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UNCOVERING INTRINSIC WORTH: A FUNDAMENTAL REVIEW OF NIFTY IT FIRMS

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ABSTRACT
This study aims to conduct a comprehensive fundamental analysis of selected companies in the Nifty IT Index to evaluate their financial health, performance trends, and investment potential. The research employs key financial metrics such as profitability ratios, liquidity ratios, leverage ratios, and valuation ratios to assess the intrinsic value of IT stocks. By analysing macroeconomic indicators, industry dynamics, and company-specific financial data from FY2020 to FY2024, the study provides insights into the operational efficiency, market valuation, and overall stability of leading Indian IT firms. The analysis highlights companies with strong fundamentals, such as TCS and Infosys, while also identifying potential risks and investment opportunities. This research serves as a valuable resource for investors, analysts, and academicians seeking to make informed decisions in the Indian IT sector.
KEYWORDS: *Nifty IT Index, Financial Health, Macro-Economic, Market Valuation ,Indian IT Sector.*

INTRODUCTION

The Information Technology (IT) sector has emerged as one of the most dynamic and growth-oriented industries in India, significantly contributing to the country's GDP, employment, and export earnings. With companies like Tata Consultancy Services (TCS), Infosys, and HCL Technologies leading the charge, the Nifty IT Index serves as a reliable benchmark for tracking the performance of the top IT firms listed on the National Stock Exchange (NSE).

This article presents a comprehensive fundamental analysis of selected companies within the Nifty IT Index, aiming to assess their financial strength, operational efficiency, and market valuation. Fundamental analysis is a critical investment approach that evaluates a company's intrinsic value by studying various financial ratios and economic indicators. It involves analysing profitability, liquidity, leverage, and valuation metrics to determine whether a stock is underpriced or overpriced in the market. this study provides insights into the historical performance and future prospects of major Indian IT firms from FY2020 to FY2024. The findings aim to support investors, financial analysts, and researchers

OBJECTIVE

- To analyse the financial performance of selected companies listed under the Nifty IT Index using key financial ratios such as profitability, liquidity, leverage, and valuation metrics.
- To study the growth and performance of companies included in the nifty IT indexes

REVIEW OF LITERATURE

Fundamental analysis serves as a cornerstone of investment decision-making, particularly in sectors like Information Technology (IT) which are dynamic and growth-oriented. It evaluates a company's intrinsic value by examining related economic, financial, and other qualitative and quantitative factors.

Bodie, Kane, and Marcus (2014) emphasized the role of fundamental analysis in portfolio construction and risk evaluation. Their research indicated that sectors like IT require a deeper look into earnings quality, R&D investments, and market competition when conducting stock evaluations.

Gupta and Banga (2010) conducted a fundamental analysis of select Indian IT companies and found a positive correlation between earnings per share (EPS) and market price. They concluded that sound financial indicators significantly influence stock prices in the Indian IT sector.

Kumar and Sharma (2016) investigated the relationship between fundamental ratios and stock returns of Indian firms, including IT companies. Their study revealed that return on equity (ROE), price-to-earnings (P/E) ratio, and book value were significant predictors of stock performance.

Tripathi and Chattopadhyay (2014) analyzed the financial health of NIFTY IT companies using Altman's Z-score and found that most companies in the index were financially stable. Their research supports the application of quantitative measures to assess company fundamentals in the IT sector.

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Roy and Deb (2019) highlighted the importance of sector-specific analysis in fundamental evaluation. Their study on Indian IT firms suggested that global demand, currency fluctuations, and digital innovation were critical variables influencing valuation.
Bansal and Kumar (2020) performed a comparative fundamental analysis of top NIFTY IT firms and concluded that although most companies showed strong fundamentals, investor sentiment and global trends significantly affected their market performance.

