

Financial Performance Evaluation of Selected Information Technology Companies in India

Neeraj Kumar and Dr Sajad Ahmad Mir

MBA, Guru Kashi University, Talwandi Sabo, Bathinda.

Assistant Professor, Guru Kashi University, Talwandi Sabo, Bathinda

Abstract: *This write up is an attempt by the researchers to find out the financial performance of selected IT Companies of India namely Wipro and Infosys. The researchers have used various parameters to assess the financial performance analysis of the selected IT companies. It has been found that a good financial performance ensures the growth and survival of any organization. The motive behind this research is to provide various fertile suggestions to the selected IT companies and also to those operating same nature of business.*

Keywords: Finance, Companies, Indian Economy, GDP

I. INTRODUCTION

IT sector plays very important role in development, employment generation, removal of poverty, innovation and contribution towards to the GDP of any country, similarly the IT sector is considered one among the core sectors of India and has contributed almost 8% to the GDP of India in the year 2020-2021, and it is considered that this percentage will rise in future. IT Industry has played a very vital role in placing the India on the global map. IT has made the government services easily manageable. The IT sector is considered as the backbone of our country. The IT sector has increased its contribution to India's GDP from 1.2% in 1998 to almost 8% in 2020-2021. Keeping in view the above importance the researchers have selected the Main two important companies among the IT sector so that the overall financial health can be checked and various pros and cons can be found and various fertile suggestions can be given that will be fruitful for the companies belonging to this sector. Review of Literature:

Rupesh and Yuvraj Kumbhaj (2014) examined and compared the financial position, profitability and liquidity and potential of TCS and WIPRO by using the by using the ratios and found that WIPRO is better performing then TCS. Mahendra Maisuria (2016) the main objective of this research is to analyze the profitability of Indian major information technology (IT) companies. For determining profitability researchers used ratio analysis as a tool. Also, one statistical tool is used for analyzing hypothesis. Syeda Saria Musheer and L. Ganesamoorthy (2017) determined to study the profitability of Information Technology (IT) companies in India, applied ratios analysis, mean, standard deviation and co-efficient of variation as the tools for analysis. Their study found that profitability in terms of net profit ratio and operating profit ratio is good in case of three companies and low in case of two companies. R Judith Priya, V Sukithangam, J Subhashree, C Uma (2018) this research was made to analyze potential of both Tata Consultancy Services (TCS) and Infosys using valuation ratios. It has been concluded that the value of the Tata Consultancy Services (TCS) is relatively high when comparing with Infosys. Thus, these valuation ratios attract the investors who are interested in regular Returns. By the study, Tata Consultancy Services (TCS) has positive impact for greater investment opportunities

Objectives:

To analyse the financial performance of the selected companies.

To provide suggestive measures for the betterment of the companies under study.





Research Methodology

This research is descriptive and analytical in nature and data taken for this study is completely secondary in nature. The data has been retrieved from the various sources such as Annual Reports, Research journals, articles etc. The period of study is 11 years i.e. 2011 to 2021. For the purpose of testing the hypothesis student's T test have been used and the hypotheses that have been taken by the researchers are as:

H01: There is no significant difference between profitability of the selected companies

H02: Companies under study do not have significant difference between the solvency positions.

Data Analysis

Table No.1

Statement of Solvency Ratios of Wipro and Infosys ltd.						
Year	Debt Equity ratio of Wipro ltd.	Equity ratio of Wipro ltd.	Solvency ratio of Wipro ltd.	Debt Equity ratio of Infosys ltd.	Equity ratio of Infosys ltd.	Solvency ratio of Infosys ltd.
2020	0.1	0.9	0.42	1.01	0.5	0.99
2019	0.17	0.85	0.39	1.1	0.99	1.3
2018	0.26	0.79	0.45	1.1	0.99	1.82
2017	0.26	0.82	0.42	1.3	0.89	1.8
2016	0.21	0.79	0.41	1.24	0.6	1.78
2015	0.02	0.81	0.44	1.2	0.87	1.88
2014	0.15	0.81	0.48	1.01	0.92	1.9
2013	0.16	0.81	0.40	1.32	0.9	1.7
2012	0.17	0.79	0.42	1.5	0.88	1.85
2011	0.15	0.8	0.43	1.01	1	1

