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"THE RELATIONSHIP BETWEEN EARNINGS MANAGEMENT AND ITS IMPACT ON STOCK PRICES OF INDIAN GIANT IT COMPANIES"

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ABSTRACT

The purpose of this study is to examine the relationship between stock prices and earnings management in five significant Indian IT companies: Infosys, HCL Technologies, Wipro, Tata Consultancy Services (TCS), and Tech Mahindra. Financial data for the years 2020–2021 through 2024–2025 was gathered from publicly available sources, such as financial statements and historical stock price records. Stock prices and investor decisions can be greatly impacted by earnings management, which is modifying financial reporting to achieve particular goals. Using a qualitative and comparative methodology. Therefore, evaluates variations in earnings management practices among the selected companies and examines their relationship with stock returns. The findings imply that variations in earnings management could have an impact on market perceptions, which could alter investor behaviour and stock performance. The paper also addresses how India's corporate governance and regulatory framework affects profits management strategies, emphasizing the conflict between pursuing growth and profitability and preserving financial transparency. The results highlight the need for more robust monitoring systems to prevent profits manipulation and enhance market efficiency, and they provide significant insights for investors, regulators, and business managers.

Keywords: Financial statement analysis, cross-firm comparison, corporate governance structures, equity price dynamics, earnings management strategies, and the Indian information technology regulatory framework.

1. Introduction

1.1 Background of the study

Earnings management has been widely categorized as either accounting-based or real activities-based. Pure accounting choice, in which managers utilize their judgment and discretion to modify financial reporting, is the main emphasis of accounting-based earnings management (AEM). Real-activities based earnings management (REM), on the other hand, concentrates on management actions that deviate from standard business procedures, where transactions and activities are organized to fulfil desired results or thresholds **(Roychowdhury 2006).** However, Corporate managers utilize earnings management when they manipulate or abuse accounting regulations to present positive financial outcomes. In order to fulfill profit targets or maintain relatively constant reported income over time, this may entail altering revenues, expenses, and the timing of specific transactions. **Jin and Myers (2006),** asserted that cross-delisting's effect on the relationship between crash risk and earnings management is moderated by firm-level information asymmetry. A stock price fall is more likely in companies with higher degrees of information asymmetry. The practice of earnings management raises concerns about the integrity and transparency of financial reporting, even though it is not prohibited. In the context of corporate finance, this condu**ct** does affect how stakeholders especially investors perceive a company's financial situation. Therefore, **Kim, Liu and Yu (2016)** investigated that the positive relation between earnings management and stock price crash risk is expected to be amplified when the quality of existing information environment decreases. However, there is a number of factors that contribute to a poorer information environment. The study established positive relationship. When managers manipulate earnings they are often hoarding bad news like negative information about the firm from the market.

Earnings management techniques: the results show how each business manipulates and smoothen its earnings through revenue adjustment and accruals. A qualitative analysis has been carried out to determine the similarities and differences between the companies' aggressive earnings management. In order to gain some understanding of the financial accounting behaviour that leads businesses to engage in these practices, it is analysed that notable instances of these practices across enterprises.

- **Stock price behaviour:** The market's reaction to major events concerning earnings management, such as an announcement or restatement of profits, has been seen through analysis of stock prices. The primary query is whether the financial activity mentioned in these disclosures aligns with the market response. Tables and charts showing the movement of the stock price will be presented, along with an explanation of the financial events that were occurring at the time. For businesses, particularly IT companies, the stock price is crucial since it affects their market value, capacity to raise cash, and stakeholders. Investor confidence and growth potential depend on a stable or rising stock price, particularly for businesses like Infosys, TCS, HCL Technologies, Wipro, and Tech Mahindra where perception and innovation provide a competitive edge.

2. Literature Review

According to Boote and Beile (2005), "A literature review is an evaluative reports of studies found in the literature related to your selected area. The review should describe, summarize, evaluate and clarify the literature. It should give a theoretical basis for the research and help the researcher to determine the nature of the research." As a result, the current study examines pertinent research on **earnings management and how it affects Indian IT company's stock prices.**

2.1 Agency Theory

According to Jensen and Meckling (1976), an agency relationship is defined as a contractual arrangement wherein the principal designates another individual, referred to as the agent, to carry out tasks on their behalf, including making choices. A conflict of interest may arise if an agent does not operate in accordance with the principal's wishes since the contract between the principle and the agent inevitably creates a division between the shareholder as the principal and the management as the agent **(Wiyadi et al., 2015).**

Ball and Brown (1968) explored the link between stock prices and firm earnings and how the accounting earnings and economic information are related to stock prices. The analysis highlighted that earnings being a summary measure of a firm's underlying economic performance. As a result, stock prices tend to respond to changes in reported earnings because these earnings signals help the market reassess a company's intrinsic value.

