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Profitability Of Selected Information Technology Companies In India

*Dr. M. Jegadeeshwaran ** C. Udaya

* Asst. Professor, School of Commerce, Bharathiar University, Coimbatore

** Research Scholar, School of Commerce, Bharathiar University, Coimbatore

ABSTRACT

The focus of the study to analyze the profitability of information technology companies namely Wipro, HCL Technology, Patni computer system, 3i InfoTech and Financial technology for the period of 10 years. The objective of the study is to analyze the profitability of the selected companies during the study periods. For the analysis, arithmetic mean, standard deviation, co efficient of variance and ANOVA have been used. To conclude that the profitability of the selected companies is good but it has some ups and downs in during the study periods.

Keywords : Profitability, Information Technology Companies in India, ANOVA

Introduction

Information technology companies are one of the fastest growing companies. Indian IT Company has built up valuable brand equity for itself in the global markets. IT companies in India comprise of software companies and information technology enabled services. India is considered as a pioneer in software development and a favorite destination for IT-enabled services. The contribution of Indian IT companies towards the growth and development of Indian economy are building a strong human capital of country be undermined the pivotal role played by this companies is explicit from the massive investment of the IT companies. Explicably the tremendous augmentation of the total information spending by 40 per cent in the process and discrete manufacturing segments in India, contributed to the 10 per cent of the total domestic Indian information.

Information Technology (IT)

We use the term information technology or IT to refer to an entire industry. In actuality, information technology is the use of computers and software to manage information. In some companies, this is referred to as Management Information Services (MIS) or simply as Information Services (IS). The information technology department of a large company would be responsible for storing information, protecting information, processing the information, transmitting the information as necessary, and later retrieving information as necessary.

Information Technology in India

The Indian IT industry has played a key role in putting India on the global map. The IT-BPO sector has become one of the most significant growth catalysts for the Indian economy. In addition to fuelling India's economy, this industry is also positively influencing the lives of its people through an active direct and indirect contribution to various socio-economic parameters such as employment, standard of living and diversity. The industry has played a significant role in transforming India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and

business services, according to National Association of Software and Service Companies (NASSCOM). The sector is estimated to have grown by 19 per cent in the FY2011, clocking revenue of almost US\$ 76 billion. India's outsourcing industry has witnessed a rebound and registered better than expected growth according to NASSCOM.

Review of Literature

Mohammed Rafiqud Islam (2000) studies the profitability of fertilizer industry in Bangladesh from 1985-86 to 1994-95. The sample included five fertilizer enterprises of the seven fertilizer enterprises in Bangladesh under the control of Bangladesh chemical industries corporation (BCIC). The findings of the study indicate that none of the selected units were consistent and all the units were played with dealing profits. The study concluded with suggestions for improvement of the profitability of fertilizer industry in Bangladesh.

Debashish Rei and Debashish Sur (2001) study the profitability analysis of Indian food products industry. A case study of Cadbury India limited. The study attempts to measure the profitability scenario of Cadbury India limited and analyses the relationship among various profitability ratios and their joint impact sing multiple correlation co-efficient and multiple regression methods. The study on the inter-relation between the selected ratios regarding the company's position and performance and profitability of the company revealed both negative and positive association.

Jack Glen, Kevin and Ajit Singh (2002) in his study presents time-series analyses of corporate profitability in seven leading development countries (DCs) using the common methodology as the persistence of profitability (PP) studies and systematically compare the results with those for advanced countries (ACs). Surprisingly, both short and long term persistence of profitability for DCs is found to be lower than those for ACs. The paper concentrated on economic explanation for these finding. It also reports the result on the persistence of the two components as profitability-capital-output ratios and profit margins. These two raise important general issues of interpretation for persistence of profitability (PP) studies, which are outlined.

Vijakumar and Kadirvel (2003) studied the determination of profitability of Indian public sector manufacturing industries an econometric analysis. It is evident from the result that age is the strongest determination of profitability followed by the variable vertical integration, leverage ratio, size, and current ratio. Inventory turnover ratio, operating expenses to sales ratio and growth rate. The selected variables have both positive and negative contribution in variation of profit rate. In a nutshell, it can be concluded that firms should consider these entire possible determinant is while considering its profitability.

