

A STUDY ON FINANCIAL POSITION AND COST PROFIT ANALYSIS OF INFOSYS LIMITED: AN EMPIRICAL STUDY



Management

KEYWORDS :

K.SHENBAGAM

PhD- research scholar, Research and Development Centre, Bharathiar University, Coimbatore

**M.ANAND SHANKAR
RAJA**

PhD- research scholar, SRM University Kattankulathur, Chennai

ABSTRACT

Efficient management of capital is necessary for any business organisation as it is the life blood of a business. It has a great impact on the success or failure of business. The management of any business is interested in knowing the financial strength of that business to make their best use to be able to spot out the financial weakness of the business to take suitable corrective action. The most powerful tool of financial analysis and the most popular yardstick used for such an analysis is "Financial Analysis". In fact a meaningful analysis of the financial advantage of accounting ratios. The persons interested in the accounting ratios are the management, creditors, investors and others, to get better insight about the financial strength in weakness of the firm.

INTRODUCTION

It is the process of establishing and interpreting various financial analyses helping in making certain decisions. The analysis also is not an end in itself. It is only a means of better understanding of financial strengths and weaknesses of a firm. The financial analysis may be used as a symptom like blood pressure, the pulse rate or the body temperature and their interpretation depends upon the calibre and competence of the analyst. The impact of factors such as price level changes, change in accounting policies, window dressing etc., should also be kept in mind when attempting to interpret financial analysis. Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a set of statements and a study of trends of these factors as shown in a series of statements.

COMPANY PROFILE

Infosys was co-founded in 1981 by Narayan Murthy, Nandan Nilekani N. S. Raghavan S. Gopalakrishnan, S. D. Shibulal, K. Dinesh and Ashok Arora after they resigned from Patni Computer Systems. The company was incorporated as "Infosys Consultants Pvt Ltd" with a capital of Rs. 10,000 (roughly \$250) in Model Colony, Pune as the registered office. It signed its first client, Data Basics Corporation, in New York. In 1983, the company's corporate headquarters was relocated from Pune to Bangalore. In 1996, Infosys established the Infosys Foundation, to support the underprivileged sections of society. At the outset, the Infosys Foundation implemented programs in Karnataka. It subsequently covered Tamil Nadu, Andhra Pradesh, Maharashtra, Odisha, and Punjab in a phased manner. A team at the Foundation identifies programs in the areas of Healthcare, Education, Culture, Destitute Care and Rural Development. It changed its name to "Infosys Technologies Private Limited" in April 1992 and to "Infosys Technologies Limited" when it became a public limited company in June 1992. It was later renamed to "Infosys Limited" in June 2011.

Infosys is a global leader in consulting, technology, and outsourcing solutions. We enable clients in more than 50 countries to outperform the competition and stay ahead of the innovation curve. Infosys has a growing global presence with more than 165,000+ employees. Infosys had 890 clients across 50 countries. Globally, we have 73 sales and marketing offices and 93 development centers as at March 31, 2014. We help enterprises transform and thrive in a changing world through strategic consulting, operational leadership, and the co-creation of breakthrough solutions, including those in mobility, sustainability, big data, and cloud computing. We recognize the importance of nurturing relationships that reflect our culture of unwavering ethics and

mutual respect. It'll come as no surprise, then, that 97.4 percent (as of December 31, 2014) of Infosys revenues come from existing clients. Infosys has a global presence with 72 offices and 94 development centers in the United States, India, China, Australia, Japan, Middle East, and Europe. In recent years, Infosys has begun shifting operations to the United States and other countries. In 2012, Infosys announced a new office in Milwaukee, Wisconsin to service Harley-Davidson, being the 18th international office in the United States. Infosys hired 1,200 United States employees in 2011, and expanded the workforce by an additional 2,000 employees in 2012.

PRODUCTS AND SERVICES

It provides software development, maintenance and independent validation services to companies in banking finance, insurance, manufacturing and other domains. One of its known products is finacle which is a universal banking solution with various modules for retail and corporate banking.

