

**A STUDY ON MOVEMENT OF SHARE PRICES AND ITS FINANCIAL  
PERFORMANCE OF IT COMPANIES IN BSE 30**

**By**

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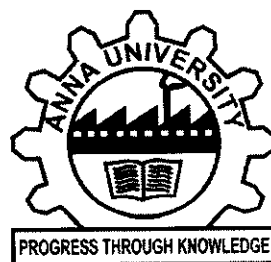
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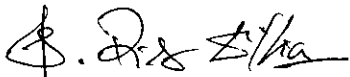
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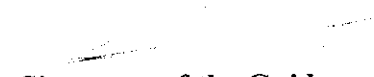
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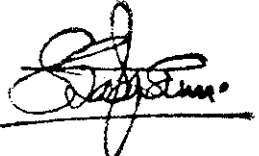
  
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## ABSTRACT

This Study “**A STUDY ON MOVEMENT OF SHARE PRICES AND ITS FINANCIAL PERFORMANCE OF IT COMPANIES IN BSE 30**” has been done to find out the performance of IT companies of BSE 30. IT sector in BSE 30 is represented by 3 organizations viz., TCS, Infosys and Wipro.

This study does not deal with the technical analysis of the performance of the stocks in the market. The study identifies the best company based on price movement of shares and fundamental financial strength of the company. This study also identifies the relative strength of these organizations in global market. In this study analysis the profit, investment returns, earnings of these organizations have been computed.

Regression Analysis has been used in this study to find out the relationship between different variables. Standard Deviation is used to find out the volatility of each stock. The findings of the study indicate the strong performance of Infosys in various areas. The study also indicates the possibility of diminishing growth in profit and revenue of the IT majors’ if the depreciation in dollar against the India Rupee continues. The study suggests the Stocks of Infosys for intra-day investors’, Wipro for short-term investors and TCS for medium-term investors’.

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## **CHAPTER I**

### **INTRODUCTION**

Indian IT services exports, accounting for 55-57 percent of total exports, are growing at an estimated 36 percent and are expected to reach USD 18.1 billion in FY2009. Newer areas of application and infrastructure management, testing, etc. are gaining traction, with their share in the business-mix growing steadily. BPO continues to grow in scale and scope, with firms increasingly adopting a vertical focused approach. Total exports for this segment are expected to exceed USD 8.3 billion in FY 2008-09, growing by 32 percent over the previous year. Lastly, increasing traction in offshore product development and engineering services is supplementing India's efforts in own IP creation. This group is growing at 22-23 percent and is expected to report USD 4.9 billion in exports, in FY 2008-09.

The IT sector is paying the maximum price during every correction factor due to overvaluation of IT Stocks to some extent. There is a conflict if the performance in capital market is taken into consideration ignoring the fundamentals. So, the need for identifying a potential IT stock arises to cater the needs of different type of investors.

This study will give a basic idea about the financial performance of the IT companies' present in the BSE 30 Index. This study will help to understand the working of the IT companies' based on fundamentals. This study finds out the volatility of each stock to identify the most consistent and inconsistent stock.

The Indian IT industry is growing at a rate of 28% and it is contributing nearly 5.4% of India's GDP. All the IT majors are showing consistent and positive results in their business but showing a different performance in the capital market.

## 1.1 INDUSTRY PROFILE

The Indian IT sector (including the domestic and exports segments) is growing at an estimated 28 percent in FY2009. Total revenue aggregate for the sector is expected to exceed USD 47.8 billion, nearly a ten-fold increase over the aggregate revenue of USD 4.8 billion, reported in FY1998, and direct employment is likely to cross 1.6 million. As a proportion of national GDP, the revenue aggregate of the Indian technology sector has grown from 1.2 percent in FY1998 to an estimated 5.4 percent in FY2009. Net value-added by this sector, to the economy, is estimated at 3-3.5 percent for FY2009.

Service and software exports remain the mainstay of the sector; FY09 export growth likely to beat forecasts and exceed 32 percent.<sup>5</sup> While the US and the UK remain the dominant markets, contributing to 67 percent and 15 percent of total exports respectively, firms are also keenly exploring new geographies for business development, and to strengthen their global delivery footprint. Banking, Financial Services and Insurance, and Technology (Hi-tech/ telecom) are the main verticals, accounting for nearly 60 percent of the total; Manufacturing, Retail, Media, Utilities, Healthcare and Transportation follow – also growing rapidly.

IT services exports, accounting for 55-57 percent of total exports, are growing at an estimated 33 percent and are expected to reach USD 18.1 billion in FY2009. Newer areas of application and infrastructure management, testing, etc. are gaining traction, with their share in the business-mix growing steadily. BPO continues to grow in scale and scope, with firms increasingly adopting a vertical focused approach. Total exports for this segment are expected to exceed USD 8.3 billion in FY 2008-09, growing by 32 percent over the previous year. Lastly, increasing traction in offshore product development and engineering services is supplementing India's efforts in own IP creation. This group is growing at 22-23 percent and is expected to report USD 4.9 billion in exports, in FY 2008-09.

Service-line expansion is aiding service providers to take on larger and more complex deals, and is driving up the average ticket size of contracts awarded to Indian firms. High offshore component of delivery and superior execution in multi-location delivery continue to be key differentiators. Broad-based industry structure; IT led by large Indian firms, BPO by a mix of Indian and MNC third-party providers and captives, reflects the depth of the supply-base. While the larger players continue to lead growth, gradually increasing their share in the industry aggregate; several high-performing SMEs also stand out.

The domestic market is also picking-up, showing definite signs of breaking-out of the trend of hardware linked growth with the contribution of software and services exceeding that of hardware for the first time in FY 2007-08. The total size of the domestic market is expected to cross USD 15.9 billion in FY 2008-09, a growth of 21 percent over FY 2007-08. Although this segment has been led by MNCs in the past few years, Indian firms are gradually gaining ground. Overtime this segment could become a larger SME play, as the mid-sized firms increase their levels of IT adoption.

The Leading Players in the IT industry are Infosys, TCS, Wipro, HCL, Polaris, Patni etc. All these players engage in Software services and BPO Services. The Software Services includes Software Development, Software Maintenance, Package Implementation, Testing and various other services. The Software revenue contributes more than 75% of the total revenue of the IT Companies.

With the expansion of business all over the world, the IT Companies' are expected to generate lot of revenues and employment opportunities to India.

## 1.2 NEED AND SCOPE OF THE STUDY

The Indian IT industry is growing at a rate of 28% and it is contributing nearly 5.4% of India's GDP. All the IT majors are showing consistent and positive results in their business but showing a different performance in the capital market.

The IT sector is paying the maximum price during every correction factor due to overvaluation of IT Stocks to some extent. There is a conflict if the performance in capital market is taken into consideration ignoring the fundamentals. So, the need for identifying a potential IT stock arises to cater the needs of different type of investors.

This study will give a basic idea about the financial performance of the IT companies' present in the BSE 30 Index. This study will help to understand the movement of share prices and performance of the IT companies' based on fundamentals. This study finds out the volatility of each stock to identify the most consistent and inconsistent stock.

Based on this study, a further research can be conducted to identify the strengths and weakness of each organization based on the services they offer. The future growth and market potential of each organization can also be identified based on the markets they operate. As the price fluctuation and market movement of each stock is identified, a study can be conducted to identify the reasons for fluctuation and movement.

### **1.3 OBJECTIVES**

#### **PRIMARY OBJECTIVE:**

- ◆ To find out the 'Movement of share prices and its financial performance of IT Companies' in BSE 30.

#### **SECONDARY OBJECTIVES:**

- ◆ To analysis the financial performance of IT companies in BSE 30.
- ◆ To find out the return and Volatility of each stock within market.
- ◆ To find out the stock with high return and low risk.

## CHAPTER II

### REVIEW OF LITERATURE

This Study is a performance analysis of the IT Companies in the BSE 30 index. TCS, Infosys, and Wipro are the three organizations that represent the IT Sector in the BSE 30 index.

Ratio Analysis is the major instrument used in this study to find out the performance of these four organizations.

#### **MEANING OF RATIOS:**

Analysis and interpretation of financial statements with the help of 'ratios' is termed as 'ratio analysis'. Ratio analysis involves the process of computing, determining and presenting the relationship of items or groups of items of financial statements.

#### **RATIOS USED IN THIS STUDY:**

- **Gross Profit Ratio:** The gross profit ratio is also known as Gross Margin Ratio, Trading Margin Ratio etc. It measures the relationship of gross profit with net sales and is usually represented as a percentage. It is very useful as a test of profitability and management efficiency.
- **Operating Ratio:** Operating ratio establishes the relationship between total operating expenses and sales. This ratio shows the operational efficiency of the firm. Lower operating ratio shows a higher operating profit and vice versa. For a manufacturing concern an operating ratio between 75% and 80% is justified.
- **Net Profit Ratio:** It is also called net profit to sales ratio or profit margin. Net profit ratio establishes a relationship between net profit (after taxes) and sales, and indicates the efficiency of the management in manufacturing, selling administrative and other activities of the firm.

- **Operating Profit Ratio:** This ratio reveals the true profitability of every business firm, as operating profit refers to the profit purely earned from business operation. Hence, it is an effective measure to check the profitability of the business. This shows the amount left to pay interest, income tax dividend, reserves etc.
- **Return on Asset Ratio:** Profitability can be measured in terms of relationship between net profit and assets. This ratio is also known as profit-to-asset ratio. It measures the profitability of investments and through this the overall profitability can be known.
- **Return on Shareholders' Equity:** Return on shareholders' investment, also called as "Return on proprietors' Fund" is the relationship between net profits (after interest and tax) and the proprietors' funds. It establishes the profitability from the shareholders' point of view. This ratio is the most important ratio used for measuring the overall efficiency of firm. Higher the ratio, better are the results.
- **Return on Capital Employed Ratio:** This ratio is also known as "Return on Investment" or "Rate of Return". It establishes the relationship between profits and the capital employed. This ratio is most widely used to measure the overall profitability and efficiency of the business. The term 'capital employed' refers to the total of investments made in a business and higher the ratio, better is the overall profitability of a concern.
- **Return on Investment:** This ratio is otherwise called as 'Return On Capital Employed'. It measures the sufficiency or otherwise of profit in relation to capital employed.
- **Return on Shareholders' Funds:** This ratio determines the profitability from the shareholders' point of view.
- **Earnings per Share:** This ratio highlights the overall success of the concern from owners' point of view and it is helpful in determining market price of equity shares. It reflects upon the capacity of the concern to pay dividend to its equity share holders.

