



## FINANCIAL PERFORMANCE OF SELECT INFORMATION TECHNOLOGY COMPANIES IN INDIA – WITH SPECIAL REFERENCE TO PROFITABILITY

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### ABSTRACT

The study has analysed profitability of top five information technology companies operating in India. The study required accounting data for analysis and they were collected from financial reports of the respective companies extracted from annual reports. The researchers used ratio analysis, mean, standard deviation and co-efficient of variation as tools of analysis. The study found that profitability in terms of net profit ratio and operating profit ratio of TCS, Infosys and HCL are good, whereas Net profit ratio and operating profit ratio were found to be low in case of Tech Mahindra and operating profit ratio of Wipro is also low. Profitability in terms of return on assets is good in case of TCS and Infosys and profitability performance in this aspect was not good in case of Tech Mahindra and Wipro. Return on shareholders fund of all the selected IT companies is high, but the ratio is comparatively high in case of TCS. Profitability in terms of earnings per share of Infosys is found to be high and the ratio was low in case of Wipro. Overall profitability performance in all aspects is good in case of Infosys Ltd.

**KEYWORDS** : Profitability, operating profit, net profit, deviation and earnings per share.

### Introduction

The present world is technology world; especially it is a computer world. In each and every field computer is being used and most of the works are done through computer. Both hardware and software computer companies are in India, but the role of software companies in technology is vital. Information technology companies are progressing companies in India. They are playing an important role in the national economy in terms of a considerable contribution to national gross domestic product and offers wide employment opportunity to computer brains. This industry also helps the economy indirectly, by ways of increasing standard of livings of people by paying high salary, supporting other industries such as automobile, real estate etc., since the employees working in the industry are getting high salary and they seek for buying goods from the above industries. The industry also helps the economy by way of bringing considerable amount of foreign currency by getting business from foreign companies. Even more than fifty per cent of business of information technology companies is done in foreign companies. As a progressing industry, investors in share market also seek to buy shares of information technology company, since there is scope for increase in share prices and able to get high return through divided, because of high profit earning capacity and scope for future development in the industry. From the point of view of the management and investors, performance of a company should be evaluated periodically by correcting their existing mistakes and make steps for further development in future as the investors want to see performance of the companies for taking their investment decisions. In management, financial management is playing an important role because finance is the backbone of every managerial activities, without finance an organization cannot undertake any business activity. Efficient financial management will helps in successfully running of the business. Especially, studying profitability performance of a company will bring out overall efficiency of the business, since profit is the primary objective of any business organization. Hence, analyzing profitability of selected information technology companies in India will be helpful.

### Literature Review

Mahendra Maisuria and Idrish Allad (2016) in their study evidenced that the financial performance of Oracle Fin Services was very satisfactory in terms of Net Profit ratio and EPS but its Net worth Ratio and return on Capital Employed are not so sound. Vineet Singh (2016) in their study evidenced that Return on Equity of TCS was better than Return on Equity of Wipro, also Return on Investment of TCS is better than Return on Investment of Wipro. The result also showed that there was significant difference between ROE and ROI of TCS and ROE and ROI of Wipro. Pavithra K and Kirubadevi S (2016) analysed the performance and Profitability position of five IT

companies. The research evidenced that Oracle and Microsoft shows outstanding financial performance when compared to other companies. Hema A.S (2014) analysed the financial performance of Tata Consultancy services Ltd. The study evidenced that both short term and long term liquidity position of TCS is good. The Company has 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 was satisfactory. Usha S (2010) analysed financial performance of 65 software companies. The study found that some of the selected ratios have shown inconsistent performance in liquidity, solvency, efficiency coverage, share related and profitability ratios throughout the study period.

### Statement of the Problem

Service sector is an important sector in the Indian economy. This sector contributes more than fifty per cent to national gross domestic products. Among the sector information technology industry is playing key role in the ways of providing technologies to other industries, providing more employment opportunities, bringing foreign currencies, increasing standard of livings of the people, supporting other industries and so on. Hence investors are also eager to invest in the sector by buying shares of leading IT companies. Shares of all company is fluctuating in the market, the fluctuating may be either upward or downward. Good performance of a company will increase share prices of the company and vice versa. Profit is the primary objective of any business organization and analysing profitability will bring overall performance of a company. Hence the researchers have analysed profitability of selected information technology companies in India.