Statement of the Problem

The needs of present day, new companies namely called information technology emerges into the commercial world. Within a very short period of the time the information technology companies gained the mass attractive because of modern high speed technology development and huge amount of recruitment of staff force with high amount of salary with lot of perks. But for the year, the attraction and volume of business of information technology companies is not up to the expectation of technologist who promoted the company with target to earn high return. In this situation it is worth to analyze.

Objectives of the Study

To examine the profitability of information technology companies in India.

Methodology

Source of data

The study is based on secondary data. The data were collected from the published annual reports of the selected information technology companies namely Wipro, HCL Technology, Patni computer system, 3i InfoTech and Financial Technology, website, journals and books.

Period of the study

The study covers a period of 2001-02 to 2010-2011.

Selection of Sample

The convenient sample method has been adopted to select the information technology companies namely Wipro, HCL Technology, Patni computer system, 3i InfoTech and Financial technology for the present study.

Tools of Analysis

The researcher has used the following tools for analyzing the profitability of the selected companies. The tools are ratios, means, standard deviation, co-efficient of variance and ANOVA for the present study.

Analysis And Interpretation

Table- 1 - Operating Profit Ratio Of Information Technology Companies (In Percentage)

Year/ Company	Wipro	HCL Technology	Patni Computer System	3i Info Tech	Financial Technology
2001-02	28.2	46.08	43.74	12.93	-178.4
2002-03	24.82	32.59	48.72	26.73	5.15
2003-04	22.24	25.26	40.16	19.33	53.87
2004-05	25.64	24.63	42.58	22.05	43.47
2005-06	24.28	26.69	34.22	24.67	64.99
2006-07	23.78	24.86	33.83	21.87	44.04
2007-08	21.24	26.58	30.03	34.32	37.16
2008-09	22.12	29.72	31.58	49.99	49.28
2009-10	24	27.83	35.23	51.73	46.19
2010-11	21.9	23.42	31.54	48.86	41.39
MEAN	23.82	28.76	37.16	31.24	20.71
SD	2.09	6.65	6.25	14.15	71.62
CV	0.08	0.23	0.16	0.45	3.45

Source: Computed Data

As observed Table -1 among all the sample companies, the Patni Computer System outperformed other company in terms of operating profit ratio. Also, there is stagnation in the operating profit ratio position of Financial Technology. The highest operating profit ratio of Patni Computer System 48.72 per cent in 2003. Which of Wipro, HCL Technology, 3i InfoTech and Financial Technology are 24.82 per cent, 32.59 per cent,

26.73 per cent and 5.15 per cent are respectively. On an aggregate basis, the mean operating profit ratio of Patni Computer System is 37.16per cent the highest, followed by Wipro (23.82 per cent), HCL Technology (28.76 per cent), 3i InfoTech (31.24 per cent) and Financial Technology (20.71 per cent) the lowest among the five companies.

One Way Anova For Operating Profit Ratio

SOURCE OF VARIANCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Groups	1650.514	4	412.629	.381	.821
Within Groups	48767.771	45	1083.728		
Total	50418.286	49			

Note: One-way ANOVA has been performed in SPSS

The calculated value of f is 0.381, the significant value is 0.821. Hence it is concluded that operating profit ratio position of Wipro, HCL Technology, Patni computer system, 3i InfoTech and financial technology does not differ significantly.

Table- 2 - Gross Profit Ratio Of Information Technology Companies (In Percentage)

Year/Company	Wipro	HCL Technology	Patni Computer System	3i Info Tech	Financial Technology
2001-02	30.34	53.77	43.06	9.96	-82.57
2002-03	25.4	53.77	48.48	25.42	8.89
2003-04	23.49	28.71	40.9	16.77	54.35
2004-05	26.34	19.97	35.89	17.58	45.06
2005-06	25.08	22.12	27.37	23.49	66.67
2006-07	21.15	24.88	26.56	18.5	66.37
2007-08	18.63	21.86	23.16	28.71	35.45
2008-09	19.64	24.33	25.88	40.89	47.11
2009-10	21.47	22.43	29.93	33.59	44.27
2010-11	19.62	19.13	26.69	39.46	38.04
MEAN	23.11	29.09	32.79	25.43	32.36
SD	3.69	13.27	8.69	10.22	43.63
CV	0.15	0.45	0.26	0.4	1.34