Pastor and Stambaugh, (2003), Fang et al., (2009) advocated that stock liquidity leads to price informativeness that is future earnings are incorporated in the current stock prices. Therefore, managers should have less incentives to manage earnings, as stock price will not respond to earnings management **(Fields et al., 2001).** Consequently, high stock liquidity is associated with high earnings informativeness, shown by the earnings return relationships, where earnings should have an information role when the security is liquid. This implies that when a stock is liquid, the reported earnings play a significant, genuine information role that the market uses already largely anticipated information because the earnings are less likely to be misleading due to management efforts.

Sloan (1996) highlighted that stocks with great accruals, which implies that earnings are greater paralleled to cash from operations, experience a less return and less effect than stocks with low accruals, as a result investors focus on reported earnings, they are temporarily misled. The study suggested that firms with large accruals earnings are higher in relation to operating cash experience a lower return and less impact than stocks with low accruals. As a result, investors are momentarily misled and concentrate on reported earnings.

Vogt and Vu (2000) reported that accounting numbers in financial report are able to affect the evaluation of shareholders, investors, and prospective investors, so they will affect the corporate market value reflected on stock market value. It is stated that the evaluation of shareholders, investors, and potential investors can be influenced by accounting numbers in financial reports, which reflected in stock market value.

DeFond (2002) argued that when managers practiced opportunistic earnings management to boost the current period earnings, it will adversely affect the future performance of the firm and destroy the value of the firm in the market. The study claimed that managers' use of opportunistic earnings management to increase current period earnings would negatively impact the company's performance in the future and ruin its market value.

- **Research Objectives:**

Objective 1: (i) To examine the extent and nature of earnings management practices in leading Indian IT companies such as Infosys, TCS, Wipro, HCL Technologies, and Tech Mahindra.

Objective 2: (ii) To analyse the relationship between earnings management and stock price performance of selected Indian IT companies over the last five years.

Objective 3: (iii) To assess the impact of earnings management on stock price performance of the selected Indian IT companies.

3. Research Methodology:

- Information technology (IT) companies registered on the Indian Stock Exchange make up the population of this study. The study period that was looked at is 2021–2025.

3.1 Sample of the study

This quantitative study examines the connection between earning management strategies and changes in the stock prices of five leading IT firms, including Infosys, TCS, Wipro HCL Technologies, and Tech Mahindra, between 2021 and 2025. The method is based on a comparative examination of stock price data and publicly accessible financial documents (income, balance sheet, and cash flow).

3.2 Data Collection: Secondary data

Information from the annual reports and financial statements of Infosys, TCS, Wipro, HCL Technologies, and Tech Mahindra was used for data collection and analysis. Important topics including revenue recognition and accruals are highlighted in the analysis, along with the relationship between stock prices and earnings management.

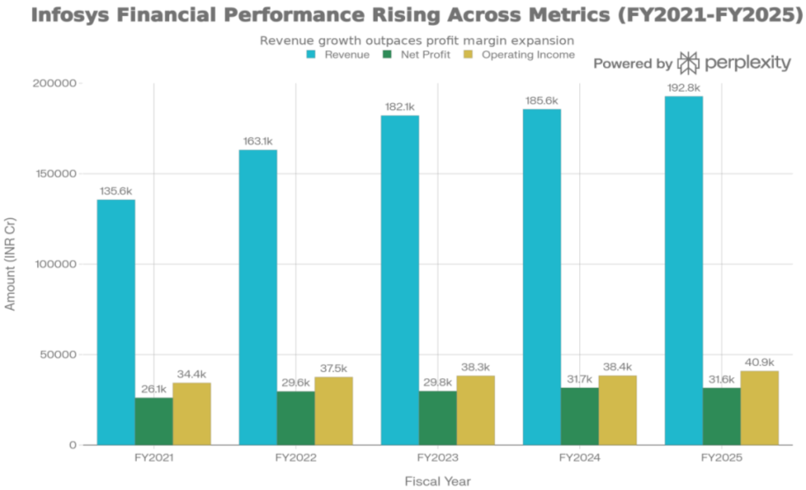
3.4 Financial Data (2021-2025):

