

Financial Performance Analysis of Indian Companies In Information Technology Sector

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ABSTRACT

This research paper analyzes the performance of five companies from the Information Technology Sector of India. The companies were selected on the basis of market capitalization. The variables viz Sales, Profit After Tax, Long Term Debt To Equity, Interest Coverage, Working Capital, Debtors Turnover and Cash holdings of the companies were examined over a period of 10 years. The study revealed that all these companies have performed well in terms of Sales and Profit After Tax. Also all the companies are equity driven and do not face any problem to meet with interest obligation. Performance on the front of working capital has also been found very satisfactory. Cash holdings of the companies are very comfortable. All the companies except Tech Mahindra are consistent in their performance on various parameters. Tech Mahindra has managed to be on surface but with considerable inconsistency.

Keywords: IT Sector, Sales, Profit After Tax, Long Term Debt to Equity, Cash Holding.

INTRODUCTION:

All business operations are predicted in financial terms and the output is also measured in financial terms, hence to note financial analysis is very significant for each business whether big or small. Finance is the base from where businesses decide its future action plan. Financial performance analysis of the past helps business take wise decisions thereon and helps avoid mistakes done in the past. Financial analysis helps to know the trend in business performance and helps to set higher targets. Financial performance helps investors, creditors, stakeholders, and the shareholders of the business enterprise to judge the company's health and efficiency so that accordingly they can make their appropriate investments decisions.

"IT"- Stands for "INFORMATION TECHNOLOGY", According to Oxford Advanced Learner's Dictionary [New 8th edition]- IT is " The study or use of electronic equipment, especially computers, for storing and analyzing information."

Indian IT industry begin in the years of 1970s and contributing to the economic growth and helping industrial growth it achieved a major breakthrough in 1990s. The year of 1995-1996 was a smashing year for the Indian IT and computer industry. With height quality and price performance IT industry led to outsmart all the other sectors of the country. Industry has grown six-fold in revenue terms, and hence contributing to GDP by more than 9.3% in FY 2016-2017. In the same year, India contributed as world's NO.1 sourcing destination with a significant share of 55%.

The Indian software industry hence being one of the most significant and crucial industries of Indian economy holds utmost importance and cannot be unseen. This paper analyses some IT companies of India and enables us to better understand their performance.

LITERATURE REVIEW:

Asma Khan and Jyoti Singhal (2015) conducted Growth and Profitability Analysis of Selected IT Companies in terms of ratios over a period of five years. The paper inferred that performance of HCL Technologies was satisfactory except in Return on Net Worth and Return on Long Term Funds whereas in case of Tech Mahindra Return on Net Worth and Return on Long Term Funds was satisfactory and Wipro showed an average performance during the study period. Also, there was significant difference between the companies in Operating Profit Ratio and Return on Capital Employed Ratio and there was no significant difference between the companies in Net Profit Ratio, Gross Profit Ratio, and Return on Net Worth Ratio. Sinha Mintibahen Bijendra and Dr Deepika Singhvi (2017) conducted a study which aimed at analyzing profitability position of the Indian pharmaceutical sector of time period for 7 years. They conducted profitability of pharma companies having two main distinguishes facets a) it is a defensive sector and b) it involves very high cost of Research & Development, which does not guarantee any assured returns. It was hence concluded that any firm with focus on Research & Development, Operating Profit and Gross Profit matters more, as their efforts Research & Development will generate returns after longer time period. R.Idhayajothi, Dr.O.T.V.Latasri, N. Manjula, A.Meharaj Banu and R. Malini (2014), conducted a study on overall financial performance of Ashok Leyland Limited at Chennai. The paper involved calculation of various ratios namely, Liquidity ratios, Leverage ratios, Activity ratios and Profitability ratios. It was hence inferred that despite the price drops in various products, the company was able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position of the company. The company was able to balance its higher capital expenditures and working capital requirements with high volume of operations and operating cash flows. Dr. Virender Koundal (2012) attempted to measure and quantify the efficiency and profitability of the Indian banks. He first segmented the banks on the basis like number of employees, business per employees, deposits per employee, advances per employee, bank assets size, non-performing assets etc., and concluded that according to his segmentation the foreign sector banks had been most efficient. He also concluded that new banks have better efficiency and in terms of size smaller banks were globally efficient and larger banks were locally efficient. He measured performance using labor productivity ratio, branch productivity ratios, profitability ratios and etc. Ashok Kumar Panigrahi (2017) in his paper conducted a research on 30 BSE Listed Indian cement companies. The paper aimed at finding a relationship between working capital management and profitability, average receivable period, inventory conversion period, average payment period and cash conversion cycle, which expresses the efficiency of working capital. The paper hence concluded that that there exists a negative relationship between profitability and number of days of accounts payables and number of days of inventory, but a positive relationship between profitability and number of days of accounts receivables. According to his study working capital management and profitability showed a positive relationship and also that shortening of the cash conversion cycle negatively affected the profitability of the firm. Dr. V.P.T. Dhevika, Dr. O.T.V. Latasri and H. Gayathri in (2013) carried out financial performance analysis of CITY UNION BANK using ratio analysis technique. They measured the parameters like liquidity, solvency, profitability and borrowings of the bank for a period of five years. The paper concluded that the bank has been able to grow its market share and has been able to meet its higher working capital requirements and increased volume of its operations. K.P.Venugopala Rao and Farha Ibrahim (2017) conducted financial performance analysis of IDBI bank. The said analysis was done by ratios and for the period from the year 2011-2012 to 2015-2016. They found out that employment of assets and solvency of bank was in tune with the industry average. It also concluded that bank should improve upon its performance in deposits that provide cheaper funds.

