



INTRINSIC VALUE OF SHARE - AS A DECISION MAKER TO BUY OR SELL THE SHARES (WITH SPECIAL REFERENCE TO SELECT INDIAN IT COMPANIES SHARES)

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ABSTRACT

The remarkable feature of India's IT industry is that along with its expansion in terms of market size it is also incrementally adding a significant share to India's gross domestic product (GDP) and consequently boosting the growth and development of the country. India's digitally skilled pool has grown over the period and accounted for around 75 percent of global digital talent. India's four large IT companies (TCS, Infosys, Wipro, HCL Tech) have employed more than one million employees. New IT-based technologies such as telemedicine, remote monitoring, etc. are expanding and boosting the demand in the digital economy. The rollout of fifth-generation (5G) communication technology, growing adoption of artificial intelligence, Big Data analytics, cloud computing and the Internet of Things (IoT) will further expand the size of the IT industry in India.

This paper may provide required information to those who are interested in investment in IT sector. Ratio analysis and CAGR tools are used. TCS, Infosys, HCL Technologies Intrinsic value is less than that of market value of the share so; in this case it is feasible to take the decision to sell the stock. The intrinsic value of Wipro and Tech Mahindra are more than the market value so, it is feasible to the investors to invest in these companies with the hope that in future the market value of share may increase.

KEY WORDS: EPS, P/E, , ROE. Dividend payout ratio. Book Value. Intrinsic Value

SECTION I INTRODUCTION

The 21st century is earmarked as Information Technology driven and India is at the Centre of global attraction and considered as a knowledge powerhouse. The IT industry covers IT services, IT-enabled services (ITES), e-commerce (online business), and Software and Hardware products. IT based services are indispensable for any organization to increase productivity, ease of doing business, and grow efficiently and economically in this competitive world. Information Technology not only contributed to the economic growth of the country but it has also made governance more competent and approachable.

The insight is made in this study is that it enhances the knowledge to all the stake holders including management and it articulate them in making the decisions regarding various matters which boosts the profit and returns of all the persons and more specifically to the investors who are always in the dilemma of whether to buy or sell or hold their shares and for academicians it enhances to their knowledge and calibre.

The results of the study shows that TCS,

The exponential growth of the IT industry in India in the last two decades has changed the perception of the whole world about India's storehouse of knowledge and skills and powered economic growth. The swift advancement within the IT industry and liberalization policies such as reducing trade barriers and eliminating import duties on technology products by the Government of India are instrumental in the evolution of this industry. Also, various other government initiatives like setting up Software Technology Parks (STP), Export Oriented



Units (EOU), Special Economic Zones (SEZ) and foreign direct investment (FDI) have helped this industry in attaining a leading position in the world IT industry.

The remarkable feature of India's IT industry is that along with its expansion in terms of market size it is also incrementally adding a significant share to India's gross domestic product (GDP) and consequently boosting the growth and development of the country. India's digitally skilled pool has grown over the period and accounted for around 75 percent of global digital talent. India's four large IT companies (TCS, Infosys, Wipro, HCL Tech) have employed more than one million employees. New IT-based technologies such as telemedicine, remote monitoring, etc. are expanding and boosting the demand in the digital economy. The rollout of fifth-generation (5G) communication technology, growing adoption of artificial intelligence, Big Data analytics, cloud computing and the Internet of Things (IoT) will further expand the size of the IT industry in India

The Atmanirbhar Bharat initiative of the current government is bringing big change in the IT sector. Earlier, the Hardware sector was somehow neglected. Now, focus is also on building hardware manufacturing in India. The biggest step is to start manufacturing integrated chips (IC's) in India, TATA has taken up initiative under atma nirbhar bharat and the first manufacturing plant is being set up in Tamilnadu.

India is expected to have a digital economy of \$1 Trillion by 2025

One of the largest electronics markets in the world anticipated reaching \$400 bn by 2025

Indian Electronics Manufacturing Service (EMS) Industry is expected to grow 6.5 xs from \$23.5 bn to reach \$152 bn by 2025

100% FDI is allowed under the automatic route. against these background and bright future of the IT industry, investor worldwide more specifically Indian investors are choosing IT sector for their investments in the shares of IT companies to create their wealth with confidence and diligence. This paper may provide required information to those who are interested in investment in IT sector. So, the present study consists of **Four** Sections **First** section includes introduction, objectives and methodology for the study, **Second** section consists of brief profile of IT industry, **Third** section demonstrates the results and discussion and last **Fifth** section consists of findings and suggestions.

