



An Appraisal of Financial Performance of Tata Consultancy Services Limited (TCS)

Dr. A. S. HEMA

Assistant Professor of Commerce, Government Arts College for, Salem

ABSTRACT

In the digital era, the need for software development companies has increased to a greater extent. As a result, the IT sector has witnessed a mushroom growth of software development and consultancy companies in the recent past. These companies develop both readymade software and tailor-made software according to the needs of their clients.

They recruit employees mainly through campus interviews conducted in educational institutions like Engineering Colleges, Arts & Science Colleges and Polytechnics. They provide attractive packages to their employees. The recent economic slowdown has rocked the industry very much, following which many companies have downsized their employees with a view to cutting costs. In this context, the present study appraises the financial performance of one of the leading companies in the IT sector, Tata Consultancy Services Ltd.

KEYWORDS : software development, appraisal, financial performance.

INTRODUCTION

Tata Consultancy Services popularly known as TCS is one of the leading companies in the Information Technology and Information Technology Enabled Services (IT & ITES) sector which serves its clients both in India and abroad. IT & ITES sector has gained its momentum since last two decades. Automation of manual operations has paved the way for the growth of this sector. TCS deposes its employees abroad for rendering on-site services at the clients' places, which enables the clients to design, modify and update its automation process according to their needs and requirements. The potential for IT & ITES has attracted many companies to enter into this sector. Leading companies like WIPRO, Infosys, CTS, etc are the major competitors for TCS.

In this competitive environment, survival of every company is a great challenge. The growth of a company can be measured in terms of its client base. However, the financial performance of a company could be assessed by examining its liquidity, profitability and growth. Liquidity is the ability of the firm to meet its liabilities. It can be classified as short term liquidity and long term liquidity. The short term liquidity of a firm denotes its ability to meet the current obligations while the long term liquidity represents the firm's capability to repay its long term liabilities. It helps the creditors, banks and other financial institutions to make decisions on lending to the concerned firm. A company which is financially sound would attract the creditors to lend more to the company.

Profitability, on the other hand, means the ability of the firm in earning profits and its efficiency to utilize the assets towards maximizing the profits. It helps to understand the firm's efficiency in fulfilling the objective of financial management, i.e. profit maximization. The other objective of financial management – wealth maximization could be fulfilled by assessing the growth of assets of a company.

DEFINITION OF THE RESEARCH PROBLEM

TCS is one of the companies which could survive during the past decade with extending its operations worldwide. The economic slowdown in the recent past has jolted many sectors, for which IT sector is not an exception. It has also faced a lot of challenges – downsizing the employees, minimizing the operations, etc. with a view to cut the costs. Even though the IT companies charge a huge amount for software development, the pay and perquisites provided to the employees are considerably high. Under these circumstances, an appraisal of the financial performance of TCS is felt necessary.

OBJECTIVES

The following objectives have been framed for the present study:

- To examine the liquidity of Tata Consultancy Services.
- To analyze the profitability of Tata Consultancy Services.
- To analyze the growth of Tata Consultancy Services and
- To offer suggestions for the improvement of financial soundness of Tata Consultancy Services.

METHODS AND MATERIALS

The present study is based on the secondary data obtained from the

annual reports of the company for a period of ten financial years from 2004-05 to 2013-14. The data obtained from the annual reports have been analyzed by applying tools like ratio analysis, mean, standard deviation, coefficient of variation, compound annual growth rate and multiple regression analysis.

The short term and long term liquidity of the company have been analyzed by using current ratio and debt-equity ratio respectively. The profitability of the company has been examined by computing the ratios of return on shareholders' net worth and return on total assets. The growth of TCS has been studied by ascertaining the compound annual growth rate of turnover, net profit, current assets, working capital, fixed assets and total assets. The consistency of performance of the company has been assessed by computing mean, standard deviation (SD) and co-efficient of variation (CV). The influence of independent variables like, current assets, working capital, fixed assets, total assets, and total debt on the dependent variable – net profit has been analyzed by using multiple regression analysis.