The resource filings for the five companies such as **Infosys, TCS, HCL technologies, Wipro and Techmahindra** were used to collect financials factors calculated from the income, balance sheet and cash flow statements of each company are shown below.

a) Infosys:

Key Financial Metrics (Fiscal Years 2021–2025)

Fiscal Year	Revenue (₹ Crore)	Operating profit (₹ Crore)	Net Profit (₹ Crore)	EPS (₹)	ROE (%)
FY2020-21	100,472	27,889	19,423	45.61	35.00
FY2021-22	121,641	31,491	22,146	52.52	37.00
FY2022-23	146,767	35,130	24,108	57.63	40.00
FY2023-24	153,670	36,425	26,248	63.39	40.00
FY2024-25	162,990	39,236	26,750	64.50	38.00



Sources: Perplexity AI

Interpretation: Over the course of FY2021–2025, Infosys showed strong financial performance, with steady revenue growth despite slower growth rates. Profit margins were steady at 16–19%, demonstrating operational effectiveness in a cutthroat IT environment. Important conclusions show that cash generating strengths are counterbalanced by modest profitability increases.

Trends in Revenue:

From 135,610 Cr to 192,770 Cr, revenue increased at a compound annual growth rate of roughly 9%. Growth fell to 3.9% in FY2025 after reaching a peak of 20% in FY2022, indicating either market saturation or economic challenges. This tendency was probably driven by digital services.

Profitability Perspectives:

Due to growing expenses such as personnel costs, net profit margins decreased marginally from 19.3% to 16.4%. Overall, operating income increased by 19% thanks to cost cuts. In the face of wage inflation, stability implies efficient margin management.

Stock price performance from 2021 to 2025.

Year	Closing Price (₹)	High Price (₹)	Low Price (₹)	YoY Change (%)
2021	1,770	1,790	1,132	53
2022	1,445	1,832	1,284	-18
2023	1,517	1,566	1,135	5
2024	1,880	2,006	1,343	24
2025	1,505	1,983	1,307	-20

Sources: Tradingview.com

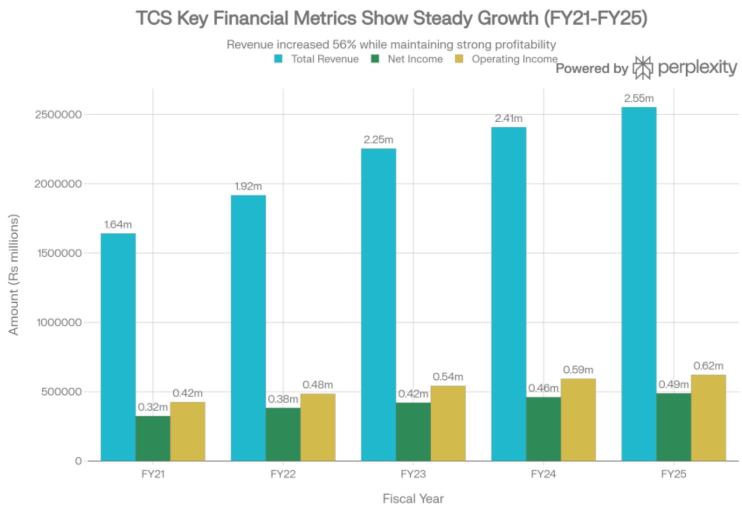
Interpretation:

Year-end closing prices increased from ₹1,770 in 2021 to a peak of ₹1,880 in 2024, but due to market volatility, they dropped to ₹1,505 by late 2025. The stock saw 52-week lows of about ₹1,307 in 2025 and an all-time high of ₹2,006 in December 2024. With a P/E ratio of roughly 24, the current price is close to ₹1,690.

b) Tata Consultancy Service: TCS

Key Financial Metrics (Fiscal Years 2021–2025)