NEED FOR THE STUDY:

The pace of change brought about by new technologies has had a significant effect on the way people live, work, and play worldwide. Hence the IT sector affects every other industry today. Information technology today is essential in ensuring the smooth functioning of all the departments in a company, such as the HR department, finance department, manufacturing department and in security related aspects. It has great use in the automated production of sensitive information, up-gradation of the important business processes, and streamlining of the various business processes.

It helps the managers in adapting to the new business processes, and also for predicting the possible impacts of newer technologies. IT is used to keep safety of consumer's money sent or received through online purchase. IT has opened the new era of e-commerce of online selling and buying. Improvements in IT have allowed for great reform in healthcare. IT has also updated the technology a doctor can use to diagnose or treatment. In the

education sector IT provides access to variety of learning resources including both audio and visual education providing broader content. It imparts fast knowledge providing education to anyone and anywhere and anytime. It provides collaborative and distance learning facility and etc. IT and biotech stand to transform agriculture, raising its production levels and outputs. IT helps farmers access to vital information, methodologies and the latest technology to help them in areas such as crop rotation, weather patterns, fertilizer use and going organic – all at the click of a button or a simple SMS on their mobile phones. IT provides discipline specific software tools like CAD which helps engineers drafting and reviewing of the structures in construction field. Software tools created by computer programs have made work easier for the construction industry as never before. It therefore becomes imperative to understand financial performance of companies in such an important all pervasive sector.

RESEARCH DESIGN:

The objective of this research paper is to develop understanding of financial performance of Indian IT companies. Indian IT sector has gathered momentum and accounts presently at 73.7% in trade performance of India's major services in 2016-17. For this purpose we have selected top five Indian IT companies based on their market capitalization as on 7-02-2018. These companies are as:

1. TATA CONSULTANCY SERVICES LTD.
2. INFOSYS LTD.
3. WIPRO LTD.
4. HCL TECHNOLOGIES LTD.
5. TECH MAHINDRA LTD.

The required data was collected for a period of ten years that is from 2008 – 2017 from credible sources like Capitaline Databases and Moneycontrol. The said data was analyzed using various statistical techniques over the study period. The performance parameters used in the research paper are:

1. Sales
2. Profit After Tax
3. Profit After Tax to Sales Ratio
4. Long Term Debt To Equity Ratio
5. Interest Coverage Ratio
6. Net Working Capital
7. Debtor Turnover Ratio
8. Cash Holding Ratio

ANALYSIS:

Each of the companies mentioned in the earlier section were analyzed using the financial performance parameters. The company wise analysis is placed below.

