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A Study On Performance Analysis Of Select Companies In Its Sector With Special Reference To Chennai

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ABSTRACT

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. The study focuses on suggesting the investors to invest in a particular company in IT industry by analyzing the underneath facts affecting it. The investors often find it difficult to select a company which has capital growth in long run. Even though they have invested by analyzing the market, they end up losing money. Thus the study has developed models to give investors a clear idea of how to analyze and in which companies should we invest. Initially, top five companies based on market are chosen and the study is carried on those companies (TCS, Infosys, Wipro, Tech Mahindra, HCL Technologies). The study starts with developing a relative valuation model for the companies based on the current data. But for investment to be done, it is necessary to analyze the past performance of the data. Thus Fundamental analysis is performed considering basic ratios viz., Current ratio, Earnings Per Share, Return On Equity, Price Earnings Ratio, Debt Equity Ratio for five years to calculate Intrinsic value. Each company has different values for the ratios and there is sudden and lowering of the values. The Intrinsic value determines whether the company is Undervalued or Overvalued. If the company has a higher market value than its intrinsic value, then 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. If the company has a Lower market value than its intrinsic value, then it is undervalued, so it is preferable to buy the stocks as the current market value would have a tendency to rise to its intrinsic value.

Keywords: *Fundamental Analysis, EPS, P/E Ratio, Relative Valuation Model, Intrinsic Value.*

INTRODUCTION

Fundamental analysis is a method of evaluating a security in an attempt to measure its intrinsic value, by examining related economic, financial and other qualitative and quantitative factors. It is the study related to find anything that can affect the security's value, including macroeconomic factors such as the overall economy and industry conditions, and microeconomic factors such as financial conditions and company management. The end goal of fundamental analysis is to produce a quantitative value that an investor can compare with a security's current price, thus indicating whether the security is undervalued or overvalued.

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PROBLEM DEFINITION

Analyzing the performance of selected companies in IT industry using fundamental tools to suggest the investors to invest in appropriate companies to make profit.

NEED OF THE STUDY

- To list out the top performing companies in the IT sector based on various models and certain parameters
- Creating an awareness about investing in stock market

OBJECTIVES OF THE STUDY

- **PRIMARY OBJECTIVE:**

To compare the performance of the selected companies in IT industry using various Valuation models.

- **SECONDARY OBJECTIVES:**
    - To identify the top companies to invest based on market capitalization
    - To evaluate the performance of the companies in relative to certain parameters
    - To find and suggest the best company to invest based on evaluation.

SCOPE

- The study is to analyze the company's performance based on the financial statements
- It is confined only with IT industry

LIMITATIONS

- Only top 10 companies based on market capitalization have taken for study.
- The data's are subject to fluctuation and hence the results are not suitable always.

LITERATURE SURVEY

DR.C.K.MADHUSOODHANAN , A.V REJIMON, Liberation and Privatization 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. IT industry became one of the most flourishing industries in India. The investment in IT 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. Main objective is to analyze the selected IT stocks through fundamental analysis for the right investment. - To study the performance and growth of the IT sector - applying the fundamental analysis for five company scrip's to choose for investment - To know the Intrinsic value and

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forecast the future value through fundamental analysis. Major five companies taken 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 mach them in stock values. 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.

KARTIKEY KOTI, states that the Indian market of equities is transacted on the basis of two major stock exchanges, National Stock Exchange of India Ltd. (NSE) and The Bombay Stock Exchange (BSE). In terms of market capitalization, there are over 6500 companies in the BSE chart list with the Reliance Industries Limited at the top. The SENSEX at present is ranging between the level of 15000-18000 providing a profitable business to all those who had been investing in the Indian Equity Market. There are about 23 stock exchanges in India which regulates the market trends of different stocks. As per the research study many investors are not aware of the valuation of stocks, they have no idea about this. They don't even see the company's performance in terms of sales, profit, earnings per share, etc. They blindly invest into the equity shares. Many investor invest according to the brokers view, their friends or relatives advice. So I have done the project on equity valuation on top three IT companies to know how valuation helps the investors to invest particular securities.

