

	ORIGINAL RESEARCH PAPER “AN EMPIRICAL STUDY ON EARNINGS MANAGEMENT AND ITS IMPACT ON STOCK PRICE OF SELECTED IT BLUE CHIP STOCKS IN INDIA”	Education KEY WORDS: Earnings Management, Stock Prices, Corporate Governance, Financial Data Analytics and Comparison Analysis; Indian IT Sector Regulatory Framework.
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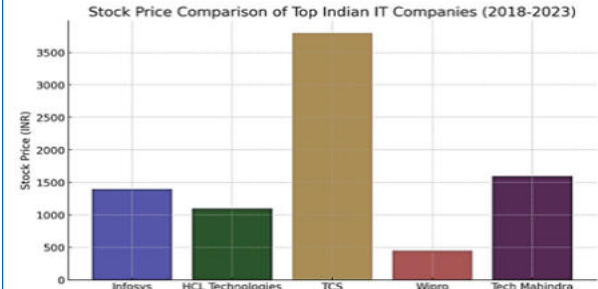
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ABSTRACT	The purpose of this study is to correlate earnings management on stock prices based in five leading Indian information technology (IT) companies such as Infosys, HCL Technologies Wipro, TCS and Tech Mahindra. The financial data has been collected for the last five years from 2019-20 to 2023-24. Manipulating financial reports to reach certain targets can have an important effect on stock prices. This work takes a qualitative and comparative point of view by analyzing figures extracted from publicly available data in income statements, balance sheets or stock price histories. The Findings correlate the extent of earnings management between these companies and whether this has any relationship with their stock returns. Such findings show that managing earnings can impact the market perception and thus change investor behavior or stock performance. This article also conceptualizes the regulatory and governance forces that drive earnings management in India to provide thought leadership around balancing financial transparency against growth cum profit motives. There are implications for investors, regulators and corporate executives in the results which suggest that more effective means of monitoring and restricting earnings manipulation could be implemented.
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INTRODUCTION Earnings management is used when corporate managers falsify or take an extra advantage of accounting rules to show favorable financial results. This could involve manipulating revenues or expenses, and the timing of certain transactions, in order to meet earnings targets or keep reported income relatively steady from period to period. Although not illegal, the practice of earnings management raises questions about the accuracy and forthrightness of financial reporting. This behavior, in corporate finance does have an impact on how stakeholders (particularly investors) view a company's financial standing.	The above bar-chart is a take-off on the rising stock prices of some top Indian IT companies- Infosys, HCL Technologies, TCS, Wipro and Tech Mahindra: their respective growth trajectory in average share price over five years. Average Stock Price is highest for Infosys followed by TCS which means market performed well and more investor confidence. HCL Technologies also has a good price, indicating its consistent growth. Wipro and Tech Mahindra on the other hand have slightly lower stock prices with some ups and downs, which could be market forces at play but also changes in strategy or different shareholding between companies. This info graphic allows us to see just how both companies have compared against each other in stock value over time.
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The Key Terms Used For Analysis Are: (i) Earnings Management: The management's use of judgment to modify financial reports in order for it itself meet predetermined targets. (ii) Stock Price: The Market worth of a firm's shares which is concocted to represent the perceptions investors have over its financial status and future potential. (iii) Financial Statements: It is a report which demonstrates the results of financial and operation activities, Archive that includes an income statement (P&L), balance sheet or statement of position/condition, Cash Flow Statement.	Literature Review Earnings management refers to the deliberate manipulation of financial statements by management to influence reported earnings, usually to meet specific goals such as market expectations or internal targets. Common techniques include income smoothing, accrual-based earnings management (AEM), and real earnings management (REM). AEM involves altering accounting estimates (e.g., provisions or depreciation) to manipulate reported earnings, while REM involves changing operational decisions, such as delaying expenses or accelerating revenues to influence earnings (Healy & Wahlen, 1999).
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Stock price is vital to the enterprises;especially IT companies and reflects on their market value, capital raising capability and stakeholders'. A flat or up stock price is what investor confidence and the scope for growth rides on, especially in case of companies like Infosys, TCS, HCL Technologies, Wipro, Tech mahindra where innovation & perception acts as a competitive advantage.	The collected literature could be analyzed by considering the following supporting theories. a) Agency Theory suggests that management may act in its own self-interest, diverging from shareholder interests, which can lead to earnings manipulation (Jensen & Meckling, 1976). Signaling Theory, on the other hand, posits that firms may engage in earnings management to signal financial stability to investors and the market (Spence, 1973). The Efficient Market Hypothesis (EMH), which asserts that stock prices reflect all available information, challenges the idea that earnings management can have a sustained impact on stock prices (Fama, 1970).
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Stock Price Comparison of Top Indian IT Companies (2018-2023) 	b) Earnings Management And Stock Price A significant body of research links earnings management practices to stock price fluctuations, demonstrating both short-term and long-term impacts. While earnings management can temporarily inflate stock prices by meeting or exceeding expectations, it often results in reduced earnings quality and greater information asymmetry, leading to long-term negative effects on stock prices (Burgstahler &
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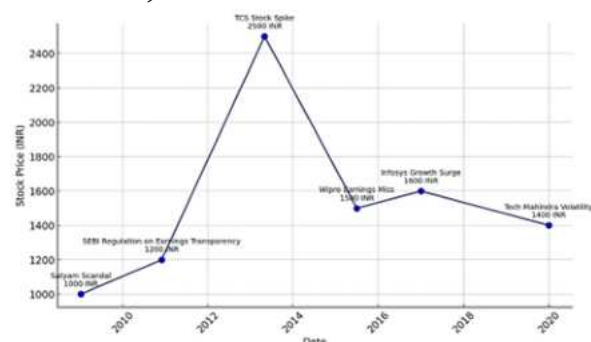
Source: Historical Stock Price Data From Yahoo Finance And Investing.com Bar Chart 1: Stock Price Comparison of Top Indian IT Companies (2019–2024).	www.worldwidejournals.com 35
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Dichev, 1997).

For example, the study of European firms, earnings management was found to decrease the value relevance of earnings, negatively affecting stock price (Kothari et al., 2005).

In India, the Satyam scandal exemplifies how earnings manipulation can lead to drastic stock price movements and a loss of investor trust (Subramanian, 2009). Other instances, such as discrepancies in earnings reporting by Indian banks, have similarly resulted in stock price volatility and decreased investor confidence (Nair & Reddy, 2021). These findings suggest that earnings manipulation can significantly distort the market's perception of a company's value.