Tata Consultancy Services Ltd.:

The Table -1 indicates that TCS has shown a consistent increase in its Sales over the study period. Sales have registered at an Annual Average Growth Rate of 20.43%. The Profit After Tax to Sales Ratio has been static over the decade at an average of 21.9%. Profit After Tax in absolute terms have increased at Annual Average Growth Rate of 20.78% over the past 10 years. TCS is financially secured company as its major funding is by equity rather than by debt. Company has been able to keep its Long Term Debt to Equity Ratio lesser than 1, hence, can be inferred that the company is not Debt ridden. The Interest Coverage Ratio of the company has been on an average at 1042.23 which keeps the company in a comfortable situation as far as Interest obligation is concerned. Its Working Capital requirement has increased more than tenfold. The Current Ratio of the company has increased over the years from 2.2 to 5.5 in 10 years. Debtor Turnover Ratio is on an average at 4.6 times. The company has higher Cash holding at average of 11 times.

Infosys Ltd.:

The Table – 2 indicates that Infosys Sales have increased consistently over the past 10 years. Sales have increased at an Annual Average Growth Rate of 17.54%. The Profit After Tax to Sales Ratio have remained stable at an average of 26.5%. The Profit After Tax in absolute terms has grown at an Annual Average Growth Rate of 14.26%. Being Equity funded Infosys also keeps its Debt Equity Ratio as low as possible, which attracts investors to the company. Long Term Debt to Equity Ratio is consistently low at 0.2:1 which

means company is Equity driven. Interest Coverage Ratio is phenomenally high in view of low Debt and good margin. Company has increased its Net Working Capital over the years and its Current Ratio has been maintained in the range of 3 to 3.8 times. The Debtor Turnover ratio is at 5 to 6 times. Infosys Cash Holding is relatively low.

Wipro Ltd.:

The Table -3 indicates that Wipro has as well maintained a consistent increase in Net Sales at an Annual Average Growth Rate at 14.30%. Wipro has maintained Profit After Tax to Sales Ratio at average of 16%. The Profit After Tax in absolute terms has decreased in the year 2017. The Debt Equity Ratio has changed from 0.84 to 0.04 last one decade. Wipro has maintained its Interest Coverage Ratio at an average of 28.81 times. The company's Net Working Capital has increased over the years. The current Ratio has doubled over the study period. Wipro's Accounts Receivables stays in the range of 5 to 6 times. Company maintains just enough of cash at average of 4 times.

Hcl Technologies Ltd.:

The Table - 4 indicates that HCL has shown an overall increase in its Turnover over the years while 2016 had seen Sales less than the previous year. Sales have grown at an Annual Average Growth Rate of 24.15%. HCL's Profit After Tax to Sales ratio has been at average of 14.6% over the decade. Profit figures in absolute terms have increased at Annual Average Growth Rate of 24.84%. Long Term Debt to Equity Ratio has been at an average of 0.70 over the study period. Though a few years has seen lesser Interest Coverage Ratio, the company gradually has been able to maintain it at higher level and hence is in a comfortable position to honor its Interest obligations. Company has improved its Net Working Capital since the year 2014 and has been consistent thereafter. The company has maintained its Current Ratio at 1 to 2 times in last 10 years. Accounts receivable has been maintained at 5-6 times throughout. HCL's Cash Holding is at average of 7.13 times over ten years.

Tech Mahindra Ltd.:

The Table - 5 indicates that the company has shown a great performance in terms of Sales. The Sales have increased in absolute terms after the year 2014 and with the Annual Average Growth Rate of 31.50%. However The Profit After Tax to Sales Ratio has decreased over the years from 20% in 2008 to 9% in 2017. The Profit After Tax to Sales in absolute terms have shown major ups and downs. The company has well maintained Long Term Debt to Equity Ratio consistently below 1 suggesting lower preference for borrowing. However Interest Coverage Ratio also has witnessed wide fluctuations, never the less there appears to be no cause of concern from view point of meeting the Interest obligations. Its Working Capital has increased substantially. Debtor Turnover Ratio is at average of 4.83 times. Company has maintained a higher cash holding ratio than many of its peer on an average.

CONCLUSION:

All the IT companies covered in this study have impressive performance on sales front. So is the case with Profit After Tax in absolute terms. Profit After Tax to Sales Ratio performance of T.C.S and INFOSYS is on higher side at above 20%. While, WIPRO & H.C.L TECHNOLOGIES have remained between 12% to 19%. The fortunes of Tech Mahindra have dwindled in this matter. All the companies are equity driven and less dependent on borrowings. Interest coverage ratio also has been at a level offering substantial comfort to the companies in terms of meeting their Interest obligation. This is primarily due to very low Debt content in the capital structure of the company. Keeping pace with increase in Sales, Working Capital requirements of all companies have increased. Current Ratio and Debtors Ratio have remained comfortable with considerable cash holdings.

