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A STUDY ON PROFITABILITY ANALYSIS OF SELECTED IT COMPANIES IN INDIA

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Abstract

Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Keywords: Financial, management, monetary, industry, firms.

AN INTRODUCTION OF INFORMATION TECHNOLOGY

The Information Technology (IT) industry has become of the most robust industries in the world. IT more than any other industry or economic factor, has an increased productivity, particularly in the developed world, and therefore is a key driver of global economic growth. Economies of scale and insatiable demand from both consumers and enterprises characterize this rapidly growing sector.

The Indian Information Technology (IT) industry has played a major role in placing India on the International map. The industry mainly governed by IT software and facilities for instance system integration, software experiments, Custom Application Development and Maintenance (CADM), network services and IT solutions

The Information Technology Association of America (ITAA) explains' information technologies' as encompassing all possible aspects of information systems based on computers.Both software development and the hardware involved in the IT industry include everything from computer systems to the design, implementation, study and development of IT and management system.

Owing to its easy accessibility and the wide range of IT products available, the demand of IT services has increased substantially over the year. The IT sector has emerged as a major global source of both growth and development.

The IT industry has also created significant demand in the Indian education sector, especially for engineering and computer science. The Indian IT and ITS industry is divided into four major segments – IT services, Business Process Management (BPM), software products and engineering services, and hardware.

OVERVIEW OF IT INDUSTRY

The last decade in the global arena has witness a tremendous growth in the area of information technology. Rapid advances in the technologies for communication media like television, computer, internet, printing and publishing has enabled us to get prompt access to required information. Information technology (IT) has become one of the most robust industries in the world. It, more than any other industry or economic facet, has increased productivity, particularly in the developed world, and therefore is a key driver of global economic growth. The IT sector has emerged as a major global source of both growth and employment.

Information Technology (IT) is an important emerging sector of the Indian Economy. This paper examines the India's IT industry and also studied the impact of IT on the Indian Economy. The IT sector has served as a fertile ground for the growth of a new entrepreneurial class with innovative corporate practices and has been instrumental in reversing the brain drain, raising India's brand equity and attracting foreign direct investment (FDI) leading to other associated benefits.

OBJECTIVES OF THE STUDY

The major objectives of this study are to examine and evaluates the financial performance and financial position of the selected IT companies. The specific objectives are as follows:

- To analysis the Profitability position of selected IT companies in India.
- To analysis the liquidity position of selected IT companies in India.
- To offer valuable suggestions for a better and improve the performance of the selected IT companies in India.

METHODOLOGY

The study is explorative in nature and based on secondary data. The data for the study consists of various financial statements of selected companies listed in the Bombay Stock Exchange (BSE). The selected IT companies has been purposively selected and used as a sample for the study. Initially, it was decided to keep in the sample of all the companies under IT industry. However, on the further scrutiny it was found that only some companies have the data for the entire study period, while the others not available for research. The inclusions of companies, which possess data for heterogeneous period of time undoubtedly, will disort the method of study. Hence, they have been excluded. In total, five companies are finally selected for research namely Tech Mahindra Ltd, Infosys Ltd, HCL Technologies Ltd, Tata Consultancy Services Ltd and WIPRO Ltd. The data has been collected from the official websites of selected IT companies.

Tools used for analysis

The tools used for the present study are as follows:

- Ratio Analysis
- Mean
- Standard Deviation

LIMITATIONS OF THE STUDY

1. The sample size was limited to 5 Companies.
2. The study has been conducted for a limited period of time.
3. The financial performance is not compared with similar companies in the same industry.
4. The figures taken from the financial statements for the analysis were historic in nature, the time value of money is not being used.

Ratio Analysis

Ratio analysis is an accounting tool, which can be used to measure the solvency, the profitability, and the overall financial strength of a business, by analyzing its financial accounts (specifically the balance sheet and the profit and loss account).

PROFITABILITY RATIO

Profitability ratio is an indication of the efficiency with which the operations of the business are carried on. Poor operational performance may indicate poor sales and hence poor profits. A lower profitability may arise due to the lack of control over the expenses. Bankers and financial institutions look at the profitability ratios is an indicator whether or not the firm earns substantially more than it pays interest for the use of borrowed funds and whether the ultimate, repayment on their debt appears reasonably certain. Owners are interested to know the profitability as it indicates the return which they can get on their investment.