OBJECTIVES OF THE STUDY

1. To study the fundamentals of select IT companies.
2. To take the decisions based on fundamentals.
3. To offer suggestions and conclusions in the light of findings.

RESEARCH METHODOLOGY

Sources of Data: the present study is conducted based on the secondary data which is collected from various sources such as journals, books, websites etc.

Sample design: The study consists of Five Top IT (Information Technology) companies which are randomly selected for our study are

1. TCS
2. Infosys
3. HCL
4. Wipro
5. Tech Mahindra

Period coverage: the study covers five years period from 2017-18 to 2021-22.

Tools used: Study is conducted by using ratio analysis tools and CAGR.

SECTION II

2. BRIEF PROFILE OF IT INDUSTRIES FOR THE STUDY

2.1 TCS

Tata Consultancy Services is an IT solution provider. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled services delivered through its unique Global Network Delivery Model, recognized as the benchmark of excellence in software development. The company also engaged in the business of Telecom, Retail and Distribution, Banking, Financial Services and Insurance.

2.2 INFOSYS LIMITED

Infosys Limited (Infosys), formerly Infosys Technologies Limited, provides business consulting, technology, engineering and outsourcing services. Its end-to-end business solutions include consulting and systems integration comprising consulting, enterprise solutions, systems integration and advanced technologies; business information technology (IT) services consisting application development and maintenance, independent validation services,



infrastructure management, engineering services comprising product engineering and life cycle solutions and business process management; products, business platforms and solutions, including Finance, its banking product, which offers solutions to address core banking, mobile banking and e-banking needs of retail, corporate and universal banks globally, and areas, such as cloud computing, enterprise mobility and sustainability. On January 4, 2012, Infosys BPO Limited acquired Portland Group Pty Ltd. In October 2012, it acquired Lodestone Holding AG. The company also in the business segment of Financial Services, Energy & utilities, Life Sciences and Healthcare, Consumer packaged goods and Logistics.

2.3 HCL

HCL Technologies Ltd is a leading global IT services company. It has portfolio of services including software-led IT solutions, remote infrastructure management, engineering and R&D services and BPO. The company also in the business activities of IT services, Infrastructure Services, Business Process Outsourcing Services.

2.4 WIPRO

Wipro Ltd is a leading India based provider of IT Services, including Business Process Outsourcing (BPO) services, globally. Further, Wipro has other businesses such as IT Products, Consumer Care and Lighting and Infrastructure engineering.

2.5 TECH MAHINDRA LTD

Tech Mahindra Ltd offers Information Technology (IT) services and solution to telecommunications sector across the world. The Company is a leading Telecom focused provider of IT Services & Solutions to Global Telecommunication Industry, encompassing Telecom Service Providers (TSPs), Telecom Equipment Manufacturers (TEMs) and Independent Software Vendors (ISVs). The Company serves a broad spectrum of customers in the telecom ecosystem. The company also engaged in the business of Telecom Service Provider, Business Process Outsourcing, and Telecom Equipment Manufacturer.

SECTION III

RESULTS AND ANALYSIS

The following ratios replicates financial strength of the company for profitable investment by various persons who are directly connected with company and also it gives glimpse sight to the management for revision of what they did earlier and what they supposed to do in the future in order to satisfy all the stakeholder who are very significantly associated with the company

TABLE 3.1 EARNING PER SHARE OF IT COMPANIES FROM 2018-19 TO 2021-22

YEAR	TCS	INFOSYS	HCL	WIPRO	TECH MEHINDRA
2017-18	134.19	71.07	62.33	16.82	43.02
2018-19	83.05	35.44	73.58	14.99	48.47
2019-20	86.19	38.97	40.75	16.67	46.21
2020-21	86.71	45.61	41.07	19.11	50.64
2021-22	103.62	52.52	49.77	22.37	63.32
CAGR	0.95	0.94	0.96	1.06	1.08

Source: www.moneycontrol.com (Compiled and computed by the author)

From the above table 1.1 gives the clear picture with regards to the earning per share. The compounded annual growth of selected IT company's ranges from 0.95 to 1.08 and the highest compounded annual growth rate is in case of Tech Mahindra and lowest CAGR is in case of Infosys. But all the companies are showing positive CAGR for the study period.