NEED FOR STUDY

The sheer size and complicity of modern enterprises have increased the responsibility to not only controlling the finance but also analysing and interpreting the economic situation, appraising management performance and setting all policies that determine the company future.

- The analysis and interpretation is essential to bring out the mystery behind the figures in financial statements. Interpretation will involve the comparison of different figures of different periods.
- The comparison will enable to determine the financial strength of the company and hence this study is evolved.

OBJECTIVE OF THE STUDY

- To study and review the financial analysis and progress of the company.
- To find out the impact of the ratios in relation to the liquidity profitability position by comparing the financial statements of Infosys Limited.
- To find out the increase or decrease of profits sales turnover and other related factors by comparing the profit and loss account for a period of five years (2009-2010 to 2013 -2014) using trend analysis.

PERIOD OF STUDY

They study covers a period of five years from 2009 -2010 to 2013 -2014.

METHODOLOGY OF THE STUDY**PRIMARY DATA**

The study consisted of discussion with the executives of Infosys Limited, these discussion forms the primary source of information.

SECONDARY DATA

The major source of data for the study has been collected from the published annual reports, profit and loss account of 5 year period from 2009-2010 to 2013 -2014 of the Infosys Limited some more information has been collected from different websites and magazines.

DATA ANALYSIS**FINANCIAL ANALYSIS**

Financial analysis gives the information about the share capital, dividend, sales profit after tax etc., It helps to analysis the company's financial position by the shareholders, creditors and other outsiders to decide to continue or to revoke their relationship with the company. When the performance is stable an increasing, the market value of the share also increase. This analysis explains the company's present situation standing in a market. The performance of the company is clearly interoperated from the calculation of Ratio Analysis.

PROFITABILITY RATIOS

A measure of profitability is the overall measure of efficiency. In general terms efficiency of business is measured by the input-output analysis. By measuring the output as a proportion of the input, and comparing result of similar other firms or periods the relative change in its profitability can be established.

FINANCIAL RATIOS

Financial ratios include all ratios which express financial position of the concern. Financial ratios are calculated on the basis of items of the balance sheet. Therefore, they are also called balance sheet ratios.

TURNOVER RATIOS

These ratios are also called performance ratios. Turnover ratios highlight the operational efficiency of the business concern. The term operational efficiency refers to effective, profitable and rational use of resources available to the concern.

NET PROFIT RATIO

Net Profit Ratio expresses the relation between net profit after taxes and sales. This ratio is a measure of overall profitability. Net profit is arrived at after taking into account both the operating and non- operating items of incomes and expenses

$$\text{Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Table No 1 (Rs in Crores)

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|------------------|--------|--------|--------|--------|--------|
| Net Profit | 5803 | 6443 | 8470 | 9116 | 10194 |
| Net Sales | 21140 | 25385 | 31254 | 36765 | 44341 |
| Net Profit Ratio | 27.45% | 25.38% | 27.10% | 24.80% | 22.99% |

Source: Dion Global Solutions Limited

This table shows net profit ratio whichever is above 10-15 percent is considered to be the peak development in the business. All the year Net profit position of the company is good.

CURRENT RATIO

This ratio is used to assess the firm's ability to meet its current liabilities. The relationship of current assets to current liabilities is known as current ratio. Current ratio also known as the working capital ratio is the most widely used ratio. In general 2:1 is

considered ideal for a concern.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table No 2 (Rs in Crores)

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|----------------------|--------|--------|--------|--------|--------|
| Total Current Assets | 4173 | 17877 | 23461 | 26766 | 31436 |
| Current Liabilities | 1995 | 1880 | 2454 | 3181 | 4503 |
| Current Ratio | 2.09 | 9.51 | 9.56 | 8.41 | 6.98 |

Source: Dion Global Solutions Limited

Table: 2 shows the ratio is mainly used to give an idea of the company's ability to pay back its short – term liabilities (debt and payables) with its short – term assets (cash, inventory, receivables). The higher the current ratio, the more capable the company is of paying its obligations. The ratio in the year 2010 is 2.09, and in the year 2011, 2012, 2013 and 2014 was 9.51, 9.56, 8.41 and 6.98. Current ratio position was good for the year from 2009-2010 to 2013-2014.

