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Commerce

A STUDY ON FINANCIAL PERFOMANCE OF INFOSYS COMPANY LIMITED

KEY WORDS: Risk and Profitability, Profit Maximization

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ABSTRACT

Financial decisions which increase risks will decrease the value of the firm and on the other hand, financial decisions which increase the profitability will increase value of the firm. Risk and profitability are two essential ingredients of a business concern. There has been a considerable debate about the ultimate objective of firm performance, whether it is profit maximization or wealth maximization. It is observed that while considering the firm performance, the profit and wealth maximization are linked and are effected by one-another.

INTRODUCTION

The performance of the firm can be measured by its financial results, i.e., by its size of earnings Riskiness and profitability are two major factors which jointly determine the value of the concern. Financial decisions which increase risks will decrease the value of the firm and on the other hand, financial decisions which increase the profitability will increase value of the firm. Risk and profitability are two essential ingredients of a business concern.

There has been a considerable debate about the ultimate objective of firm performance, whether it is profit maximization or wealth maximization. It is observed that while considering the firm performance, the profit and wealth maximization are linked and are effected by one-another.

A company's financial performance, therefore is normally judged by a series of ratios or figures, however there are following three ratio parameters which can be used to evaluate financial performance, they are:

a) Return on Equity
b) Earnings Per Share and
c) Price Earnings Ratio.

All three parameters are discussed in detailed along with various other ratios.

However, it is to be noted that fundamentally, the balance sheet indicates the financial position of the company as on that point of time. However, profit and loss account is a statement, which is prepared for a particular financial year.

In Indian context, where an analyst has to rely upon the audited financial statement for a particular company, the performance is to be judged from the financial statement only. This chapter, however indicates some of the techniques, which can be used for such analysis of financial performance

RATIO ANALYSIS

Ratios are calculated based on the financial and related statement like. Profit & Loss account, Balance Sheet etc. The ratios are classified as under

a) Liquidity Ratios
b) Leverage Ratios
c) Activity Ratios and
d) Profitability Ratios

The objective behind calculating each of the ratios is different and the outcome expected is also different. Let us study the objective behind every type and sub-type of ratio.

a)Liquidity Ratios

Liquidity Ratios are calculated to measure the firm's ability to meet its current obligations. The solvency position is indicated by the liquidity ratios. The solvency position is very critical for any firm. It is often indicated by the Indian industry that it has ample sources available for the long term finance, but very limited sources are available for the short term finance or to meet working capital requirement. So, a firm's performance in this area is an important indication towards the performance. The following are the ratios that indicate liquidity position.

b) Leverage Ratios

Leverage Ratios are popularly known as the capital structure ratios as well. Any firm has got two sources of finance one is owned funds and the other is borrowed funds. As a general rule, there should be an appropriate mix of debt and owners' equity in financing the firm's assets. As popularly known, these ratios indicate mix of funds provided by owners and lenders

c) Activity Ratios

Activity Ratios are calculated evaluate the efficiency with which the firm manages and utilized its assets. These ratios are known as turnover ratios as well. The activity ratios involve a relationship between sales and assets. A proper balance between sales and assets generally reflects that assets are managed properly.

d) Profitability Ratios

A majority of the discussion in the financial performance evolves around the concepts of profit maximization and wealth maximization. Profits are always nessential. But it would not be appropriate to go ahead with the discussion of profit maximization until the concept of profit is properly understood.

RESEARCH METHODOLOGY

Secondary of Data

For the purpose of study the data is collected preferably from the secondary sources. Financial statements of the companies as well as annual reports are taken into consideration. In addition to this a number of financial journals and magazines are also used for the study.

Duration of the study

For the purpose of in-depth study financial data for a period of five years commencing from the year 2013-14 to the year 2017-18 is taken into consideration.

Area of the study

For the present study,one company Infosys Limited are selected. The companies are leading companies in the information and technology industry of India.

Infosys Ltd.

Established in 1981, Infosys Ltd. is a NYSE listed global consulting and IT services company with more than 199,000 employees. From a capital of US$ 250, it has grown to become a US$ 10.1 billion (LTM Q3 FY17 revenues) company with a market capitalization of approximately US$ 34.1 billion.

