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Dr. P Pon Meenakshi
Professor, Department of
Management Studies, Nehru
College of Management,
Thirumalayampalayam,
Coimbatore, Tamil Nadu,
India

Dr. V Suresh Kumar
Associate Professor,
Department of Management
Studies, Nehru College of
Management,
Thirumalayampalayam,
Coimbatore, Tamil Nadu,
India

Dr. R Moses Daniel
Principal, Department of
Management Studies, Nehru
College of Management,
Thirumalayampalayam,
Coimbatore, Tamil Nadu,
India

Bhavya U
MBA Final Year Student,
Department of Management
Studies, Nehru College of
Management,
Thirumalayampalayam,
Coimbatore, Tamil Nadu,
India

Correspondence Author:
Dr. P Pon Meenakshi
Professor, Department of
Management Studies, Nehru
College of Management,
Thirumalayampalayam,
Coimbatore, Tamil Nadu,
India

A study on fundamental and technical analysis of stocks in it sectors

P Pon Meenakshi, V Suresh Kumar, R Moses Daniel and Bhavya U

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Abstract

This study focuses on Fundamental and Technical Analysis of five leading IT companies TCS, Infosys, HCL Tech, Wipro, and Tech Mahindra listed on Nifty 50. Fundamental analysis is conducted using tools like Economic, Industry, and Company analysis, PE Ratio, and DCF Valuation, while Technical analysis uses RSI, MACD, and Bollinger Bands. Based on secondary data, the study concludes that fundamental analysis helps minimize risk and maximize returns, whereas technical analysis guides investors in making informed buy or sell decisions.

Keywords: Fundamental analysis, economic, industrial, company analysis, PE ratio, DCF valuation, technical analysis, RSI, MACD, BB

Introduction

India, being one of the fastest-growing economies and a major investment hub, offers vast opportunities in its capital market. To minimize risk and maximize returns, investors must analyze market trends and company performance before investing. Security analysis, through fundamental and technical analysis, helps in making informed decisions. Fundamental analysis evaluates a company's intrinsic value using economic, industry, and financial data, guiding long-term investments. Technical analysis, using tools like RSI, MACD, and Bollinger Bands, studies past price and volume trends to determine the right time to buy, hold, or sell stocks. Together, these analyses help investors and brokers make profitable and well-informed investment choices.

Objectives

- To carry out fundamental and technical analysis of selected IT stocks.
- To know the future movement of selected companies' shares through fundamental and technical analysis.
- To take short term and long-term investment decision.
- To obtain knowledge on selecting right companies for investment.

Limitations of the study

- The study is limited only to IT sector.
- Fundamental Analysis is used to analyze only financial performance of the companies.
- Only Technical Analysis is used to predict the stock prices of the companies.
- The data collected is secondary in nature.
- Future is uncertain so make decision based on secondary data is one kind of risk.

Review of Literature

1. Liugita, Salsabila, and Meythi (2024) ^[1] suggested that "Fundamental Analysis and Technical Analysis in Investment Decision Making" (Global *et al.*, 2024, p. 1) explores the use of both technical and fundamental analysis in investment choices. The goal of the study is to comprehend how both approaches are used in practice as well as how they might be used in tandem. The authors emphasize the diverse time periods and data sources of technical and fundamental analysis in order to acknowledge their unique characteristics.

The study's conclusions advance our knowledge of the practical applications of fundamental and technical analysis, but more investigation is required to identify the best integration approach and how it affects investment success.

2. Snehal Shah & Ayush Ajmera (2022) ^[8] investigated the growing trend of equity investments in India driven by inflation exceeding savings interest rates. As awareness of the stock market increases due to SEBI and government initiatives, investors are gradually shifting from traditional options like FDs and PPFs to equities and mutual funds. The study highlights the importance of fundamental and technical analysis in managing market risk and volatility. Using secondary data from sources like Moneycontrol, they analyzed 10 companies across five sectors IT, Banking, Automobile, Health, and Infrastructure. Their findings underscore the role of both analyses in investment decisions and provide a sector-wise performance and investor preference ranking.

3. P. Venkatesh & Krishna Sudheer (2021) ^[9] conducted a technical analysis study focusing on selected steel sector stocks to evaluate their price behavior and investment potential. The research highlights that technical analysis plays a crucial role in understanding supply-demand dynamics, identifying undervalued or overvalued stocks, and recognizing major market turning points. Using secondary data, the study applied tools such as candlestick charts, simple moving averages, Rate of Change (ROC), and Relative Strength Index (RSI) to assess whether a stock is technically strong and suitable for buying or selling. The authors argue that even fundamentally strong stocks require technical evaluation to determine the right entry or exit points. Their findings reinforce the value of technical indicators in guiding timely investment decisions and enhancing the effectiveness of stock selection.