### Objective

The study has been undertaken with the following objective

- To study profitability of selected information technology companies in India.

### Methodology

The study has analysed profitability of five information technology companies operating in India. Many leading information technology companies are operating India. Among them Tata Consultancy Ltd. (TCS), Infosys Ltd. (Infosys), Wipro Ltd. (Wipro), Tech Mahindra Ltd. (TM) and HCL Technologies Ltd. (HCL) are top companies in terms of turnover. Hence the researchers have selected these five companies as sample of the study. The study required accounting data for analysis. These data were collected from financial reports of the concerned companies extracted from annual reports of the respective companies. Annual reports of the companies were collected from official websites of the concerned

companies. The researchers used ratio analysis as financial tool and also applied mean, standard deviation and co-efficient of variation as statistical tools for analysis.

**Results and Discussion**

In analyzing profitability of selected information companies, net profit ratio, operating profit ratio, return on assets, return on shareholders' fund and earnings per share were calculated. The results of the above ratios of the selected IT companies are presented subsequently.

**Table 1: Net Profit Ratio of IT Companies**

Year	Infosys	TCS	Wipro	TM	HCL
2006-07	27.96	24.79	20.37	2.36	26.18
2007-08	27.37	23.76	17.19	8.80	16.31
2008-09	28.02	21.40	14.14	22.86	20.18
2009-10	26.10	24.19	20.58	16.24	20.12
2010-11	24.28	25.43	17.95	13.71	17.21
2011-12	25.60	26.42	14.24	8.67	21.18
2012-13	23.39	25.24	16.35	11.05	28.73
2013-14	21.73	27.25	18.30	16.41	34.88
2014-15	24.02	31.46	18.74	11.70	34.58
2015-16	27.70	32.49	17.07	14.58	32.87
Mean	25.62	26.24	17.49	12.64	25.23
SD	2.19	3.41	2.20	5.54	7.18
CV	8.57	13.01	12.59	43.83	28.46

Source: Computed from Annual Reports

Table 1 shows that net profit ratio of Infosys Ltd. was found to be high during the study period, the ratio ranges from 21.73 to 28.02 per cent, mean value of the ratio is 25.62 per cent. It seems to be high and therefore profitability performance of the company is good. Profitability of TCS was also found to be high during all the years of the study period, the ratio ranges from 21.40 to 32.49 per cent, mean value of the ratio is 26.24 per cent, it is considered high and profitability performance of the company in terms of net profit ratio is good. Profitability performance of Wipro is considerable during the study period, the ratio ranges from 14.14 to 20.58 per cent, mean value of the ratio is 17.49 per cent. Net profit ratio of Tech Mahindra was found to be low during the study period. Net profit ratio of the company ranges from 2.36 to 22.86 per cent. Net profit ratio of the company is very low during 2006-07, it is low during 2007-08 and 2011-12 and during other years it seems to be considerable. Mean value of the ratio is low at 12.64 per cent. Profitability of HCL is good during the study period in terms of net profit ratio. Net profit ratio of the company ranges between 16.31 and 34.88 per cent, mean value of the ratio is 25.23 per cent and the ratio was found to be very high during the last three years. The results of mean, SD and CV indicate that there was low level of deviation in the ratio from the mean value of all the companies except Tech Mahindra, in such case the deviation level is moderate. Profitability in terms of net profit ratio of TCS, Infosys and HCL are good and it was low in case of Tech Mahindra. Table 2 presents the results of operating profit ratio of the selected IT companies.

**Table 2: Operating Profit Ratio of IT Companies**

Year	Infosys	TCS	Wipro	TM	HCL
2006-07	25.14	23.36	18.44	2.13	15.74
2007-08	23.19	21.41	15.36	6.16	12.75
2008-09	25.59	19.32	11.86	23.85	14.80
2009-10	21.97	23.43	16.90	14.25	16.85
2010-11	19.96	23.77	15.43	11.45	14.83
2011-12	20.07	19.96	10.51	7.40	17.91
2012-13	17.70	20.84	12.52	12.66	25.79
2013-14	16.24	22.66	14.31	15.98	31.04
2014-15	17.43	25.73	13.03	5.95	28.04
2015-16	22.42	28.32	11.23	14.02	26.14

