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ANALYSIS OF SOLVENCY POSITION OF SELECTED INDIAN IT SECTOR COMPANIES IN CONTEXT WITH PEARLS ANALYSIS

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ABSTRACT PEARLS is an important tool or technique to determine the financial stability of the firm. It includes protection, Effective Financial Structure, Asset Quality, Rates of Return and Cost, Liquidity and Signs of growth. Here, in this paper solvency position of four selected Indian information technology sector companies named, TCS, HCL INFO, INFOSYS and WIPRO, have been analysed for the period of ten years i.e. from March 2009 to March 2018.

KEYWORDS : PEARLS, World Council of Credit Unions, Inc. (WOCCU), solvency

1. INTRODUCTION

PEARLS is a money related execution checking framework intended to offer administration direction for credit associations and different investment funds organizations. PEARLS is likewise a supervisory device for controllers. Altogether, there are 44 quantitative money related pointers that encourage a vital investigation of the budgetary state of any monetary foundation. The reason for including a bunch of pointers is to outline how change in one proportion has implications for various different markers. Every marker has a prudential standard or related objective. The objective, or standard of perfection for every pointer is advanced by the World Council of Credit Unions, Inc. (WOCCU) in view of its field encounter attempting to reinforce and modernize credit associations and advance investment funds based development. PEARLS fill in as an important guide through profoundly unstable conditions to enhance altogether the basic leadership limit of the executives. In this context solvency position of selected Indian IT sector companies have been analysed in this paper.

2. Solvency (net Value Of Assets/ Total Shares And Deposits)

Purpose: Measure the degree of protection that the credit union has for member savings and shares in the event of liquidation of the credit union's assets and liabilities. This ratio is very important to measure Solvency of the institution.

Formula: $= \frac{\text{Net Value of Assets}}{\text{Total Shareholder's Fund}} \times 100$

The component of above formula will be explained as under.

Here, Net Value of Assets consists of Total Net Block (Gross Block- Depreciation) and Total Net Current Assets (Total Current Assets-Total Current Liabilities). The addition of Total net block and total net current assets will be placed in numerator.

Here, Total share Holder's fund includes Total Equity Capital and Reserves and Surplus of the selected company during the study period.

This ratio is very important parameter for the Solvency of the company as this ratio shows the relationship between Total Assets and Share Holder's fund of the institutions. Here, WOCCU has announced that the ratio must be 110% or higher than that. The institutions which do not have the said ratio, should try to achieve the target as soon as possible. There is no upper limit for this ratio. So, the higher the ratio better will be the solvency of the company. The analysis of this ratio is shown in the following table.

3. Hypothesis With Respect To The Years

Null Hypothesis

H_0: The Solvency ratio does not differ significantly within the years.

Alternate Hypothesis

H_1: The Solvency ratio differs significantly within the years

4. Hypothesis With Respect To Selected Information Technology Companies

Null Hypothesis

H_0 : The Solvency ratio does not differ significantly within Selected Information Technology Companies.

Alternate Hypothesis

H_1 : The Solvency ratio differs significantly within Selected Information Technology Companies.

5. Analysis Of Solvency Of Selected It Sector Companies

Table 1: Analysis of Solvency

Selected Information Technology Companies				(Figures Percentage)	
Year	TCS	HCL Info	Infosys	Wipro	Average
2009	138.4077	203.1497	119.3554	200.3404	165.31
2010	150.5673	185.5634	118.7421	172.7733	156.91
2011	133.9474	166.8614	118.8237	161.5135	145.29
2012	138.4737	182.5618	121.5344	160.0016	150.64
2013	132.2424	178.7634	120.289	169.8516	150.29
2014	131.4052	162.4389	126.4159	157.6525	144.48
2015	139.9427	156.3302	129.9222	156.2267	145.61
2016	119.896	127.082	120.8431	146.4018	128.56
2017	116.3082	127.5619	119.1413	137.6349	125.16
2018	120.9699	121.1074	120.5962	140.7764	125.86
Average	132.21605	161.142	121.57	160.32	
Overall Average	143.810415				
S.D	10.58793	28.0444	3.69237915	18.145239	
C.V	111.8816	334.8718	-0.5174996	206.2028	

Source : Calculated from the annual Reports of Selected Companies during study under review.

6. COMPARATIVE ANALYSIS

Table 1 shows the company wise Solvency during study period. Comparing average ratio of all the companies during study period with overall average of the industry, it is being observed that none of the company expect Infosys Technologies Ltd. has got the highest average than the industry average. The industry average during study period was 143.810415 % whereas TCS Ltd., registered 132.21605%, HCL Info systems Ltd. got 161.142%, Infosys Ltd. at 121.57% and Wipro Ltd. registered with 160.32%. Comparing CV of all the selected companies, it revealed that Infosys Ltd. has got the lowest during period under study. If we rank the selected companies on the basis of their average than HCL Info Systems Ltd. comes out as first performer Information Technology Company in Solvency ratio. The second, third and fourth rank secured by Wipro Ltd., TCS Ltd. and Infosys Technologies Ltd. respectively.

Table 2: TWO-WAY ANOVA OF SOLVENCY RATIO

Sources of Variation	SS	DF	MS	F	Critical Value
Within Years	6524.3872	(10-1) = 9	724.9319	4.21027961	2.25
Within Companies	102020.891	(4-1) =3	4006.964	23.2717538	2.96
Error	4648.8983	27	172.1814		
Total	23194.176	39			

In Table 2, the value of the calculated F ratio for the years is 4.21027961, whereas its table value with the significance level of 5% and degrees of freedom (9, 27) is 2.25. The calculated F ratio for the Selected Information Technology Companies is 23.2717538, whereas its table value with the significance level of 5% and degrees of freedom (3, 27) is 2.96.

7. COMPONENT-YEARS: FOR THIS COMPONENT

F Calculated [4.21027961] **> F_α = 0.05 and d.f. = (9, 27) [2.25]**

Hence, the null hypothesis, H0 should be rejected.

Inference: This means that there is significant difference in the Solvency ratio within years.

COMPONENT: I.T. COMPANIES : FOR THIS COMPONENT

F Calculated [23.2717538] **> F_α = 0.05 and D.F. = (3, 27) [2.96]**

Hence, the null hypothesis, H, should be rejected.

8. CONCLUSION:

The above analysis and its results disclose that there is a significant difference in the Solvency ratio within selected Indian Information Technologies Companies during period under review. That's why solvency position is also important for financial status of the organisation along with other financial factors.

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