RESULTS AND DISCUSSION

Table 1: Liquidity, Profitability and Growth Analysis

Variables	Mean	SD	CV	CAGR
Current Assets (Rs. in crores)	14998.50	13067.64	87.13	-3.25
Current Liabilities (Rs. in crores)	6127.09	3996.63	65.23	33.27
Current Ratio (Times)	2.23	0.52	23.49	-27.40
Total Debt (Rs. in crores)	69.15	46.48	67.21	38.25
Net worth (Rs. in crores)	17760.73	12847.41	72.34	29.54
Debt Equity Ratio (Times)	0.007	0.01	152.03	6.72
Net Profit (Rs. in crores)	7293.63	5264.38	72.18	29.28
Total Assets	17829.88	12868.84	72.18	33.27
Return on Net worth (%)	42.73	6.04	14.13	-2.63
Return on Total Assets (%)	42.40	5.59	13.19	-3.00
Turnover (Rs. in crores)	28818.04	19053.54	66.12	26.98
Working Capital (Rs. in crores)	8871.41	9281.35	104.62	45.41
Fixed Assets (Rs. in crores)	2942.80	1688.84	57.39	23.18

Table 1 shows that the average current assets of the company were Rs.14,998.50 crores while the average current liabilities were Rs.6,127.09 crores with standard deviation of 13,067.64 crores and Rs.3,996.63 crores for current assets and current liabilities respectively. The co-efficient of variation of current assets was found to be 87.13 per cent and that of current liabilities was 65.23 per cent implying

thereby the current assets of the company varied more than the variation in the current liabilities. It reveals that the current liabilities were more consistent than the current assets. The average current ratio, standard deviation and coefficient of variation of current ratio were found to be 2.23 times, 0.52 times and 23.49 per cent respectively. It denotes that the short term liquidity of the company was good and consistent during the period of study.

It is observed that the average debt of the company was Rs.69.15 crores while the average net worth was Rs.17,760.73 crores with standard deviation of 46.48 crores and Rs.12,847.41 crores for total debt and net worth respectively. The co-efficient of variation of total debt was found to be 67.21 per cent and that of net worth was 72.34 per cent implying thereby the net worth of the company varied more than the variation in the total debt. It reveals that the total debt was more consistent than the net worth. The average debt equity ratio, standard deviation and coefficient of variation of debt equity ratio were found to be 0.007 times, 0.01 times and 152.03 per cent respectively. It denotes that the long term liquidity of the company was good but inconsistent during the period of study.

The profitability of TCS has been found to be good during the study period as indicated by the average return on shareholders' net worth (42.73 per cent) and average return on total assets (42.40 per cent). It implies that the shareholders' net worth and total assets of the company have been effectively used for maximizing profits during the period of study. Similarly, the profit earned by the company during the study period has been found to be more consistent as denoted by the co-efficient of variation of 14.13 per cent in respect of return on shareholders' net worth and 13.19 per cent in respect of return on total assets.

The growth of the company as measured by CAGR states that the current assets have registered a negative growth (-3.25 per cent) while working capital (45.41 per cent) and total assets (33.27 per cent) have witnessed positive and moderate growth. The growth of net profit (29.28 per cent) and turnover (26.98 per cent) were found to be positive but low. It implies that the net profit varied commensurate with the variation in the turnover. The fixed assets of the company have been found to have grown by 23.18 per cent compounded annually.

Table 2: Multiple Regression Analysis

Variables	Coefficients	Standard Error	t Stat	P-value
Intercept (Constant)	588.86	709.67	0.83	0.47
Turnover	0.24	0.13	1.88	0.16
Current Assets	0.36	0.27	1.35	0.27
Working Capital	-0.10	0.16	-0.62	0.58
Fixed Assets	-0.42	0.88	-0.48	0.66
Total Assets	-3.59	4.34	-0.83	0.47
Net worth	3.40	4.14	0.82	0.47

The table 2 indicates that the co-efficient of turnover, current assets, and working capital, fixed assets, total assets and net worth were not significant at 5% level. It is also noted that the variables such as turnover, current assets and net worth are positively associated with the net profit. Further, it indicates that the variables that contribute to the net profit are not statistically significant implying that their influence is stronger than the other variables.

The rate of increase in the level of net profit shows better results of the independent variables such as turnover with 0.24, with 0.36 units change in current assets, with 3.40 units change in net worth. It indicates that these variables have no significant influence on the net profit of the company.

SUGGESTIONS

The following suggestions have been offered to improve the financial performance of the company:

The company should manage the working capital effectively by reducing the current liabilities to a considerable extent.

Since the company is a service company, it is better to control the costs with a view to maximize the profits.

It is suggested that the company shall utilize the undistributed reserves and surplus for distribution of dividends and to make investments in fixed assets.

CONCLUSION

From the analysis it is concluded that both the short term and long term liquidity position of Tata Consultancy Services have been found to be good which is a positive note for the creditors and lenders that there is a security for their funds. The company has been found to have efficiently managed its net worth and total assets for maximizing the profits. The growth of the company in terms of working capital and total assets has been found to be satisfactory.

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