RESEARCH DESIGN

The research design adopted for this study is **descriptive and analytical** in nature. It aims to provide a structured and detailed assessment of the financial fundamentals of selected Nifty IT companies over a five-year period, from FY2020 to FY2024. Data is collected from the past financial records of the company.

MEASUREMENT OF ECONOMIC PERFORMANCE:

In economic analysis, the present performance of the economy as a whole is identified using economic factors like GDP, Inflation rate, IIP, Balance of Payment, Fiscal deficit, Current account deficit, Unemployment rate. Table 1 depicts the five-year data of economic factors from 2020 to 2024 which indeed help the investors to take better investment decision

Table 1: Economic Factors

Indicator	FY2020	FY2021	FY2022	FY2023	FY2024
GDP Growth Rate (%)	-5.78%	9.69%	6.99%	7.58%	8.20%
Inflation Rate (CPI, %)	6.62%	5.13%	6.07%	5.66%	5.22%
IIP Growth (%)	-8.40%	11.40%	3.50%	5.20%	3.20%
Balance of Payments	+$35.1 B	+$24.0 B	-$38.0 B	-$9.7 B*	+$5.7 B*
Fiscal Deficit (% of GDP)	4.60%	9.20%	6.70%	6.40%	5.90%
Current Account Deficit	0.90%	-0.90%	-1.20%	-2.00%	-1.20%
Unemployment Rate (%)	7.86%	6.38%	4.82%	4.17%	7.80%

India's GDP contracted by -5.78% in FY2020 due to the pandemic but rebounded strongly in FY2021 (9.69%) and continued growing in FY2022 (6.99%) and FY2023 (7.58%), with FY2024 estimated at 8.2%. Inflation remained moderate, ranging from 6.62% in FY2020 to a projected 5.22% in FY2024. Industrial production, hit hard in FY2020 (-8.4%), saw recovery but at a slower pace than GDP growth. The Balance of Payments shifted from surplus in FY2020–21 to deficits in FY2022–23, recovering slightly in FY2024. The fiscal deficit peaked at 9.2% in FY2021 but is expected to reduce to 5.9% in FY2024. The Current Account Deficit widened to -2% in FY2023 but is projected to stabilize. Unemployment fell post-pandemic but rose again in FY2024 to 7.8%, reflecting ongoing job market challenges.

COMPANY ANALYSIS

In company analysis the financial performance of the selected companies are analysed in order to analyse the profitability of the firm. An investor should be aware of the financial performance of the company to know the risk and return associated with particular share. For the purpose of analysis various ratio

CURRENT RATIO

A healthy current ratio, which measures a company's ability to pay short-term debts with its current assets, generally falls between 1.2 and 2 for the IT Industry

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Company	2020	2021	2022	2023	2024
WIPRO	2.4	2.27	2.01	2.47	2.58
COFORGE	2.71	2.53	1.88	1.5	1.7
INFOSYS	2.62	2.54	2	1.81	2.31
MPHASIS	2.04	2.4	1.96	2.13	1.58
PERSISTENT	3.06	3.47	1.99	1.8	1.89
HCL Technologies	1.62	2.48	2.56	2.5	2.61
L&T Technology Services	2.8	3.19	3.14	3.4	2.46
LTIMindtree	2.71	3.09	3.04	3.13	3.28
TCS	3.33	2.91	2.56	2.53	2.45
Tech Mahindra	2.12	2.46	1.96	1.68	1.86

INTERPRETATION

WIPRO shows a positive uptick, rising from 2.47 (2023) to 2.58 (2024), indicating recovery. COFORGE remains in decline, dropping from 1.5 to 1.7, though the slight rebound may signal stabilization efforts. INFOSYS rebounded strongly from 1.81 to 2.31, suggesting regained momentum. MPHASIS faces a sharp drop from 2.13 to 1.58, reflecting ongoing struggles. PERSISTENT saw minor improvement (1.8 to 1.89), but remains far below its 2021 peak. HCL Technologies continues its steady climb (2.5 to 2.61), cementing its top-tier performance. L&T Technology Services plummeted from 3.4 to 2.46, a concerning reversal after years of growth. LTIMindtree held strong, inching up from 3.13 to 3.28, maintaining industry leadership. TCS dipped slightly (2.53 to 2.45), extending its multi-year decline. Tech Mahindra improved modestly (1.68 to 1.86), but remains near lows.