SANJAY GUPTA, expresses it is a study to analyze the strength and weakness of the scrip's of five major companies in the IT industry. The five major companies include Tata Consultancy Services, HCL, Infosys, Wipro. The primary objective of the study to suggest investors, whether to buy the scrip or not, Based on the valuation (Under priced or Over priced) of shares. Also to analyze the trend (Bullish or Bearish) of this scrip's in the market. The secondary objective of the study is to analyze the company's performance, understand the capital market and its functioning, and to compare the theoretical knowledge with actual industry practice.

To analyze the scrip, Fundamental and Technical analyses are used. In the fundamental analysis the method of intrinsic value of calculation is used. For the technical analysis, tools like Relative Strength Index(RSI0,Moving Average convergence and divergence(MACD),Moving average crossover, Stochastic and Momentum are used. In the fundamental analysis the intrinsic value is compared with the current market value to suggest the investor to buy or sell the share. In technical analysis, the movements of the corresponding graphs are studied to interpret whether to buy sell or hold the share.

RESEARCH METHODOLOGY

Research Design – Descriptive Research

DATA ANALYSIS TOOLS

The following specific tools and statements are used;

1. Relative Valuation Model

Data Analysis & Interpretation

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RELATIVE VALUATION MODEL

A relative valuation model is a business Valuation Method that compares firm's value to that of its competitors to determine the firm's financial worth. Relative valuation uses multiples and benchmarks to determine firm value. A benchmark is selected by finding an

average and that average is used to determine relative-value. Here, in this project I have considered only IT sector. There are following steps involved for this process.

STEPS IN RELATIVE VALUATION MODEL

STEP: 1 Choose Top-10 companies in IT sector based on Market Capitalization for the valuation. Note down the company's stock price, Market Capitalization, EPS of 2015 and 2016.

INFERENCE:

Among Top 15 companies six companies are Overvalued rest are undervalued. Undervalued companies have the probability of going high in future i.e., in long term, while the overvalued companies tend to fall as they have reached their highest point.

STEP 2: VALUATION OF STOCKS

Identify the industry P/E of cement industry and compare the individual company's P/E to determine if the stock is Undervalued (UV) or Overvalued (OV).
P/E industry> P/E company →UV
P/E industry<P/E company →OV

Valuation of stocks

Sr No.	UNDERVALUED COMPANIES	VALUATION
1	TCS	OV
2	Infosys	UV
3	Wipro	UV
4	HCL Tech	UV
5	Tech Mahindra	UV
6	Oracle Fin Serv	OV
7	M-phasis	OV
8	L&t Infotech	UV
9	Mind Tree	UV

INFERENCE:

Ten companies among the top 15 companies have a value pick i.e., their current EPS is greater than the previous year EPS.

Industry P/E = 19.19
Only TCS,ORACLE,MPHASIS,CYIENT,TATAELXI,NIIT-TECH which P/E's are greater than the industry P/E. Remaining companies are Undervalued .

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STEP 3: VALUE PICK

Consider the undervalued companies from the previous and calculate EPS change i.e., if the current EPS is greater than previous year EPS/

$$\% \text{ Change} = \frac{\text{Current year EPS}}{\text{Previous year EPS}} - 1$$

If % change is positive, the stock has a value pick, else no value pick.