FUTURE RESEARCH DIRECTIONS:

This research paper has analyzed performance of five companies of Indian Information Technology Sector with a limited set of parameters over last ten years. However if study is conducted with larger set of parameters and more number of companies results may be different. A comparative study of companies in developed countries and developing countries may be conducted to improve upon the inferences. A cross industry and cross country study would be desirable before we generalize results.

Table 1: tata Consultancy Services Ltd. Performance Analysis

Years	Sales [Figures]- in Rs. Cr. -	Profit After Tax- in Rs. Cr.	Pat to Sales Ratio	Long Term Debt to Equity Ratio	Interest Coverage Ratio	Net Workin Capital [Figures] - in Rs. Cr.	Current Ratio	Debtor Turnover Ratio	Cash Holding Ratio
2008	22,863.39	5,056.10	22%	0.4	1,464.12	5544.05	2.2:1	4.72	17.45
2009	27,812.88	5,311.12	19%	0.41	691.82	7542	2.2:1	4.87	14.18
2010	30,028.92	7,092.66	23%	0.45	668.75	7336.71	1.86:1	5.05	8.09
2011	37,324.51	9,189.79	24%	0.3	435.8	9790.38	2.3:1	5.31	7.92
2012	48,893.83	10,523.45	21%	0.37	816.02	12810.08	2.2:1	4.95	9.3
2013	62,989.48	14,075.69	22%	0.01	513.84	19733.75	2.6:1	4.52	10.01
2014	81,809.36	19,331.87	23%	0.34	1,006.74	27227.38	2.7:1	5.06	7.71
2015	94,648.41	20,059.70	21%	0.42	309.53	28494.7	2.4:1	4.8	5.73
2016	108,646.21	24,374.94	22%	0.35	2,257.85	41091.88	2.8:1	4.88	8.57
2017	117,966.00	26,357.00	22%	0.19	2,257.85	66014	5.5:1	2.26	21.57

Table 2: Infosys Ltd. Performance Parameters

Years	Sales [Figures]- in Rs. Cr. -	Profit After Tax- in Rs. Cr.	Pat to Sales Ratio	Long Term Debt to Equity Ratio	Interest Coverage Ratio	Net Workin Capital [Figures] - in Rs. Cr.	Current Ratio	Debtor Turnover Ratio	Cash Holding Ratio
2008	16,692	4,659.00	27%	0.3	5,118.00	8827	3:01	5.82	2.61
2009	21,693	5,988.00	27%	0.21	3,358.00	12,774	4.2:1	6.22	2.6
2010	22,742	6,266.00	27%	0.2	3,761.00	13,782	4:01	6.34	2.24
2011	27,501	6,835.00	33%	0.2	8,822.00	18,779	4.5:1	6.75	2.02
2012	33,734	8,332.00	34%	0.22	5,838.00	23,359	4.3:1	6.4	1.81
2013	40,352	9,429.00	31%	0.21	4,120.00	27,244	4.3:1	6.22	1.9
2014	50,133	10,656.00	21%	0.3	2,334.67	31,047	3.5:01	6.5	2.09
2015	53,319	12,373.00	23%	0.3	2,100.75	31,739	3:01	5.9	1.89
2016	62,441	13,681.00	21%	0.29	∞	34,564	3:01	5.93	1.98
2017	68,484	14,383.00	21%	0.2	∞	39,692	3.8:01	5.79	2.47

Table 3: Wipro Ltd. Performance Parameters

Years	Sales [Figures]- in Rs. Cr. -	Profit After Tax- in Rs. Cr.	Pat to Sales Ratio	Long Term Debt to Equity Ratio	Interest Coverage Ratio	Net Workin Capital [Figures] - in Rs. Cr.	Current Ratio	Debtor Turnover Ratio	Cash Holding Ratio
2008	19,979.60	3,252.00	16%	0.84	30.71	4594.8	1.65:1	5.72	6.76
2009	25,699.50	3,873.60	15%	1.04	19.03	4686.9	1.45:1	5.65	5.65
2010	27,212.90	4,593.20	16%	0.78	58	8335.2	1.84:1	5.36	5.36
2011	31,038.50	5,265.30	16%	0.63	42.95	10941.1	1.93:1	5.49	4.92
2012	37,187.80	5,677.80	15%	0.59	10.77	13413.8	1.99:1	5.23	5.35