Mean	20.97	22.88	13.96	11.38	20.39
SD	3.24	2.72	2.58	6.25	6.62
CV	15.43	11.90	18.46	54.91	32.49

Source: Computed from Annual Reports

Operating profit ratio will reveal operating efficiency of a company, because operating profit is the profit earned by a company through its operating activities. It could be known from table 2 that operating profit ratio of Infosys is found to be high during the study period. The ratio ranges between 16.24 and 25.59 per cent, mean value of the ratio is 20.97 per cent, it seems to be high and therefore operating efficiency of the company in terms of operating profit ratio is good. Operating profit ratio of TCS is also high during the study period. The ratio ranges from 19.32 to 28.32 per cent, mean value of the ratio is 22.88 per cent, it is higher than other companies, hence operating efficiency of the company is good in terms of operating profit ratio. Operating profit ratio of Wipro is found to be low. The ratio ranges between 10.51 and 18.44 per cent, mean value of the ratio is 13.96 per cent, whereas, mean value of net profit ratio of the company is 17.49 per cent, it shows that the company has more non operating income. Operating profit ratio of Tech Mahindra was lower than other selected companies. This ratio ranges between 2.13 and 23.85 per cent, mean value of the ratio is 11.38, it is considered low and therefore profitability of the company in terms of operating profit ratio was not good. Operating efficiency of HCL in terms of operating profit ratio is good, mean value of the ratio is 20.39 per cent. The results show that profitability in terms of operating profit ratio of TCS, Infosys and HCL is good and it was low in case of Tech Mahindra and Wipro. Deviation in the ratio from the mean value is low for the selected companies except Tech Mahindra, in such case it is at moderate level. Table 3 presents the results of return on assets of the selected IT companies.

**Table 3: Return on Assets of IT Companies**

Year	Infosys	TCS	Wipro	TM	HCL
2006-07	30.70	38.30	22.51	4.57	24.66
2007-08	29.85	33.28	16.30	16.64	15.40
2008-09	30.07	27.46	12.88	38.65	16.04
2009-10	23.95	30.36	17.54	13.32	13.12
2010-11	24.42	29.07	14.20	11.46	13.22
2011-12	26.31	32.04	12.14	7.26	17.93
2012-13	21.19	29.85	13.88	8.99	23.21
2013-14	19.34	32.07	16.15	18.22	27.43
2014-15	19.68	38.93	15.34	13.26	25.47
2015-16	21.69	37.49	13.69	15.59	17.80
Mean	24.72	32.88	15.46	14.80	19.43
SD	4.34	4.06	2.98	9.40	5.30
CV	17.58	12.34	19.30	63.54	27.31

Source: Computed from Annual Reports

Table 3 shows that return on assets of all the selected IT companies is high. Return on assets ratio of Infosys ranges from 19.34 to 30.70 per cent, mean value of the ratio is 24.72, it seems to be high and therefore there was high rate of return on assets of the company. Return on assets of TCS is higher than other selected companies, the ratio ranges between 27.46 and 38.93, mean value of the ratio is 32.88 per cent, it is considered high and there is high rate of return on assets of the company. Return on assets of Wipro and Tech Mahindra are comparatively lower than other selected companies. Mean value of return on assets of these two companies are 15.46 and 14.80 per cent respectively. Return on assets of HCL is considerable during the study period. Mean value of the ratio is 19.43 per cent, it is lower than Infosys and TCS, but it is considered high and therefore there is considerable level of return on assets of the company. The results of standard deviation and co-efficient of variation show low level of deviation except Tech Mahindra, in such case the deviation level is high from the mean value. It is observed from the above table that profitability in terms of return on assets was good in case of TCS and Infosys and it was low in case of Wipro and Tech Mahindra. Table 4 presents the results of return on shareholders' fund of the selected IT companies.