LIQUID RATIO

This ratio is also known as quick ratio or acid test ratio. This ratio is calculated by relating liquid or quick assets to current liabilities. Liquid assets mean those assets which are immediately converted into cash without much loss. All current assets except inventories and prepaid expenses are categorized as liquid assets. The ideal ratio is considered as 1:1 as the firm can easily meet all current liabilities.

$$\text{Liquid Ratio} = \frac{\text{Liquid Assets}}{\text{Current Liabilities}}$$

Table No: 3 (Rs in Crores)

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|---------------------|--------|--------|--------|--------|--------|
| Liquid Assets | 4173 | 17877 | 23461 | 26766 | 31436 |
| Current Liabilities | 1995 | 1880 | 2454 | 3181 | 4503 |
| Liquid Ratio | 2.09 | 9.51 | 9.56 | 8.41 | 6.98 |

Source : Dion Global Solutions Limited

Table: 3 shows Quick Ratio is an indicator of company's short – term liquidity. It measures the ability to use its quick assets (cash and cash equivalents, Marketable securities and accounts receivable) to pay its current liabilities. Here in all the years from 2010 to 2014 the firm liquid ratio position is good.

ABSOLUTE LIQUID RATIO

It is a modified form of liquid ratio. The relationship of absolute liquid assets to liquid liability is known as absolute liquid ratio. This ratio is calculated as,

$$\text{Absolute Liquid Ratio} = \frac{\text{Absolute Liquid Assets}}{\text{Current Liabilities}}$$

Table No 4

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|-----------------------|--------|--------|--------|--------|--------|
| Cash and Bank Balance | 929 | 13665 | 18057 | 20401 | 24100 |
| Current Liabilities | 1995 | 1880 | 2454 | 3181 | 4503 |
| Absolute Liquid Ratio | 0.47 | 7.27 | 7.36 | 6.41 | 5.35 |

Source: Dion Global Solutions Limited

Table: 4 shows the reason of computing absolute liquid ratio is to eliminate accounts receivables from the list of liquid assets because there may be some doubt about their quick collection. This ratio is useful only when used in conjunction with current ratio and quick ratio. Throughout the years from 2010 the ratio is low but from 2011 to 2014 the firm Absolute liquid ratio was 7.27, 7.36, 6.41 and 5.35 respectively.

RETURN ON NET WORTH

This ratio signifies the return on equity shareholders' funds, the profit consolidated for computing the ratio is taken after payment of reference dividend, the ratio of return on equity share holders for fund is calculated as given below:

$$\text{Return on net worth Ratio} = \frac{\text{Net Profit (After interest \& Tax)}}{\text{Shareholders fund}} \times 100$$

Table No: 5 (Rs in Crores)

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|-----------------------|--------|--------|--------|--------|--------|
| Profit after Int& Tax | 5803 | 6443 | 8470 | 9116 | 10194 |
| Shareholders Fund | 22036 | 24501 | 29757 | 36059 | 42092 |
| Return on SH fund | 0.26 | 0.26 | 0.28 | 0.25 | 0.24 |

Source: Dion Global Solutions Limited

Table No:5 shows this ratio is of great importance to the present and prospective shareholders as well as the management of the company. As the ratio reveals how well the resources of the firm are being used, higher the ratio, better are the results. Here in all the years from 2010 to 2014 the company is following a steady process to return funds to the shareholders and that is very well encourageable, so the investment from the shareholders will increase so as the company grows. In the year 2010, 2011 and 2012 the ratio was 0.26, 0.26 and 0.28 and in the year 2013 and 2014 the ratio was 0.25 and 0.24 respectively.