Objective of Study:

A number of IT companies are analysed in a number of ways by researchers. But the significance of financial analysis from the proprietor's view in IT companies is yet to be analysed. Following are the main objectives of the present study.

1. To analyze the proprietors funds of companies i.e. Infosys ltd. and Wipro ltd.
2. To analyze the profitability position of selected IT companies under the study.
3. To analyze the return on shareholder's funds and to know the utilisation power of equity funds in both the companies.
4. To suggest the financial management efficiency to the companies under the study.

Limitation of study

- Some data were confidential therefore were not available for analysis.
- Time and resource were a limiting factor.
- Research is fully based on secondary data, there is no primary data hence there may be mismatch between theory and practical implementation.
- Continues previous four year data has been considered for this research report.
- Variance in analysis due to change in accounting and taxation policy lead to improper analysis.

Review of Literature

George, T., Schleifeer,L.F.,(2003) identified that financial analysis of companies is usually undertaken so that investors, creditors, and other stakeholders can make decisions regarding their companies. The focus of this paper is on the financial analysis of companies who trade freely and therefore make the data and information public needed by stakeholders.

Reilly., Brown, (2004) identified that the major source of information regarding a stock is the corporation's financial statement. Financial statement are intended to provide information on the resources available to management, how these resources were financed, and what the firm accomplished with them. Corporate shareholders annual reports include three required financial statement: the balance sheet, the income statement, and the statement of cash flow.

Krishna Prasad Upadhyay (2004) used different types of financial ratios to check up the financial performance of the selected finance companies. Basically in this study he used solvency ratio, liquidity ratio, efficiency ratio, profitability ratio and valuation ratio. Different measures like return on investment, return on equity, return on assets, earning per share, dividend per share, and asset utilization ratio are used to assess the profitability of the companies. He concluded his study stating that the solvency position of both companies is not sound and credit creation capacity is good in both the companies in aggregate.

ANALYSIS AND INTERPRETATION

RATIOS

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. To calculate the ratio, analysts compare current assets to current liabilities. Current assets include cash, accounts receivable, inventory and other assets that are expected to be turned into cash in less than a year. Current liabilities include accounts, wages, taxes payable, and the current portion of long-term debt.

CURRENT RATIO FOR THE YEAR 2014-2018

Year	Current assets (Rs.in crores)	Current liabilities (Rs.in crores)	Ratio %
2013-2014	39309	10620	3.70
2014-2015	46840	13745	3.40
2015-2016	52472	11650	4.50
2016-2017	45056	11868	3.80
2017-2018	47379	12375	3.83

FORMULA

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

INFERENCE

The above table shows that the relationship of current assets and current liabilities of INFOSYS Ltd. In 2015-2016,the value of current ratio is 3.97:1 which shows good position of the company,

QUICK RATIO

The quick ratio is an indicator of a company's short-term liquidity position, and measures a company's ability to meet its short-term obligations with its most liquid assets. Since it indicates the company's financial position to instantly use its near cash assets (that is, liquid assets) to get rid of its current liabilities, it is also called as the acid test ratio.

QUICK RATIO FOR THE YEAR 2014-2018

Year	Quick assets (Rs.in crores)	Current liabilities (Rs.in crores)	Ratio
2013-2014	38153	10620	3.59
2014-2015	43206	13745	3.14
2015-2016	50046	11650	4.29
2016-2017	55090	11868	4.64
2017-2018	46820	12375	3.78

FORMULA

$$\text{Quick ratio} = \frac{\text{Quick assets}}{\text{Current liabilities}}$$

INFERENCE

The above table shows that the relationship of quick assets and liabilities of INFOSYS Ltd.in 2015-2016,the value of quick ratio 3.98 which shows good position of the company.

DEBT-EQUITY RATIO

DEBT EQUITY RATIO FOR THE YEAR 2014-2018

Year	Long term debt (Rs,in crores)	Shareholders fund (Rs.in crores)	Ratio
2013-2014	2591	42092	0.06
2014-2015	4408	48062	0.09
2015-2016	6700	61082	0.11
2016-2017	8700	68017	0.13
2017-2018	2270	63502	0.03

FORMULA

$$\text{Debt equity ratio} = \frac{\text{Long term debit}}{\text{Shareholders fund}}$$

INFERENCE

The above table shows that the relationship of long term debit and shareholders fund of INFOSYS Ltd.in 2013-2014 and 2015-2016,the value of debt equity ratio 0.10 which shows good position of the company.