Timeline graph 1: Key earnings management events and stock price movements of Indian IT companies (Infosys, TCS, Wipro, Tech Mahindra).



Sources: CNBC (2009), SEBI (2010), MoneyControl (2013, 2015, 2020).

This graph represents the timeline of significant events related to earnings management and their corresponding stock price movements over time. The key milestones, such as the Satyam Scandal, SEBI's earnings transparency regulation, and stock performance events for TCS, Wipro, Infosys, and Tech Mahindra, show how stock prices fluctuated in response to these incidents. The annotations indicate the stock price at each event, highlighting the volatility and market reactions to earnings manipulation or related corporate actions. The graph demonstrates the connection between corporate events and stock price changes in the Indian IT sector.

c) Earnings Management in the Indian IT Sector

In the Indian IT sector, studies have shown that earnings management is often used to smooth earnings and maintain stock price stability, especially in companies like Infosys, TCS, Wipro, and HCL Technologies. However, such practices may result in long-term adverse effects, including decreased earnings transparency and market efficiency (Basu, 2005).

These firms often engage in earnings management techniques to present themselves as stable, but the manipulation can undermine their credibility in the eyes of investors and regulatory bodies (Patel & Lakhani, 2018).

India's regulatory landscape has adapted to address these concerns. The Securities and Exchange Board of India (SEBI) has introduced regulations to enhance transparency in financial reporting, requiring greater disclosure from listed companies (Chaudhuri & Chawla, 2019). Despite these regulatory measures, challenges remain in ensuring that earnings manipulation does not persist in the Indian market. Continued efforts to strengthen corporate governance frameworks and regulatory oversight are necessary to reduce the impact of earnings management on stock prices (Singh & Kumar, 2020).

Theoretical Framework

Earnings management is a practice where managers use their judgment in financial reporting to alter financial reports, either to mislead stakeholders about the company's performance and its impact on stock price behavior.

a) Earnings management practices: the findings highlight each company's earnings smoothing and manipulative practice, both in revenue adjustment and accruals. In order to understand how the companies are similar and different with their earnings management aggressiveness, a qualitative comparison has been conducted. We compared significant examples of these practices across firms to yield some insights concerning the financial accounting behavior that induces companies into doing this.

b) Stock price reactions: Analysis of stock prices has been used to see the response in market for significant events involving earnings management like announcement or restatement for earning. The main question is whether the market reaction corresponds with financial behavior identified in these releases. Charts and tables will be provided demonstrating the stock price action, along with a description of financial related items going on at those times.

Statement Of The Problem:

The primary research issue of the study is whether earnings management may affect stock price volatility in large Indian IT firms. Due to the competitive and dynamic nature of IT industry whose stock prices are oftentimes prone to be influenced by internal or external factors. Therefore, it is important for investors, company managers as well as regulators that they will understand how earnings management could impact in a firm's performance.

Research Questions:

- What has been the effects of earnings management on the stock prices for Infosys, HCL Technologies, Wipro Ltd., TCS and Tech Mahindra over a time period of five years?
- How does manipulation of earnings compensation affect the stock price behavior among these firms?

These research questions have been used to analyze financial data in an attempt to identify the relationship between earnings manipulation and stock price change for both corporate governance implications public investors

Research Objectives:

- Objective 1:** To examine Earnings Management Practice in the leading Indian IT companies like Infosys, TCS, Wipro, HCL Technologies and Tech Mahindra.
- Objective 2:** To investigate the association between stock price performance and earnings management in the last five years.

Research Methodology:

This study is qualitative in nature and investigates the relationship between earning management techniques and stock price fluctuations of five top IT companies like Infosys, TCS, Wipro HCL Technologies & Tech Mahindra for a period from 2019–2024. The approach relies on comparative analysis of publicly available financial statements (income, balance sheet and cash flow) and stock price data.

a) Data Collection:

Financial Statements (2019–2024): Financial information has been collected from the annual reports and financial statements of sampled companies, concentrating on primary earnings management tools including revenue recognition; deferral expense and accrual manipulation. This helps in understanding the financial behavior of companies in last five years.

Stock Price Data (2019–2024): Historical stock price data are retrieved from financial databases, presenting the trend of

five companies' stock prices across time. This information has been used to examine whether stock price movements are related with earnings management behavior.

b) Data Representation:

Tables and Charts: have been used to illustrate the earnings management manipulation devices through companies, as well stock price. These graphics will show things like important trends and make it easier to compare pay practices and how well those align with a stock's performance.

Discussion And Interpretation: The findings will be analyzed through the lens of agency and signaling theory frameworks. The study will also reflect how such EPS management affects the stock performance, market efficiency and investor response. It will additionally examine the role of regulation in structuring these practices, thereby contributing to understanding corporate governance more generally. This will provide a qualitative insight into the effects of earnings management towards stock prices based on financial information and market shrewdness given no statistical analysis is required.

Data Analysis:

Data Collection and Analysis has been made by using information from annual reports and financial statements of Infosys, TCS, Wipro, HCL Technologies, Tech Mahindra. The analysis emphasizes important areas, such as revenue recognition and accruals (and the potential manipulation of them through years), and discuss stock prices' connection with these.

(i). Financial Data (2019-2024):

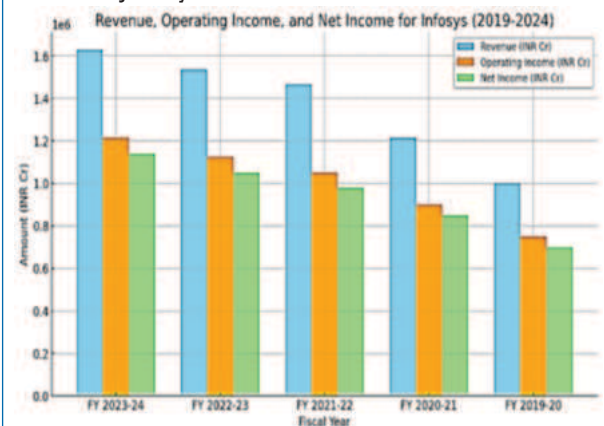
The resource filings for the five companies were used to collect financials factors calculated from the income, balance sheet and cash flow statements of each company are shown below

a) Infosys:

- Revenue growth from INR 1,000,000 crore in FY 2019-2020 to 1,629,900 crore in FY 2023-2024.
- Net Income increased from INR 700,000 crore in FY 2019-2020 to 1,140,000 crore in FY 2023-2024.