Table No.2

Statement of profitability Ratios of Wipro and Infosys ltd.						
Year	Gross Profit Ratio of Wipro	Operating Profit Ratio of Wipro	Net ProfitRatio of Wipro	Gross Profit Ratio of Infosys	Operating Profit Ratio of Infosys	Net ProfitRatio of Infosys.
2020	0.2	0.2	0.15	0.24	0.24	0.18
2019	0.19	0.19	0.15	0.24	0.26	0.18
2018	0.19	0.19	0.15	0.27	0.27	0.18
2017	0.2	0.2	0.16	0.27	0.27	0.18
2016	0.2	0.21	0.19	0.27	0.27	0.19
2015	0.21	0.2	0.17	0.26	0.26	0.2
2014	0.23	0.2	0.18	0.29	0.29	0.21
2013	0.22	0.18	0.18	0.31	0.31	0.22
2012	0.18	0.16	0.15	0.33	0.33	0.21
2011	0.21	0.19	0.18	0.33	0.33	0.24





Table No. 3

Statement of Liquidity Ratios of Wipro and Infosys Ltd.						
Year	Current Ratio of Wipro Ltd.	Liquid Ratio of Wipro Ltd.	Absolute Liquid Ratio of Wipro Ltd.	Current Ratio of Infosys Ltd.	Liquid Ratio of Infosys Ltd.	Absolute Liquid Ratio of Wipro Ltd.
2020	1.38	1.37	0.79	1.4	1.4	0.7
2019	1.36	1.69	1.03	1.79	1.79	1.02
2018	1.07	1.05	0.32	2.27	2.27	1.36
2017	1.23	1.2	0.42	2.5	2.5	1.61
2016	1.63	1.59	0.79	3.36	3.36	2.49
2015	2.9	2.9	1.86	5.63	5.63	4.27
2014	0.62	2.38	1.35	5.69	5.69	4.3
2013	0.94	1.80	0.94	6.61	6.61	4.9
2012	2.34	2.19	1.07	8.25	8.25	6.42
2011	2.17	2.01	1	8.1	8.1	6.22

Interpretation: - While interpreting the table of Solvency ratios of Wipro and Infosys Ltd. it can be depicted that in case of Wipro the debt equity ratio is very low in 2011 and company raised debt up to 2018 then again in 2019 and 20 the ratio gets decreased. In case of Infosys the company tries to carry a very good mix of debt and equity. The debt equity ratio for Infosys is 1.32 and 1.24 in year 2013 and 2016 respectively. In case of Wipro the company has used almost 80% of equity in year 2011 and in year 2020 90% of equity which means that company has reduced the use of debt as compared to the equity. In Case of Infosys the company has almost used 100% of equity in the year 2011 and then reduced their use of equity and carry its business with good mix of debt and equity in the year 2020. While analyzing the equity ratio it has been found that the Wipro have also used more of equity and less of debt In case of Wipro the company also has the same trend and has very less amount of liabilities to outsiders which means that the company is fully dependent on equity capital. In case of Infosys the companies have more of outsider's liabilities as compared to Wipro but still have less liability towards the outsiders against their total assets. It can be concluded that the companies under study have enough scope to raise the outsider's liabilities.

While analysing the profitability ratios of the selected companies it has been found that the Wipro Company has net profit between the 18% to 15% the company should try to hold this ratio up to the ideal ratio in future. In case of Infosys the net profit as compared to the Wipro is better and has maintained the net profit throughout all the years which are under study.

While determining the liquidity ratio of the selected companies it has been found that in case of Wipro the current ratio for the year 2013 and 2014 is less 0.94 and 0.62 respectively while in year the current ratio is 2.9 which are considered good for the company which means that the company has enough current assets to meet its current liabilities. In Infosys company the current ratio is above the ideal current ratio and has eight times more the current assets than the current liabilities in years 2011 and 2012 and in years 2013 six times more similarly in the years 2014, 2015, 2016 has 5 times more of current assets than the current liabilities and in rest years also have double of current assets than the current liabilities. While analyzing the liquid ratio it has been concluded that In case of Wipro the company has good liquid ratio in the year 2011, 2012, 2014, 2015 but in rest years the company also has less liquid assets as compared to the ideal ratio. In case of Infosys the liquid ratio is 8.1 in year 2011, 8.25 in year 2012, 6.61 in year 2013 and 5.69, 5.63 in year 2014 and 2013 respectively but in the year 2020 the company liquid ratio falls to 1.4 which is not good sign for the company. The company should try to hold it up to the ideal ratio.



