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Fundamental Analysis of Information Technology Sector

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ABSTRACT

This project is intended to give insight into the topic **“FUNDAMENTAL ANALYSIS OF IT SECTOR”** It involves an in-depth study of NSE in stock exchange & fundamental analysis of top five company’s equity shares in IT sector. The overall objective of the study is to assess the intrinsic value of top five company’s equity shares in IT sector. In this project the analytical research are conducted to do fundamental analysis of companies in IT sector though it is fundamental analysis it gives special reference to company alone and those companies were selected based on market capitalization. The tools applied in this research to do company analysis in fundamental analysis are Earnings and Dividend level, Growth performance, Risk exposure, Volatility return on equity and Intrinsic value. The findings in this research are based on the favorable factors like high return on equity, book value per share, earnings per share, CAGR of sales, sustainable growth rate, low risk and low volatility return on equity. Investors are suggested to select stock for investment based on favorable factors and by comparing the intrinsic value and current market price of the companies, investors are suggested to buy, sell (or) hold the companies shares

Keywords: Return on equity, Earnings per share, Dividend per share

1. INTRODUCTION

The findings in this research are based on the favorable factors like high return on equity, book value per share, earnings per share, CAGR of sales, sustainable growth rate, low risk and low volatility return on equity. To know how the performance of Top five companies equity shares in that particular industry. Analytical research is used and this research fully based on company alone under fundamental analysis and the companies are selected based on market capitalization. Fundamental analysis reveals earnings and dividend level, growth performance, risk exposure, volatility return on equity and intrinsic value of the companies.

2. REVIEW OF LITERATURE

Bhalla V.K." (1997) reviewed the various factors influencing the equity price and price earnings ratio. He is of the opinion that equity prices are affected primarily by financial risk considerations that, in turn, affect earnings and dividends. He also stated that market risk in equity is much greater than in bonds, and it influences the price also.

He disclosed that many analysts follow price earnings (P/E) ratio to value equity, which is equal to market price divided by earnings per share. He observed that inflationary expectations and higher interest rates tend to reduce P/E ratios whereas growth companies tend to have higher P/E ratios. He suggested that an investor should examine the trend of P/E ratios over time for each company.

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Avijit Banerjee (1998) reviewed Fundamental Analysis and Technical Analysis to analyze the worthiness of the individual securities needed to be acquired for portfolio construction. The Fundamental Analysis aims to compare the Intrinsic Value (I.V) with the prevailing market price (M.P) and to take decisions whether to buy, sell or hold the investments. The fundamentals of the economy, industry and company determine the value of a security. If the 1.V is greater than the M.P., the stock is under priced and should be purchased.

Preethi Singh (1986) disclosed the basic rules for selecting the company to invest in. She opined that understanding and measuring return market risk is fundamental to the investment process. According to her, most investors are 'risk averse'. To have a higher return the investor has to face greater risks.

She concludes that risk is fundamental to the process of investment. Every investor should have an understanding of the various pitfalls of investments. The investor should carefully analyze the financial statements with special reference to solvency, profitability, EPS, and efficiency of the company.

3. NEED FOR THE STUDY

- To know how the performance of Top five companies equity shares in that particular industry
- The financial statements of the company reveal the needed information for the investor to make investment decision
- By analysing the company financials, able to find out the true economic worth of share

4. OBJECTIVES OF THE STUDY

PRIMARY OBJECTIVE

- To Make a Fundamental Analysis of Equity shares of top five Companies in IT Sector.

SECONDARY OBJECTIVES

- To find out the earnings & dividend level of the companies
- To analyze growth performance of the companies
- To identify the risk exposure of the companies
- To determine the valuation multiples of the companies
- To assess the intrinsic value of the companies

5. RESEARCH METHODOLOGY

RESEARCH DESIGN

Analytical research is used and this research fully based on company alone under fundamental analysis and the companies are selected based on market capitalization.

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Vol-22-Issue-4-October-December-2019

DATA COLLECTION

SECONDARY DATA

This is taken from the annual reports, websites, company journals magazines and other sources of information companies of Indian IT sector about individual.

DATA ANALYSIS AND INTERPRETATION

ESTIMATION OF INTRINSIC VALUE

CALCULATION TABLE TO ESTIMATE THE EXPECTED EARNINGS PER SHARE (EEPS) OF TATA CONSULTANCY SERVICES

X	Y	X-X	x	xY	x^2
2007	38.39	-2	-76.78	-2947.58	5895.16
2008	46.07	-1	-46.07	-2122.44	2122.44
2009	47.92	0	0	0	0
2010	28.62	1	28.62	819.10	819.10
2011	38.62	2	77.24	2983	5966.01
∑x=10045	**∑Y=199.62**			**∑xY=-1267.92**	**$\sum x^2$=14802.71**