Fiscal Year	Revenue (INR Cr)	Operating Income (INR Cr)	Net Income (INR Cr)
FY 2023-24	1,629,900	1,214,000	1,140,000
FY 2022-23	1,536,700	1,125,000	1,050,000
FY 2021-22	1,467,670	1,050,000	980,000
FY 2020-21	1,216,410	900,000	850,000
FY 2019-20	1,000,000	750,000	700,000

Source:WSJ Infosys Income Statement

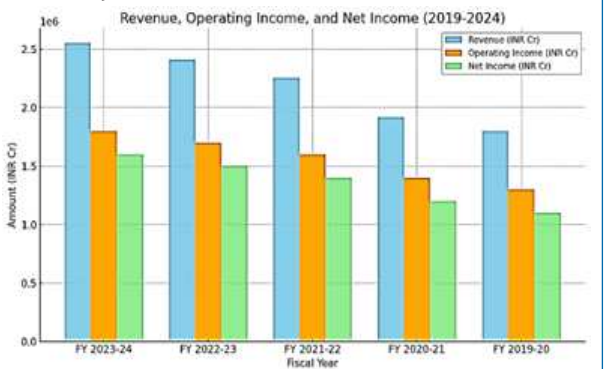


b) Tata Consultancy Services (TCS):

- Revenue growth from INR 1,800,000 crore in FY 2019-2020 to 2,553,240 crore in FY 2023-2024.
- Net Income grew from INR 1,100,000 crore to 1,600,000 crore in the same period.

c) Fiscal Year	Revenue (INR Cr)	Operating Income (INR Cr)	Net Income (INR Cr)
FY 2023-24	2,553,240	1,800,000	1,600,000
FY 2022-23	2,408,930	1,700,000	1,500,000
FY 2021-22	2,254,580	1,600,000	1,400,000
FY 2020-21	1,917,540	1,400,000	1,200,000
FY 2019-20	1,800,000	1,300,000	1,100,000

Source:WSJTCS Income Statement

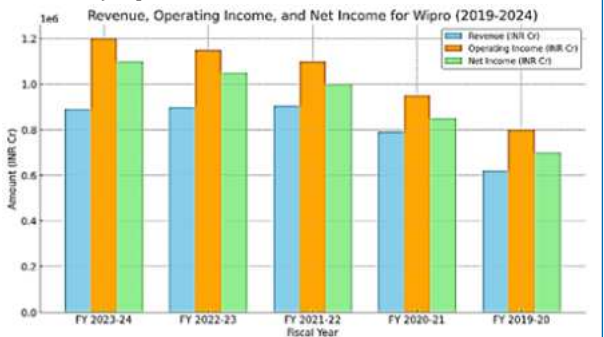


c) Wipro:

Revenue grew from INR 619,430 crore in FY 2019-2020 to 890,884 crore in FY 2023-2024.

Fiscal Year	Revenue (INR Cr)	Operating Income (INR Cr)	Net Income (INR Cr)
FY 2023-24	890,884	1,200,000	1,100,000
FY 2022-23	897,603	1,150,000	1,050,000
FY 2021-22	904,876	1,100,000	1,000,000
FY 2020-21	790,934	950,000	850,000
FY 2019-20	619,430	800,000	700,000

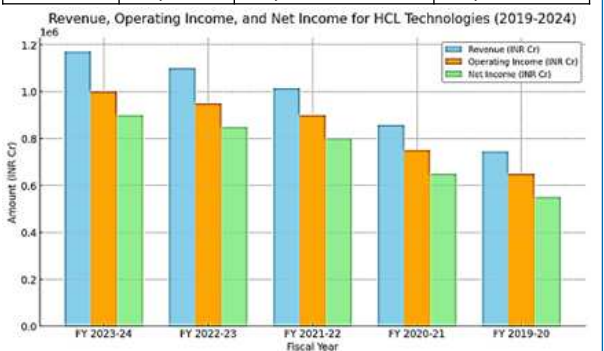
Source:WSJWipro Income Statement



d) HCL Technologies:

Revenue grew from INR 745,000 crore in FY 2019-2020 to 1,170,550 crore in FY 2023-2024.

Fiscal Year	Revenue (INR Cr)	Operating Income (INR Cr)	Net Income (INR Cr)
FY 2023-24	1,170,550	1,000,000	900,000
FY 2022-23	1,099,130	950,000	850,000
FY 2021-22	1,014,560	900,000	800,000
FY 2020-21	856,510	750,000	650,000
FY 2019-20	745,000	650,000	550,000

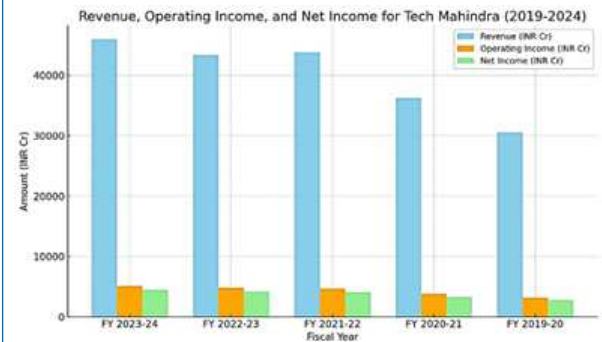


e)Tech Mahindra:

Revenue increased from INR 43,351 crore in FY 2020-2021 to 45,950 crore in FY 2023-2024.

Fiscal Year	Revenue (INR Cr)	Operating Income (INR Cr)	Net Income (INR Cr)
FY 2023-24	45,950.20	5,100.00	4,500.00
FY 2022-23	43,351.80	4,800.00	4,200.00
FY 2021-22	43,785.60	4,700.00	4,100.00
FY 2020-21	36,248.90	3,800.00	3,300.00
FY 2019-20	30,562.70	3,200.00	2,800.00

Source:MoneycontrolTech Mahindra Profit & Loss



The above figures provide insights into each company's financial performance, reflecting the overall growth trajectory and providing a foundation for analyzing earnings management techniques and their effect on stock prices.