GROSS PROFIT RATIO

Gross profit ratio measures the relationship of gross profit to net sales and is usually represented as a percentage is usually represented as a percentage. Thus, it is calculated by dividing the gross profit by sales. The Table 4.12 shows the gross profit ratio for selected IT companies during the financial years from 2011-2012 to 2015-2016.

$$\boldsymbol{GROSS\ PROFIT\ RATIO = \frac{Gross\ Profit}{Net\ Sales}\ x\ 100}$$

Table 1.1

GROSS PROFIT RATIO OF SELECTED IT COMPANIES

(In Percentage)

YEAR	Tech Mahindra	Infosys	HCL	TCS	Wipro
2011-2012	13.65	29.03	25.21	27.64	17.99
2012-2013	17.01	25.85	33.14	26.92	19.43
2013-2014	19.23	25.06	41.34	29.09	19.74
2014-2015	15.36	25.98	38.24	23.96	17.94
2015-2016	13.67	25.39	36.06	26.36	16.28
2016-2017	19.70	13.15	38.18	27.52	18.47
Mean	**16.44**	**24.08**	**35.36**	**26.92**	**18.3**
SD	**2.66**	**5.54**	**5.66**	**1.71**	**1.24**

Source: Compiled Annual Reports

Table 1.1 shows that, the average gross profit ratio is highest for 41.34 percentage of HCL followed by, 29.09 percentages for TCS, 29.03 percentages of Infosys, Wipro at 19.74 percentages, and 19.23 percentage of Tech Mahindra are minimum. Hence, it is conveys that HCL is in better position in comparison to remaining four companies.

During the financial years from 2011-2012 to 2016-2017 the standard deviation is highest for 5.66 percentage of HCL followed by, Infosys at 5.54 percentage, 2.66 percentage Tech Mahindra, 1.71 percentage of TCS, and 1.24 percentage of Wipro minimum. It indicates that better and consistent performance by HCL among four companies comparatively.

NET PROFIT RATIO

Net profit ratio establishes a relationship between net profit (after take) and sales, and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm. This ratio is the overall measures of firm's profitability. The Table 4.13 shows the net profit ratio for selected IT companies during the financial years from 2011-2012 to 2016-2017.

$$NET\ PROFIT\ RATIO = \frac{Net\ Profit}{Net\ Sales}\ x\ 100$$

Table 1.2

NET PROFIT RATIO OF SELECTED IT COMPANIES

(In Percentage)

YEAR	Tech Mahindra	Infosys	HCL	TCS	Wipro
2011-2012	8.78	25.69	21.89	21.29	17.48
2012-2013	10.87	23.36	29.59	22.09	18.44
2013-2014	16.48	21.25	36.27	23.42	18.3
2014-2015	11.77	23.2	36.99	20.97	16.43
2015-2016	15.35	21.9	35.23	22.35	15.07
2016-2017	13.15	23.30	35.57	25.51	17.72
Mean	**12.73**	**23.12**	**32.59**	**22.61**	**17.2**
SD	**2.87**	**1.53**	**5.87**	**1.66**	**1.28**

Source: Compiled Annual Reports

Table 1.2 shows that, the average net profit ratio is highest for, 36.99percentage of HCL followed by, 25.69 percentages of Infosys, at 25.51percentage of TCS, 18.44 percentage Wipro, and 8.78 percentage of Tech Mahindra are minimum. Hence, it is conveys that HCL is in better position in comparison to remaining four companies.

During the financial years from 2011-2012 to 2016-2017 the standard deviation is highest for 5.87 percentage of HCL followed by 2.87 percentage of Tech Mahindra, 1.66 percentage of TCS, Infosys at 1.53 percentage ,and minimum Wipro at 1.28 percentage. It indicates that better and consistent performance by HCL it among four companies comparatively.

LIQUIDITY RATIO

Liquidity refers to the ability of a concern to meet its current as and when these become due. The short-term obligations are met by realizing amounts from current, floating on circulating assets. The current assets should either be liquid or near liquid. These should be convertible into cash for paying obligations of short-term nature. The sufficiency or in sufficiency of current assets should be assessed by comparing them with short-term liabilities.

CURRENT RATIO

Current ratio is an indicator of the company commitment to meet its short term liabilities. An ideal current ratio is 2:1. The ratio is considered as a safe margin of solvency. Current ratio is an index of the concerns financial stability.