Source: Computed Data

As observed Table -2 among all the sample companies, the Patni Computer System outperformed other company in terms of gross profit ratio. Also, there is stagnation in the gross profit ratio position of Wipro. The highest gross profit ratio of financial technology 66.67 per cent in 2006. Which of Wipro, HCL Technology, Patni Computer System and 3i InfoTech are 25.08 per cent, 22.12 per cent, 27.37 per cent and 23.49 per cent are respectively. On an aggregate basis, the mean GROSS profit ratio of Patni Computer System is 32.79 per cent the highest, followed by Wipro (23.11 per cent), HCL Technology (29.09 per cent), 3i InfoTech (25.43 per cent) and Financial Technology (32.36 per cent) the lowest among the five companies.

One Way Anova For Gross Profit Ratio

SOURCE OF VARIANCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between Group	720.589	4	180.147	.39	.810
Within Groups	20470.805	45	454.907		
Total	21191.394	49			

Note: One-way ANOVA has been performed in SPSS

The calculated value of f is 0.396, the significant value is 0.810. Hence it is concluded that gross profit ratio position of Wipro, HCL Technology, Patni computer system, 3i InfoTech and financial technology does not differ significantly.

Table- 3 - Net Profit Ratio Of Information Technology Companies (In Percentage)

Year/ Company	Wipro	HCL Technology	Patni Computer System	3i InfoTech	Financial Technology
2001-02	24.5	46.97	33.12	1.32	-97.02
2002-03	20.19	34.3	36.48	6.92	18
2003-04	17.51	27.38	30.52	6.09	46.96
2004-05	20.45	22.36	32.06	8.43	30.14
2005-06	19.53	21	21.75	13.97	48.91
2006-07	20.34	29.11	26.56	14.48	59.87
2007-08	17.19	16.68	23.16	21.74	484.36
2008-09	13.53	20.63	25.88	34.66	87.12
2009-10	20.97	20.18	29.93	-18.85	87.54
2010-11	17.96	17.22	26.69	21.19	21.69
MEAN	19.21	25.58	28.61	10.99	78.75
SD	2.9	9.32	4.61	14.26	151.7
CV	0.15	0.36	0.16	1.29	1.92

Source: Computed Data

As observed Table -3 among all the sample companies, the Financial Technology outperformed other company in terms of net profit ratio. Also, there is stagnation in the net profit ratio position of 3i InfoTech. The highest net profit ratio of Financial Technology is 484.36 per cent in 2008. Which of Wipro, HCL Technology, Patni computer system and 3i InfoTech are 17.19 per cent, 16.68 per cent, 23.16 per cent and 21.74 per cent are respectively. On an aggregate basis, the mean net profit ratio of Financial Technology is 78.75 per cent the highest, followed by Wipro (19.21 per cent), HCL Technology (25.58 per cent), Patni computer system (28.61 per cent) and 3i InfoTech (10.99 per cent) the lowest among the five companies.

One Way Anova For Net Profit Ratio

SOURCE OF VARIANCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between groups	28414.623	4	7103.656	1.522	.212
Within groups	210011.508	45	4666.922		
Total	238426.131	49			

Note: One-way ANOVA has been performed in SPSS

The calculated value of f is 1.522, the significant value is 0.212. Hence it is concluded that net profit ratio position of Wipro, HCL Technology, Patni computer system, 3i InfoTech and financial technology does not differ significantly.

Table- 4 - Return On Capital Employed Ratio Of Information Technology Companies

(In Percentage)

Year/ Company	Wipro	HCL Technology	Patni Computer System	3i InfoTech	Financial Technology
2001-02	36.48	19.87	34.56	13.47	-31.58
2002-03	26.12	11.39	27.2	12.82	2.17
2003-04	29.9	12.01	21.61	5.41	25.03
2004-05	35.2	10.63	19.99	8.57	9.97
2005-06	35.58	26.15	12.6	7.1	41.3
2006-07	33.3	22.35	13.87	6.73	17.13
2007-08	23.23	33.08	12.56	7.25	5.86
2008-09	26.77	32.39	18.49	9.73	11.31
2009-10	23.06	20.44	18.39	7.3	9.05
2010-11	22.34	21.2	20.03	7.91	8.87
MEAN	29.19	20.95	19.93	8.62	9.91
SD	5.6	8.07	6.82	2.63	18.46
CV	0.19	0.38	0.34	0.3	1.86