TABLE 3.2 PRICE EARNING RATIO (P/E) OF IT COMPANIES FROM 2018-19 TO 2021-22

YEAR	TCS	INFOSYS	HCL	WIPRO	TECH MEHINDRA
2017-18	10.62	7.96	7.78	12.51	14.85
2018-19	21.10	20.99	7.39	17	160.1
2019-20	21.19	16.46	10.71	11.80	12.24
2020-21	36.65	29.99	23.93	21.67	19.58
2021-22	36.09	36.31	23.38	26.46	23.68
CAGR	1.28	1.35	1.25	1.06	1.10

Source: www.moneycontrol.com (Compiled and computed by the author)



It is revealed from the above table 1.2 that compounded annual growth rate of price earnings ratio range from 1.06 to 1.35. The highest CAGR found in Infosys and lowest CAGR of price earnings ratio is in Wipro. The Lowest P/E ratio is the best for selecting the stock.

TABLE 3.3 RETURN ON EQUITY OF IT COMPANIES FROM 2017-18 TO 2021-22

YEAR	TCS	INFOSYS	HCL	WIPRO	TECH MEHINDRA
2017-18	30.33	24.68	23.96	16.69	20.16
2018-19	35.18	23.71	24.46	15.95	21.18
2019-20	38.44	25.35	21.56	17.57	18.48
2020-21	37.52	25.34	18.60	19.66	17.81
2021-22	42.99	29.34	21.80	18.69	20.70
CAGR	1.07	1.04	0.98	1.02	1.01

Source: www.moneycontrol.com (Compiled and computed by the author)

By cursory glance at the above table 1.3 it is clear that the compounded annual growth rate of return on equity of IT companies range from 0.98 to 1.07 during the study period. Higher the return on equity, creates higher confidence to equity shareholder lower return on equity obviously, creates low confidence to equity shareholders it also affects the prospective buyer of shares of particular company whose ROE is low.

TABLE -3. 4 DIVIDEND PAYOUT RATIO OF IT COMPANIES FROM 2017-18 TO 2021-22

YEAR	TCS	INFOSYS	HCL	WIPRO	TECH MEHINDRA
2017-18	41.53	46.59	23.30	6.77	24.83
2018-19	36.29	89.01	13.05	6.03	34.68
2019-20	116.36	57.35	14.69	7.05	61.78
2020-21	33.45	47.12	29.22	5.05	39.72
2021-22	34.74	57.23	84.38	26.82	71.52
CAGR	0.96	1.04	1.09	1.32	1.24

Source: www.moneycontrol.com (Compiled and computed by the author)

From the above table no. 3.4 shows that the CAGR of dividend payout ratio of all the IT companies for the study range from 0.96 to 1.32. The highest CAGR for dividend payout ratio found in Wipro and lowest in case of TCS.

TABLE-3.5 BOOK VALUE RATIO OF IT COMPANIES FROM 2017-18 TO 2021-22

YEAR	TCS	INFOSYS	HCL TECHNOLOGY	WIPRO	TECH MEHINDRA
2017-18	6.39	3.80	3.70	2.66	2.99
2018-19	8.39	4.96	3.56	2.72	3.40
2019-20	8.13	4.15	2.31	2.03	2.26
2020-21	13.60	7.61	4.46	4.13	3.48
2021-22	15.35	10.62	5.10	4.96	4.89
CAGR	1.19	1.23	1.07	1.13	1.10

Source: www.moneycontrol.com (Compiled and computed by the author)

The above table indicates price to book value ratio selected IT companies for the study period from 2017-18 to 2021-22. The CAGR of IT Companies for the study period are range from 1.07 to 1.23. The highest CAGR found in case of Infosys and lowest in case of HCL.