Fiscal Year	Revenue (₹ Crore)	Operating profit (₹ Crore)	Net Profit (₹ Crore)	EPS (₹)	ROE (%)
FY2020-21	1,64,177	46,546	32,562	87.67	49.00
FY2021-22	1,91,754	53,057	38,449	104.75	54.00
FY2022-23	22,54,58	59,259	42,303	119.15	59.00
FY2023-24	240,893	64,296	46,099	126.88	64.00
FY2024-25	255,324	67,407	48,797	134.20	65.00



Sources: Perplexity AI

Interpretation: Over the last five fiscal years (FY21 to FY25), TCS has demonstrated consistent financial development, with total revenue rising from Rs 1.64 trillion to Rs 2.55 trillion. During the same period, net income increased from Rs 324 billion to Rs 488 billion, indicating steady profitability.

Trends in Revenue:

From FY21 to FY25, revenue increased at a compound annual growth rate (CAGR) of roughly 11.6%, fuelled by robust demand in industries including manufacturing and BFSI. In FY22, FY23, FY24, and FY25, growth rates were 16.9%, 17.5%, 6.8%, and 6.0%, respectively.

Profitability Perspectives:

Operating margins were 26–27%, while net profit margins was steady at 19–20%. In FY25, return on equity increased to 51.5%, demonstrating effective use of shareholder capital.

Stock price performance from 2021 to 2025.

Year	Closing Price (₹)	High Price (₹)	Low Price (₹)	YoY Change (%)
2021	3,754	4,040	3,000	34.9
2022	3,194	4,045	2,900	-4.1
2023	3,905	3,929	3,200	8.6
2024	4,155	4,586	3,500	7.9
2025	3,303	4,322	2,867	-23.8

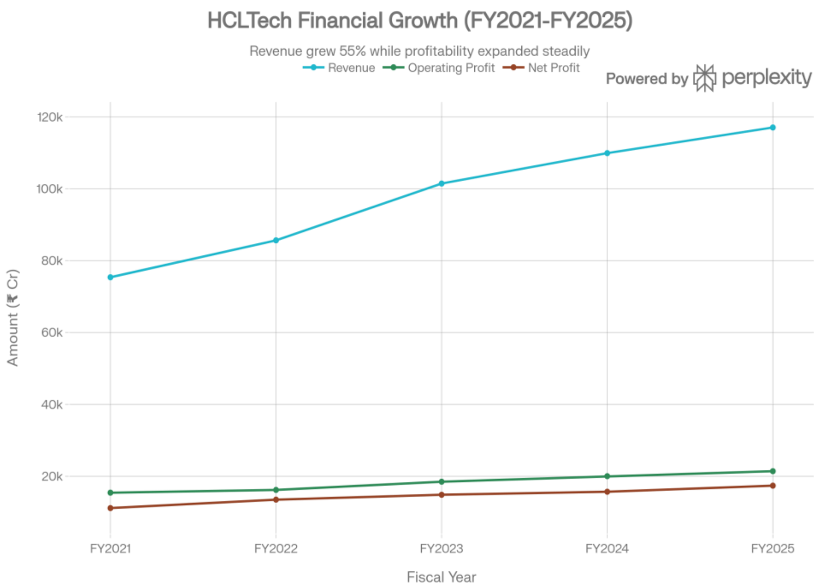
Sources: Tradingview.com

Interpretation: A steady dividend yield of 1.5–2% contributed to a total shareholder return of 25–35%, with a cumulative price return of roughly 15–20% and a modest CAGR of ~3% per year. The stock traded at Rs 3,123 below important moving averages (50-day: Rs 3,203; 200-day: Rs 3,215) after peaking close to Rs 4,586 in 2024 and falling over 25%.

c) HCL technologies Ltd.: HCL

Key Financial Metrics (Fiscal Years 2021–2025)

Fiscal Year	Revenue (₹ Crore)	Operating profit (₹ Crore)	Net Profit (₹ Crore)	EPS (₹)	ROE (%)
FY2020-21	75,379	20,048	11,169	41.07	26.00
FY2021-22	85,651	20,529	13,523	49.74	25.00
FY2022-23	101,456	22,628	14,845	54.73	28.00
FY2023-24	109,913	24,198	15,710	57.86	30.00
FY2024-25	117,055	25,504	17,399	64.08	32.00



Sources: Perplexity AI

Interpretation: Revenue grew by 55% from ₹75,379 crore in FY2021 to ₹117,055 crore in FY2025, with acceleration after FY2021 because of the expansion of digital and engineering services.