DEBTORS TURNOVER RATIO

A concern may sell goods on cash as well as on credit. Credit is one of the important elements of sales promotion. The volume of sales can be increased by following a liberal credit policy that the effect of Liberal credit policy may result in trying up substantial funds of a firm in the form of trade debtors. Higher the value of debtors turnover the more efficient is the management of debtors. Low debtors turnover implies inefficient management of debtors.

Debtors Turnover Ratio = Total Sales / Average Trade Debtors

Table No: 6 (Rs in Crores)

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|------------------------|--------|--------|--------|--------|--------|
| Total Sales | 21140 | 25385 | 31254 | 36765 | 44341 |
| Average Trade Debtors | 3244 | 4212 | 5404 | 6365 | 7336 |
| Debtors Turnover Ratio | 6.52 | 6.03 | 5.78 | 5.78 | 6.04 |

Source: Dion Global Solutions Limited

Table - 6 presents the debtors turnover ratio during the study period. In the year 2010, 2011 and 2012 debtor's turnover is 6.52, 6.03 and 5.78 times. In the year 2013 the ratio was 5.78 and 2014 the ratio has been increased 6.04 but the increased the ratios of the company credit sales have been increased due to liberal credit policy.

WORKING CAPITAL TURNOVER RATIO

Working capital of a concern is directly related to sales. The current assets like debtors, bills receivables, cash etc., change with the increase or decrease in sales. The working capital is taken as

Working Capital = Current assets – Current Liabilities

Working capital turnover ratio indicates the number of times the working capital is turned over in the course of a year.

Working capital turnover ratio = sales/net working capital

Table No: 7 (Rs in Crores)

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 |
|--------------------------------|--------|--------|--------|--------|--------|
| Total Sales | 21140 | 25385 | 31254 | 36765 | 44341 |
| Net Working Capital | 2178 | 15997 | 21007 | 23585 | 26933 |
| Working Capital Turnover Ratio | 9.71 | 1.59 | 1.49 | 1.56 | 1.65 |

Source: Dion Global Solutions Limited

Table No – 7 shows the working capital turnover ratio during the study period. The ratio was fluctuating from 9.71 to 1.65 throughout the study period. The higher ratio was 9.71 in the year 2010, again the ratio was decreased to 1.59 and 1.49 in the year 2011 and 2012 and the ratio was decreased to 1.56 and 1.65 in the year 2013 and 2014 which indicates a efficient utilization of working capital.

STATISTICAL ANALYSIS NET SALES TREND**Table No: 1 (Rs in Crores)**

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 | Mar'15 | Mar'16 |
|-------------|----------|----------|----------|----------|----------|----------|----------|
| Net Sales | 21140.00 | 25385.00 | 31254.00 | 36765.00 | 44341.00 | 51550.00 | 59536.00 |
| Trend Value | 100.00% | 120.08% | 147.84% | 173.91% | 209.75% | 243.85% | 281.63% |

Source : Dion Global Solutions Limited

The sales trend of the company is witnessing an increasing trend at the increasing rate. The table shows that the company's performance was increasing from year to year.

NET PROFIT TREND**Table No: 2 (Rs in Crores)**

| Year | Mar'10 | Mar'11 | Mar'12 | Mar'13 | Mar'14 | Mar'15 | Mar'16 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| Reported Net profit | 5803 | 6443 | 8470 | 9116 | 10194 | 11275 | 12525 |
| Trend Value | 100.00% | 111.03% | 145.96% | 157.09% | 175.67% | 194.30% | 215.84% |

Source: Dion Global Solutions Limited

The net report profit trend of the company is witnessing an increasing trend at the increasing rate. This table shows that the company's performance was increasing from year to year. The company was managing its competitors well so that it was getting a good profit every year.