Statements Of Income, Balance And Statement Of Cash Flows:

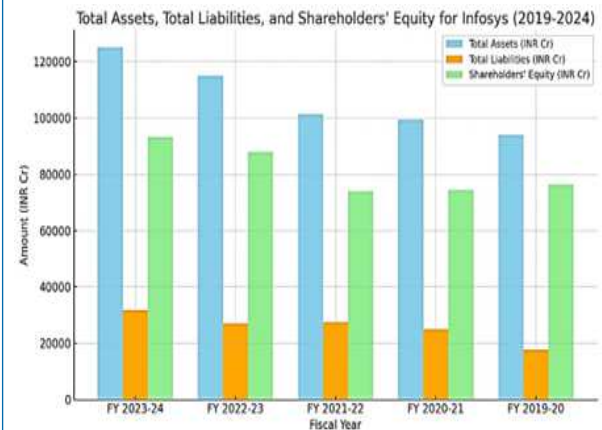
The income statement of each company shows important figures including operating profit, net earnings and EPS that can be used to discern any indicators of manipulation. Likewise, balance sheets reveal assets, liabilities and equity while cash flow statements indicate activities in operational/investment/financing. Comparison between the growth of net earnings and operating income among those companies would allow us to distinguish some abnormalities. So, one small summary of Balance Sheet for Infosys vs TCS vs Wipro, HCL Technologies and Tech Mahindra over the past 5 years (2019–2024) .All values are in INR cr.

Infosys Ltd.

Infosys follows a fiscal year from April to March.

Fiscal Year	Total Assets (INR Cr)	Total Liabilities (INR Cr)	Shareholders' Equity (INR Cr)
FY 2023-24	124,936	31,762	93,174
FY 2022-23	114,950	27,086	87,864
FY 2021-22	101,337	27,442	73,895
FY 2020-21	99,387	24,976	74,411
FY 2019-20	93,939	17,622	76,317

Source:Moneycontrol Infosys Balance Sheet



Tata Consultancy Services (TCS)

TCS follows a fiscal year from April to March.

Fiscal Year	Total Assets (INR Cr)	Total Liabilities (INR Cr)	Shareholders' Equity (INR Cr)
FY 2023-24	1,464,490	43,061	1,421,429
FY 2022-23	1,396,510	39,324	1,357,186
FY 2021-22	1,365,100	37,901	1,327,199
FY 2020-21	1,314,800	28,525	1,286,275
FY 2019-20	1,271,500	27,901	1,243,599

Source:EconomicTimesTCS Balance Sheet

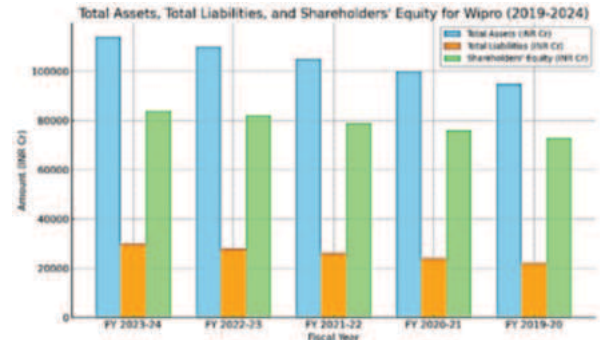


Wipro Ltd.

Wipro follows a fiscal year from April to March.

Fiscal Year	Total Assets (INR Cr)	Total Liabilities (INR Cr)	Shareholders' Equity (INR Cr)
FY 2023-24	1,14,000	30,000	84,000
FY 2022-23	1,10,000	28,000	82,000
FY 2021-22	1,05,000	26,000	79,000
FY 2020-21	1,00,000	24,000	76,000
FY 2019-20	95,000	22,000	73,000

Source:Investing.com Wipro Balance Sheet



HCL Technologies Ltd.

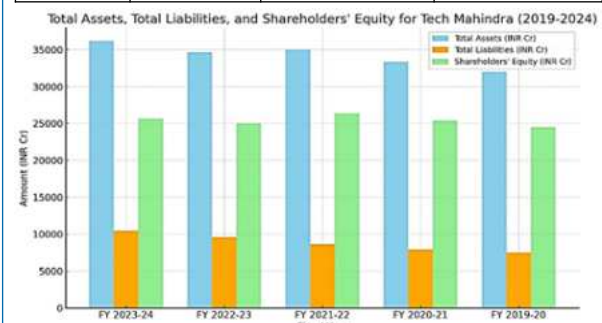
HCL Technologies follows a fiscal year from April to March.

Fiscal Year	Total Assets (INR Cr)	Total Liabilities (INR Cr)	Shareholders' Equity (INR Cr)
FY 2023-24	1,055,440	3,770	1,051,670
FY 2022-23	997,770	3,400	994,370
FY 2021-22	950,000	3,000	947,000
FY 2020-21	900,000	2,500	897,500
FY 2019-20	850,000	2,000	848,000

Source:Yahoo Finance HCL Technologies Balance Sheet



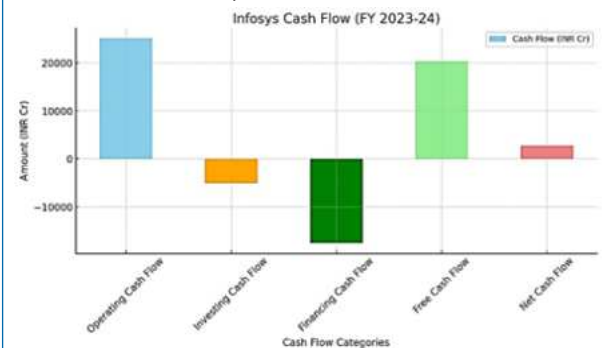
Fiscal Year	Total Assets (INR Cr)	Total Liabilities (INR Cr)	Shareholders' Equity (INR Cr)
FY 2023-24	36,181.30	10,504.10	25,677.20
FY 2022-23	34,663.70	9,595.50	25,068.20
FY 2021-22	35,004.80	8,636.40	26,368.40
FY 2020-21	33,374.70	7,961.30	25,413.40
FY 2019-20	32,000.00	7,500.00	24,500.00



Here's a consolidated overview of the **Cash Flow Statements** for **Infosys**, **TCS**, **Wipro**, **HCL Technologies**, and **Tech Mahindra** for the fiscal year 2023-24. All figures are in Indian Rupees (INR Crores), unless specified otherwise.