**Table 4: Return on Shareholders Fund of IT Companies**

Year	Infosys	TCS	Wipro	TM	HCL
2006-07	33.89	46.62	30.50	7.43	32.17
2007-08	33.14	40.97	26.27	26.51	24.30
2008-09	32.67	34.93	23.76	52.45	28.59
2009-10	26.12	37.17	27.69	25.91	21.41
2010-11	26.30	38.66	22.72	20.59	20.45
2011-12	28.46	44.16	19.24	13.38	29.53
2012-13	25.28	39.27	23.32	15.60	36.20
2013-14	24.22	41.94	25.16	31.27	38.01
2014-15	25.31	54.06	23.66	20.04	32.70
2015-16	27.62	49.46	19.80	23.76	22.01
Mean	28.30	42.72	24.21	23.69	28.54
SD	3.62	5.91	3.41	12.28	6.30
CV	12.78	13.84	14.07	51.82	22.06

Source: Computed from Annual Reports

Shareholders invest in shares for return, they expect high rate of return than market return on other type of investments. Hence return on shareholders' fund has been calculated and the results of table 4 show that return on shareholders' fund of Infosys is found to be high. The ratio of the company ranges from 24.22 to 33.89 per cent, mean value of the ratio 28.30 per cent. It shows that the company gives good return to its shareholders. Return on assets of TCS is too high, mean value of the ratio is 42.72 per cent, it is higher than other selected companies. Return on shareholders' fund of Wipro, Tech Mahindra and HCL are also found to be high, mean value of the ratio of these companies are 24.21, 23.69 and 28.54 per cent, they seems to be high and therefore these companies are also giving high return on shareholders' fund. The results of standard deviation and co-efficient of variation indicate low level of deviation in the ratio for all companies except Tech Mahindra. It is observed from table 4 that return on shareholders' fund of TCS is higher than other companies, in case of other companies are high, but they are less than TCS. Table 5 presents the results of earnings per share of selected IT companies for the study period.

**Table 5: Earnings per Share of IT Companies**

Year	Infosys	TCS	Wipro	TM	HCL
2006-07	66.23	38.39	19.48	5.38	16.60
2007-08	78.15	46.07	20.96	26.84	11.72
2008-09	101.58	47.99	20.30	81.05	14.88
2009-10	100.29	28.71	33.36	60.73	15.57
2010-11	112.80	38.68	19.73	55.31	17.40
2011-12	148.24	56.08	19.05	36.13	28.13
2012-13	158.75	65.33	22.94	50.93	53.16
2013-14	178.40	94.32	29.95	115.02	85.50
2014-15	52.96	125.34	33.18	23.48	45.14
2015-16	68.73	148.65	32.78	33.27	33.56
Mean	106.61	68.96	25.17	48.81	32.17
SD	42.77	40.53	6.31	31.67	23.39
CV	40.12	58.78	25.05	64.87	72.72

Source: Computed from Annual Reports

Earnings per share are the ratio reveals return per share. Earnings per share of Infosys is very high, the ratio ranges from Rs.62.96 to Rs.178.40 per share, mean value of the ratio is Rs.106.61 per share, it is considered high and therefore profitability in terms of EPS of Infosys is good. Earnings per share of TCS ranged between Rs.28.71 and Rs.148.65 per share, mean value of the ratio is Rs.68.96 per share, profitability of TCS in terms of EPS is high compared to other companies. The ratio was found to be increasing every year and it seems to be very high during last three years. Earnings per share of Wipro are lower than other selected companies. The ratio ranged from Rs.19.05 to Rs.33.36 per share, mean value of the ratio is Rs.25.17 per share. Earnings per share of Tech Mahindra are at considerable level, mean value of the ratio is Rs.48.81 per share.

Profitability in terms of earnings per share of HCL is comparatively low, mean value of the ratio is Rs.32.17 per share. The results of SD and CV showed moderate level of deviation in the ratio from the mean value.

### Conclusion

Information technology industry is one of the progression and successful industries in India. Investors are also willing to invest in shares of the company with the view of getting high return through dividend and capital appreciation. Hence the study has been made to analyse profitability of five top information technology companies in India. The study applied ratio analysis, mean, standard deviation and co-efficient of variation as tolls of analysis. The study found that profitability in terms of net profit ratio and operating profit ratio of TCS, Infosys and HCL are good, whereas Net profit ratio and operating profit ratio were found to be low in case of Tech Mahindra and operating profit ratio of Wipro is also low. Profitability in terms of return on assets is good in case of TCS and Infosys and profitability performance in this aspect was not good in case of Tech Mahindra and Wipro. Return on shareholders fund of all the selected IT companies is high, but the ratio is comparatively high in case of TCS. Profitability in terms of earnings per share of Infosys is found to be high and the ratio was low in case of Wipro. Overall profitability performance in all aspects is good in case of Infosys Ltd.

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