- **Current Ratio:** Current ratio is the relationship between current assets and current liabilities. This ratio is also known as working capital ratio. It measures the general liquidity of a firm. An increase in the current ratio indicates the better liquidity position of a firm while a decrease in current ratio indicates deterioration in the liquidity position of a firm. A current ratio of 2:1 or more is considered to be satisfactory.
- **Absolute Liquidity Ratio:** Absolute liquidity ratio is a more stringent measure of liquidity calculated together with current ratio, so as to exclude even receivables from current assets and find out the absolute liquid assets. Absolute liquid assets include cash in hand and at bank and marketable securities or temporary investments. The acceptable norm for this ratio is 50% or 0.5:1. The absolute liquidity ratio of the company has been presented in below table.
- **Debt Equity Ratio:** This ratio is ascertained to determine long-term solvency position of a company. Debt Equity ratio is also called 'external – internal equity ratio'.
- **Interest Cover Ratio:** This ratio establishes the relationship between profit before interest & tax and fixed interest charges.
- **Proprietary Ratio:** A variant of the debt-equity ratio is the proprietary ratio which is also known as equity ratio. This ratio establishes the relationship between shareholders' funds and total assets of the firm. The acceptable norm of the ratio is 1:3. The higher the ratio or the share of the shareholders in the total capital of the company better is the long-term solvency position of the company.
- **Ratio of Fixed Assets to Proprietors' Fund:** This ratio establishes the relationship between fixed assets and shareholders' funds, i.e., share capital plus reserves, surpluses and retained earnings. This ratio indicates the extent to which shareholders' funds are sunk into the fixed assets.
- **Ratio of Current Assets to Proprietors' Fund:** This ratio indicates the extent to which proprietors' funds are invested in current assets. It shows the relationship between current assets and proprietors' fund.



- **Solvency Ratio:** This ratio is a small variant of equity ratio. It indicates the relationship between the total liabilities to outsiders to that of total assets of a firm.

#### **VOLATILITY OF PRICE:**

The volatility of price represents the fluctuations in market price. It is identified by computing standard deviation. Higher the standard deviation represents higher fluctuations and vice versa.

#### **BETA Value:**

The Beta Factor represents the movement of the price of a stock with the movement of the market. Beta Factor close to '1' is considered to be good as it goes according to the movement of the market. Any stock which has got a Beta greater than '1' is considered to be 'proactive'. The movement of that stock will overtake the movement of the market. If the Beta value is less than '1' means it is considered to be a 'reactive' stock and the movement of the stock will follow the movement of the market.

## 2.2 RESEARCH METHODOLOGY

A Research Methodology is the specification of methods and procedures for acquiring the information needed to structure or solve problems. It is the overall operational pattern or framework of the project that stipulates what information is to be collected, from which sources and with what procedures. A Research Methodology is a plan of the proposed research work. It involves a compromise dictated mainly by practical considerations.

### **Research Design:**

The Research Design is Analytical Research. Analytical research is a term used to describe a research project that considers the secondary data. The data will be extracted from various sources like research reports, published articles. It is non-interactive document research. It describes and interprets the past or recent past from selected sources. The sources may be documents preserved in collections.

Analytical research is used to estimate the future performance or to identify & estimate the effects of a problem.

### **Data Source:**

The Source of Data is Secondary Data. Secondary data means data that are already available. They refer to the data which have already been collected and analyzed by someone else.

Secondary data may either be published or unpublished data. Usually published data are available in (i) publications, (ii) technical and trade journals, (iii) books, magazines, (iv) reports prepared by research scholars, universities, and economists in different fields. The sources of unpublished data are many. They may be found in unpublished biographies, autobiographies and reports.

**Research Tool:**➤ **Ratio Analysis:**

Analysis and interpretation of financial statements with the help of 'ratios' is termed as 'ratio analysis'. Ratio analysis involves the process of computing, determining and presenting the relationship of items or groups of items of financial statements.

➤ **Standard Deviation**

Standard Deviation is used to compute the price fluctuation of each stock.

➤ **Beta Factor**

The Beta Factor represents the movement of the price of a stock with the movement of the market. Beta Factor close to '1' is considered to be good as it goes according to the movement of the market. Any stock which has got a Beta greater than '1' is considered to be 'proactive'. The movement of that stock will overtake the movement of the market. If the Beta value is less than '1' means it is considered to be a 'reactive' stock and the movement of the stock will follow the movement of the market.

$$\text{Formula for computing Beta value} = \frac{\text{Covariance (Index, Stock)}}{\text{Variance (Index)}}$$

➤ **Regression Analysis:**

Regression is the study of the relationship between the variables. The parameters are determined using the principle of least squares. The regression is used to find out the impact of independent variable on dependent variable.

### **2.3 LIMITATIONS OF THE STUDY**

- The study is based on secondary data. The main source of data is the annual report of the company. So the accuracy of the findings and applicability of the suggestions are limited.
- The period of performance considered for this study is only 5 years. The accuracy of conclusion from this study is limited.
- Only past performances are considered for this study. They do not guarantee future performance and growth.

## CHAPTER III

### DATA ANALYSIS AND INTERPRETATION

#### 3.1 PROFITABILITY ANALYSIS

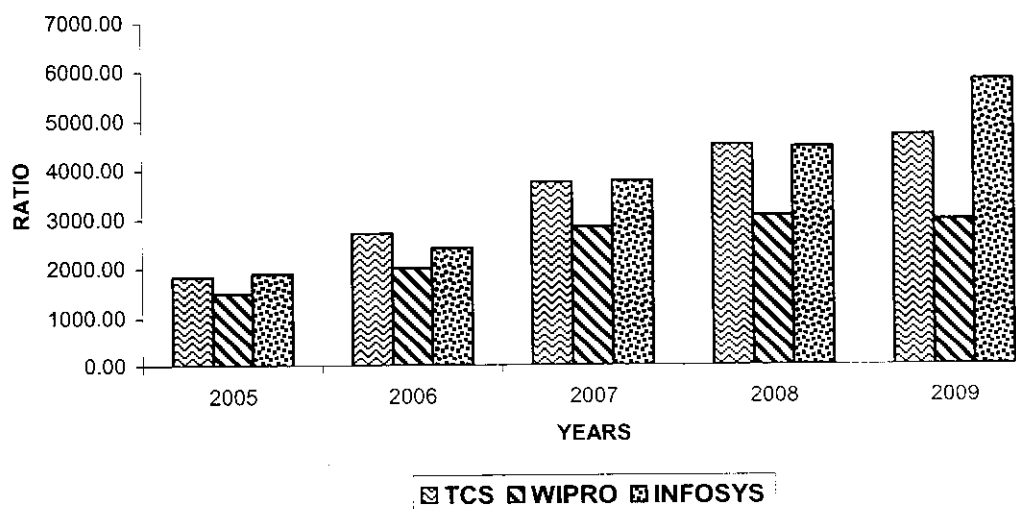
**TABLE NO. 3.1.1**  
**PROFIT AFTER TAX**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	1831.42	2716.87	3757.29	4508.76	4696.21
<b>WIPRO</b>	1494.82	2020.48	2842.10	3063.30	2973.80
<b>INFOSYS</b>	1904.00	2421.00	3783.00	4470.00	5819.00

From the table, it is revealed that all the IT companies' are maintaining high value of Profit After Tax. TCS is having 4696.21, Infosys 5819.00 and Wipro 2973.80 respectively.

**CHART NO. 3.1.1**  
**PROFIT AFTER TAX**



## GROSS PROFIT RATIO

### Formula

$$\text{Gross Profit Ratio} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

The gross profit ratio of the company for the study period has been presented in below table

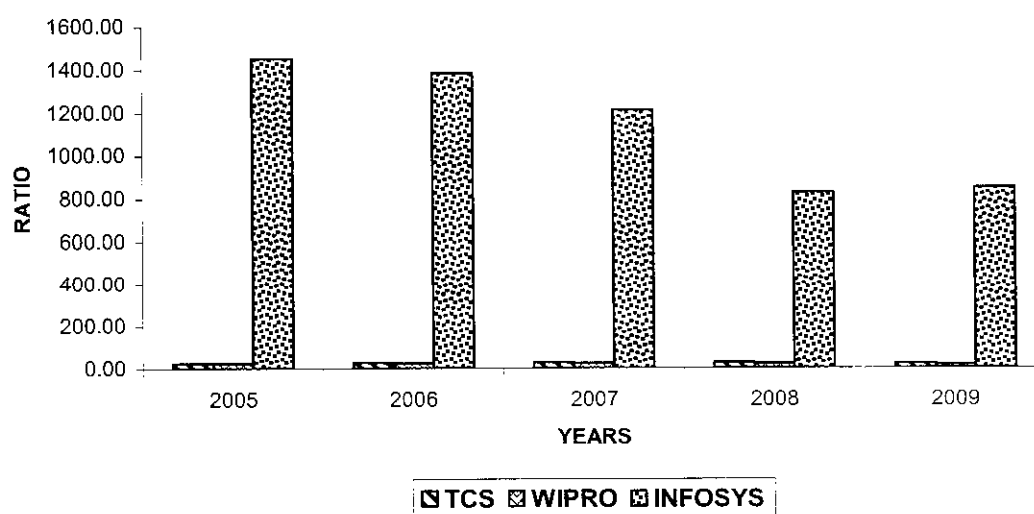
**TABLE NO. 3.1.2**  
**GROSS PROFIT RATIO**

[Rs. in Crores]

Years	2005	2006	2007	2008	2009
<b>TCS</b>	27.89	29.67	30.21	29.87	24.80
<b>WIPRO</b>	26.85	25.73	25.84	22.44	18.98
<b>INFOSYS</b>	1451.74	1385.46	1212.86	829.14	850.46

From the table, it is clear that all the IT companies' except Infosys is maintaining High proportion of Gross Profit Ratio. TCS is having a Gross Profit Ratio of 24.80. It is followed by Infosys 850.46 and Wipro 18.98 respectively.