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NET PROFIT MARGIN

Profit margins refer to the percentage of revenue that remains after deducting all expenses associated with running a business

Company	2020	2021	2022	2023	2024
Coforge	10.15	11.27	10.8	11.29	10.76
Infosys	18.28	19.33	17.84	16.83	17.57
Mphasis	13.09	13.93	14.17	14.19	14.84
Persistent	12.59	12.28	11.95	12.25	12.06
Wipro	15.77	16.9	15.5	15.11	15.19
HCL	15.65	15.51	15.35	15.02	14.98
L&T Tech	16.61	16.34	16.09	15.18	15.41
LTIMindtree	11.92	12.06	11.51	11.24	11.7
TCS	20.02	20.06	20.27	19.52	20.31
Tech Mahindra	10.77	11.4	11.39	11.1	11.29

INTERPRETATION

TCS and Infosys consistently posted the highest net profit margins, with TCS maintaining around 20% over five years. Mphasis showed steady improvement, while Persistent stayed relatively stable around 12%. Wipro, HCL, and L&T Tech experienced a gradual margin decline, reflecting mild profitability pressures. LTIMindtree showed a notable drop, possibly due to post-merger integration effects. Coforge and Tech Mahindra maintained the lowest margins, hovering near 11%.

RETURN ON EQUITY (ROE)

Return on equity (ROE) is a measure of a company's financial performance. It is calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is a way of showing a company's return on net assets. Return on equity is considered a gauge of a corporation's profitability and how efficiently it generates those profits. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing.

Company	2020	2021	2022	2023	2024
Coforge	18.57	21.09	24.18	28.78	26.8
Infosys	25.35	25.44	29.34	32.75	31.35
Mphasis	19.83	21.07	23.39	23.23	23.86
Persistent	18.9	18.6	19.03	21.11	19.81
Wipro	17.54	19.85	18.77	17.58	19.9
HCL	21.58	19.52	21.24	22.71	23.42
L&T Tech	34.67	30.58	30.39	29.05	29.83
LTIMindtree	26.94	22.91	21.46	13.46	13.24
TCS	38.44	38.84	43.62	47.06	51.78
Tech Mahindra	18.54	18.48	19.67	20.64	22.97

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INTERPRETATION

TCS and Infosys consistently lead in ROE, showing strong capital efficiency and profitability. L&T Tech and Coforge also demonstrate healthy returns with steady performance.

HCL and Mphasis show moderate but improving ROE, indicating stable operations.