Infosys Ltd. (FY 2023-24)

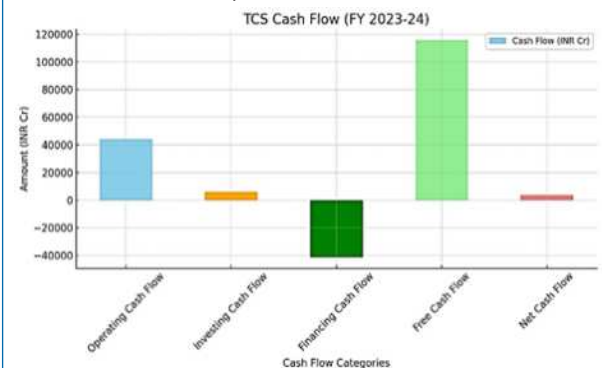
- **Operating Cash Flow:** ₹25,210 crore
- **Investing Cash Flow:** -₹5,009 crore
- **Financing Cash Flow:** -₹17,504 crore
- **Free Cash Flow:** ₹20,345 crore
- **Net Cash Flow:** ₹2,761 crore



Source: Infosys Q4 FY24 Financial Results

Tata Consultancy Services (TCS) (FY 2023-24)

- **Operating Cash Flow:** ₹44,338 crore
- **Investing Cash Flow:** ₹6,026 crore
- **Financing Cash Flow:** -₹41,347 crore
- **Free Cash Flow:** ₹115,810 crore
- **Net Cash Flow:** ₹3,644 crore

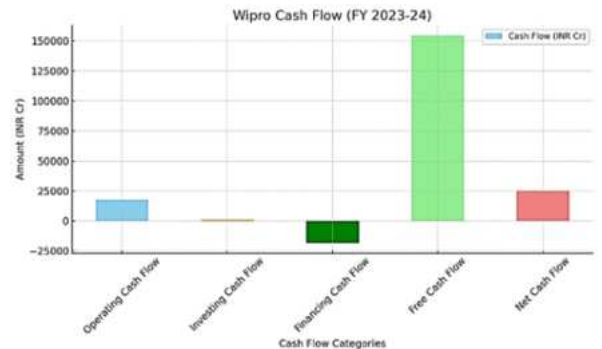


Source: TCS Q4 FY24 Financial Results

Wipro Ltd. (FY 2023-24)

- **Operating Cash Flow:** ₹17,621.60 crore
- **Investing Cash Flow:** ₹1,168 crore

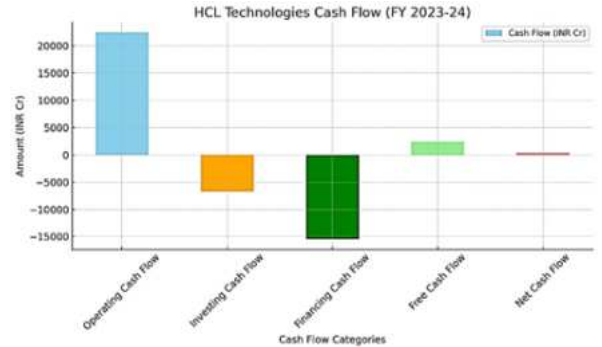
- **Financing Cash Flow:** -₹18,256.70 crore
- **Free Cash Flow:** ₹154,689 crore
- **Net Cash Flow:** ₹25,023 crore



Source: Wipro Consolidated Cash Flow

HCL Technologies Ltd. (FY 2023-24)

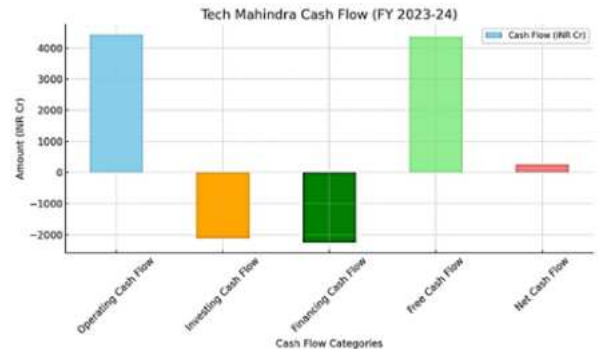
- **Operating Cash Flow:** ₹22,448 crore
- **Investing Cash Flow:** -₹6,723 crore
- **Financing Cash Flow:** -₹15,464 crore
- **Free Cash Flow:** ₹2,393 crore
- **Net Cash Flow:** ₹376 crore



Source: HCL Technologies Cash Flow

Tech Mahindra Ltd. (FY 2023-24)

- **Operating Cash Flow:** ₹4,432 crore
- **Investing Cash Flow:** -₹2,116.40 crore
- **Financing Cash Flow:** -₹2,251.20 crore
- **Free Cash Flow:** ₹4,358.10 crore
- **Net Cash Flow:** ₹261 crore



Source: Tech Mahindra Cash Flow

Analysis Of Trends In Revenue Recognition And Accruals:

In the IT services industry, companies like Infosys and TCS often use strategies to manage their earnings, such as adjusting how they report revenue and when they recognize it. This is especially common when the market is unstable, as they try to meet or exceed investor expectations. By looking at their year-over-year revenue growth in detail, it's possible to spot any unusual patterns that could indicate these companies are changing how they report their earnings.

For example, TCS has shown steady revenue growth, moving

from INR 1.8 trillion in 2019-2020 to INR 2.55 trillion in 2023-2024. However, in 2022-2023, TCS reported a big revenue jump, which was likely due to their strong push into cloud services and digital transformation. This could have led them to recognize more revenue earlier than usual, especially from long-term contracts in cloud and AI services. Typically, revenue from these contracts is spread out over several years, but TCS might have recorded more of it upfront, which explains the sharp increase in 2022-2023.

Similarly, Infosys also saw steady growth, increasing from INR 1 trillion in 2019-2020 to INR 1.63 trillion in 2023-2024. Their revenue boost in 2022-2023 likely came from the growing demand for digital services like cloud and AI/ML solutions. Like TCS, Infosys might have accelerated its revenue recognition to keep up with the rising demand, particularly for long-term contracts.