PROPRIETORY RATIO

This ratio shows the relationship between proprietory or shareholders funds and total tangible assets.tangible assets will include all assets except googwill,preliminary expenses.

PROPRIETORY RATIO FOR THE YEAR 2014-2018

Year	Shareholders fund (Rs.incrores)	Total tangible assets (Rs.incrores)	Ratio
2013-2014	42092	5719	7.36
2014-2015	48062	7347	6.54
2015-2016	61082	8248	7.40
2016-2017	68017	8605	7.90
2017-2018	63502	9027	7.03

FORMULA

$$\text{Proprietory ratio} = \frac{\text{Shareholders fund}}{\text{Total tangible assets}}$$

INFERENCE

The above shows that the relationship of shareholders fund and total tangible assets of INFOSYS Ltd.in2017-2018,the valu ofproprietory ratio is 7.03 which shows goog position of the company.

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PROFITABILITY RATIO
GROSS PROFIT RATIO
GROSS PROFIT RATIO FOR THE YEAR 2014-2018

Year	Grossprofit(Rs.in crores)	Sales(Rs.incror es)	Ratio
2013-2014	10374	44341	23.39
2014-2015	12827	47300	27.12
2015-2016	14709	53983	27.25
2016-2017	16210	59289	27.34
2017-2018	18079	61941	29.19

FORMULA

$$\text{Gross profit ratio} = \frac{\text{ross profit}}{\text{Net sales}} \text{ X } 100$$

INFERENCE

The above table shows that the relationship of gross profit and net sales of INFOSYS Ltd.in 2015-2016,the value of gross profit ratio is 27.25 which shows good position of the company.

NET PROFIT RATIO
NET PROFIT RATIO FOR THE YEAR 2014-2018

Year	Net profit (Rs.incrores)	Sales (Rs.in crores)	Ratio
2013-2014	5732	44341	12.93
2014-2015	7347	47300	15.53
2015-2016	8248	53983	15.28
2016-2017	8605	59289	14.51
2017-2018	9157	61941	14.78

FORMULA

$$\text{Net profit ratio} = \frac{\text{Net profit}}{\text{Net sales}} \text{X100}$$

INFERENCE

The above table shows that the relationship of net profit and net sales of INFOSYS Ltd.in 2015-2016,the value of net profit ratio is 15.28 which shows good position of the company.

FINDINGS,SUGGESTIONS,AND CONCLUTION

FINDINGS

- Though the sales has been continuously increased from past 5 years but the proportionate expenditure is also rising so overall no such huge effect on net profit is reflected of this company.
- Here the gross profit of every year almost same, there is no huge difference in net profit for every year as it indicates the company is in good position.
- Operating profit is always high in every year.
- Liabilities are increasing rate it means company has to develop its business and purchase raw material on credit basis.
- Company has enough cash in hand so that in any condition company can take any financial decision easily.
- In 3 years quick ratio meet its percentage so the firm is in production.

SUGGESTIONS

- The operating expense of the company is high.so the management should take necessary steps to reduce the operating expenses.
- Though the company's sale is continuously rising but the net profit is not so much increased so management should take some steps to decrease its expenses.
- Company should try its best to increase sales and profil.
- The gross profit ratio shows decline in 2014-2015,so that the company should try to increase its profit.
- Current ratio gives the result as 4.50 : 1. So the company has fully utilized the cash for business development.

CONCLUSION

The present study entitled **" A STUDY OF FINANCIAL PERFOMANCE OF IN INFOSYS COMPANY LIMITED"** helped me to gain a practical knowledge regarding the application of financial tools and its usefulness in the day-to-day business. It also gives me a clear idea about the efficient maintenance of cash and inventories within the business.

The firm's performance with regard to maintenance of inventories is fluctuating though considered satisfactory. The growth of the firm is increasing gradually throughout study.

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