**CHART NO. 3.1.2**  
**GROSS PROFIT RATIO**



## OPERATING RATIO

### Formula

$$\text{Operating Ratio} = \frac{\text{Cost of Goods Sold} + \text{Operating Expenses}}{\text{Net Sales}} \times 100$$

The operating ratio of the company for the study period has been presented in below table

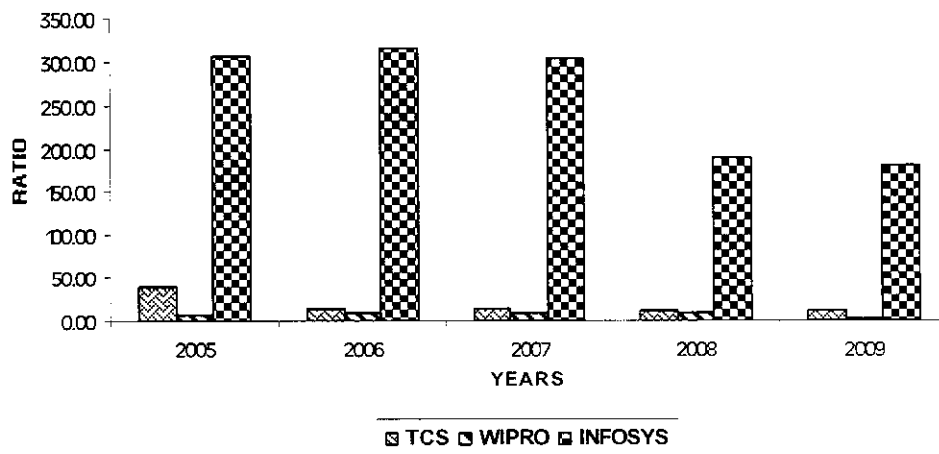
**TABLE NO. 3.1.3**  
**OPERATING RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	37.88	13.73	12.98	12.43	11.55
<b>WIPRO</b>	6.63	8.28	8.27	9.06	1.21
<b>INFOSYS</b>	306.40	316.06	305.35	189.66	180.34

From the table, it is clear that all the IT companies' except Infosys is maintaining High value of Operating Ratio. TCS is having a Operating Ratio of 11.55. It is followed by Infosys 180.34 and Wipro 1.21 respectively.

**CHART NO. 3.1.3**  
**OPERATING RATIO**



## NET PROFIT RATIO

### Formula

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

The net profit ratio of the company for the study period has been presented in below table.

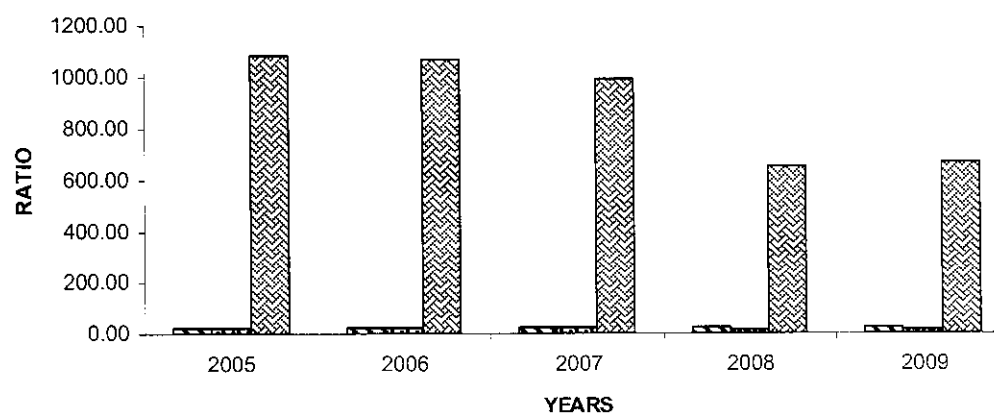
**TABLE NO. 3.1.4**  
**NET PROFIT RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	24.88	24.17	24.70	24.61	20.73
<b>WIPRO</b>	20.50	19.54	20.34	17.12	13.83
<b>INFOSYS</b>	1080.81	1066.52	991.31	654.45	665.77

From the table, it is found that all the IT companies' except Infosys is maintaining High Ratio. TCS is having a Net Profit Ratio of 20.73; Infosys is 665.77 and Wipro 13.83 respectively.

**CHART NO. 3.1.4**  
**NET PROFIT RATIO**



■ TCS ■ WIPRO ■ INFOSYS



## OPERATING PROFIT RATIO

### Formula

$$\text{Operating profit Ratio} = \frac{\text{Operating Profit}}{\text{Net Sales}} \times 100$$

A higher ratio is considered to be good as there would be large amount after meeting cost of goods and operating expenses. The operating profit ratio of the company for the study period has been presented in below table

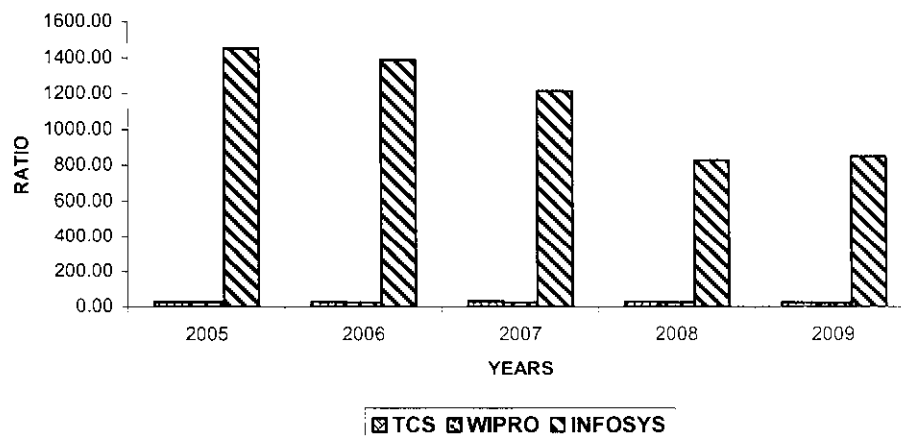
**TABLE NO. 3.1.5**  
**OPERATING PROFIT RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	28.02	29.71	30.24	29.89	24.84
<b>WIPRO</b>	26.93	25.77	25.89	23.11	19.89
<b>INFOSYS</b>	1452.33	1385.90	1213.12	829.28	850.69

From the table, it is clear that all the IT companies' except Infosys is maintaining High Ratio. TCS is having a Operating Profit Ratio of 24.84, Infosys is 850.69 and Wipro 19.89 respectively.

**CHART NO. 3.1.5**  
**OPERATING PROFIT RATIO**



## RETURN ON ASSETS RATIO

### Formula

$$\text{Return on Assets ratio} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

Higher the ratio, the better it is. The return on assets ratio of the company for the study period has been presented in below table.

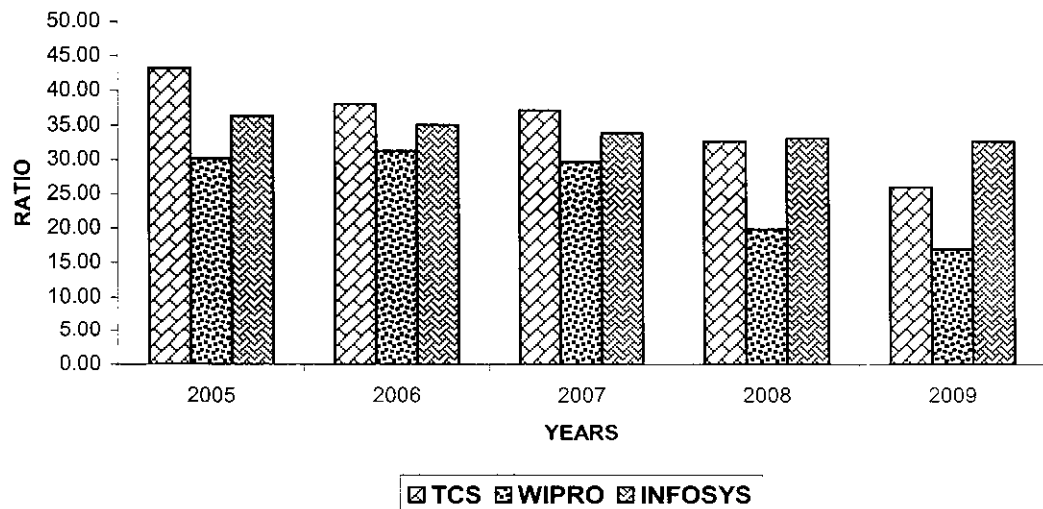
**TABLE NO. 3.1.6**  
**RETURN ON ASSET RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	43.28	38.09	37.21	32.67	26.02
<b>WIPRO</b>	30.17	31.23	29.73	19.85	16.97
<b>INFOSYS</b>	36.32	35.10	33.89	33.14	32.67

From the table, it is implies that all the IT companies' have maintaining ratio. TCS is having a Ratio of 26.02; Infosys is 32.67 and Wipro 16.97 respectively.

**CHART NO. 3.1.6**  
**RETURN ON ASSETS RATIO**



## RETURN ON SHAREHOLDERS' EQUITY

### Formula:

$$\text{Return on shareholders' equity} = \frac{\text{Net Profit after Tax and Interest}}{\text{Shareholders' Fund}} \times 100$$

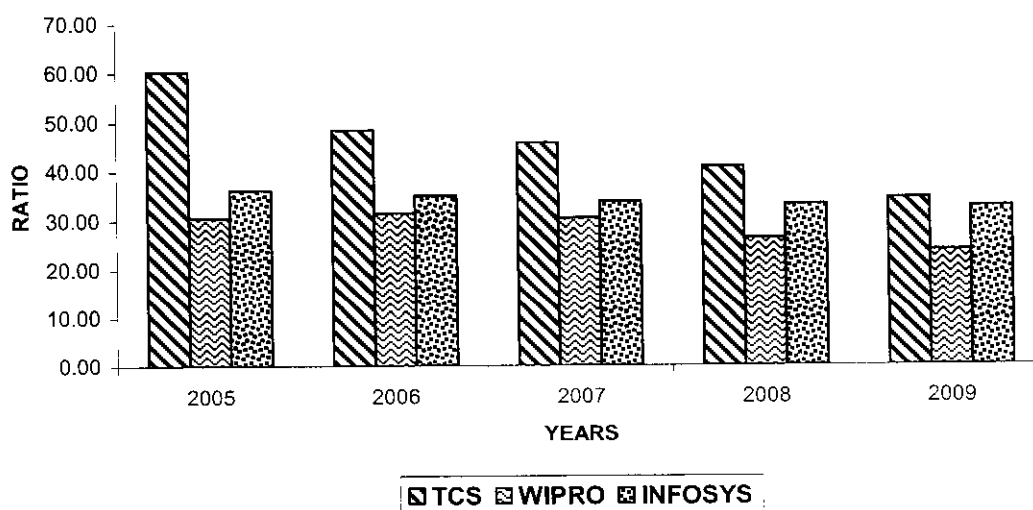
The return on shareholders' equity of the company for the study period has been presented in below table

**TABLE NO. 3.1.7**  
**RETURN ON SHAREHOLDERS' EQUITY**  
(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	60.31	48.38	45.80	40.91	34.54
<b>WIPRO</b>	30.55	31.47	30.50	26.39	23.76
<b>INFOSYS</b>	36.32	35.10	33.89	33.14	32.67

From the table, it shows that TCS is having a Ratio of 34.54; Infosys is 32.67 and Wipro 23.76 respectively.