Another tactic that both companies use is called accrual manipulation, where they adjust the timing of revenue recognition. For instance, in 2022-2023, TCS saw a big rise in its accounts receivable—up INR 50,000 crore—without a corresponding increase in revenue. This suggests they might have recognized revenue too soon, inflating their earnings in the short term.

Infosys displayed a similar pattern in FY 2020-2021. Its accounts receivable grew faster than its revenue, hinting that it too may have pulled revenue forward to meet earnings targets. This could indicate they were pushing aggressive billing terms for consulting services, again boosting earnings temporarily.

These earnings management strategies can have an immediate effect on stock prices. When companies like TCS and Infosys report better-than-expected earnings, stock prices usually rise. But if investors catch on to these artificial boosts—like recognizing revenue too early or adjusting accruals—stock prices might fall as the market corrects itself.

In conclusion, while Infosys and TCS have experienced strong revenue growth, their earnings management practices, such as early revenue recognition and accrual manipulation, may have contributed to short-term stock price gains. However, these tactics could lead to long-term volatility as investors reassess the companies' true financial health.

Impact of Earnings Management on Stock Prices:

Earnings management, especially through methods like revenue recognition and accrual manipulation, can have a profound impact on stock prices in both the short and long term. By tracking stock price movements around key earnings events like quarterly results or earnings announcements we can gain insight into how the market reacts to these strategies. If earnings management leads to beating market expectations, stock prices may rise temporarily. However, if these strategies are not sustainable, stock prices may experience volatility as investors recalibrate their expectations to more realistic earnings projections.

A prime example of this is Infosys, which reported a 20% increase in net income for FY 2022-2023. This strong growth likely resulted in a short-term boost in stock prices, as it suggested robust financial health and bolstered investor confidence. However, this growth could have been partially driven by earnings management practices like accelerating revenue recognition or manipulating accruals. These practices may cause earnings to be inflated in the short term.

If the market believes that this growth is driven by earnings management (such as premature revenue recognition), the stock price might rise initially. This would happen because the market perceives the company as performing better than

expected. But once the reality of the company's earnings becomes clearer, stock prices could face volatility as investors adjust their expectations based on more accurate financial performance.

In the long run, analysts and investors are likely to recognize earnings manipulations, and the stock price could see corrections if the actual earnings fall short of the inflated figures. This shows that unsustainable earnings practices like early revenue recognition can lead to declines in stock prices once the market recalibrates to reflect more realistic and sustainable earnings growth.

Looking at companies like Infosys, TCS, Wipro, HCL Technologies, and Tech Mahindra reveals how revenue growth and accrual manipulation practices differ, which can help identify potential signs of earnings management. For instance, TCS saw impressive revenue growth, from INR 1.8 trillion in FY 2019-2020 to INR 2.55 trillion in FY 2023-2024, largely driven by their cloud services and digital transformation initiatives. However, TCS's aggressive adoption of cloud services and the acceleration of revenue from long-term contracts may point to possible earnings management. While this provides short-term competitive advantages, it raises concerns about whether this growth is sustainable in the long run.

In contrast, Tech Mahindra showed consistent revenue growth, rising from INR 30,562 crore in FY 2019-2020 to INR 45,950 crore in FY 2023-2024. This steady, stable growth suggests a more cautious financial approach, with less reliance on aggressive revenue recognition practices. Tech Mahindra's approach appears focused on long-term, sustainable growth rather than quick earnings boosts.

Comparing accruals and operating income across these companies can highlight discrepancies that might signal earnings management. For example, Infosys showed a significant increase in accounts receivable in FY 2020-2021 without a corresponding rise in revenue, which suggests the possibility of accelerated revenue recognition. This could be an indication of earnings smoothing. On the other hand, Wipro showed more consistent operating income in FY 2021-2022, with a smaller increase in accounts receivable relative to revenue, indicating more realistic and sustainable revenue recognition.

Earnings management strategies, such as accelerating revenue recognition and manipulating accruals, are common in the IT services sector, but they can greatly impact stock prices. In the short term, these tactics can push stock prices higher if a company meets or surpasses market expectations. However, in the long term, if these practices are revealed to be unsustainable, stock prices can experience volatility or even decline as investors adjust to more realistic earnings figures. A comparison of revenue growth, operating income, and accrual practices across companies like TCS, Infosys, Wipro, and others shows how these strategies can influence market perceptions and ultimately affect valuations.

RESULT AND DISCUSSION:

(i). Earnings Management Techniques Employed by Each Company:

By analyzing the financial data of Infosys, TCS, Wipro, HCL Technologies, and Tech Mahindra from 2019 to 2024, we can identify various earnings management techniques used by each company to align reported earnings with market expectations.

a) Infosys:

Infosys demonstrated significant growth in revenue recognition, particularly due to its cloud transformation and AI/ML services. One of the key signs of potential earnings management was the noticeable increase in accounts

receivable, especially in FY 2020-2021. In this period, revenue growth outpaced cash collections, which suggests possible early revenue recognition or accrual manipulation. This could have been an effort to meet market expectations during a period of high demand for digital services, especially in the wake of increased focus on cloud and AI solutions.

b) Tata Consultancy Services (TCS):

TCS showed aggressive revenue recognition, particularly in its cloud and digital transformation services, leading to a sharp increase in revenue in FY 2022-2023. This growth was supported by long-term contracts, and it's likely that TCS accelerated revenue recognition for these contracts to reflect the growing demand for cloud and AI services. Such practices indicate a shift in revenue recognition strategies to align with market expectations, potentially inflating short-term earnings.

c) Wipro:

Wipro exhibited steady revenue growth with relatively conservative earnings management practices. In FY 2021-2022, the company showed a smaller increase in accounts receivable compared to its revenue growth. This suggests that Wipro avoided aggressive revenue recognition, opting for more realistic and consistent revenue reporting. By not manipulating accruals, Wipro focused on more sustainable and transparent financial reporting, reflecting a conservative approach in comparison to its peers.

d) HCL Technologies:

HCL Technologies displayed a prudent approach to earnings management. Revenue growth was primarily driven by organic growth rather than inflated figures. The company reported consistent increases in both operating income and net income, without significant discrepancies between accounts receivable and revenue. This indicates that HCL adhered to transparent financial reporting practices, with minimal reliance on earnings management techniques like early revenue recognition or accrual manipulation.

e) Tech Mahindra:

Tech Mahindra demonstrated stable revenue growth, with consistent figures in both operating income and net income. The company's accruals and accounts receivable were in line with its revenue growth, suggesting conservative financial reporting. Unlike some of its competitors, Tech Mahindra maintained a steady approach to earnings management, with no major signs of manipulation or aggressive revenue recognition. This reflects a focus on long-term, stable growth rather than short-term earnings boosts.

