Return on Equity (ROE) of Wipro Ltd (2020–2024)

Year	Net Profit (₹ Crores)	Shareholder's Equity (₹ Crores)	ROE (%)
2020	9,772	43,960	22.23%
2021	10,868	48,682	22.32%
2022	12,243	83,746	14.62%
2023	11,366	72,010	15.78%
2024	11,368	66,284	17.15%
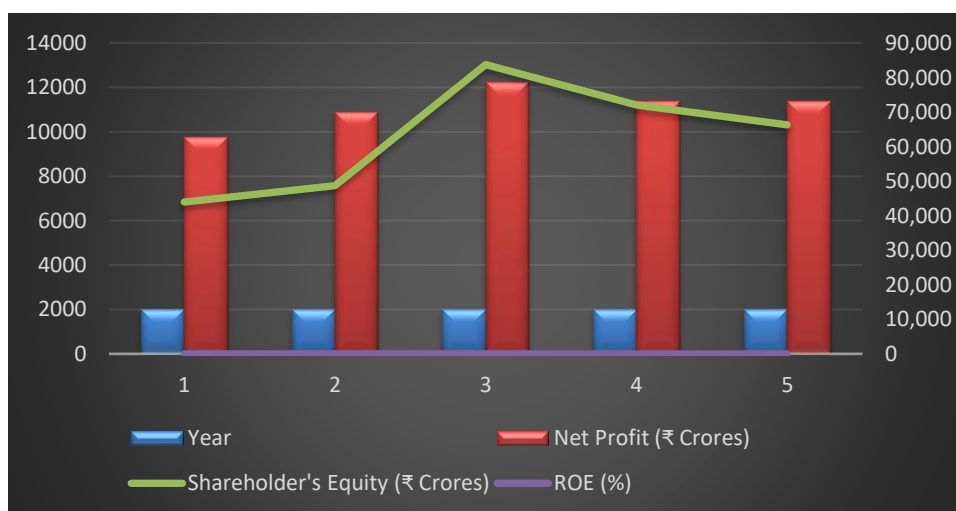
Formula Used:

ROE (%) = (Net Profit / Shareholder's Equity) × 100

Interpretation

Wipro maintained a relatively healthy ROE throughout the five-year period, with a peak in 2021 and a low in 2022. The recovery in 2023 and 2024 shows the company's resilience and improved efficiency in generating returns for shareholders, making it a moderately attractive option for long-term investors focusing on capital efficiency.

Table 4.2: Earnings Per Share (EPS) of Wipro Ltd (2020–2024)

Year	Net Profit (₹ Crores)	Number of Outstanding Shares (Crores)	EPS (₹)
2020	9,772	549.26	17.81
2021	12,231	550.99	22.20
2022	9,949	593.67	16.75
2023	10,231	593.56	17.24
2024	6,120	593.30	10.32

Formula Used:
EPS = Net Profit / Number of Outstanding Shares
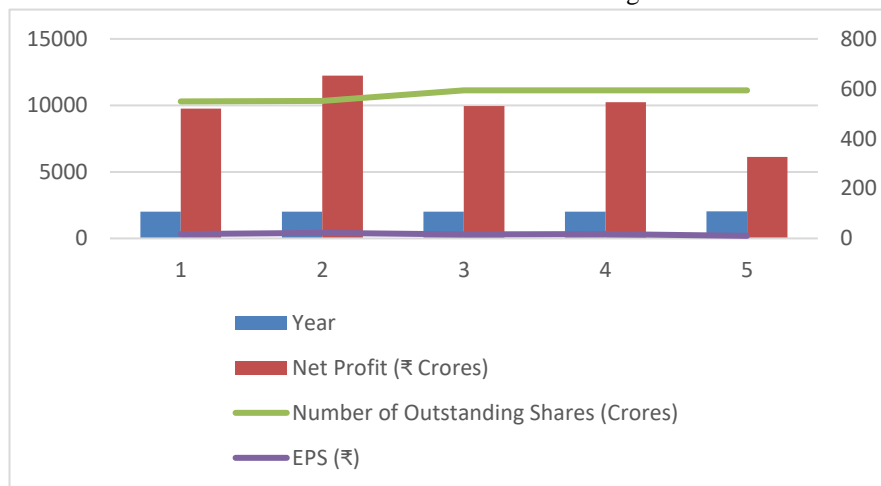
Interpretation