**CHART NO. 3.1.7**  
**RETURN ON SHAREHOLDERS' EQUITY**



## RETURN ON CAPITAL EMPLOYED RATIO

### Formula

$$\text{Return on Capital Employed Ratio} = \frac{\text{Net profit Before Interest and Tax}}{\text{Net Capital Employed}} \times 100$$

The return on capital employed ratio of the company for the study period has been presented in below table

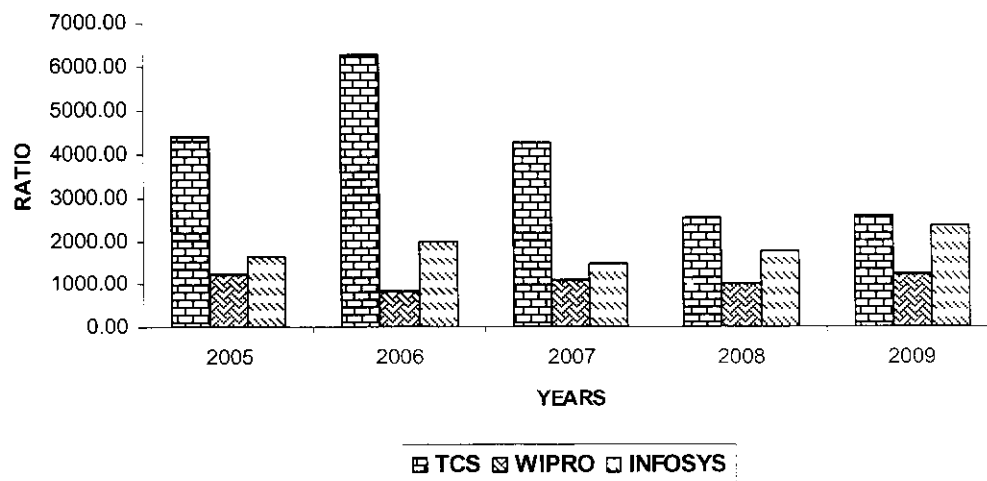
**TABLE NO. 3.1.8**  
**RETURN ON CAPITAL EMPLOYED**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	4399.46	6283.16	4261.88	2528.99	2597.64
<b>WIPRO</b>	1248.08	820.51	1088.49	1001.93	1210.89
<b>INFOSYS</b>	1651.11	1982.61	1451.75	1789.16	2356.29

From the table, it is cleared that all the IT companies' have maintaining Return on Capital Employed. TCS is having a Ratio of 2528.64; Infosys is 2356.29 and Wipro 1210.89 respectively.

**CHART NO. 3.1.8**  
**RETURN ON CAPITAL EMPLOYED RATIO**



## RETURN ON INVESTMENT

### Formula

$$\text{ROI} = \frac{\text{Net Profit before Tax}}{\text{Shareholders Equity}}$$

The return on investment of the company for the study period has been presented in below table

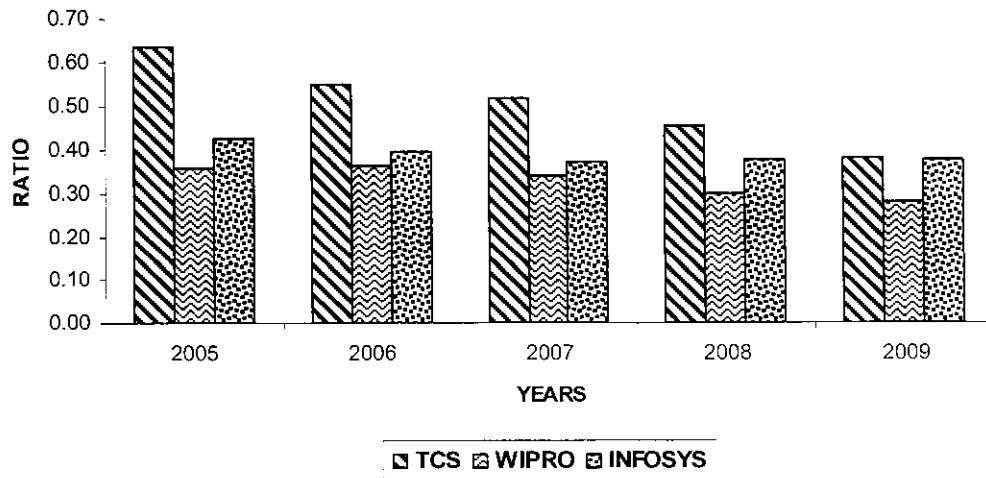
**TABLE NO. 3.1.9**  
**RETURN ON INVESTMENT**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.64	0.55	0.52	0.45	0.38
<b>WIPRO</b>	0.36	0.36	0.34	0.30	0.28
<b>INFOSYS</b>	0.43	0.40	0.37	0.38	0.38

From the table, it is revealed that all the IT companies' have maintaining Return on Investment. TCS is having a Ratio of 0.38; Infosys is 0.38 and Wipro 0.28 respectively.

**CHART NO. 3.1.9**  
**RETURN ON INVESTMENT**



## EARNINGS PER SHARE

### Formula

$$\text{EPS} = \frac{\text{Net Profit after Tax and Preference Dividend}}{\text{Number of Equity Shares}}$$

The earnings per share of the company for the study period has been presented in below table

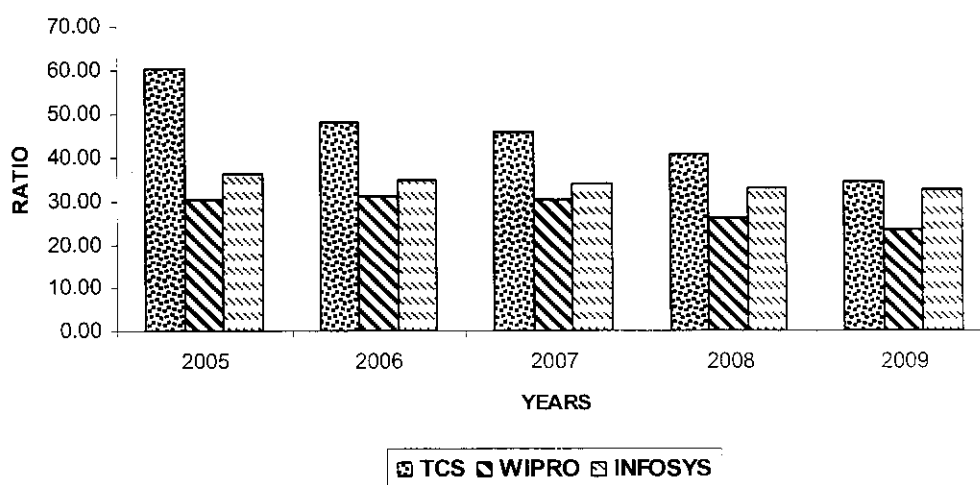
**TABLE NO. 3.1.10**  
**EARNINGS PER SHARE**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	36.60	53.63	36.66	43.69	45.53
<b>WIPRO</b>	20.55	13.47	18.61	19.94	19.62
<b>INFOSYS</b>	68.96	81.41	64.35	72.50	97.74

From the table, it is declared that all the IT companies' except Wipro are maintaining excess proportion of EPS. TCS is having 45.53. It is followed by Infosys 97.74 and Wipro 19.62 respectively.

**CHART NO. 3.1.10**  
**EARNINGS PER SHARE**



### 3.2. SOLVENCY ANALYSIS

#### CURRENT RATIO

##### Formula

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

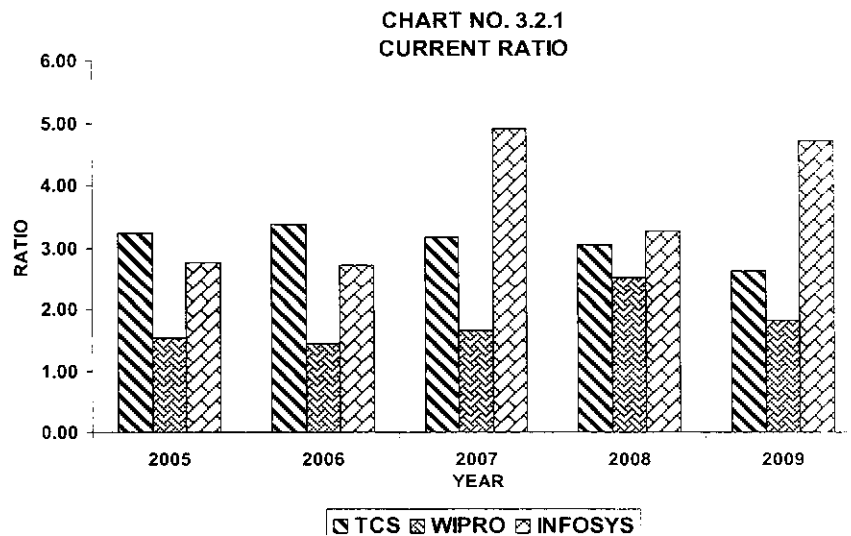
The current ratio of these 3 companies for the study period has been presented in below table.

**TABLE NO. 3.2.1**  
**CURRENT RATIO**

(Rs in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	3.24	3.38	3.18	3.05	2.64
<b>WIPRO</b>	1.53	1.44	1.66	2.53	1.82
<b>INFOSYS</b>	2.77	2.73	4.91	3.28	4.72

From the table, it is clear that all the IT companies' except Wipro are maintaining excess proportion of Current Assets. TCS is having a Current Ratio of 2.64. It is followed by Infosys (4.72) and Wipro (1.82) respectively.



## ABSOLUTE LIQUIDITY RATIO

### Formula

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

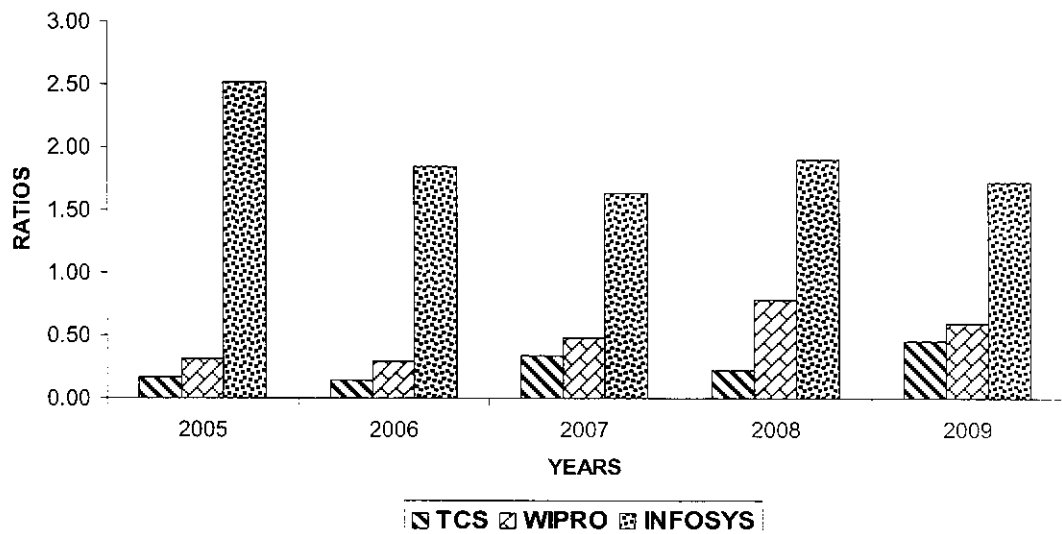
**TABLE NO. 3.2.2**  
**ABSOLUTE LIQUIDITY RATIO**

(Rs in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.17	0.15	0.34	0.22	0.46
<b>WIPRO</b>	0.32	0.29	0.48	0.79	0.59
<b>INFOSYS</b>	2.52	1.85	1.64	1.90	1.73

From the table, it is clear that the TCS is having a Absolute Liquidity Ratio of 0.46. It is followed by Wipro (0.59) and Infosys (1.73) respectively.