TABLE NO 1

CALCULATION TABLE TO ESTIMATE THE EXPECTED EARNINGS PER SHARE (EEPS) OF INFOSYS

X	Y	X-X	x	xY	x^2
2007	66.23	-2	-132.46	-8772.8	17545.6
2008	78.15	-1	-78.15	-6107.4	6107.4
2009	101.58	0	0	0	0
2010	101.13	1	101.13	10227.2	10227.2
2011	112.22	2	224.44	25186.6	50373.3
∑x=10045	**∑Y=459.31**			**∑xY=20533.6**	**$\sum x^2$=84253.5**

TABLE NO 2

CALCULATION TABLE TO ESTIMATE THE EXPECTED EARNINGS PER SHARE (EEPS) OF WIPRO

X	Y	X-X	x	xY	x^2
2007	19.48	-2	-38.96	-758.9	1517.8
2008	20.96	-1	-20.96	-439.3	439.3
2009	20.30	0	0	0	0
2010	33.36	1	33.36	1112.8	1112.8
2011	17.74	2	35.48	629.4	1258.8
∑x=10045	∑Y=111.84			∑xY=544	$\sum x^2$=4328.7

TABLE NO 3

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

CALCULATION TABLE TO ESTIMATE THE EXPECTED EARNINGS PER SHARE (EEPS) OF ORACLE FINANCIAL SERVICES

X	Y	X-X	X	xY	x^2
2007	42.58	-2	-85.16	-3626.11	7252.2
2008	49.06	-1	-49.06	-2406.8	2406.8
2009	83.05	0	0	0	0
2010	78.81	1	78.81	6211	6211
2011	115.38	2	230.76	26625	53250.1
∑x=10045	**∑Y=368.88**			**∑xY=26803.1**	**$\sum x^2$=69120.1**

TABLE NO 4

CALCULATION TABLE FOR EEPS

COMPANIES	$\underline{X}$ = ∑X/n	$\underline{Y}$=∑Y/n	b=∑xY/$\sum x^2$	a=Y_	x=2013-2009	y=a+bx [EEPS]
TCS	2009	39.92	-0.0856	39.92	4	39.57
INFOSYS	2009	91.86	0.243	91.86	4	92.83
WIPRO	2009	22.36	0.125	22.36	4	22.86
HCL TECH	2009	15.23	0.059	15.23	4	15.47
OFSS	2009	73.77	0.387	73.77	4	75.32

TABLE NO 5

INFERENCE

EXPECTED EARNINGS PER SHARE

The calculated Expected Earnings Per Share of TCS, Infosys, Wipro, HCL Technology & Oracle Financial Services is 39.57, 92.83, 22.86, 15.47 & 75.32 for the year 2012-2013 respectively.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

ESTABLISH A PE RATIO

<table>
<tr><th></th><th>DPR</th><th colspan="3">MARKET RISK PREMIUM</th><th>RROE</th><th>EGRD %</th></tr>
<tr><td rowspan="3">TCS</td><td rowspan="3">0.36</td><td colspan="3">For Expected Market Return for 15%-22% and Risk Free Return is 8.5%</td><td>For 15% =12.25</td><td rowspan="3">24.74</td></tr>
<tr><td>15%</td><td>18.5%(AVG)</td><td>22%</td><td>For 18.5% =14.3</td></tr>
<tr><td>=15%-8.5% =6.5%</td><td>=18.5%-8.5% =10%</td><td>=22%-8.5% =13.5%</td><td>For 22% =16.33</td></tr>
<tr><td rowspan="3">INFOSYS</td><td rowspan="3">0.53</td><td colspan="3">For Expected Market Return for 15%-22% and Risk Free Return is 8.5%</td><td>For 15% = 14.41</td><td rowspan="3">12.1</td></tr>
<tr><td>15%</td><td>18.5%(AVG)</td><td>22%</td><td>For 18.5% =17.6</td></tr>
<tr><td>=15%-8.5% =6.5%</td><td>=18.5%-8.5% =10%</td><td>=22%-8.5% =13.5%</td><td>For 22% =20.8</td></tr>
<tr><td rowspan="3">WIPRO</td><td rowspan="3">0.20</td><td colspan="3">For Expected Market Return for 15%-22% and Risk Free Return is 8.5%</td><td>For 15% = 8.89</td><td rowspan="3">15.87</td></tr>
<tr><td>15%</td><td>18.5%(AVG)</td><td>22%</td><td>For 18.5% =9.1</td></tr>
<tr><td>=15%-8.5% =6.5%</td><td>=18.5%-8.5% =10%</td><td>=22%-8.5% =13.5%</td><td>For 22% =9.31</td></tr>
<tr><td rowspan="3">HCLTECH</td><td rowspan="3">0.43</td><td colspan="3">For Expected Market Return for 15%-22% and Risk Free Return is 8.5%</td><td>For 15% = 12.4</td><td rowspan="3">11.65</td></tr>
<tr><td>15%</td><td>18.5%(AVG)</td><td>22%</td><td>For 18.5% =14.5</td></tr>
<tr><td>=15%-8.5% =6.5%</td><td>=18.5%-8.5% =10%</td><td>=22%-8.5% =13.5%</td><td>For 22%=16.6</td></tr>
<tr><td rowspan="3">OFSS</td><td rowspan="3">0</td><td colspan="3">For Expected Market Return for 15%-22% and Risk Free Return is 8.5%</td><td>For 15%= 11.42</td><td rowspan="3">18.79</td></tr>
<tr><td>15%</td><td>18.5%(AVG)</td><td>22%</td><td>For 18.5%=13</td></tr>
<tr><td>=15%-8.5% =6.5%</td><td>=18.5%-8.5% =10%</td><td>=22%-8.5% =13.5%</td><td>For 22%=14.6</td></tr>
</table>