S.NO	COMPANY NAME	EPS MARCH2015	EPS MARCH 2016	(OV/UV)	%CHANGES	VALUE PICK
1	Infosys	53.94	59.41	UV	10%	Yes
2	Wipro	33.18	32.22	UV	-3%	
3	HCL Tech	45.14	48.35	UV	7%	Yes
4	Tech Mahindra	27.46	33.19	UV	21%	Yes
5	L&t Infotech	50.55	54.95	UV	9%	Yes
6	MindTree	63.81	32.94	UV	-48%	

INFERENCE:

Undervalued companies which also have value pick are considered for the Long term investor. Because undervalued companies have the probability of going high in future. Hence from the above , The long term investor can choose INFOSYS, HCL TECH, TECH MAHINDRA, L&T TECH, HEXA WARE TECH, PERSISTENT , ZENSAR TECH for investments as they have chance to increase in future.

STEP 4: CALCULATE LTPT

LTPT (Long Term Price Target) is the projected price level of a financial security stated by an investment analyst or advisor. This is the price at which the trader or investor wants to exit his existing position so he can realize the most reward. Sector P/E =19.19

LTPT= Sector P/E*Current Year EPS

TABLE 4.1.D LTPT

S.NO	COMPANY NAME	P/E RATIO	STOCK PRICE	EPS MARCH 2016	VALUE PICK	LTPT
1	TCS	20.05	2486.35	124	Yes	2379.56
2	Infosys	17.12	1,017.25	59.41	Yes	1140.078
3	Wipro	15.48	498.75	32.22		618.3018
4	HCL Tech	17.90	865.35	48.35	Yes	927.8365
5	Tech Mahindra	14.62	485.4	33.19	Yes	636.9161
6	Oracle Fin Serv	27.56	3,894.90	141.34	Yes	2712.315
7	Mphasis	22.91	590	25.75		494.1425
8	L&t Infotech	12.90	708.75	54.95	Yes	1054.491
9	MindTree	14.50	477.65	32.94		632.1186

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STEP 5: GROWTH PICKS

Consider the Overvalued companies and compute the growth pick

$$\text{Growth Rate} = \frac{\text{Current year EPS}}{\text{Previous year EPS}}$$

TABLE 4.1.E GROWTH PICK

Sr No.	COMPANY NAME	EPS MARCH2015	EPS MARCH 2016	EPS GROWTH
1	TCS	101.4	124	1.22
2	Oracle Fin Serv	140.9	141.34	1.00
3	Mphasis	32.1	25.75	0.80
4	Cyient	32	17.94	0.56
5	TaTa Elxsi	33.05	54.56	1.65
6	NIIT Tech	26.39	17.9	0.68

STEP 6: PEG RATIO

PEG ratio is computed for the overvalued companies. The value of PEG should lie between 0 to 1 so that it is considered good to invest.

$$\text{PEG Ratio} = \frac{\text{P/E Ratio}}{\text{Growth Rate}}$$

TABLE 4.1.F PEG RATIO

OVER VALUED CPY	P/E	EPS AS ON MARCH 2015	EPSASON MARCH2016	EPS GROWTH	PE/G	PORTFOLIO
TCS	20.05	101.4	124	1.22	0.16	0.16
OracleFinServ	27.63	140.9	141.34	1.00	0.27	0.27
Mphasis	22.93	32.1	25.75	0.80	0.29	
Cyient	25.81	32	17.94	0.56	0.48	
Tata ELXI	27.64	33.05	54.56	1.65	0.17	0.17
NIIT tech	23.4	26.39	17.9	0.68	0.35	

INFERENCE:

PEG ratio should lie between 0 to 1 for investing. PEG ratio is found for OV companies. All the companie's PE/G lies between this range. Hence it would not be selected as it has already reached the highest level of growth**.** But if the investor looking for short term investment the investor can invest in TCS,TATA ELXI,ORACLE as they have lower PE/G with 0-1.

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FINDINGS

- According to Relative Valuation Model, The long term investor can choose Infosys, Hcl Tech, Tech Mahindra,L&T Tech, Hexa Ware Tech, Persistent , Zensar Tech for investments as they have chance to increase in future.