4. Adebayo Felix Adekoya & Benjamin Asubam Weyori (2020) ^[10] conducted a systematic review of 122 studies from 2007 to 2018 on stock market prediction using machine learning. The review categorized the research into technical, fundamental, and combined analysis methods. It found that 66% of studies focused on technical analysis, 23% on fundamental, and only 11% used a combined approach. Most studies relied on single data sources and used algorithms like Support Vector Machines and Artificial Neural Networks. The study highlights the growing use of machine learning in financial prediction and the dominance of technical analysis in such models.

5. Detzel Andrew, Liu Hong, Strauss Jack, Zhou Guoth, Zhu Yinhzi (2020) ^[11] suggested in their study "Learning And Predictability Via Technical Analysis: Evidence From Bitcoin And Stocks With Hard To Value Fundamentals" studied how technical analysis is helpful in predicting the future price movements of assets with hard to value fundamentals, for example, Bitcoin, Cryptocurrencies, and stocks of a new company with a limited fundamental available. They also used price to moving average ratio of daily Bitcoin prices to analyze bitcoin returns. For conducting research, the researchers have taken daily Bitcoin prices in different stock exchanges in the world as data and analyzed them. The researchers concluded that the future price movements and trade volume is predictable by using the moving average of price. Simple real-time strategies can be adopted to make buy and sell decisions

based on the prediction. Price to moving average ratio is also helpful in forecasting the return on the stocks. The researchers also stated that similar results can be concluded for small-cap, young firms, and low-analyst coverage stocks.

Research Methodology

The study is descriptive research because researchers want to prepare and analyse the existing facts, figures, charts given in the company websites and price movement of selected IT Companies. The research is fully based upon secondary data and the data was collected from internet because the data has already been collected through primary sources and made readily available for researchers to use for their own research i.e. IT Companies which are listed in Nifty 50. In fundamental analysis, the data are collected for past 5 years and in technical analysis, the movement of shares are recorded on a daily basis.

Selection of the sample

Samples were selected from the top five IT companies which are listed in Nifty 50. The companies selected are:

1. Tata Consultancy Services Ltd.
2. Infosys Ltd.
3. Tech Mahindra Ltd.
4. HCL Technologies Ltd.
5. Wipro Ltd.

Research Design

A research design is a map developed to guide the research. It is the part of the planning stage of research, a blueprint for the collection, measurement, and analysis of data.

Data Collection Method

Secondary data

Secondary data refers to information that has already been collected and published by others. For this project, secondary data is mainly used for quantitative analysis both fundamental and technical.

Fundamental Analysis Tools

- PE Ratio
- DCF Valuation
- Statistical Tools Used in Technical Analysis:
- Relative Strength Index (RSI)
- Moving Average Convergence Divergence (MACD)
- Bollinger Band

Findings

1. Price to Earnings Ratio (P/E)

- TCS - 22.18, Infosys - 22.1, Wipro - 19.2, HCL Tech - 23.81, Tech Mahindra - 32.1.
- Tech Mahindra has the highest P/E, indicating strong growth expectations, while Wipro has the lowest, showing undervaluation.

2. Discounted Cash Flow (DCF)

TCS and Infosys are slightly overvalued, HCL Tech is fairly valued, while Wipro and Tech Mahindra are undervalued good options for long-term investment.

3. Relative Strength Index (RSI)

TCS shows neutral momentum; Infosys, Wipro, HCL Tech, and Tech Mahindra show bullish to overbought trends, indicating strong buying interest.

4. Moving Average Convergence Divergence (MACD)

All five companies show positive MACD values, confirming continued bullish momentum and investor confidence.

5. Bollinger Bands

All stocks trade near the middle band, showing stability with moderate bullish bias and potential for upward movement.

Suggestions

By analysing the IT industry with the help of fundamental analysis and technical analysis, it has been revealed that this industry has a potential to grow. So recommending investing in IT industry with no doubt is going to be a good and smart option because this industry is booming like never before not only in India but all over the world.

Long term investors can include these top five IT companies in his portfolio because the growth rates and earnings are good compared to other stocks. Therefore, investors can include this in their portfolio to earn the higher return on their investment.

Investing in TCS for long term could be a good option because they are spreading their business throughout the world.

An investor must take research about stock of company and previous year data before investing.

Conclusions

This study highlights that both fundamental and technical analysis are essential for making informed investment decisions. Fundamental analysis helps evaluate a company's financial strength and long-term potential, while technical analysis identifies short-term price trends and market movements. Together, they enable investors to reduce risk, maximize returns, and make smarter trading decisions in a fluctuating market.

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