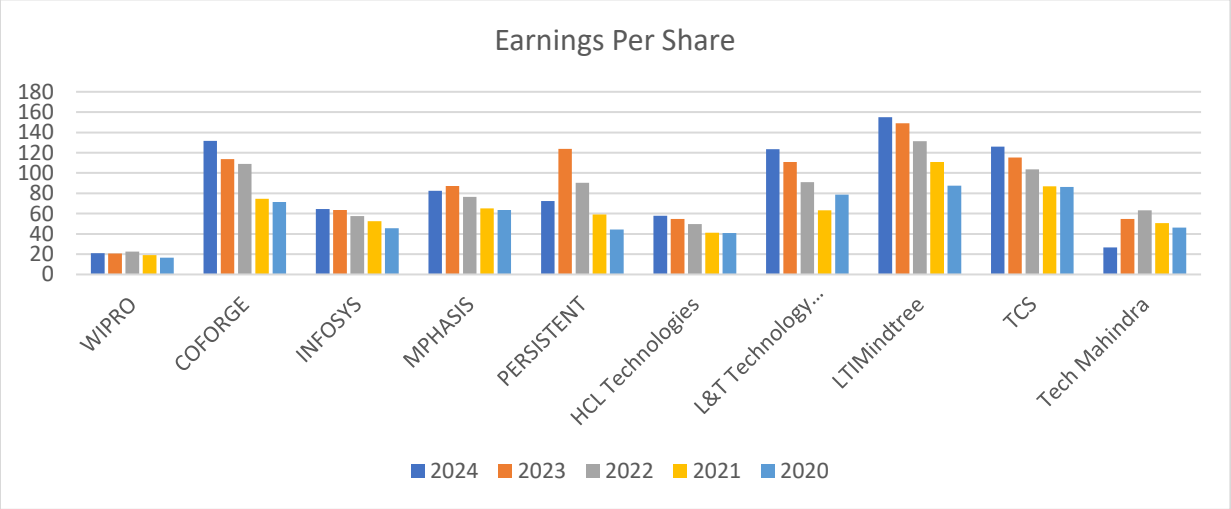
LTIMindtree's sharp ROE decline suggests possible integration or margin challenges.

Wipro and Tech Mahindra lag in ROE, reflecting weaker profitability compared to peers.

EARNINGS PER SHARE

Earnings Per Share, represents a company's profit distributed among each outstanding share of stock. It's a key metric for investors to assess a company's profitability and potential returns. For IT companies, EPS is a critical indicator, reflecting the company's ability to generate earnings per share of common stock.

COMPANY	2024	2023	2022	2021	2020
WIPRO	20.89	20.73	22.37	19.11	16.67
COFORGE	131.56	113.77	109.02	74.68	71.39
INFOSYS	64.5	63.39	57.63	52.52	45.61
MPHASIS	82.42	87.05	76.38	65.18	63.57
PERSISTENT	72.44	123.73	90.34	58.97	44.38
HCL Technologies	57.99	54.85	49.77	41.07	40.75
L&T Technology Services	123.34	110.8	90.92	63.32	78.56
LTIMindtree	154.85	149.07	131.19	110.98	87.45
TCS	125.88	115.19	103.62	86.71	86.19
Tech Mahindra	26.66	54.76	63.32	50.64	46.21



INTERPRETATION

LTIMindtree tops the chart with the highest and consistently growing EPS, indicating strong profitability. Coforge, TCS, and L&T Technology Services also showcase robust EPS growth, reflecting solid business performance . Persistent had a sharp spike in 2023 but normalized in 2024, hinting at one-time gains. Mphasis and Infosys maintain steady earnings growth, suggesting stable financial health. HCL Technologies shows modest but consistent improvement in EPS over the years. Tech Mahindra displays erratic EPS trends, raising concerns about earnings consistency. Wipro lags with the lowest EPS and minimal growth, signaling weaker profit generation.