Source: Computed Data

As observed Table -4 among all the sample companies, the Wipro outperformed other company in terms of return on capital employed ratio. Also, there is stagnation in the return on capital employed ratio position of 3i InfoTech. The highest return on capital employed ratio of Wipro is 36.48per cent in 2002. Which of HCL Technology, Patni computer system, 3i InfoTech and Financial Technology are 19.87 per cent, 34.56 per cent, 13.47 per cent and -31.58 per cent are respectively. On an aggregate basis, the mean return on capital employed ratio of Wipro is 29.19 per cent the highest, followed by HCL Technology (25.58 per cent), Patni computer system (28.61 per cent), 3i InfoTech (10.99 per cent) and Financial Technology (9.91 per cent) the lowest among the five companies.

One Way Anova For Return On Capital Employed Ratio

SOURCE OF VARIANCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between groups	2906.946	4	726.737	7.402	.000
Within groups	4418.350	45	98.186		
Total	7325.296	49			

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Note: One-way ANOVA has been performed in SPSS

The calculated value of f is 7.402, the significant value is 0.000. Hence it is concluded that return on capital employed ratio position of Wipro, HCL Technology, Patni computer system, 3i InfoTech and financial technology does not differ significantly.

Table- 5 - Return On Net Worth Ratio Of Information Technology Companies

(In Percentage)

Year/ Company	Wipro	HCL Technology	Patni Computer System	3i InfoTech	Financial Technology
2001-02	33.86	18.74	34.11	1.85	-28.2
2002-03	23.9	10.69	23.58	6.02	12.21
2003-04	26.63	11.39	19.63	5.67	22.73
2004-05	30.33	10.16	17.18	8.35	7.15
2005-06	31.39	25.01	9.52	10.53	30.85
2006-07	30.5	32.17	9.31	10.71	49.82
2007-08	26.51	24.29	15.15	17.26	65.41
2008-09	31.34	28.59	15.43	27.56	21.49
2009-10	25.24	21.41	17	-13.32	16.82
2010-11	20.69	20.45	22.25	11.67	4.46
MEAN	28.03	20.29	18.36	8.63	20.24
SD	4.09	7.64	7.25	10.5	25.55
CV	0.14	0.37	0.39	1.21	1.26

Source: Computed Data

As observed Table -5 among all the sample companies, the Wipro outperformed other company in terms of return on net worth ratio. Also, there is stagnation in the return on net worth ratio position of 3i InfoTech. The highest return on net worth ratio of Financial Technology is 65.41 per cent in 2008. Which of Wipro, HCL Technology, Patni computer system and 3i InfoTech are 26.51 per cent, 24.29 per cent, 15.15 per cent and 17.26 per cent are respectively. On an aggregate basis, the mean return on net worth ratio of Wipro is 28.03 per cent the highest, followed by HCL Technology (20.29 per cent), Patni computer system (18.36 per cent), 3i InfoTech (8.63 per cent) and Financial Technology (20.24 per cent) the lowest among the five companies.

One Way Anova For Return On Net Worth Ratio

SOURCE OF VARIANCE	SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Between groups	1929.352	4	482.338	2.705	.042
Within groups	8022.818	45	178.285		
Total	9952.170	49			

Note: One-way ANOVA has been performed in SPSS

The calculated value of f is 2.705, the significant value is .042. Hence it is concluded that return on net worth ratio position of Wipro, HCL Technology, Patni computer system, 3i InfoTech and financial technology does not differ significantly.

Conclusion

The study entitled "profitability of selected information technology companies in India" has been made by using the profitability ratios. During the study period the operating profit ratio and gross profit ratio is satisfactory in Patni computer system. Net profit ratio is satisfactory in financial technology. Return on net worth ratio and return on capital employed ratio is satisfactory in Wipro. The return on capital employed ratio is significant in selected companies. The operating profit ratio, gross profit ratio, net profit ratio and return on net worth ratio are not significant in selected companies. From this analysis it can be noticed that the profitability ratios are good but, it has some ups and downs in selected companies.



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