**CHART NO. 3.2.2**  
**ABSOLUTE LIQUIDITY RATIO**





## DEPT EQUITY RATIO

### Formula

$$\text{Dept Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Shareholder Equity}}$$

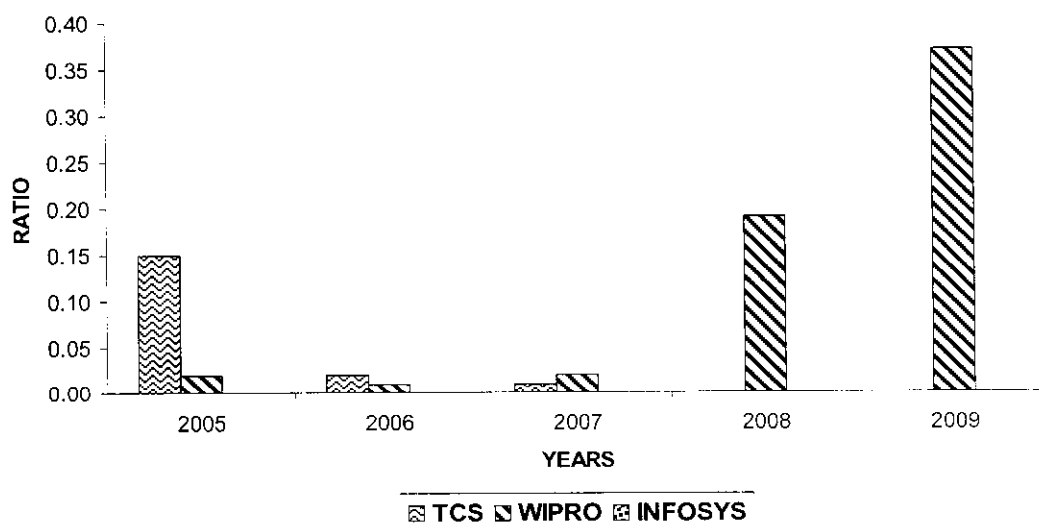
**TABLE NO. 3.2.3**  
**DEPT EQUITY RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.15	0.02	0.01	0.00	0.00
<b>WIPRO</b>	0.02	0.01	0.02	0.19	0.37
<b>INFOSYS</b>	0.00	0.00	0.00	0.00	0.00

From the table, it is clear that all the IT companies' except Wipro is the getting value. TCS is having a Dept Equity Ratio of 0.0. It is followed by Infosys 0.0 and Wipro 0.37 respectively.

**CHART NO. 3.2.3**  
**DEPT EQUITY RATIO**



## INTEREST COVER RATIO

This ratio establishes the relationship between profit before interest & tax and fixed interest charges.

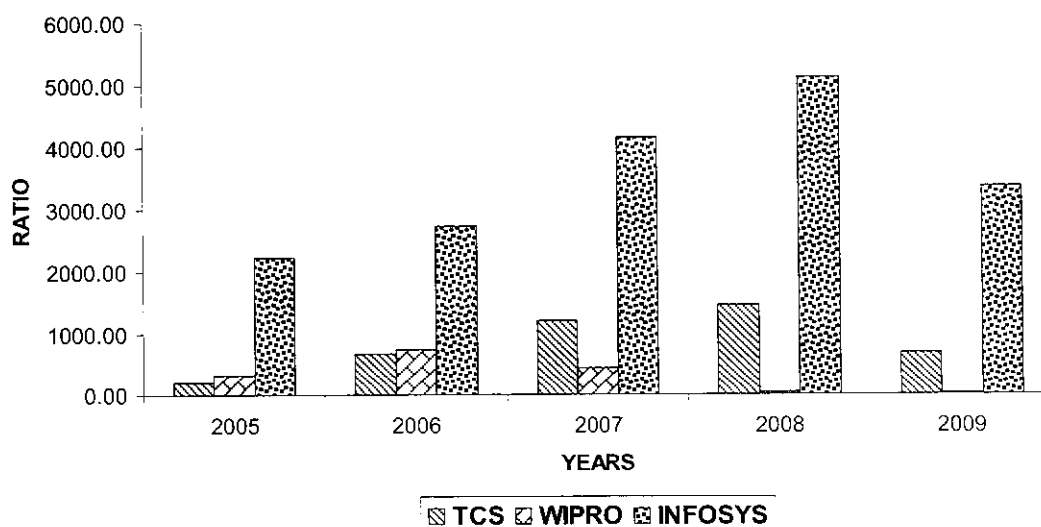
**TABLE NO. 3.2.4**  
**INTEREST COVER RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	204.09	685.71	1216.94	1464.12	691.82
<b>WIPRO</b>	316.29	748.50	442.14	30.71	19.03
<b>INFOSYS</b>	2230.00	2737.00	4153.00	5118.00	3370.50

The above table shows that Infosys is having the Interest Cover Ratio at 3370.50 times. It is followed by Wipro 19.03 times and TCS 691.82 times respectively.

**CHART NO. 3.2.4**  
**INTEREST COVER RATIO**



## PROPRIETARY RATIO

### Formula

$$\text{Proprietary Ratio} = \frac{\text{Total Share holders funds}}{\text{Total Assets}}$$

The proprietary ratio of the company for the study period has been presented in below table.

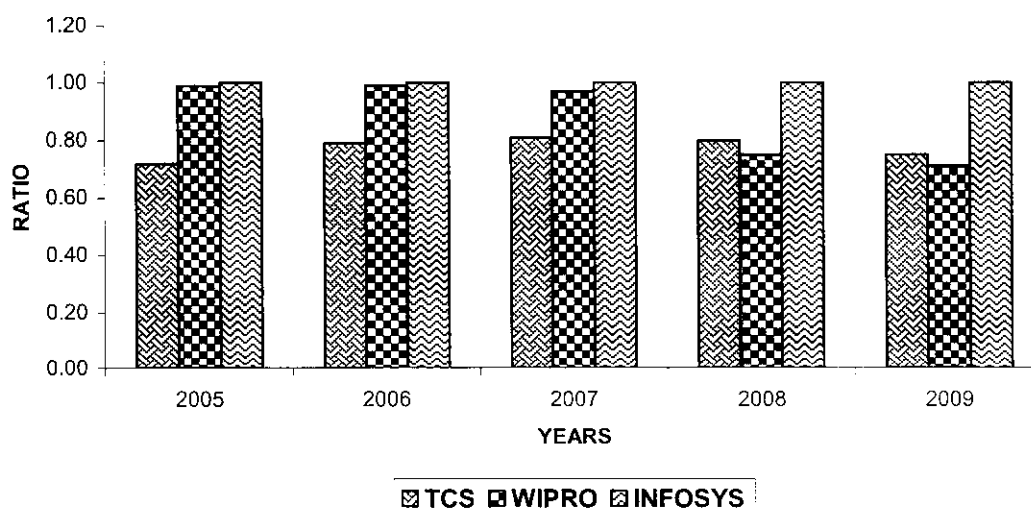
**TABLE NO. 3.2.5**  
**PROPRIETARY RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.72	0.79	0.81	0.80	0.75
<b>WIPRO</b>	0.99	0.99	0.97	0.75	0.71
<b>INFOSYS</b>	1.00	1.00	1.00	1.00	1.00

From the table, it is reveal that the TCS is having a Proprietary Ratio of 0.75. It is followed by Wipro 0.71 and Infosys 1.00 respectively.

**CHART NO. 3.2.5**  
**PROPRIETARY RATIO**



## RATIO OF FIXED ASSETS TO PROPRIETORS' FUND

### Formula

$$\text{Fixed assets to Proprietors Funds} = \frac{\text{Fixed Assets}}{\text{Proprietors' Funds}}$$

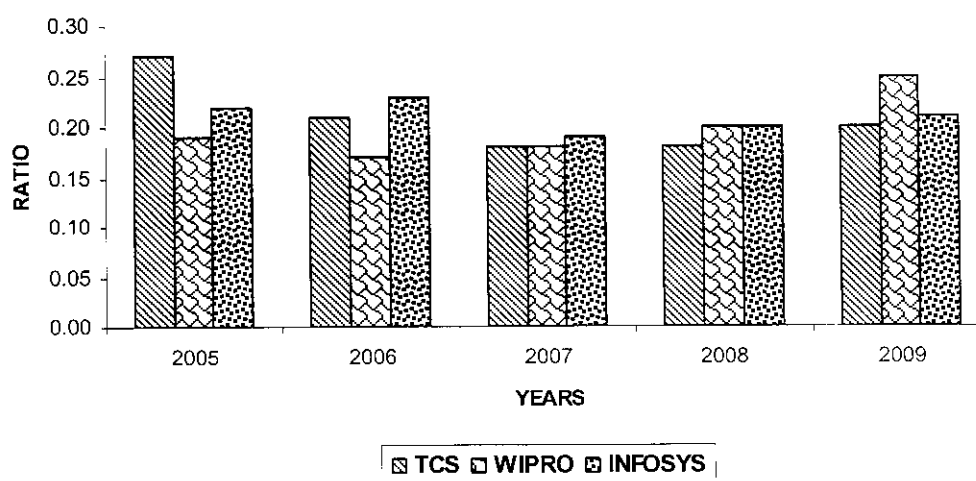
There is no rule of thumb to interpret this ratio, but 60 to 65 percent is considered to be satisfactory in case of industrial undertakings. The ratio of fixed assets to the proprietors' fund of the company for the study period has been presented in below table.

**TABLE NO. 3.2.6**  
**RATIO OF FIXED ASSETS TO PROPRIETORS' FUND**  
(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.27	0.21	0.18 5	0.18	0.20
<b>WIPRO</b>	0.19	0.17	0.18	0.20	0.25
<b>INFOSYS</b>	0.22	0.23	0.19	0.20	0.21

From the table, it is concluded that the TCS is having a Ratio of 0.20. It is followed by Wipro 0.25 and Infosys 0.21 respectively.

