

AN ANALYTICAL STUDY ON STOCK INVESTMENT SELECTION WITH REFERENCE TO INFOSYS COMPANY

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ABSTRACT

The present study is based on the secondary data. The idea was incepted in the author to write an article to create the awareness about the benefits of financial education. So, the best blue chip company so called Infosys has been selected. The fundamental analysis is the main theme of the paper. It is basic duty of the investor to study the fundamental and technical factors before deciding to invest in any kind of stock. The present study is limited to fundamental analysis of Infosys. The screener web site has been used for the purpose of fundamental analysis. The main findings of the study are, the ROE is excellent over long term investments, Infosys company has almost all pros and cons are very less, it is a premier company among the peers such as TCS, Wipro, Mindtree, L & T Infotech etc. The growth rate of revenue is tremendous and the existence of Infosys across the globe is glorious. Infosys is one of the best blue chip company for the purpose of investment. But it suggested using the due diligence of the investor before investing his money. It is also suggested to the young investors to change their spending pattern on un-essentials and they can shift their money in the investment in Infosys shares. The anniversaries like birth day, marriage and other happy movements can be enjoyed by adding shares of Infosys in the D. Mat account.

Keywords: ROE, Peer Comparison, CAGR, IPO.

Introduction

Infosys Limited is an Indian based IT company, located its headquarters in Bengaluru, Karnataka, and established at Pune in the year 1981, which offers information technology, Business consulting and outsourcing services. It was founded by seven engineers with an investment of 250 dollars in India. Mr. Narayan Murthy borrowed Rs. 10,000 from his wife. It is a pioneer in offering innovative solutions to its clients. The company offers a wide range of software services, namely application development and maintenance, corporate performance management, independent validation services, infrastructure services, packaged application services and product engineering and systems integration. It has a presence in 46 countries across 220 locations.

Tools & Techniques used in Fundamental Analysis

Fundamental and Technical analysis are main two tools used by the investors to decision about investment in a particular share. Technical analysis is a little technical and cannot be understood by a common man. So, the present study is focusing on only fundamental analysis. It is very simple and easy to understand. Many youtube videos, websites and google literature is available to the interested learner. But the learner has to divert his distraction from social media like Television and Mobiles to stock investment learning. The Fundamental Analysis can be done by any stream of learners such as Commerce, Arts and Science. *The present study is made use of screener website for the purpose of fundamental analysis.*

- **Basics**

The main basics such as market capitalization has to be observed by the investor before seeing any other thing in this website. This market cap is helpful to know the size of the company. The present market cap of Infosys is ₹ 614,855 Crore. The other details in this section are tabulated as below:

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Sl. No.	Criteria	Statistics
1	Current price	Rs. 1,461
2	52 Week High/Low	Rs. 1,954/Rs. 1,362
3	Stock P/E ratio	28.0
4	ROCE	37.1%
5	ROE	29.0%

The above table reveals that the share of Infosys is very affordable to the retail investors since its current market price is very amicable to pay. The share price is not too costly as like MRF, Nestle and Baja Finance which are crossed four digits. The ideal stock PE ratio is 25%. Infosys is good for investment since its stock PE ratio is very near to the idea ratio. The ROE is handsome since it is giving 29% growth annually.

- **Chart**

The chart is too simple to read and easy to understand. It provides details of share price since one month, six months, one year, three years, five years, ten years and maximum sixteen years. The chart also provide details of 50 Day Moving Average, 200 Day Moving Average and the volume traded in National Stock Exchange. The price history of the Infosys in the chart says that there is an exponential growth of share over sixteen years.

- **Pros and Cons**

This section is helpful to compare the merits and demerits of every company. Since the present study is limited to Infosys, the following table provides the Infosys details.

Pros	Cons
Company is almost debt free.	Stock is trading at 8.16 times its book value
Company has a good return on equity (ROE) track record: 3 Years ROE 27.24%	Promoter holding is low: 13.11%
Company has been maintaining a healthy dividend payout of 54.29%	

The above reveals that Infosys Company is investor friendly since it is almost debt free. It has great ROE more than 25% over long term. The only drawback is the promoter shareholding which is less than 25%.

- **Peer comparison**

This section is helpful to do comparative study among the competitors. So, it is very helpful to select a particular company in a particular sector.

Sl. No	Name	CMP	PE Ratio	M. Cap (Crore)	ROCE (%)
1	TCS	3261.30	31	1193326	55
2	Infosys	1461.35	28	614854	37
3	HCL	1003.90	20	272425	26
4	Wipro	466.95	20	255995	21
5	Tech Mahendra	1123.25	20	109200	27
6	L & T Infotech	3998.00	30	70087	36
7	Mindtree	2866.40	29	47249	42

The above table reveals certain important details that Infosys is the best company for the investment since it is the second topper in Market Capitalization, ROCE and PE Ratio. Giving 37% return annually is a great point of Infosys. So, an innocent investor also invest in Infosys and forget his investment over 10 – 20 years.