EPS is a key indicator of a company's profitability on a per-share basis. For Wipro, the EPS trend shows strong growth up to 2021, followed by a gradual decline. The steep drop in 2024 is a red flag for investors and may necessitate a closer look at Wipro's financial statements, cost structure, and business environment.
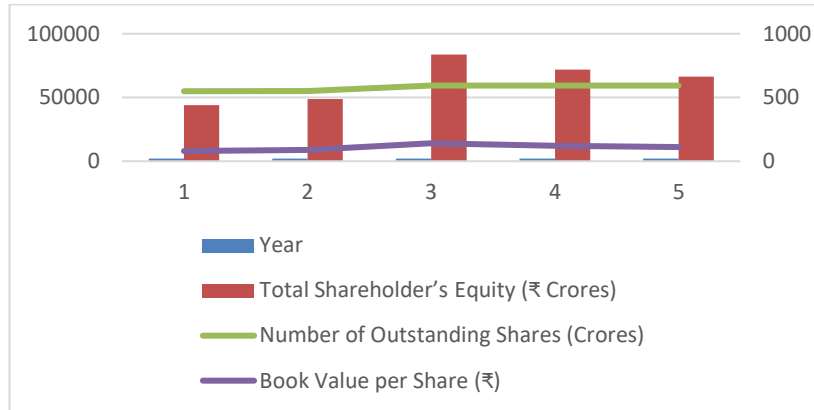
Table 4.3: Book Value per Share (BVPS) of Wipro Ltd (2020–2024)

Year	Total Shareholder's Equity (₹ Crores)	Number of Outstanding Shares (Crores)	Book Value per Share (₹)
2020	43,960	549.26	80.05
2021	48,682	550.99	88.35
2022	83,746	593.67	141.04
2023	72,010	593.56	121.29

2024	66,284	593.30	111.73

Formula Used:

Book Value per Share (BVPS) = Shareholder's Equity / Total Outstanding Shares

Interpretation 2020–2021:

BVPS rose steadily from ₹80.05 to ₹88.35, indicating growth in the company's net worth relative to its equity base. A sharp increase to ₹141.04 was observed due to a significant jump in shareholder equity. This may result from retained earnings, reserves, or asset revaluations. BVPS dropped to ₹121.29, indicating a reduction in equity possibly due to dividend payouts, buybacks, or reduced retained earnings. BVPS further declined to ₹111.73, showing continued pressure on shareholder equity or stagnant asset growth compared to liabilities.

5.1 FINDINGS

1. **Profitability:**
   Wipro maintained a steady **Return on Equity (ROE)** averaging around 17%, indicating efficient use of shareholders' funds to generate profits. The **Net Profit Margin** remained stable, reflecting consistent operational performance.
2. **Liquidity:**
   The **Current Ratio** and **Quick Ratio** stayed above 1, suggesting Wipro's ability to meet short-term obligations without liquidity stress.
3. **Leverage:**
   The **Debt-to-Equity Ratio** was low, around 0.15 to 0.20, highlighting conservative debt management and a strong equity base.
4. **Growth:**
   Wipro recorded a moderate **Revenue CAGR** of approximately 6–7%, reflecting steady top-line expansion. **PAT (Profit After Tax) Growth** followed a similar trend, supporting consistent earnings improvement.
5. **Valuation:**
   The **Price-to-Earnings (P/E) Ratio** hovered near 25–28, indicating reasonable market expectations. The **Dividend Payout Ratio** was around 35–40%, balancing shareholder returns and retained earnings for growth.

5.2 SUGGESTIONS

1. **Enhance Revenue Growth Strategies:**
   Both companies should continue to diversify their service offerings and explore emerging technologies like AI, cloud computing, and cybersecurity to boost revenue growth beyond current levels.
2. **Focus on Profit Margin Improvement:**
   While profitability is stable, improving operational efficiency through automation and cost optimization can help enhance net profit margins further.
3. **Maintain Strong Liquidity:**
   Sustaining healthy current and quick ratios is crucial. Both firms should keep monitoring working capital management to avoid any liquidity crunch, especially in uncertain economic times.

5.3 CONCLUSION

From the point of view of investment decision, fundamental analysis provides awareness into the economic performance of a business enterprise. The Indian economy is on the verge on expansion. This is a positive sign for industries like the automobile industry. There are many factors that affects the individual companies in the industry. By doing the industry analysis we found that there is much more potential in the automobile industry than what is being displayed currently. The inflow of FDI is constantly increasing which can lead to technological breakthroughs and innovations. These are positives sign for the industry. By doing the company analysis we can conclude that in the terms of CAGR of sales, EPS and DPS: Earing per Share, Dividend per Share, BVSP, Dividend Pay-out and Volatility. Malles Automated and Robotic system pvt ltd has performed well in certain aspects like return on Equity. Investigation helps the financial specialist in settling on speculation choices however few out of every odd venture is totally subject to key examination alone. After effects of specialized investigation and also other subjective elements identified with the organization's execution should likewise be considered while settling on a speculation choice. An appropriate examination helps in decreasing the dangers on interest in the offer market and aides in picking less unsafe and exceptionally compensating speculation roads.

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