The Table 1.3 shows the current ratio for selected IT companies during the financial years from 2011-2012 to 2016-2017.

$$\boldsymbol{CURRENT\ RATIO = \frac{CURRENT\ \ ASSETS}{CURRENT\ LIABILITIES}}$$

Table 1.3

CURRENT RATIO OF SELECTED IT COMPANIES

(In proportionate)

YEAR	Tech Mahindra	Infosys	HCL	TCS	Wipro
2011-2012	0.98	5.53	1.38	2.70	1.71
2012-2013	0.95	5.31	1.82	3.00	2.06
2013-2014	2.11	3.48	2.44	2.97	1.95
2014-2015	2.30	3.34	3.13	2.64	1.55
2015-2016	2.26	3.41	3.75	2.23	1.85
2016-2017	2.80	4.05	0.97	1.04	3.52
Mean	**1.9**	**4.19**	**2.25**	**2.43**	**2.1**
SD	**0.76**	**0.99**	**1.06**	**0.74**	**0.72**

Source: Compiled Annual Reports

Table 1.3 shows that, the current ratio is highest for Infosys at 5.53 proportionate followed by 3.75 proportionate of HCL, 3.00 times of TCS, 2.30 proportionate for Tech

Mahindra and 2.06 proportionate of Wipro are minimum. Hence, it is conveys that Infosys in better position in comparison to remaining four companies.

During the financial years from 2011-2012 to 2016-2017 the standard deviation is highest for 1.06 proportionate of HCL followed by Infosys at 0.99 proportionate, 0.76 proportionate of Tech Mahindra, 0.74 proportionate of TCS and 0.72 proportionate of Wipro. It indicates that better and consistent performance by HCL among four companies comparatively.

QUICK RATIO

Liquidity ratio is more rigorous test of liquidity then current ratio. This ratio measures the company capacity to pay off current obligations immediately. This ratio is calculated as follows, the rule of thumb is 1:1. Liquid assets are combination of all current assets other than prepaid and stock. The Table 4.2 shows the quick ratio for selected IT companies during the financial years from 2011-2012 to 2015-2016.

$$QUICK\ RATIO = \frac{LIQUID\ ASSETS}{CURRENT\ LIABILITIES}$$

Table 1.4

QUICK RATIO OF SELECTED IT COMPANIES

(In Proportionate)

YEAR	**Tech Mahindra**	**Infosys**	**HCL**	**TCS**	**Wipro**
2011-2012	1.23	5.49	1.42	2.67	2.92
2012-2013	1.32	5.25	1.76	3.01	3.06
2013-2014	2.04	3.43	2.4	2.98	2.59
2014-2015	2.23	3.30	3.08	2.64	2.06
2015-2016	2.2	3.38	3.68	2.21	2.40
2016-2017	2.80	4.05	0.92	1.01	3.50
Mean	**1.97**	**4.15**	**2.21**	**2.42**	**2.8**
SD	**0.60**	**0.98**	**1.04**	**0.75**	**0.51**

Source: Compiled Annual Reports

Table 1.4 shows that, the average quick ratio is highest for 5.49 proportionate of Infosys followed by 3.06 proportionate of Wipro, 2.23 proportionate of Tech Mahindra, TCS at 3.01 proportionate and 0.35 proportionate for HCL are minimum. Hence, it is conveys that Infosys in better position in comparison to remaining four companies.

During the financial years from 2011-2012 to 2015-2016 the standard deviation is highest for Infosys at 3.30 proportionate followed by 2.21 proportionate of TCS, 2.06 proportionate of Wipro, 1.42 proportionate of HCL. and minimum 1.23 proportionate of Tech Mahindra It indicates that better and consistent performance by Infosys among four companies comparatively.

FINDINGS

- The average current ratio is highest for Infosys at 5.53 proportionate
- The average quick ratio is highest for 5.49 proportionate
- The average gross profit ratio is highest for 41.34 times of HCL
- The average net profit ratio is highest for 23.42 times of TCS

SUGGESTIONS

In the present study, it is found that the Tech Mahindra Limited has been able to achieve high scores on the various profitability ratios and this has positive impact on its liquidity ratios. Hence, it is suggested that this company may be referred as the 'hidden champion' and it could be used as a best practice by the other companies also. Furthermore it is suggested that the IT companies can improve its profitability by managing its working capital more efficiently and aggressively.

CONCLUSION

The IT industry in India is dominated by around 20 companies, which account for almost 70% of the total IT production in India. The IT industry in India is currently growing at an enviable pace. More growth in the Indian IT industry is expected in the coming years. It is currently going through a technological change as a lot of up gradation and assimilation is taking place. Hence, this attempt is made to know the financial performance of selected IT companies in India and their overall performance is good. Some differences were found from the study and suggestions were made from it. It is expected that the selected IT companies may increase their performance if they consider the suggestions made from the findings of the study.

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