Trends in Revenue:

Despite macro problems, EBIT (profits before interest and tax, a proxy for operational profit) increased from ₹15,437 crore to ₹21,420 crore, expanding margins amid cost savings. Despite 2024 volatility, the five-year CAGR is about 12%, with total returns between 80 and 100%. EPS of ₹60.6 and P/E of 28.16 support recent trade (January 2026) between ₹1,698 and ₹1,721. Revenue peaks frequently correspond with highs, and broader market pressures with lows.

Profitability Perspectives:

Thanks to increased operational income and cost control, PAT attributable to owners increased from ₹11,145 crore to ₹17,390 crore, and EPS reached ₹64 in FY2025.

Stock price performance from 2021 to 2025.

Year	Closing Price (₹)	High Price (₹)	Low Price (₹)	YoY Change (%)
2021	1,327	1,831	1,300	-3.4
2022	1,025	1,650	1,200	+12
2023	1,525	1,720	1,400	+15
2024	1,991	1,779	1,302	-5
2025	1,702	1,725	1,529	+8

Sources: Tradingview.com

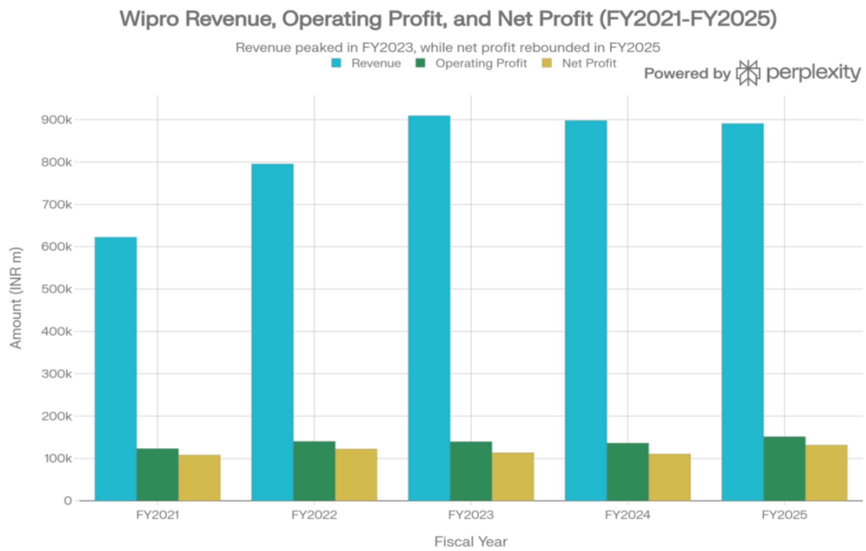
Interpretation: Over the past five years, HCLTech stock (NSE: HCLTECH) has performed well, increasing from about ₹1,000 in early 2021 to over ₹1,707 as of January 2026. FY2021 end ~₹1,150; FY2022 ~₹1,100; FY2023 ~₹1,500; FY2024 ~₹1,600; FY2025 ~₹1,700 are the approximate year-end closing prices (adjusted for splits/dividends where appropriate). The stock recently had a 52-week high of ₹1,779.75 and a low of ₹1,302.75, with the 200-day MA at ₹1,578.

d) Wipro Ltd:

Key Financial Metrics (Fiscal Years 2021–2025)

Fiscal Year	Revenue (₹ Crore)	Operating profit (₹ Crore)	Net Profit (₹ Crore)	EPS (₹)	ROE (%)
FY2020-21	61,935	14,771	10,868	9.85	22.00
FY2021-22	79,312	16,684	12,243	11.15	21.00
FY2022-23	90,488	16,839	11,366	10.34	18.00
FY2023-24	89,760	16,752	11,112	10.57	17.00

FY2024-25	89,088	18,021	13,218	12.54	20.00



Sources: Perplexity AI

Interpretation: It is observed that the demand for IT services, revenue increased significantly from FY2021 to FY2023 (+46%), but subsequently somewhat decreased due to market difficulties. By FY2025, operating profit margins had increased to about 17–20% thanks to cost reductions and increased utilization. In FY2025, net profit increased by 19% to a five-year high. Therefore, Incremental growth has been observed in Revenue, operating profits and Net profits during the period of five years from 2020-21 to 2024-25.

