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A STUDY ON EQUITY ANALYSIS WITH REFERENCE TO IT INDUSTRY

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ABSTRACT
Each investor craves for fair return on his/her investments, stockholders can obtain maximum return on investments in equity market which involves more risk as compared to other alternatives. Stockholders must be aware of the risk and return elements of those equity securities and the stock market. Equity analysis helps the stockholders to understand about risk and return elements associated with equity market and assists them in taking informed and rational investment choices. Especially IT Industry being the fastest growing industries in our country it is necessary to analyse the risk and return associated with the Industry stocks as the volume of stocks trading has accentuated at a steadfast speed in recent times. In this background, a research has been organized to analyse the risk and return of selected equity stocks in the IT sector of Indian stock market. The data is collected for a period of 5 years i.e., from 1st April 2016 to 31st March 2021. The study is based on secondary data (historical data), it compares the performance of each stock taking NIFTY 50 index and NIFTY IT index as benchmark. From the analysis, ORACLE and L&T have given highest return with moderate risk. ORACLE is the best company to invest, as it produced more returns and having moderate risk with less than one beta and high alpha value.

KEYWORDS: ***Risk, Return, Equity securities, Nifty 50, Nifty IT Index, IT Industry.***

I. INTRODUCTION

Equity analysis is an ex-ante evaluation of different investment avenues, the main aim is to evaluate investment worthiness of the equity shares that is to find out the risk and return of investment in such share. In financial terms, return is the amount which an investor actually earned on an investment during a certain period and risk is the chance or likelihood that a firm savings may or may not distribute the real/probable returns. The relationship of risk and return is an underlying concept in financial analysis and also in every aspect of life. If the Individuals or stockholders want to maximize their benefit, they must consider the combined influence of return or benefit as well as risk or cost on investment. A research has been carried out to study, the equity shares of sampled companies of IT Industry in Indian stock market and provide a clear view on how to navigate through the stock market with a view to make moderate profits with moderate risk factor, governing the investments made by the investor. The IT industry in India is the fifth-largest in the world and considered to be a fastest growing sector. Since, the demand for ITs nowadays is directly connected to overall economic growth and personal incomes, industry growth will low if the economy weakens.

II. REVIEW OF LITERATURE

This part of the review provides details on previous investment studies on the risk-reward ratio. Risk and return

Grewal S.S and Navjot Grewal (1984) revealed some basic investment rules and rules for selling stocks. They warned shareholders not to buy unlisted stocks because the exchanges don't allow unlisted stocks to be traded. It is not about buying dormant stocks, that is, stocks that are rarely traded. The main reason stocks are inactive is because there are no buyers for them. Mostly these are joint ventures that are not doing well. For them, it is not buying shares in controlled companies, as those shares tend to be less active than public companies because they have fewer shareholders. They warn against holding stocks in anticipation of a high price for a long period of time, but rather selling them as long as a reasonable reward is achieved.

Jack Clark Francis (1986) revealed the importance of return on investment, examining the possibility of default and bankruptcy risk, arguing that in an uncertain world, shareholders cannot accurately predict what return an investment will produce., suggested that shareholders can formulate a probability distribution of possible returns. He also said that an investor who buys corporate securities must face the possibility of default and bankruptcy of the issuer; Financial analysts can foresee bankruptcies and issue some easily noticeable warnings of a company's bankruptcy that shareholders may be aware of in order to avoid such risk.

However, and William Edward4 (1990) examined the important risks of owning common stock and ways to minimize those risks. They commented that the severity of financial risk depends on how heavily a company is dependent on debt. when an investor holds on to the common stock of

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companies that have small amounts of debt. They suggested that a relatively easy way to ensure some level of liquidity is to limit investments in stocks that have had reasonable trading volumes in the past. You can reduce it by choosing common stocks of companies that are diversified in different, unrelated industries.

Nabhi Kumar Jain (1992) special sure hints for purchasing stocks for containing and additionally for promoting stocks. He recommended the stockholders to shop for stocks through diversifying in some of boom businesses running in a special however similarly fast-developing region of the economy. He recommended promoting the stocks, the instant corporation has or nearly reached the height of its boom. Also, promote the stocks the instant you recognise you've got got made a mistake withinside the preliminary choice of the stocks. The handiest choice to determine while to shop for and promote high-priced stocks is to become aware of the or distinct advantage or demerit of every of the shares withinside the collection and attain at a choice.