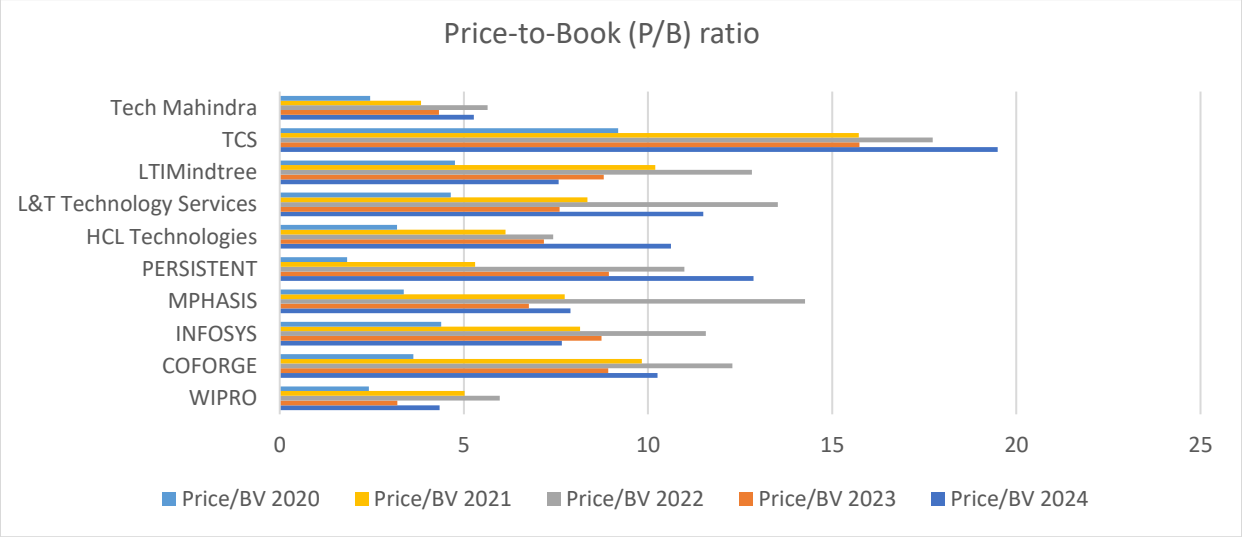
PRICE-TO-BOOK (P/B) RATIO

When you look at the information used to calculate the P/B ratio, the factors used are the price investors are willing to pay currently, the number of shares issued by a company, and values from a balance sheet that reflect data from the past. The Price-to-Book (P/B) ratio compares a company's current market price per share to its book value per share. It helps investors assess if a stock is overvalued or undervalued relative to its net asset value.

COMPANY	2024	2023	2022	2021	2020
WIPRO	4.34	3.19	5.97	5.02	2.42
COFORGE	10.26	8.92	12.29	9.83	3.63
INFOSYS	7.66	8.74	11.57	8.15	4.38
MPHASIS	7.89	6.76	14.26	7.74	3.37

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PERSISTENT	12.86	8.94	10.99	5.3	1.83
HCL Technologies	10.62	7.17	7.42	6.13	3.18
L&T Technology Services	11.5	7.6	13.52	8.35	4.64
LTIMindtree	7.57	8.8	12.82	10.2	4.76
TCS	19.49	15.74	17.73	15.72	9.19
Tech Mahindra	5.27	4.32	5.64	3.84	2.45



INTERPRETATION

TCS consistently holds the highest price-to-book value, reflecting strong investor confidence and premium valuation. Persistent and L&T Technology Services show sharp growth in P/BV, indicating rising market optimism. Coforge and HCL Technologies crossed into double digits, showing improving investor sentiment. Infosys, Mphasis, and LTIMindtree maintain stable mid-range valuations, signaling steady confidence. Wipro and Tech Mahindra remain on the lower end, suggesting limited market enthusiasm. Most companies show an upward trend from 2020 to 2024, reflecting overall sector growth.

High P/BV ratios imply market trust but require strong fundamentals to be justified.

FINDINGS

- **TCS** stands out as the top performer with the best ROE, ROA, and profit margins—financially strongest overall.
- **Infosys** is a close second with stable growth, strong returns, and prudent financial management.
- **LTIMindtree** shows high EPS growth but declining returns post-merger suggest integration challenges.
- **L&T Technology Services** is efficient and debt-free, with rising valuation and steady returns.
- **HCL Technologies** is solid but its aggressive dividend policy may limit future reinvestment.
- **Coforge** is on an improving trend with rising returns, though liquidity is weakening.
- **Persistent Systems** shows growth potential but needs to manage its liquidity carefully.
- **Mphasis** is stable but lacks momentum; needs better growth catalysts.
- **Tech Mahindra** is inconsistent, and its unsustainable dividend payout is a red flag.
- **Wipro** lags behind peers in profitability and efficiency, requiring significant turnaround.

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