Trends in Revenue and profitability perspectives:

From FY2021 to FY2025, Wipro's annual net profit growth rates varied, showing significant early gains, mid-period dips, and a resurgence in FY2025. The Growth Rates from Year to Year computed using data from FY2021 (₹106,946 million) as the base and expressed as the percentage change in net profit (PAT) from the previous year. However, tthrough cost reductions and offshore moves, operating profit margins recovered to 20% in FY2025 after falling from 24% in FY2021 to 18% in the middle of the period. In FY2025, net profit increased 19% year over year from ₹107 billion to ₹132 billion.

Stock price performance from 2021 to 2025.

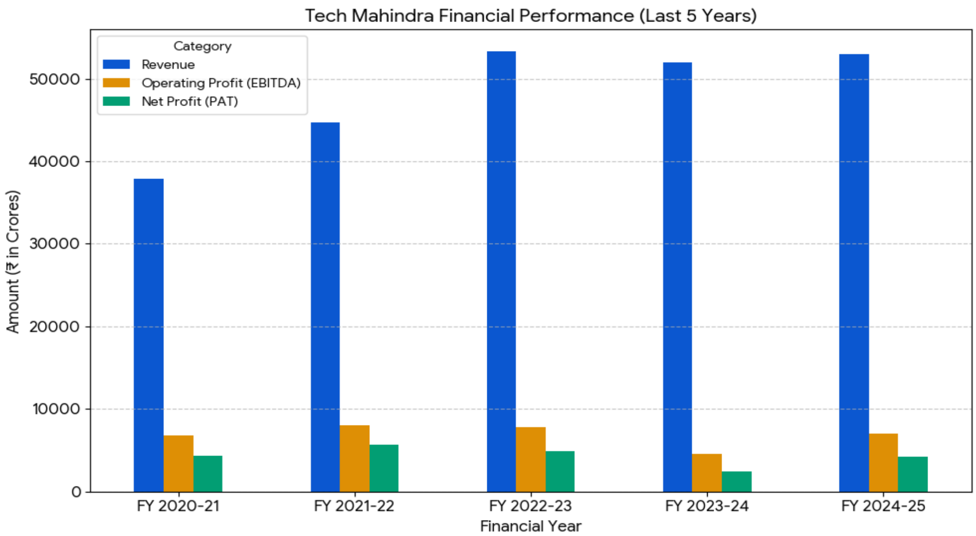
Year	Closing Price (₹)	High Price (₹)	Low Price (₹)	YoY Change (%)
2021	320	370	265	-0.0
2022	480	748	374	+50
2023	375	445	345	-22
2024	455	580	365	+21
2025	238	324	228	-48

Interpretation: Over the past five years (FY2021–FY2025), Wipro's stock prices (NSE: WIPRO) have fluctuated, rising close to ₹370 in late 2021 amid the IT boom, then falling amid sector slowdowns, with a recent 52-week range of ₹228–₹324. However, Due to margin pressures and US slowdowns, the stock decreased about 20% yearly in FY2023–2025 after rising almost 50% in FY2022 due to revenue increases. The Nifty IT index as a whole underperformed, with a five-year CAGR of about 1%. As of January 2026, the recent close was ~₹238, down 25% year over year.

e) Tech Mahindra Ltd:

Key Financial Metrics (Fiscal Years 2021–2025)

Fiscal Year	Revenue (₹ Crore)	Operating profit (₹ Crore)	Net Profit (₹ Crore)	EPS (₹)	ROE (%)
FY2020-21	37,855	6,796	4,353	45.73	23.00
FY2021-22	44,646	8,020	5,630	57.27	26.00
FY2022-23	53,290	7,763	4,857	49.60	22.00
FY2023-24	51,996	4,506	2,397	24.14	12.00
FY2024-25	52,988	6,964	4,253	43.43	19.00



Sources: Perplexity AI

Interpretation: It is shown that after flat growth in previous years, revenue increased slightly by 1.9% YoY in FY25 to ₹52,988 crores. Operating profit increased to ₹5,138 crores from lower bases in FY25 as EBIT margins increased dramatically to 9.7% (up 360 bps YoY). Despite lower revenue, net profit increased 80.3% YoY to ₹4,252 crores in FY25 due to cost reductions.