III. NEED FOR THE STUDY

- The accentuated growth rate of the IT Industry in recent times has turned the head winds for the many major economies of the world. India being instrumental in supplying the human capital to the IT industry studying IT stocks movements is the need of the hour.
- Further as the growth of IT industry accelerated the need of the firms for more capital also raised thus many firms lined up for additional funds and capital markets being instrumental channels for funds the study is of at most importance keeping the Industry's growth rate in view.
- Investors being key players in the stock market who focuses on improving their return margins with minimal risk , the study is of prime importance as the major objective of the study is to analyse the risk-return relationship of stock pertaining to IT Industry.

IV. SCOPE OF THE STUDY

- The study's includes India's IT industry specific stocks only
- The study focused on only few Indian IT firms.
- The duration of the study includes April 2018-March 2022.
- The project's focus is on learning the fundamentals of technical and fundamental analysis and applying them to make investment decisions in the IT sector.

V. OBJECTIVES OF THE STUDY

1. To gain knowledge of the concept of risk return analysis
2. To identify and examine the risk and return relationship of selected IT companies in Indian stock market.
3. To find out the relationship among Nifty 50 index, Nifty IT Indices only.
4. To provide valid suggestions for the stockholders, in order to take a rational choice while investing in IT stocks.
5. To find and compare the performance of the selected IT companies in share market.

VI. RESEARCH METHODOLOGY

The study is descriptive in nature, mostly focuses on the price movement of selected IT companies in Indian stock market. The assumptions for conducting the equity analysis, is that the stockholders are risk averse and the investment returns follow a normal distribution. The data of daily and monthly share price are collected from the National Stock Exchange. The data is collected for a period of 5 years i.e., from 1st April 2018 to 31st March 2022.

- **Sample design**

A sample size of 8 IT companies is selected from NIFTY IT index as on 01/04/2022, which comprises 15 tradable, exchange listed companies. The index represents IT related sectors They are

1. WIPRO LTD
2. INFOSYS LTD.
3. TCS LTD.
4. HCL LTD.
5. TECH MAHINDA LTD .
6. L&T LTD .
7. MPHASIS LTD
8. ORACLE COMPANY LTD.

- Data collection

The study is based on secondary data (Historical data) collected from NSE website. Data is collected for a period of 5 years (i.e., from 1st April 2018 to 31st March 2022). In addition to that, the data has also been collected from newspaper, websites, journals, book reports by researchers and scholars.

- **Tools for data analysis**

the data collected is analysed with the help of Microsoft Excel using various statistical tools. The following techniques are used for analysing the collected data.

- Mean
- Standard deviation
- Variance
- Co-efficient of variance
- Correlation
- Beta

VII. LIMITATIONS OF THE STUDY

- The study focused on the market with the historical information.
- The study is conducted for a limited period of 5 years.
- While applying the tools transaction cost, impact cost etc, is not taken into consideration. Therefore, it will reflect on the return calculated.
- Tools used for the analysis have their own limitations which may have an impact on the study.

VIII. EMPIRICAL RESULTS

S. No	Name of the Company	Return	
		Daily	Monthly
1	WIPRO LTD	2.9%	6.3%
2	INFOSYS LTD.	51.7%	47.3%
3	TCS LTD.	-86.5%	-87.0%
4	HCL LTD.	-1.3%	0.6%
5	TECH MAHINDA LTD.	-33.5%	-40.2%
6	L&T LTD.	84.2%	80.8%
7	MPHASIS LTD.	-20.5%	-26.1%
8	ORACLE COMPANY LTD.	80.3%	82.9%

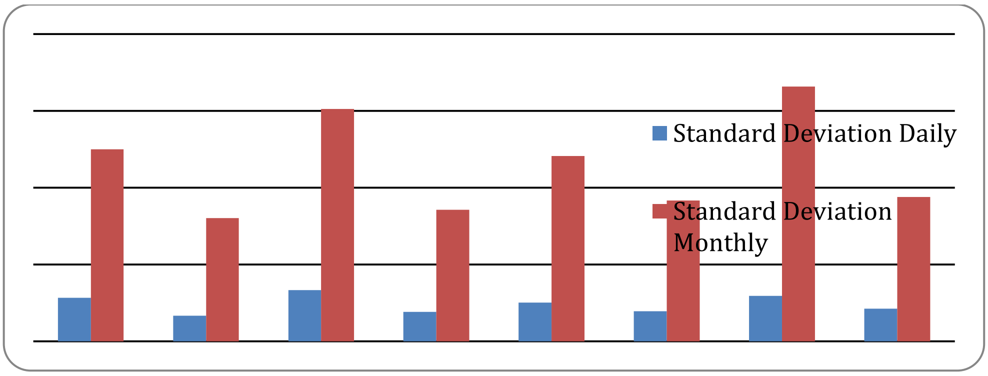
Table No:1.1 Tabular representation of IT Companies returns during 2018-19