- According to Relative Valuation Model, The Short term investor can choose Tcs,Tata Elxi,Oracle.
- According to intrinsic value method , For the companies like Tcs, Infosys, Wipro , Tech Mahindra the intrinsic value is higher than the market value which gives buy signal. These companies are underpriced. The share price of these companies may rise in the future as these securities have High intrinsic value.
- According to Relative valuation Model, Hcl have the intrinsic value Lower than the market value which gives Sell signal. This company is Overpriced.
- The ROE of Wipro, Infosys, HCL, Tech mahindra and TCS is increasing trend in the past till 2015 but in 2016 it started decreasing which indicates the small fluctuation in all company's profitability. It might increase in near future.
- Current ratio of all the companies are above the bench mark . This indicates the short term solvency and liquidity of all companies are satisfactory.
- Tech Mahindra and Infosys showed an increase in their Dividend payout ratio through 2012 to 2016. HCL Technologies , Wipro and Tata Consultancy Services show a decline in their dividend payouts during last year.
- Tech Mahindra shows a similar fall from 2012 on their Return on Equity and rise from 2014 onwards. Infosys do not show much deviation from their usual returns whereas HCL Technologies, Wipro , Tata Consultancy Services showed an increase in their returns till 2015 and a slight fall in 2016.
- Infosys,Tcs has been showing more earnings per share compared to the other companies but it experience a fall in 2016. Wipro have been showing a growth in their earning per share but at a slow rate. Tech Mahindra, Hcl Technologies showed a decline in its earnings per share since 2015.
- 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.
- Infosys has been and still remains a completely debt free company. Tcs shows a decline in its debt over the years. Other companies have Fluctuations in their Debt to equity.
- P/E of Hcl showed increase till 2016 from 2012. Wipro showed slight decline over the years. Tcs have been showing a growth in P/E till 2014 but it experience a fall in 2015. Tech Mahindra have been showing a growth in P/E till 2015 but it experience a fall in 2015. Infosys experiences fluctuations in P/E.
- 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.
- The Fundamental analysis is better than valuation based on Relative Valuation.

SUGGESTIONS

- Every investor is suggested to make a detailed analysis of the share market, about the company and industry before making investment decisions.
- Investing in one security alone is not recommended as returns may not be favorable

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always.

- Investing in multiple and diversified securities reduces the risk and provides a stable returns.
- It is suggested to buy and hold the undervalued stocks, i.e., TCS, INFOSYS, WIPRO, TECH MAHINDRA as their shares' prices have a tendency to increase in the future.
- Stock market fluctuates from time to time; therefore it is advised to check the market conditions each time before investing.

- 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.
- For long term investors, investments in TCS, INFOSYS, WIPRO, TECH MAHINDRA will fetch them good returns and capital appraisal. For Short term investors, can invest in HCL TECH.
- Investing in share market using borrowed funds should be avoided as far as possible.
- Every person should have his own strategy for investments in the share market and his decisions should not be influenced by others.
- Don't mix investments with trading
- It is always better to hold good stocks than to engage in rapid-fire trading for quick returns
- Invest regularly and systematically.
- 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.
- The Fundamental analysis is better than valuation based on Relative Valuation. Because in relative valuation , only one day prices of the companies are considered Where as in fundamental analysis, 5years of data are considered So Fundamental analysis by Ratio is Feasible than Relative Valuation Model for the investor who is looking for secured and long term Investment.

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 **TCS, Infosys, Wipro, Tech Mahindra** except HCL Tech 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. According to Relative valuation model, Among 15 companies Infosys, Hcl Tech, Tech Mahindra, L&T Tech, Hexa Ware Tech, Persistent , Zensar Tech are the stocks in which the money should be invest in. But the Fundamental analysis is better than valuation based on Relative Valuation Model .Because in relative valuation only one day prices of the companies are considered where as in fundamental analysis, 5years of data are considered so fundamental analysis by Ratio is Feasible than Relative Valuation Model for the investor who is looking for Secured and long term Investment.

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