- **Quarterly Results**

Details	June 2020	Sep 2020	Dec 2020	March 2021	June 2021	Sep 2021	Dec 2021	March 2022
Sales	23,665	24,570	25,927	26,311	27,896	29,602	31,867	32,276
Operating Profit	6,121	7,083	7,415	7,271	7,432	7,831	8,383	7,846
PBT	5,792	6,750	7,151	6,935	7,176	7,448	7,943	7,543

There is continuous growth in sales and profit. This is helpful for predicting about next five to ten years sales and profits. Sales is the main source of income to every business sector. It is the main decision factor also for deciding either to invest or not in Infosys Company. This indicates to the investor to simply buy the stock without postponing the stock investment.

- **Growth & ROE**

	Compounded Sales Growth (%)	Compounded Profit Growth (%)	Stock Price CAGR (%)	Return on Equity (%)
10 Years	14	10	17	25
5 Years	12	9	24	26
3 Years	14	13	26	27

The above table indicates Infosys is not only the BEST stock, it is also SWEETEST stock to invest. The decision criteria is it growing constantly in spite on natural calamities like Covid lock down, Russia – Ukraine War. There is tremendous growth over three, five and ten years in the sales, profit and CAGR. The return given by the Infosys stock is above 25% over 10 years. It is better than any fixed deposit, chit fund or debt investment.

- **Balance Sheet**

Details	March 2015	March 2016	March 2017	March 2018	March 2019	March 2020	March 2021	March 2022
Share Capital	572	1,144	1,144	1,088	2,170	2,122	2,124	2,098
Reserves	50,164	60,600	67,838	63,835	62,778	63,328	74,227	73,252
Borrowings	0	0	0	0	0	4,633	5,325	5,474
Fixed Assets	11,346	13,386	14,179	12,574	15,710	23,789	25,505	25,800
Investments	2,270	1,892	16,423	12,163	11,261	8,792	14,205	20,324

These is a good learning from the above table which indicates that there is exponential growth in share capital, reserves and surplus, borrowings are almost least which is a good sign of solvency. Fixed assets like land and buildings, plant and machines and furniture are increasing very strongly. This is providing a safety and liquidity to the investor's amount.

- **Share Holding Pattern**

Details	June 2020	Sep 2020	Dec 2020	March 2021	June 2021	Sep 2021	Dec 2021	March 2022
Promoters (%)	13.15	12.95	12.95	12.95	12.95	13.12	13.12	13.11
FIIIs (%)	30.47	31.31	32.26	32.67	33.39	33.46	33.17	33.30
DIIIs (%)	25.43	24.97	23.75	23.10	21.98	15.66	16.31	17.10
Public (%)	30.53	30.37	30.66	30.92	31.32	37.41	37.06	36.16

Factors to be Considered in Fundamental Analysis

The investor has to study the growth rate sales and profit, there should be increase in assets and decrease in liabilities. The ratios like sector and individual PE ratio, previous dividends, bonus issue, rights issue and share splits. Market capitalization to know the status of blue chip companies. Market share to know the driver seat in the market, share price trend over one year to 10 years. The share price trend line over long term. The quality of management and passion of promoters will also be studied. The government policies in the recent budgets, the GST concession to the particular company is also helpful for stock selection decision. The stability of political party is the macro factor. Last but not least is the business model. Infosys is the best company in all these factors for the investment.

Five Things to know about Infosys

There are five main things about Infosys Company. It is very helpful to the investor which create confidence of the investor. The five important investor friendly points are

- **Started with Small Investment but it has Large Investment today**

Infosys was founded by seven engineers in Pune, Maharashtra, India with an initial capital of \$250 in 1981. It was registered as Infosys Consultants Private Limited on 2 July 1981. It has today a big market capitalization of Rs. 614854 crores. It is the second largest among IT sector.

- **Under-subscribed IPO**

It went onto IPO in 1993 with Rs. 10 face value. It has fixed Rs. 85 share premium and issue price was Rs. 97. The IPO was under-subscribed, it was subscribed only to the extent of 87%. So, the then under-writer Morgan Stanley has taken remaining 13% of IPO forcibly.

- **Indian First Company**

Infosys is the first Indian company which was listed in a foreign country's stock exchange. It was listed in NASDAQ. It was listed in the year 1999. It boosts the Indian investors as well foreign investors to invest in Infosys company.

- **Bonus and Share Splitting**

The greatest saying of Infosys is its history of issue of Bonus share and share splitting. The issue of bonus shares since its inception is tabulated below.