SECTION IV

DECISION CRITERIA FOR BUY AND SELL OF SHARES

Intrinsic value, functioning with demand and supply forces, governs the price of a security market. A concrete investment decision is made based on the assessment of intrinsic value with the current market price. The criteria for proper selection of security are:

BUY RULE: If the intrinsic value of a security is greater than the current market price of the security, then it is an undervalued security and should be bought and held and sold to make a profit when the price rises.



SELLING RULE: If the intrinsic value of a security is less than the current market price of the security, it is overvalued and should be sold. At a later stage when the price falls, it can be sold and profited.

BUY OR SELL RULE: If the price equals its value, equilibrium exists. The security is properly priced and the investor may not make any profit from the purchase or sale.

TABLE 4.1 SHOWING THE DECISION TO BUY OR SELL THE SHARES

RATIOS	TCS	INFOSYS	HCL TECHNOLOGY	WIPRO	TECH MEHINDRA
Average DPR	0.525	0.595	0.329	0.103	0.465
Average RER	0.475	0.405	0.671	0.897	0.535
Average ROE	0.37	0.26	0.22	0.18	0.20
Growth in Equity = (RER*Average ROE)	0.18	0.10	0.15	0.16	0.11
Normalised Average P/E= (Sum of P/E/Number of Years)	25.13	22.34	14.64	17.89	46.09
Projected EPS =Current EPS*(1+Growth in Equity	121.79	27.99	57.14	25.92	69.98
Intrinsic Value= Projected EPS *Normalised Average P/E	3061	1296	836	464	3225
Market Value of Share as on 15-10-2022	3150	1494	1023	388	1050
Decision to Buy or Sell the share	IV<MV=SELL	IV<MV=SELL	IV<MV=SELL	IV>MV=BUY and Hold	IV>MV=BUY and Hold

Source: www.moneycontrol.com (Compiled and computed by the author)

The above table crystal clears that for taking the decisions regarding whether to buy or sell the shares. TCS, Infosys, HCL Technologies Intrinsic value is less than that of market value of the share so, in this case it is feasible to take the decision to sell the stock because the market value may fall in the future, to grab the benefit of overvaluation of market price may be the wise decision. On the other hand, the intrinsic value of Wipro and Tech Mahindra are more than the market value so, it is feasible to the investors to invest in these companies with the hope that in future the market value of share may increase.

SECTION V

FINDINGS OF THE STUDY

1. From the study it is found that the CAGR of earning per share of Tech Mahindra and Wipro are more compared to HCL Technologies, TCS and Infosys.
2. The CAGR of Price earnings ratio of Wipro and Tech Mahindra are less as compared to HCL, TCS and Infosys during the study period.
3. The study reveals that the CAGR of Return on equity is more in case of TCS and Infosys as compared to Tech Mahindra, Wipro, and HCL Technologies.
4. It is observed from the study that the highest CAGR of dividend pay-out ratio is found in case of Wipro as compared to Tech Mahindra, HCL Technologies, Infosys and TCS.
5. The lowest CAGR of book value in the study period is found in HCL Technologies followed by Tech Mahindra, Wipro, TCS and Infosys.
6. The Intrinsic value of TCS, Infosys and HCL Technologies during the study period is less than current market price as compared to Wipro and Tech Mahindra. The intrinsic value in these two companies is more than the current market price.

SUGGESTIONS

1. It is suggested based on the outcome of the study that TCS, Infosys, HCL Technologies have to increase their intrinsic value to gain the more confidence of the investors to invest their money in these companies.
2. Dividend payout ratio of TCS was fluctuating trend during study period so, TCS has to maintain consistency in dividend payment in order to attract prospective investors.



CONCLUSION

The insight is made in this study is that it enhances the knowledge to all the stake holders including management and it articulate them in making the decisions regarding various matters which boosts the profit and returns of all the persons and more specifically to the investors who are always in the dilemma of whether to buy or sell or hold their shares and for academicians it enhances to their knowledge and calibre.

LIMITATIONS OF THE STUDY

1. The study is based on the secondary data and study covers only 5years period.
2. The study is limited to IT companies and it covers four top performing IT Companies only.
3. The accuracy of the study is based on the accuracy of the data in the website of stock market.
4. There are other parameters are there to arrive at the conclusion to buy or sell the shares in the market but we considered the intrinsic value-based decision.

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