Source: Author's Compilation

S. No	Name of the Company	Standard Deviation	
		Daily	Monthly
1	WIPRO LTD	2.827%	12.487%
2	INFOSYS LTD.	1.673%	8.029%
3	TCS LTD.	3.340%	15.115%
4	HCL LTD.	1.926%	8.559%
5	TECH MAHINDA LTD.	2.521%	12.052%
6	L&T LTD.	1.956%	9.171%
7	MPHASIS LTD.	2.965%	16.578%
8	ORACLE COMPANY LTD.	2.117%	9.398%

Table No:1.2 Tabular representation of Standard Deviations of IT Companies returns during 2018-19

Source: Author's Compilation



Graph No:1.a Graphical representation of Standard Deviations of IT Companies returns during 2018-19

Source: Author's Compilation

From the analysis, standard deviation is calculated for the companies based on daily and monthly prices for a period of 5 years, Infosys has lowest standard deviation and Mphasis has the highest daily standard deviation and TCS has the highest monthly standard deviation. Standard deviation measures the risk of an investment.

S. No	Name of the Company	P-VALUE	
		Nifty IT	Nifty 50
1	WIPRO LTD	0.83	0.82
2	INFOSYS LTD.	0.60	0.78
3	TCS LTD.	0.53	0.35
4	HCL LTD.	0.78	0.37
5	TECH MAHINDA LTD.	0.68	0.39
6	L&T LTD.	0.19	0.81
7	MPHASIS LTD.	0.96	0.64
8	ORACLE COMPANY LTD.	0.37	0.83

Table No:1.3 Tabular representation of t-test results of IT Companies returns during 2018-19

Source: Author's Compilation

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From the analysis, the p-value is calculated using t-test, the p-values of the companies return with respect to both nifty IT index return and nifty 50 index return are more than the level of significance (0.05), hence the null hypothesis H0 is accepted in both cases. Therefore, there is no significant relationship between stock returns and NIFTY-50 returns and no significant relationship between stock returns and NIFTY IT returns.

VIII. FINDINGS, SUGGESTIONS AND CONCLUSION

Findings

1. During the study period, the daily mean return and monthly mean return of all the selected companies in the IT sector is positive except for MPHASIS and L&T. Among all the companies, ORACLE (0.025%,0.887%) has the highest daily and monthly return.
2. In terms of variance, standard deviation INFOSYS has the lowest risk and MPHASIS and MPHASIS has the highest risk element. As per coefficient of variation TCS and TECHMAHINDRA (daily prices) has the lowest risk per unit of return and TECH MAHINDRA(monthly prices), MPHASIS have the highest risk per unit of return.
3. The correlation coefficient between the daily and monthly return of selected IT companies with the return of NIFTY IT index and NIFTY 50 index is highest for L&T and TCS has the lowest correlation.
4. INFOSYS has the lowest systematic risk (beta) and MPHASIS has highest systematic risk. TCS has the lowest Alpha value and ORACLE has highest Alpha value.

Suggestions

The subsequent recommendations are presented built on the analysis.

1. IT sector achieves the highest continuous output. Investing in the IT sector offers a high return for long-term investments. Hence, it is suggested that long-term investments in this sector would bring the maximum return.
2. It is recommended to shareholders that their investment horizon is not geared towards a long-term investment horizon, but rather depends on their goals and the type of investment opportunity. Instead of making wrong investment decisions, shareholders are encouraged to seek the help of a financial planner.
3. It is recommended that you avoid investing in the final movement and plan the investment at the beginning of the year.
4. The returns of various investments are now based on the market scenario, so it is advisable for shareholders who continue to be aware of new guidelines and to improve condition changes, they need to know not only the investment channels they have invested in, but also the general investment routes so that they can make the diversification necessary to keep your portfolio profitable.
5. Unit holders are advised to invest in suitable speculation avenue which is appropriate for them while making investment.

Conclusion

The goal of maximizing returns can only be pursued at the expense of risk inclusion. When selecting the company to invest in, the investor must consider both the potential return and the associated risk. Empirical evidence shows that there is generally a high correlation between risk and risk. In the recent past the market has reached great heights due to business expansion and especially globalization, and the higher proportion of FDI has a direct impact on the demand and supply of a company's shares from peaking. With the market boom, there are many shareholders willing to take more risks. The financial sector is booming and the need for risk and return analysis is growing. Due to the very complicated behaviour of the stock market, it has become mandatory to manage the portfolio in order to reduce risk and maximize returns. Requirements, the portfolio should be developed and reviewed regularly. The analysis of the test of the relationship between risk and return in stocks shows that all the different risk variables considered in the study confirm the effectiveness of the risk and return compensation in stocks. Correlation of stock market performance and average return over the study period. It also discusses the relationship between the systematic risk and return of stocks.

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