**CHART NO. 3.2.6**  
**RATIO OF FIXED ASSETS TO PROPRIETORS' FUND**



## RATIO OF CURRENT ASSETS TO PROPRIETORS' FUND

### Formula

$$\text{Current Assets to Proprietors' Fund} = \frac{\text{Current Assets}}{\text{Proprietors' Fund}}$$

The ratio of current assets to proprietors' funds of the company for the study period has been presented in below table.

**TABLE NO. 3.2.7**

### RATIO OF CURRENT ASSETS TO PROPRIETORS' FUND

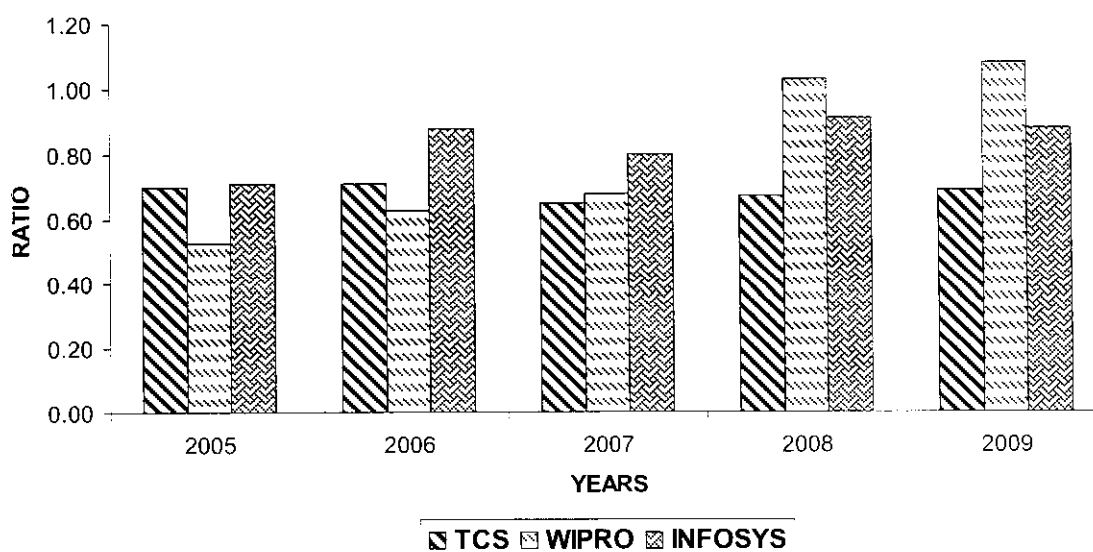
(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.70	0.71	0.65	0.67	0.69
<b>WIPRO</b>	0.53	0.63	0.68	1.03	1.08
<b>INFOSYS</b>	0.71	0.88	0.80	0.91	0.88

From the table, it is concluded that the TCS is having a Current Assets to Proprietor's Ratio of 0.69. It is followed by Wipro 1.08 and Infosys 0.88 respectively.

**CHART NO. 3.2.7**

### RATIO OF CURRENT ASSETS TO PROPRIETORS' FUND



## SOLVENCY RATIO

### Formula

$$\text{Solvency Ratio} = \frac{\text{Total outside Liabilities}}{\text{Total Assets}}$$

Generally, lower the ratio of total liabilities to total assets, more satisfactory or stable is the long-term solvency position of a firm. The standard norm for this ratio is 0.5:1. If the ratio is more than the norm, the solvency position is not satisfactory. The solvency ratio of the company for the study period has been presented in below table.

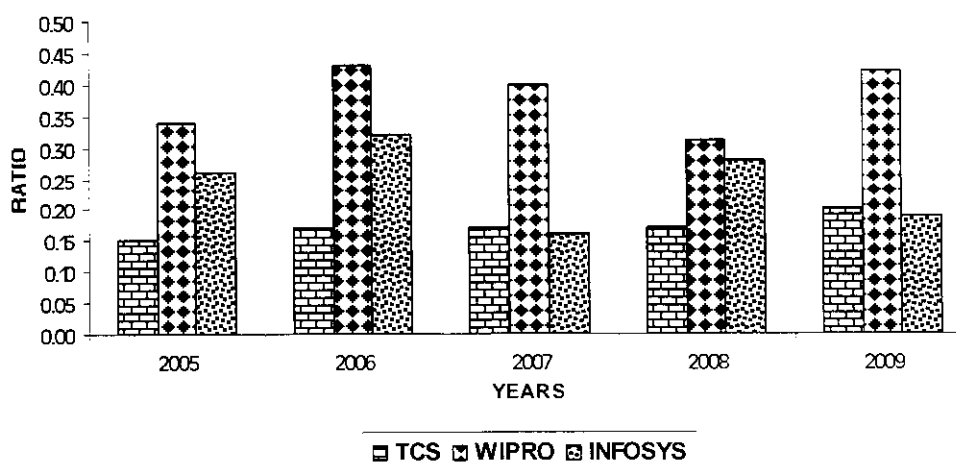
**TABLE NO. 3.2.8**  
**SOLVENCY RATIO**

(Rs. in Crores)

Years	2005	2006	2007	2008	2009
<b>TCS</b>	0.15	0.17	0.17	0.17	0.20
<b>WIPRO</b>	0.34	0.43	0.40	0.31	0.42
<b>INFOSYS</b>	0.26	0.32	0.16	0.28	0.19

From the table, it is inferred that the TCS is having a Solvency Ratio of 0.20. It is followed by Wipro 0.42 and Infosys 0.19 respectively.

**CHART NO. 3.2.8**  
**SOLVENCY RATIO**



### 3.3 PRICE MOVEMENT

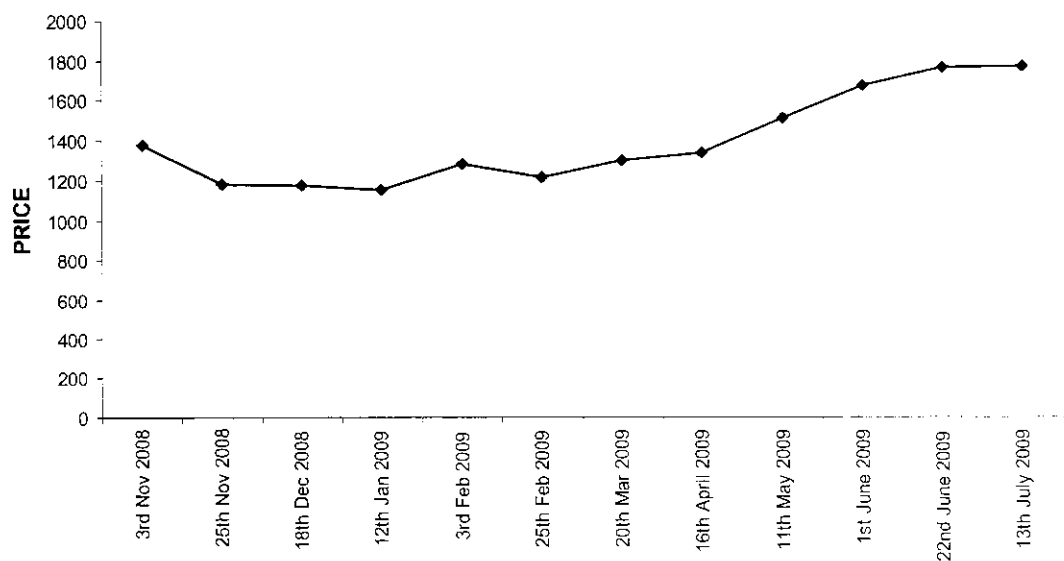
TABLE NO. 3.3.1

#### PRICE MOVEMENT FOR INFOSYS

Price Date	Closing Price
3 <sup>rd</sup> Nov 2008	1378.50
25 <sup>th</sup> Nov 2008	1180.85
18 <sup>th</sup> Dec 2008	1177.55
12 <sup>th</sup> Jan 2009	1156.60
3 <sup>rd</sup> Feb 2009	1282.40
25 <sup>th</sup> Feb 2009	1216.25
20 <sup>th</sup> Mar 2009	1297.35
16 <sup>th</sup> April 2009	1341.30
11 <sup>th</sup> May 2009	1514.50
1 <sup>st</sup> June 2009	1676.85
22 <sup>nd</sup> June 2009	1765.75
13 <sup>th</sup> July 2009	1767.95

From the table it is clear that the highest traded price of Infosys is Rs.1767.95, the lowest traded price is Rs.1156.60 and the average traded price is Rs.1396.32.

CHART NO. 3.3.1  
PRICE MOVEMENT FOR INFOSYS

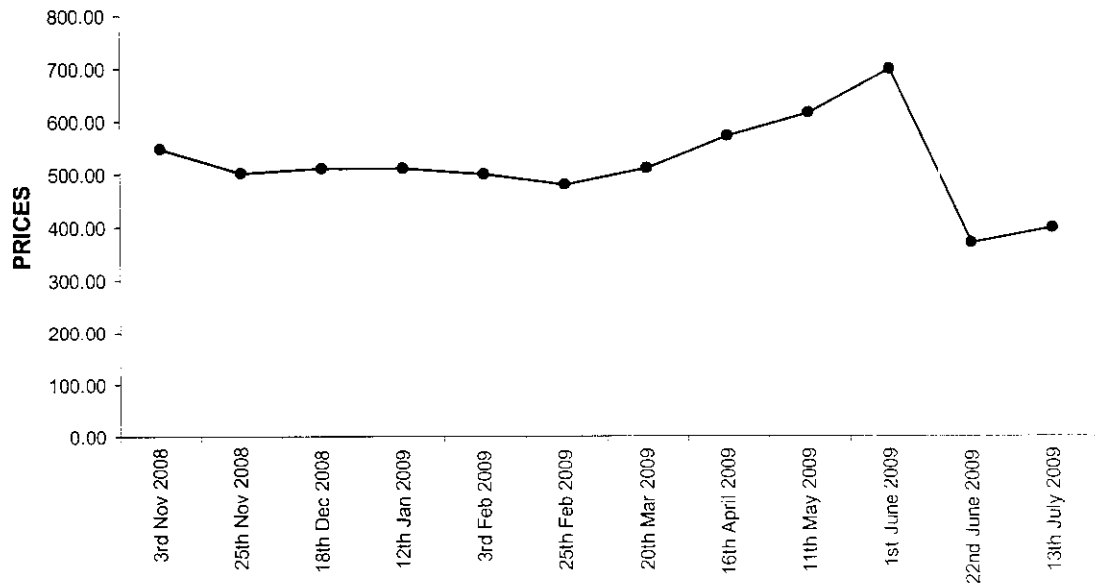


**TABLE NO. 3.3.2**  
**PRICE MOVEMENT FOR TCS**

Price Date	Closing Price
3 <sup>rd</sup> Nov 2008	548.70
25 <sup>th</sup> Nov 2008	503.25
18 <sup>th</sup> Dec 2008	510.15
12 <sup>th</sup> Jan 2009	511.75
3 <sup>rd</sup> Feb 2009	499.90
25 <sup>th</sup> Feb 2009	479.80
20 <sup>th</sup> Mar 2009	509.80
16 <sup>th</sup> April 2009	571.15
11 <sup>th</sup> May 2009	615.55
1 <sup>st</sup> June 2009	698.10
22 <sup>nd</sup> June 2009	369.75
13 <sup>th</sup> July 2009	398.40