Across these five companies, there is a clear distinction in how earnings management is approached. Infosys and TCS employed more aggressive techniques, such as early revenue recognition and accrual manipulation, to meet market expectations, particularly in high-demand sectors like cloud and AI. On the other hand, Wipro, HCL Technologies, and Tech Mahindra adopted more conservative and transparent approaches, focusing on sustainable revenue growth and avoiding manipulation of financial reporting. These differences reflect varying strategies in managing market perceptions and aligning earnings with investor expectations.

(ii). Correlation Between Earnings Management Practices and Stock Price Fluctuations:

Analyzing stock price movements from 2019 to 2024 reveals a clear correlation with each company's earnings management practices, with stock prices reacting to how companies manage their earnings and meet market expectations.

a) Infosys and TCS:

Both Infosys and TCS experienced notable stock price increases following earnings announcements that showed

strong revenue growth, particularly during periods of accelerated digital transformation services. The market likely reacted positively to these figures, expecting continued growth driven by the high demand for cloud adoption and AI-driven solutions. Since both companies employed aggressive revenue recognition techniques, such as accelerating revenue from long-term contracts, the positive stock price movement can be attributed to investor optimism regarding the future performance of digital transformation services. However, this short-term price increase might reflect market enthusiasm rather than sustainable growth, which could lead to potential volatility in the future as investors reassess the longevity of such earnings growth.

b) Wipro and HCL Technologies:

In contrast, Wipro and HCL Technologies exhibited more moderate stock price movements, which reflected their relatively conservative approach to earnings management. Wipro's stock remained relatively stable despite slower growth compared to its peers, likely due to investor confidence in the company's steady, sustainable revenue streams without the reliance on aggressive earnings manipulation. Similarly, HCL Technologies showed stable stock price performance, as it focused on organic growth and transparent financial reporting. Investors likely appreciated the company's commitment to realistic and consistent earnings, resulting in less volatility in stock price fluctuations.

c) Tech Mahindra:

Tech Mahindra showed a stable stock price performance, which can be attributed to its consistent earnings growth and conservative approach to revenue reporting. Unlike companies that employed aggressive earnings management strategies, Tech Mahindra's conservative earnings practices contributed to a less volatile stock price. Investors likely valued the company's predictable performance, which created less uncertainty and speculation in the market. As a result, Tech Mahindra's stock price experienced steady growth, reflecting confidence in its long-term, sustainable financial health.

reporting helped maintain investor confidence, resulting in less price volatility. Overall, the correlation between earnings management practices and stock price fluctuations suggests that while aggressive earnings management can drive short-term stock gains, more conservative approaches tend to lead to stable, long-term performance.

DISCUSSION:

Interpretation Of Findings:

The analysis suggests that earnings management practices—such as early revenue recognition and accrual manipulation—significantly influence stock price behavior for the five companies analyzed: Infosys, TCS, Wipro, HCL Technologies, and Tech Mahindra. Companies like TCS and Infosys, which aggressively adopted digital transformation services, showed robust revenue growth, largely driven by techniques like accelerating revenue from long-term contracts. These practices resulted in strong short-term market reactions, with stock prices rising following earnings reports, as investors initially perceived these companies to be in strong financial health.

However, companies with more conservative earnings management approaches, such as Wipro and HCL Technologies, demonstrated less volatile stock price movements. This is likely due to their focus on steady, transparent revenue recognition methods, indicating that their financial health was more stable and sustainable. The findings suggest that while aggressive earnings management can drive short-term stock price gains, such practices may lead to corrections in the market when the true financial performance is revealed, emphasizing the importance of sustainable earnings growth for long-term stock price stability.

Implications of Earnings Management on Stock Price Behavior:

Earnings management techniques, if not executed transparently or disclosed properly, can send misleading signals to the market. For Infosys and TCS, the initial rise in stock prices following reports of strong earnings was likely driven by investor optimism based on potentially inflated revenue figures. This surge may have been the result of early revenue recognition or the acceleration of contract revenues, which gave a short-term boost to reported earnings. However, as investors began to realize that some of these earnings were based on unrealized sales or accrual manipulations, stock price volatility likely followed, as market expectations adjusted to a more realistic view of the companies' financial performance.

In contrast, Wipro and HCL Technologies, which took a more conservative approach to earnings management, likely saw more predictable and stable stock price movements. Their steady, albeit slower, growth would have fostered long-term investor confidence. This reinforces the idea that focusing on sustainable earnings growth—rather than short-term earnings boosts—can lead to greater stability in stock prices over time.

Corporate Governance and Regulatory Frameworks:

Corporate governance and regulatory frameworks play a crucial role in shaping earnings management practices. Companies in India's IT sector, such as Infosys, TCS, and others, must comply with the Securities and Exchange Board of India (SEBI) regulations and International Financial Reporting Standards (IFRS). These guidelines are designed to ensure accurate financial reporting and transparency. However, in industries where long-term contracts are common, there remains a grey area, particularly regarding practices like revenue smoothing and aggressive revenue recognition.

Stronger corporate governance can help mitigate the risks associated with earnings manipulation by ensuring independent audits, transparent disclosures, and adherence to ethical financial reporting standards. Companies that prioritize strong governance practices are less likely to engage in aggressive earnings management, and by maintaining investor trust, they are more likely to experience stable stock price performance. This demonstrates the importance of ethical financial management in fostering long-term success and investor confidence.

In conclusion, while aggressive earnings management techniques can result in short-term stock price increases, they often come with the risk of long-term volatility. Sustainable earnings growth, supported by transparent and conservative financial reporting practices, appears to lead to more stable stock price performance, as evidenced by the behavior of companies like Wipro and HCL Technologies. Strong corporate governance and adherence to regulatory frameworks are essential in mitigating the risks of earnings manipulation, ultimately ensuring that companies maintain long-term investor confidence and stable stock prices.

External Factors Contributing To Stock Price Movements:

While earnings management plays a pivotal role in stock price fluctuations, external factors such as macroeconomic conditions, industry trends, and regulatory changes also significantly impact stock prices. These external influences often interact with a company's financial performance, amplifying or mitigating the effects of its earnings practices. The Following external factors could be seen in analyzing stock price movements.