PERCENTAGE ANALYSIS CURRENT ASSETS**Table No- 1 (Rs in Crores)**

| YEAR | CURRENT ASSETS | PERCENTAGE |
|-------|----------------|------------|
| 2010 | 4173 | 4.02 |
| 2011 | 17877 | 17.24 |
| 2012 | 23461 | 22.62 |
| 2013 | 26766 | 25.81 |
| 2014 | 31436 | 30.31 |
| TOTAL | 103713 | 100 |

Source: Dion Global Solutions Limited

From the above table it was found the current asset of 30.31% was found high in the year 2014 and it was low in the year 2010 with 4.02%. The asset was maintained high as the purchase.

AVERAGE DEBTORS**Table No- 2 (Rs in Crores)**

| YEAR | AVERAGE DEBTORS | PERCENTAGE |
|-------|-----------------|------------|
| 2010 | 3244 | 12.21 |
| 2011 | 4212 | 15.86 |
| 2012 | 5404 | 20.35 |
| 2013 | 6365 | 23.96 |
| 2014 | 7336 | 27.62 |
| TOTAL | 26561 | 100 |

Source: Dion Global Solutions Limited

From the above table the average debtors maintained is high in the year 2014 with 27.62% as there is heavy demand for the product, the credit sales is made more than compared to cash sales. The debtor was low with 12.21 % in the year 2010.

SALES

Table No – 3 (Rs in Crores)

| YEAR | SALES | PERCENTAGE |
|-------|--------|------------|
| 2010 | 21140 | 13.30 |
| 2011 | 25385 | 15.98 |
| 2012 | 31254 | 19.67 |
| 2013 | 36765 | 23.14 |
| 2014 | 44341 | 27.91 |
| TOTAL | 158885 | 100 |

Source: Dion Global Solutions Limited

From the above table the sale was high with 27.91% in the year 2014 as there is heavy orders and low in the year 2010 with 13.30%.

FINDINGS

- The Net profit ratio of the company increases year by year. A higher ratio is preferable, indicating higher profitability. As it denotes increases in selling price without change in cost of goods sold respectively.
- The Current Asset ratio of the company also good for all the years from 2010 to 2014 as it indicates the company is working in an efficiency manner. The management efficiency in operating business is successful.
- The liquid ratio is an indicator of company's short – term liquidity. It measures the ability to use its quick assets (cash and cash equivalents, Marketable securities and accounts receivable) to pay its current liabilities. Here in all the years from 2010 to 2014 the firm liquid ratio position was good.
- The Absolute Liquid Ratio of the company is throughout the years from 2010 the ratio is low but from 2011 to 2014 the firm Absolute liquid ratio was 7.27, 7.36, 6.41 and 5.35 respectively.
- The sales trend of the company is witnessing an increasing trend at the increasing rate. In the year from 2010 to 2014 that the company's performance was increasing from year to year.
- It was found the current assets Percentage 30.31% was found high in the year 2014 and it was low in the year 2010 with 4.02%. The asset was maintained high as the purchase.
- The average debtors percentage was maintained is high in the year 2014 with 27.62% as there is heavy demand for the product, the credit sales is made more than compared to cash sales. The debtor was low with 12.21 % in the year 2010.
- The sale Percentage was high with 27.91% in the year 2014 as there is heavy orders and low in the year 2010 with 13.30%.

CONCLUSION

The financial statement of the company shows that the firm's liquidity positions and solvency position are considered satisfactory. This analysis is very helpful in financial forecasting, relating to past sales, profits and financial position are the base for future trends and its further development and progress should therefore be of great concern to everyone. The most firmly established an industry in the Infosys Limited. Hence a Financial and Statistical analysis of this unit has been undertaken. For this industry, many challenges lie ahead. Increase in productivity is imperative in order to raise the standards of living and also to make the Indian exports globally competitive. The impact of the ratios in relation to the liquidity profitability position by comparing the financial statements of Infosys Limited was good from the year 2010 to 2014, and the increase or decrease of profit sales turnover and other related factors by comparing the profit and loss account also using trend analysis.

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