Sl. No.	Year	Number of shares
1	1993	Listed in BSE & NSE
2	1994	1
3	1997	1
4	1999	1
5	2000 (Share Split)	1
6	2004	3
7	2006	1
8	2014	1
9	2015	1
10	2018	1

Analysis of Bonus Share Issue of Infosys with an Example

Let us assume an investor has 100 shares in his account in 1993. His investment growth can be shown in the following table.

Sl. No.	Year	Number of shares	No. Shares
1	1993	Listed in BSE & NSE	100
2	1994	1	200
3	1997	1	400
4	1999	1	800
5	2000 (Share Split)	1	1,600
6	2004	3	6,400
7	2006	1	12,800
8	2014	1	25,600
9	2015	1	51,200
10	2018	1	1,02,400

The initial investment of the share holder in the year 1993 is Rs. 9,700 (i.e., 100 shares x Rs. 97 per share). Today's his total investment will be Rs. 15,36,00,000. It excludes the dividend income paid four to five times every year. No bank fixed deposit provide this much income over the span of 30 years. This is the miracle done by Infosys.

- **Employee's Stock Option Plan (ESOP)**

It was the only one company among a few companies which has given ESOP facility to its employees. It offered this facility to all category of employees. It is said that one of the driver of Infosys company is crorepathi today who has bought shares under this scheme.

Scope of the Study

The present study focus on guiding beginners in share market. So, fundamental analysis of Infosys done. The websites like Screener and Tickertape are studied. Best advices are given to learners who have keen interest to invest through fundamental analysis.

Findings and Suggestions

- Infosys is the best and sweetest company to the investor. So, it is suggested to the future investors to invest and forget over long term more than 10 years.
- The fundamentals of the Infosys is very strong among blue chip companies. So, investor can be confident about his investment. He can hold the present shares. In addition, he can add shares of Infosys in every dip.
- It is also suggested to the young investors to change their spending pattern on un-essentials and they can shift their money in the investment in Infosys shares. The anniversaries like birth day, marriage and other happy movements can be enjoyed by adding shares of Infosys in the D. Mat account.
- It is found that Infosys investment has highest safely it is indexed in the Sensex and Nifty. Further it is also listed in foreign stock exchanges. This is the highest security which is better than bank fixed deposits.
- Infosys is offering more than 25% CAGR which is very attractive and better than any bank's fixed deposit.

- But, it is also our investment advice. But it is the duty of the individual investor to use their own diligence before investing their money into Infosys. So, it is suggested to all readers and investors to apply their practical knowledge before investing. Finally, it is the responsibility of individual investor and the responsibility and blaming cannot be transformed to the author of this article.
- The price line in the chart is creating interest to invest the money into Infosys. It shows the exponential growth trend. The small and medium caps will not show this trend line.
- Infosys is the second best company among its peers in the matter of market cap, ROE and PE ratio. So, the investors can select the Infosys company for the investment purpose.
- The quarterly results since 2020 is showing an excellent growth of sales and profit in spite Covid Pandemic situation. So, the investor can decide bravely to invest in Infosys company.
- It is found the Infosys share price is very affordable to buy by the retail investor to invest around Rs. 1,500 per share. This happened since share split was done in the year 2000.
- There is beauty to see the balance sheet of Infosys. There is continuous improvement in share capital, reserves and surplus, borrowings and fixed assets. This creates motivation to the investors in the share market.
- It was first time in the history of companies one of the HR policy in the period of Infosys Narayana Murthy. He voluntarily put a cap on his remuneration. The HR policy goes this: "My salary should not be more than 20 times of entry level employee". It is concern on every employee. But the immediate next CEO & MD, Mr. Visha Sikka squashed this HR policy during his period. This is the major that why every employee like and love Mr. Narayana Murthy even today.
- Infosys proved that with a small capital, huge multinational company can be built. The required parameters are ethics and hard work.
- It is great finding of the study that Infosys has great history of Bonus share issue. It boosts every reader of literature to take part in capital investment in the form of equity.
- It was the only one company among a few companies which has given ESOP facility to its employees. It offered this facility to all categories of employees.

Conclusion

From the above data study, it can be concluded that people must be rightly educated in finance. It is the duty of government to provide right kind of financial education to common people about savings and investment benefits. But the government effort be waste unless and other co-operated by the individual. So, people have to invest their money as well as their precious time to learn the basics of share investment. It is not limited to commerce graduates. The share investment can be learnt by even non-commerce people. Many websites and financial facilities are available to the investors. Finally, it is concluded that investors should not follow the slogan of ANALYSIS, ANALYSIS to become PARALYSIS. They should take moderate risk; they should learn the basics of investment and invest and they can create their own financial freedom.

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