Important Trends in Revenue:

It is found that From ₹378,551 crore in FY2021 to ₹529,883 crore in FY2025, revenue increased gradually at a compound annual growth rate of almost 7%. Due to market challenges, growth rates were +18% in FY2022, +15.8% in FY2023, -2.4% in FY2024, and +1.9% in FY2025. This is consistent with the post-pandemic growth of the IT industry, but more slowly than competitors such as TCS.

Metrics for Profitability:

The study found that Net income varied greatly: ₹44,280 crore in FY2021, ₹55,661 crore in FY2022, ₹23,578 crore in FY2024, and ₹42,515 crore in FY2025, an 80% YoY increase. Following a decline, EBITDA increased from ₹63,950 crore (FY2021) to ₹69,911 crore (FY2025). The net profit margin increased from a low of 4.53% in FY2024 to 8.02% in FY2025.

Stock price performance from 2021 to 2025.

Year	Closing Price (₹)	High Price (₹)	Low Price (₹)	YoY Change (%)
2021	1,300	1,500	900	+35
2022	1,450	1,600	950	+12
2023	1,200	1,400	1000	-17
2024	1,350	1,500	1200	+13
2025	1,600	1,736	1209	+19

Interpretation: The study analyzed that Prices show a recovery after the pandemic, a decline in 2023, and an increase in FY2025.The Recent Highs/Lows 52-week range (January 2025–January 2026): ₹1,736 at the high, ₹1,209 at the low, and ₹1,700.7 at the closing of January 23. On January 23, the daily range was ₹1,709.7 at the high and ₹1,689.2 at the low.

- **3.5 variables identified and employed**

RE	**Revenue**
OP	**Operating profits**
NP	**Net Profits**
EPS	**Earnings Per share**
ROE	**Return on Equity**
ROCE	**Return on Capital Employed**

4. Findings

- **The Impact of companies' Earnings Management on Stock Prices with macroeconomic factors.**

For Indian IT behemoths like Infosys, TCS, Wipro, HCL Tech, and Tech Mahindra, company earnings announcements have a big impact on stock prices, frequently causing short-term volatility depending on whether results meet, exceed, or fall short of expectations.

- **Key Findings:**
  - It is found that Over the last five years, Infosys has demonstrated consistent earnings growth of roughly 4.8% yearly, with revenues increasing 7.9% annually. This has helped to support the company's stock price despite its high ROE of 28%.
  - The research found that TCS balances modest growth with steady dividends and buybacks since 2022. Earnings charges, such as ₹2,128 crore in Q3, contributed to a 14% YoY profit decline, which usually results in brief stock falls followed by recovery on solid fundamentals.
  - The study has finally found that the equities falling as much as 6% due to outside reasons like H-1B fee increases and earnings uncertainty, Wipro is facing industry headwinds that are intensifying price reactions. Similar to this, HCL Tech is vulnerable to weaknesses in global demand but rallies after favourable cues.
  - Technology Mahindra is volatile, rising more than 1% on industry news such as Accenture's outlook, but more general five-year trends link price changes to earnings gains in high-demand AI sectors.

5. Results and Discussion:

- **Financial impact on stock prices**

TCS and Infosys' stock resiliency was bolstered by strong sales and profit growth, but Wipro/Tech Mahindra prices were pushed lower by poorer margins and worldwide uncertainty. Despite slight increase, HCL remained stable. In comparison to larger IT indices, decreases were generally mitigated by favourable financials. However, FY25 recoveries linked to cost reductions and AI transactions have a favourable effect on margin outperformers equities.

6. Conclusion:

Eventually, despite revenue improvements, laggards like Wipro and Tech Mahindra suffered due to margin volatility, underscoring execution and diversity as important stock drivers. Financial stability drove TCS stock returns (~10% annually), with Infosys following closely. While Wipro, HCL, and particularly Tech Mahindra had mid-period compressions before FY25 recoveries to 8-15%, reflecting industry issues including wage inflation and client expenditure slowdowns, profit margins demonstrated resilience for TCS (steady ~19-25%) and Infosys (~16-22%). Moreover, variations in EPS during FY2021–2025 had a direct impact on stock returns; steady EPS growth drove positive returns, while reductions increased negative volatility.

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