DPR = Dividend pay our Ratio **RROE=** Required Return on Equity
EGRD= Expected Growth Rate In Dividends

TABLE NO 6

PE RATIO UNDER CONSTANT GROWTH DIVIDEND MODEL

COMPANIES	PE RATIO		
	EXPECTED MARKET RETURN		
	15%	18.5%(AVG.)	22%
TCS	-2.80	-3.45	-4.30
INFOSYS	23.04	9.64	6.10
WIPRO	-2.82	-2.95	-3.05
HCL TECH	58.11	15.14	8.70
OFSS	0	0	0

TABLE NO 7

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

INFERENCE

PE RATIO UNDER CONSTANT GROWTH DIVIDEND MODEL

From the above table 15% Expected market return for price to earnings ratio under constant growth dividend model of HCL Tech (58.11) reveals highest value, followed by Infosys with a value of (23.04) and calculated value of TCS shows a moderate result with a value of (2.80) and the value of OFSS, Wipro indicates lowest value of (0), (-2.82) for the year 2011 respectively.

From the above table 18.5% Expected market return for price to earnings ratio under constant growth dividend model of HCL Tech (15.14) reveals highest value, followed by Infosys with a value (9.64) and the calculated value of OFSS, Wipro, TCS indicates lowest value of (0), (-2.95), (-3.45) for the year 2011 respectively.

From the above table 22% Expected market return for price to earnings ratio under constant growth dividend model of HCL Tech (8.70) reveals highest value, followed by Infosys with a value (6.10) and the calculated value of TCS shows a moderate result with a value of (4.30) and the value of OFSS, Wipro indicates lowest value of (0), (-3.05) for the year 2011 respectively.

6. FINDINGS

- Return on equity of TCS (38.66%) reveals higher percentage, followed by Infosys with a value of (26.30%) and the calculated value of Wipro, HCL Tech shows a moderate result with a value of (23%), (20.45%) and the value of OFSS indicates lower percentage value of (18.99%) for the year 2011 respectively.
- Book value per share of OFSS (613.89) reveals highest value, followed by Infosys with a value of (426.74) and the calculated value of TCS shows a moderate result with a value of (99.38) and the value of Wipro, HCL Tech indicates lowest value of (86.85), (85.08) for the year 2011 respectively.
- Beta value of Wipro (0.06) reveals low value, followed by OFSS with a value of (0.45) and the calculated value of TCS, HCL Tech shows a moderate result with a value of (0.60), (0.58) and the value of Infosys indicates high value with (0.91) for the year 2011 respectively.
- Volatility return on equity of Infosys (0.25) reveals low value, followed by Wipro with a value of (0.28) and the calculated value of TCS, OFSS shows a moderate result with a value of (0.30), (0.31) and the value of HCL Tech indicates high value with (0.46) for the year 2011 respectively.
- For 15% Expected market return for price to earnings ratio under constant growth dividend model of HCL Tech (58.11) reveals highest value, followed by Infosys with a value of (23.04) and calculated value of TCS shows a moderate result with a value of (2.80) and the value of OFSS, Wipro indicates lowest value of (0), (-2.82) for the year 2011 respectively.

ISSN:0971-1260
Vol-22-Issue-4-October-December-2019

7. SUGGESTIONS

Investors are suggested to select stock of TCS and Wipro for investment based on favorable factors like High book value per share, High return on equity, High sustainable growth rate and Low volatility of return on equity& Low beta.

- Low book value per share, Low return on equity, Low sustainable growth rate and High volatility of return on equity, High beta are the factors were unfavorable for the investors.
- If current market price is lesser than Intrinsic value it is considered as the shares are Undervalued. So the investors are suggested to buy the shares.
- If current market price is higher than Intrinsic value it is considered as the shares are Overvalued. So the investors are suggested to sell the shares.
- If current market price equal to intrinsic value investors are suggested to hold the shares.

8. CONCLUSION

This project is intended to give insight into the topic "FUNDAMENTAL ANALYSIS OF IT SECTOR"

Fundamental analysis reveals earnings and dividend level, growth performance, risk exposure, volatility return on equity and intrinsic value of the companies. Based on the analysis suggestions and recommendations are given to the investors in order to invest their money in a proper way to yield good return in Long term (or) in Short term and it helps the investor to take right decision on buying, selling (or) holding the companies shares.

In short fundamental analysis which analyzes the companies and advice investor to take right decision to trade on the stock and to yield proper returns in future.

9. REFERENCES

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