Years	Sales [Figures]- in Rs. Cr. -	Profit After Tax- in Rs. Cr.	Pat to Sales Ratio	Long Term Debt to Equity Ratio	Interest Coverage Ratio	Net Workin Capital [Figures] - in Rs. Cr.	Current Ratio	Debtor Turnover Ratio	Cash Holding Ratio
2013	37,430.00	6,182.30	16%	0.63	21.45	13508.1	1.8:1	4.77	4.6
2014	43,423.80	7,990.90	18%	0.53	26.64	19047.1	2.2:1	5.36	4.36
2015	46,951.00	8,714.00	18%	0.56	30.09	23771	2.2:2	5.3	3.34
2016	51,247.80	9,008.90	17%	0.04	20.27	26643.4	2.14:1	5.29	3.4
2017	55,040.20	8,517.90	15%	0.04	28.26	30941.3	2.3:1	5.62	5.86

Table 4: HCL Technologies Ltd. Performance Parameters

Years	Sales [Figures]- in Rs. Cr. -	Profit After Tax- in Rs. Cr.	Pat to Sales Ratio	Long Term Debt to Equity Ratio	Interest Coverage Ratio	Net Workin Capital [Figures] - in Rs. Cr.	Current Ratio	Debtor Turnover Ratio	Cash Holding Ratio
2008	7,562.78	1,053.83	13%	0.62	41.35	1038.5	1.4:1	5.62	9.04
2009	10,229.41	1,319.45	12%	1.3	43.42	2060.23	1.5:1	5.43	7.03
2010	12,136.29	1,259.00	10%	1	12.37	2360.64	1.6:1	5.16	6.97
2011	15,730.43	1,646.63	10%	0.81	13.72	2592.81	1.6:1	6.12	9.85
2012	20,830.55	2,427.08	11%	0.85	25.27	2624.85	1.4:1	6.42	11.7
2013	25,581.06	4,044.58	15%	0.69	60.44	5161.29	1.6:1	6.11	9.26
2014	32,143.66	6,507.76	20%	0.52	91.6	10087.8	2:01	6.32	5.19
2015	36,701.22	7,301.95	19%	0.45	127.95	13119.75	2.3:1	6.01	3.94
2016	30,780.80	5,605.25	18%	0.42	127.18	14700.48	2.4:1	4.33	3.22
2017	47,567.53	8,604.37	18%	0.38	148.71	15,128.13	2.3:1	5.95	5.19

Table 5: Tech Mahindra Performance Parameters

Years	Sales [Figures]- in Rs. Cr. -	Profit After Tax- in Rs. Cr.	Pat to Sales Ratio	Long Term Debt to Equity Ratio	Interest Coverage Ratio	Net Workin Capital [Figures] - in Rs. Cr.	Current Ratio	Debtor Turnover Ratio	Cash Holding Ratio
2008	3,766.10	760.6	20%	0.75	84.29	599.4	1.6:1	3.92	46.87
2009	4,464.70	1,002.70	22%	0.45	437.2	848.2	1.9:1	4.46	14.04
2010	4,625.40	687.8	14%	0.6	6.46	650.9	1.5:1	4.75	12.22
2011	5,140.20	745.8	14%	0.79	8.24	518.5	1.3:1	4.94	21.18
2012	5,489.70	542.1	9%	0.7	7.3	554.1	1.3:1	4.66	21.6
2013	6,873.10	742.7	10%	0.62	8.5	373.1	1.1:1	4.55	17.67
2014	18,831.40	3,062.40	16%	0.5	38.3	5972.3	2.3:1	6.22	9.76
2015	22,621.30	2,658.60	11%	0.45	62.18	6544	2:01	4.74	7.9
2016	26,494.20	3,156.70	11%	0.48	73.73	7989.1	2.1:1	4.83	8.25
2017	29,140.80	2,853.20	9%	0.43	61.79	9933.6	2.5:1	5.25	8.05

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