From the table it is found that the highest traded price of TCS is Rs.698.10, the lowest traded price is Rs.369.75 and the average traded price is Rs.518.03

**CHART NO. 3.3.2**  
**PRICE MOVEMENT FOR TCS**



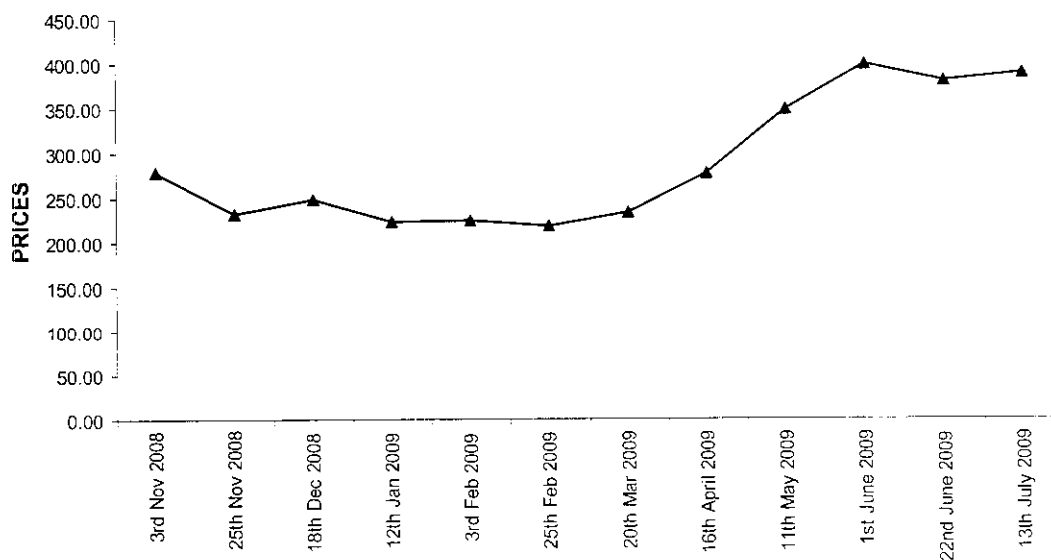


**TABLE NO. 3.3.3**  
**PRICE MOVEMENT FOR WIPRO**

Price Date	Closing Price
3 <sup>rd</sup> Nov 2008	279.00
25 <sup>th</sup> Nov 2008	232.50
18 <sup>th</sup> Dec 2008	249.35
12 <sup>th</sup> Jan 2009	224.00
3 <sup>rd</sup> Feb 2009	225.30
25 <sup>th</sup> Feb 2009	218.50
20 <sup>th</sup> Mar 2009	233.80
16 <sup>th</sup> April 2009	277.00
11 <sup>th</sup> May 2009	349.00
1 <sup>st</sup> June 2009	399.25
22 <sup>nd</sup> June 2009	380.45
13 <sup>th</sup> July 2009	388.70

From the table it is found that the highest traded price of WIPRO is Rs.399.25, the lowest traded price is Rs.218.50 and the average traded price is Rs.288.07

**CHART NO. 3.3.3**  
**PRICE MOVEMENT FOR WIPRO**



### VOLATILITY IN PRICE

The volatility of price represents the fluctuations in market price. It is identified by computing standard deviation. Higher the standard deviation represents higher fluctuations and vice versa.

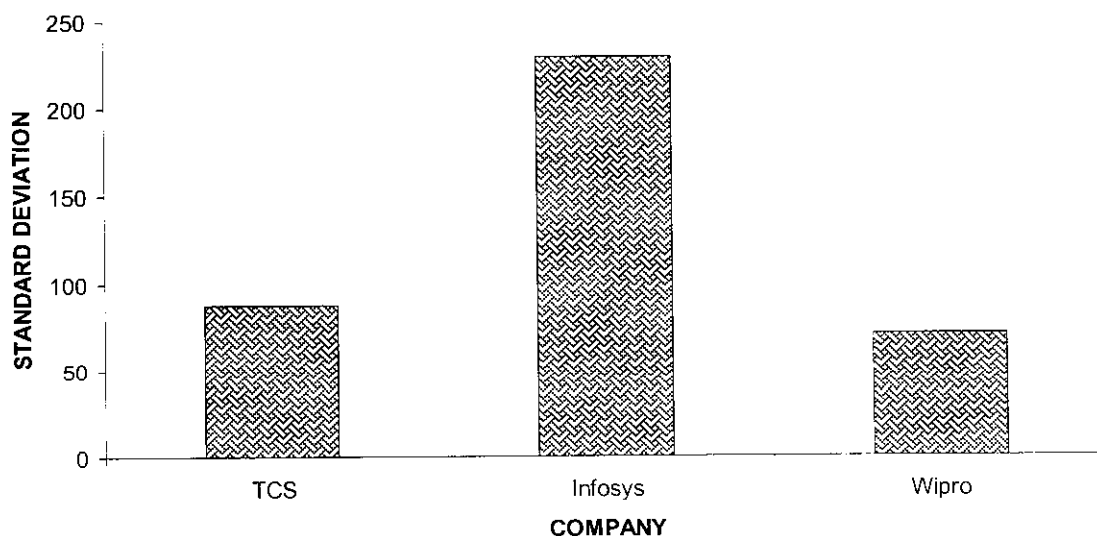
**TABLE NO. 3.3.4**  
**VOLATILITY IN PRICE**

Stock	Standard Deviation
TCS	87.48
Infosys	229.14
Wipro	70.94

### Interpretation

From the table, it is clear that Infosys is the most volatile stock with a standard deviation of Rs.229.14 per share. It is followed by TCS Rs.87.48 per share and Wipro 70.94 per share.

**CHART NO. 3.3.4**  
**VOLATILITY IN PRICE**



## BETA VALUE

### Formula

$$\text{Beta value} = \frac{\text{Covariance (Index, Stock)}}{\text{Variance (Index)}}$$

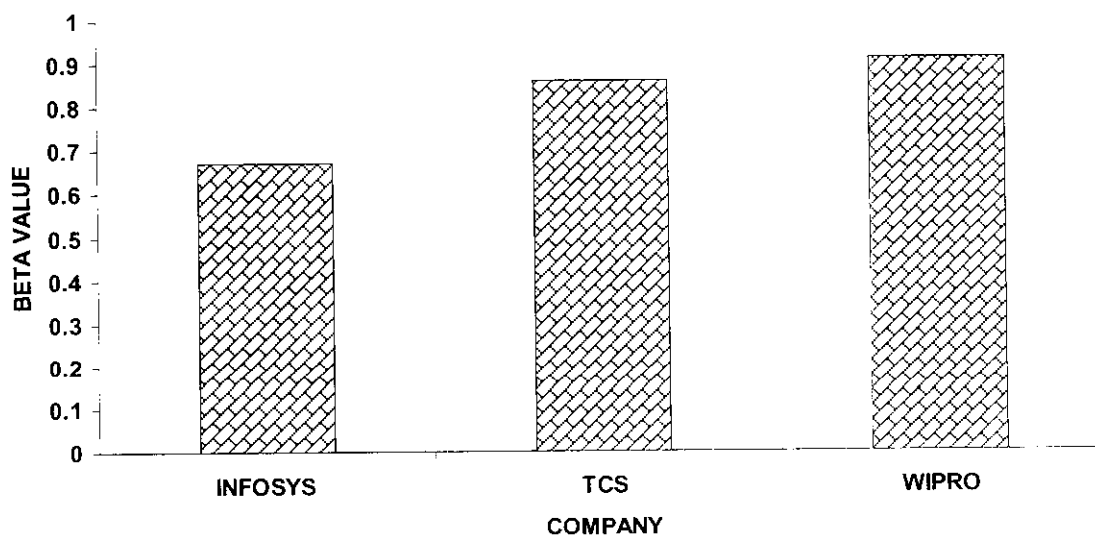
**TABLE NO. 3.3.5**

### BETA VALUE

Stock	Beta Value
INFOSYS	0.67
TCS	0.86
WIPRO	0.91

The above table indicates that Wipro is having the beta value at 0.91 and it is followed by TCS 0.876 and Infosys 0.67 respectively.

**CHART NO. 3.3.5**  
**BETA VALUE OF STOCKS**



### 3.4 STATISTICAL ANALYSIS

**Table No: 3.4.1**  
**Regression Between Standard Deviation (Volatility) and Beta Value**

#### Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Standard Deviation	.	Enter

a All requested variables entered.

b Dependent Variable: BETA

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.228 <sup>a</sup>	.052	-.896	.17437

a Predictors: (Constant), STDEV

#### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.002	1	.002	.055	.854 <sup>a</sup>
	Residual	.030	1	.030		
	Total	.032	2			

a Predictors: (Constant), STDEV

b Dependent Variable: BETA

#### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.771	.209		3.686	.169
	INCOME	3.314	.002	.228	.234	.854

a Dependent Variable: BETA

## CHAPTER IV

### SUMMARY

#### 4.1 FINDINGS

##### **Growth Potential:**

- ◆ TCS has the maximum Software revenue of 22,404 Crores for FY 08 - 09 with a growth rate of 39% on YOY Basis. It is followed by Wipro (21,507 Crs) and Infosys (20,264 Crs).