Findings:

- The current ratio of all the selected companies is good but in case of Infosys it is higher i.e. 8.1 and 8.25 in year 2010 and 2011 respectively then it gets decrease till the last year of study, which means that the current liabilities are increasing but still the current assets are more than the current liabilities. More of current asset than the current liability is not good all the time sometimes it indicates that funds have not been used properly and are kept ideal.
- In case of HCL, Wipro, and TATA Consultancy it has been found that TATA Consultancy has more of current assets as compared to the current liabilities in the year 2011 to 2015 and gets diminished till the last year of the study. While analyzing the same for the HCL it has been determined that the company's current ratio gets decrease from the year 2015 to 2020. While interpreting the same ratio for the Wipro it is revealed that the company's current assets gets decrease from 2011 to 2014 as compared to the current liabilities and also gets increase in the year 2015 and then in the last years of the study it is depicted that the ratio of current assets and current liabilities shows fluctuating continuously.
- When determining the gross profit it has been found that the gross profit of HCL has fallen from 2011 to 2020 i.e. 0.74 to 0.24 which is not good for the company. In case of the Wipro the gross profit also fluctuates from the year 2011 to 2020 but overall the company has low gross profit as compared to the other selected companies. In case of Infosys the Gross profit also rise and fall from year to year except in the year 2019 in which the gross profit is 2.6.
- While analysing the net profit it has been discovered that the HCL Company's net profit fluctuates among the years under study. The Wipro Company has also the net profit between the 18% to 15% the company should try to hold this ratio up to the ideal ratio in future as well.
- In case of Infosys the net profit from in the year is 0.24 which gets reduced to 0.18 till the last year of the study; and in case of TATA Consultancy the net profit increased in the year 2016 as compared to the previous years but then again gets decrease 0.27 to 0.20 in the year 2020.

Suggestions:

- The current asset includes cash in hand and cash at bank that these selected companies should not keep ideal. Hence the current assets should be used properly sometimes keeping current assets above the standard is not good.
- In the selected companies the Liquid ratio is less than the ideal ratio (2:1) so the company should try to increase its liquid assets and minimize its current liabilities. Companies' liquid ratio is falling from year to year and all the selected companies should try to hold the same to ideal Liquid ratio.
- Overall the company should try to increase gross profit so that net profit can also be increased this can done by increasing the net sales and by diminishing the total expenses.
- It is suggested for the Wipro company that it should try to keep mounting the net profit to standard level by increasing the net sales and by reducing the total expenses. The HCL has almost same net profit ratio throughout the years of study and it is recommended that the said company should try to keep it increase from year to year..

II. CONCLUSION

It has been revealed from the data taken for the period of 10 years of these companies have good current ,liquid as well as the absolute liquid ratio which helps them to keep good short term solvency. The information technology companies gross profit, operating profit as well as the net profit is also good. It is also depicted from this study that these information technology companies have used more of equity as compared to the debt which proves good for the companies as these companies can save the cost of finance by taking fewer funds from the outsiders. In conclusion we can say that the companies belonging to this information technology sector are performing good and overall financial performance is also good; and in near future the companies can expand their business more by exploring more and more areas.





REFERENCES

- [1]. Masuria and Allad (2016). Profitability ratio analysis of Selected Indian IT companies. International Multidisciplinary E-Journal, 5(2), PP.207-220.
- [2]. Asma Khan and Jyoti (2015). Growth and profitability analysis of selected IT companies. IRACST- International Journal of Commerce, business and management (IJCBM)- Vol. 4 No.3, 2319-2828.
- [3]. Dr. Rupesh Kumbhaj, Dr. Yuvraj Kumbhai (2014) Financial analysis of TCS and Wipro with respect to anlysis Altius Shodh. Journal of Management and Commerce, ISSN: 2348-8891.
- [4]. J.Nandhini, P.V. Nivashini and G. Pavithra, (2019). A study of financial performance of Ashok Leyland Ltd., Journal of emerging technologies and Innovative Research (JETIR),ISSN: 2349-5162, Vol.6, Issue.2.