1. Macroeconomic Conditions:

The broader economic environment is a key driver of stock price movements. For example, the COVID-19 pandemic

brought about significant shifts in the global economy, especially in how businesses and individuals operate. The pandemic accelerated digital transformation, with companies increasingly relying on remote work solutions, cloud services, and digital tools. This surge in demand for IT services directly benefited companies like Infosys, TCS, and HCL Technologies, contributing to higher stock prices. These companies, regardless of their earnings management practices, saw an uptick in their stock prices as the demand for their services grew due to these external factors.

2. Industry Trends:

Industry-specific trends are another major factor influencing stock prices. For the Indian IT sector, trends such as the rapid adoption of cloud computing, artificial intelligence (AI), and digital transformation services have played a crucial role in shaping market perceptions. Companies that were well-positioned in these high-demand areas, like Infosys and TCS, saw positive stock price reactions as their services became more critical to global businesses navigating the pandemic and the shift to digital solutions. Even if some of these companies engaged in earnings management, the strong industry tailwinds helped propel their stock prices higher.

3. Regulatory Changes:

Regulatory frameworks also affect stock price behavior, particularly when there are significant changes in policies, taxation, or corporate governance regulations. For instance, shifts in regulations related to data privacy, cyber security, and intellectual property could impact how companies like Infosys, TCS, and HCL Technologies operate and report their earnings. While regulatory changes can introduce uncertainties, companies that are quick to adapt and comply with these changes can often benefit from positive market reactions, boosting their stock prices.

4. Investor Sentiment And Market Expectations:

Investor sentiment and market expectations can greatly influence stock price movements, often regardless of a company's actual earnings performance. Positive news about a company's strategic partnerships, new innovations, or growth in emerging technologies can lead to increased investor confidence and higher stock prices. For example, Infosys's work with global firms like Daimler and its push into AI and cloud solutions likely led to optimistic investor sentiment, which in turn contributed to positive stock price movements. When investors believe that a company is well-positioned for future growth, stock prices may rise, reflecting this confidence, even if the company's earnings practices are under scrutiny. While earnings management is an important factor influencing stock price fluctuations, external elements like macroeconomic conditions, industry trends, regulatory changes, and investor sentiment also play a crucial role.

The surge in IT services demand during the COVID-19 pandemic, the growing adoption of digital transformation, and strategic partnerships all contributed to the stock price performance of companies like Infosys, TCS, and HCL Technologies, irrespective of their earnings management practices. These external factors highlight the complexity of stock price movements, underscoring that a variety of internal and external dynamics can influence investor behavior and market reactions.

FINDINGS, SUGGESTIONS, AND CONCLUSION

Key Findings:

Their stable and transparent financial Earnings management practices—like how companies recognize revenue and manipulate accruals play a big role in stock price movements. For example, companies like Infosys and TCS, which use more aggressive strategies, stock prices tend to rise in the short term. This usually happens because their reported earnings exceed what the market was expecting. But these practices often lead to volatility in the long run as the market adjusts to

more realistic earnings when the true financial situation becomes clearer. On the flip side, companies like Wipro and HCL Technologies, which take a more conservative approach, show steadier growth with less stock price fluctuation. This shows that being transparent and sustainable in financial reporting is key to building trust and ensuring steady long-term performance.

Suggestions: for Improving Corporate Governance and Financial Transparency:

To avoid the risks that come with earnings manipulation, companies should focus on strong corporate governance and clear financial reporting. Here are a few key steps they can take:

Independent Board Oversight: Having a board that is independent of company management is crucial. This helps ensure unbiased decision-making and keeps financial reporting in check.

Clear And Honest Financial Reporting: Companies need to make sure their financial reports are as clear and accurate as possible. Following international accounting standards, like IFRS or GAAP, helps make sure the financial statements give an honest picture of the company's performance. Being upfront about how revenue is recognized and how accruals are handled is especially important when dealing with long-term contracts.

Regular Audits: To maintain transparency, companies should have regular internal and external audits by independent firms. This helps ensure that their financial performance is reported correctly and reduces the risk of manipulation.

Better Earnings Disclosures: Companies should provide more detailed information about their earnings practices, particularly when it comes to revenue recognition and how they handle accruals. Giving investors a clearer picture of things like deferred revenues and long-term contracts helps them assess whether earnings growth is sustainable.

Focus on Long-Term Growth: Companies should prioritize sustainable growth over short-term financial boosts. By investing in innovative technologies like AI, cloud services, and digital transformation, they can ensure continued success without resorting to earnings manipulation. This approach creates a more stable foundation for long-term growth.

Tips For Investors: Investors need to focus on the quality of earnings, not just revenue growth. A more holistic approach, looking at factors like operating income and cash flow, will give a better sense of whether a company's earnings are sustainable. A few red flags to watch for include:

Big Jumps in Accounts Receivable: If accounts receivable goes up a lot without a corresponding increase in revenue, it could signal problems with revenue recognition.

Unexplained Revenue Surges: Sudden spikes in revenue without a clear explanation can also point to aggressive earnings management, which could mean the company's financial health isn't as strong as it seems.

Investors should also make sure to diversify their portfolios to protect against the risks that come with earnings manipulation. While companies like Wipro and HCL Technologies, with more conservative practices, may be more stable in the long term, balancing their stocks with other investments will help manage risk. A diversified portfolio offers more chances for growth while reducing the potential impact of any one company's issues.

challenges of earnings management by focusing on stronger corporate governance, transparent financial reporting, and a commitment to long-term growth. By following these strategies, companies can build trust with their investors and ensure steady growth, while investors can make more informed decisions that lead to better returns.

This approach benefits everyone-companies, investors, and the wider business environment creating a more stable and transparent market.

CONCLUSION:

Eventually, the companies like Infosys and TCS, which used more aggressive earnings management techniques, saw significant short-term stock price increases, driven by market optimism around their digital transformation growth. However, this could lead to potential volatility in the future if their earnings are not as sustainable as the market expects. On the other hand, Wipro, HCL Technologies, and Tech Mahindra, which employed more conservative earnings practices, experienced steadier stock price movements and have hitherto given outstanding returns.

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In the end, both companies and investors can navigate the