##### **Profitability:**

- ◆ Infosys having the maximum net profit for the year 2008-09 with 5,819 crores and it is followed by TCS with 4,696 Crores.
- ◆ Infosys having the highest gross profit ratio of 850.46 (in Crs). It is followed by TCS (24.80 (in Crs)) and Wipro (18.98 (in Crs).) respectively.
- ◆ Infosys has the high value of operating ratio 180.34 (in Crs). It is followed by TCS (11.55 (in Crs)) and Wipro (1.21 (in Crs)) respectively.
- ◆ Infosys giving an after-tax return (net profit margin) of 665.77 (in Crs). It is followed by TCS (20.73) (in Crs) and Wipro (13.83) (in Crs) respectively.
- ◆ Infosys has the Maximum Operating Profit ratio of 850.69 (in Crs) and it is followed by TCS with 24.84 (in Crs).
- ◆ TCS giving 32.67 (in Crs) return on total assets and it is followed by TCS with 26.02 (in Crs).
- ◆ TCS and Infosys have the same value of return on investment 0.38 (in Crs) for the year 2008-09 and followed by Wipro with 0.28 (in Crs).
- ◆ TCS giving 34.54 (in Crs) return of Shareholders' Funds while Infosys stands with 32.67 (in Crs).
- ◆ TCS having the maximum value of return on capital employed ratio 2597.64 (in Crs) and it is followed by Infosys with 2356.29 (in Crs).
- ◆ Infosys having the highest EPS at Rs. 97.74 / share. It is followed by TCS (Rs.45.53 / share) and Wipro (Rs.19.62 / share)

**Liquidity:**

- ◆ None of the IT companies' are maintaining Ideal current ratio. The best is from Infosys with 4.72 (in Crs) and worst from Wipro with 1.82 (in Crs).
- ◆ Infosys has absolute liquidity ratio of 1.73 (in Crs) and it is followed by Wipro with 0.59 (in Crs), TCS with 0.46 (in Crs).
- ◆ Wipro has Debt-Equity ratio of 0.37 (in Crs). The other two companies have a debt proportion close to zero.
- ◆ Infosys having the Interest Cover ratio of 3370.5 (in Crs). It is followed by TCS 691.82 (in Crs) and Wipro 19.03 (in Crs) respectively.
- ◆ Infosys has the proprietary ratio of 1.00 and it is followed by TCS with 0.75 (in Crs), Wipro 0.71 (in Crs) respectively.
- ◆ Wipro has 0.25 (in Crs) fixed assets to proprietor's fund. It is followed by Infosys 0.21 (in Crs) and TCS 0.20 (in Crs) respectively.
- ◆ Wipro has 1.08 (in Crs) of Current Assets to Proprietor's Ratio. It is followed by Infosys 0.88 (in Crs) and TCS with 0.69 (in Crs) respectively.
- ◆ Wipro has the maximum Solvency Ratio of 0.42 and It is followed by TCS with 0.20, Infosys 0.19 respectively

**Price Movement:**

- ◆ The highest trade price of Infosys is Rs. 1767.95 the lowest trade price is Rs. 1156.60 and the average trade price is Rs. 1396.32.
- ◆ The highest trade price of TCS is Rs. 698.10, the lowest trade price is Rs. 369.75 and the average trade price is Rs. 518.03.
- ◆ The highest trade price of Wipro is Rs. 399.25, the lowest trade price is Rs. 218.50 and the average trade price is Rs. 288.07.
- ◆ Wipro is the most consistent share with a standard deviation of 70.94 per share and Infosys is the most inconsistent share with a standard deviation of 229.14 per share.
- ◆ Wipro has the Beta Value of 0.91, TCS 0.86 and Infosys 0.67 respectively.

## 4.2 SUGGESTIONS

Based on the findings of the study, the researcher recommends the following suggestions for various types of investors',

### **For Intra-day Investors':**

- ◆ The Beta Value for Wipro is 0.91, TCS is 0.86 and for Infosys is 0.67. Investors' trading on daily basis can go for a long (buying and selling) with Wipro during the upward trend of the market. During downward trend it can go for a Short (selling and buying) with Infosys.

### **For Short-term Investors':**

- ◆ Wipro has a standard deviation of 70.94 per share. Short term investors can invest in Wipro which carries optimum risk and returns.

### **For Medium-term Investors':**

- ◆ TCS shows consistent growth in price. So medium-term investors' can invest in TCS to get good returns in the medium term. Apart from TCS, Infosys is very good in fundamentals. Even though the price movement is very inconsistent it shows good financial results. So, returns in the form of dividend, bonus issues can be expected from Infosys.

### **For Long-term Investors':**

The long-term investors' have to adopt 'wait and watch' approach for any investment in IT sector due to the following reasons

- ◆ All the three companies' except TCS are getting majority of revenue from Software Development. Even though it is a huge income it is a non-recurring item. There is no guarantee that the same amount of revenue will be generated in the long-term. TCS is getting majority of revenue from Software maintenance. But it is also getting sizeable portion revenue from Software development.

- ◆ America is acting as the hub for the IT companies' and it contributes nearly 60% of the revenue. This is a threatening fact considering the recent depreciation in the value of US Dollar against the India Rupee. The value of US Dollar was around 48 rupees during July 2009. Since then, there is a constant depreciation in the value of Dollar (Current Rate = 46 rupees). If the same rate of depreciation continues, it will affect profits and competitive advantage of the Indian IT Sector. If India becomes a super power in 2020, there will be a huge depreciation in the value of Dollar or the appreciation (of Dollar against Indian Rupee) will not be on par with the raising inflation rate. So, long-term investments should be avoided.



### 4.3 CONCLUSION

All the three IT Companies' taken for study are giving consistent and positive results. The growth rate in profits and revenue is over 25% which is better when compared with other industries.

Among three companies, Infosys has the potential to retain its leadership in the industry. Even though it is the most inconsistent script in the capital market, it is very strong in the fundamentals. Infosys Technologies has reported a 29% year-on-year increase in its Q4 net profit on improved operating margins. Infosys reported first quarter revenue of Rs.5,472 crore, a 12.7 per cent growth when compared with the same period of last year. Though Infosys succeeded in reducing the dependency on U.S in the past quarters, this quarter revenue from US rose to 64.5% (It was 61.5 in the previous quarter and 62.5 a year back). Product sales saw a huge increase to 4.2% - it increased by 16% from the previous quarter. With the results beating market estimates, Infosys shares rose 2.97 per cent to Rs.1,726.50 on the bourses. Other IT stocks like Wipro and TCS also gained ground in a weak market.

Considering the current performance in the stock market and fundamentals, Infosys is considered to be the ideal stock to invest.

## APPENDICES

### BALANCE SHEET OF TCS

PARTICULARS	SCHEDULE	31/3/2005 (Rs in Crores)	31/3/2006 (Rs in Crores)	31/3/2007 (Rs in Crores)	31/3/2008 (Rs in Crores)	31/03/2009 (Rs in Crores)
<b>SOURCES OF FUNDS</b>						
Shareholders' Funds						
Share Capital	A	48.01	48.93	97.86	197.86	197.86
Reserves and Surplus	B	3273.04	5560.4	7961.13	10806.95	13248.39
Loan Funds						
Secured Loans	C	111.01	26.52	41.76	9.27	32.63
Unsecured Loans	D	9.73	8.98	8.98	8.98	7.74
<b>Total Funds Employed</b>		<b>3,441.79</b>	<b>5,644.83</b>	<b>8,109.73</b>	<b>11,023.06</b>	<b>13,486.62</b>
<b>APPLICATION OF FUNDS</b>						
Fixed Assets	E	908.16	1169.78	1460.61	1940.53	2669.08
Investments	F	1404.42	1963.52	3252.04	4509.33	5936.03
Capital Work in Progress	G	120.28	280.00	757.85	889.74	685.13
Current Assets	H	2315.11	3991.09	5206.78	7329.57	9247.14
Current Liabilities	I	1241.86	1720.68	2544.55	3591.57	4951.31
Net Current Assets (H-I)	J	1073.25	2270.41	2662.23	3738.00	4295.83
Deferred Tax	K	-64.32	-38.88	-23.00	-54.49	-99.40
<b>Total Assets (NET)</b>		<b>3,441.79</b>	<b>5,644.83</b>	<b>8,109.73</b>	<b>11,023.11</b>	<b>13,486.67</b>

## BALANCE SHEET OF INFOSYS

PARTICULARS	SCHEDULE	31/3/2005 (Rs in Crores)	31/3/2006 (Rs in Crores)	31/3/2007 (Rs in Crores)	31/3/2008 (Rs in Crores)	31/03/2009 (Rs in Crores)
<b>SOURCES OF FUNDS</b>						
Shareholders' Funds						
Share Capital	A	135.00	138.00	286.00	286.00	286.00
Reserves and Surplus	B	5107.00	6759.00	10876.00	13204.00	17523.00
Loan Funds						
Secured Loans	C	0.00	0.00	0.00	0.00	0.00
Unsecured Loans	D	0.00	0.00	0.00	0.00	0.00
<b>Total Funds Employed</b>		<b>5,242.00</b>	<b>6,897.00</b>	<b>11,162.00</b>	<b>13,490.00</b>	<b>17,809.00</b>
<b>APPLICATION OF FUNDS</b>						
Fixed Assets	E	1177.00	1562.00	2150.00	2671.00	3799.00
Investments	F	1329.00	876.00	839.00	964.00	1005.00
Capital Work in Progress	G	318.00	571.00	957.00	1260.00	615.00
Current Assets	H	3730.00	6049.00	8961.00	12227.00	15593.00
Current Liabilities	I	1346.00	2217.00	1824.00	3731.00	3305.00
Net Current Assets (H-I)	J	2384.00	3832.00	7137.00	8496.00	12288.00
Deferred Tax	K	34.00	56.00	79.00	99.00	102.00
<b>Total Assets (NET)</b>		<b>5,242.00</b>	<b>6,897.00</b>	<b>11,162.00</b>	<b>13,490.00</b>	<b>17,809.00</b>

## BALANCE SHEET OF WIPRO

PARTICULARS	SCHEDULE	31/3/2005 (Rs in Crores)	31/3/2006 (Rs in Crores)	31/3/2007 (Rs in Crores)	31/3/2008 (Rs in Crores)	31/03/2009 (Rs in Crores)
<b>SOURCES OF FUNDS</b>						
Shareholders' Funds						
Share Capital	A	140.71	285.15	291.80	346.30	293.00
Reserves and Surplus	B	4751.73	6135.30	9025.10	11260.40	12220.40
Loan Funds						
Secured Loans	C	21.59	45.06	23.20	4.00	0.00
Unsecured Loans	D	40.50	5.10	214.80	3818.40	5013.90
<b>Total Funds Employed</b>		<b>4,954.53</b>	<b>6,470.61</b>	<b>9,554.90</b>	<b>15,429.10</b>	<b>17,527.30</b>
<b>APPLICATION OF FUNDS</b>						
Fixed Assets	E	907.96	1118.25	1645.90	2282.20	3179.60
Investments	F	2859.51	3459.20	4348.70	4500.10	6884.50
Capital Work in Progress	G	250.24	612.36	989.50	1335.00	1311.80
Current Assets	H	2611.84	4038.54	6360.10	12006.40	13518.30
Current Liabilities	I	1706.88	2795.88	3832.40	4742.30	7423.10
Net Current Assets (H-I)	J	904.96	1242.66	2527.70	7264.10	6095.20
Deferred Tax	K	31.86	38.14	43.10	47.70	56.20
<b>Total Assets (NET)</b>		<b>4,954.53</b>	<b>6,470.61</b>	<b>9,554.90</b>	<b>15,429.10</b>	<b>17,527.30</b>

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