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THE FINANCIAL PERFORMANCE ANALYSIS OF INDIAN IT COMPANIES, FOCUSING ON TCS, INFOSYS

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ABSTRACT

Indian firms have adapted their strategies over the years in response to rising competition, economic uncertainty, technological progress, and rising customer demand. Organizations in all sectors of India's economy are through a period of transition that necessitates the use of digital technology. It's true that "Digital Transformation" is now the standard. India also has a flourishing startup scene, which is luring investors from all around the world. Consumer and business adoption of digital technologies in India have been boosted by the government's "Digital India" initiatives. Let's examine what's going on in India's IT sector and how it's evolving.

Keywords: Digital transformation, IT sector, financial performance, TCS, Infosys

INTRODUCTION

Tata Consultancy Services Limited (TCS)

Tata Consultancy Services (TCS) is an IT services and consulting company with its headquarters in Mumbai. It is an Indian multinational company. It is part of the Tata Group and has businesses in 149 places in 46 countries [1 -4]. In July 2022, it was said that TCS had more than 600,000 employees around the world, which is 6 lakh. Based on its market capitalization, TCS is the second largest Indian company. It is also one of the most valuable IT service brands in the world. In 2015, TCS was ranked 64th overall on Forbes' list of the "World's Most Innovative Companies." This made it one of the best IT services companies and a top Indian company [5]. It is 11th on the Fortune India 500 list as of 2018. In April 2018, TCS was the first Indian IT company and the second Indian company ever to reach $100 billion in market

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capitalization (Reliance Industries achieved it in 2007) after its market value on the Bombay Stock Exchange was 6.793 trillion, which is equal to 7.7 trillion or US$100 billion in 2020.

In 2016–2017, Tata Sons, the parent company, owned 72.05 percent of TCS, and TCS was responsible for more than 70 percent of Tata Sons' dividends. In a bulk deal in March 2018, Tata Sons sold TCS shares worth $1.25 billion. As of September 15, 2021, TCS was the first Indian IT company to reach a market capitalization of US$200 billion.

Operations

As of March 2021, TCS had a total of 50 subsidiary companies and operated in 46 countries.

INFOSYS

Infosys Limited is an Indian multinational IT company that offers business consulting, IT, and outsourcing services. The company began in Pune, but its main office is in Bangalore. Infosys is the 602nd largest public company in the world, according to Forbes' Global 2000 list. It is the second-largest IT company in India after Tata Consultancy Services in terms of revenue for 2020. Infosys became the fourth Indian company to have a market value of more than $100 billion on August 24, 2021 [6, 7]. Infosys was started by seven engineers with an initial investment of $250 in Pune, Maharashtra, India, in 1981. On July 2, 1981, it was put on the books as Infosys Consultants Private Limited. It moved its office to Bangalore, Karnataka, India, in 1983.

In April 1992, the company changed its name to Infosys Technologies Private Limited. In June 1992, it became a public limited company and changed its name to Infosys Technologies Limited. In June 2011, it was changed to Infosys Limited. In February 1993, there was an initial public offering (IPO) with an offer price of 95 (equivalent to 580 or US$7.70 in 2020) per share. The book value of each share was 20 (equivalent to 120 or US$1.60 in 2020) [8, 9]. The IPO didn't get enough investors, but US investment bank Morgan Stanley "bailed it out" by buying a 13 percent stake at the offer price. Its shares were put on the stock market in June 1993, and trading began at 145 per share, which is equal to 890 or $12 in 2020. American depositary receipts were used to list Infosys shares on the Nasdaq stock exchange in 1999. It was the first Indian company to be put on the Nasdaq stock exchange. By 1999, the share price had gone up to 8,100, which is the same as 30,000 or $390 in 2020. This made it the most expensive share on the market at the time. At the time, Infosys was one of the 20 largest companies on the Nasdaq by market capitalization. The ADR listing was moved from Nasdaq to NYSE Euronext to make it easier for European investors to buy shares of the company [10].

On July 28, 2010, David Cameron was the British Prime Minister. He went to Infosys HQ in Bangalore and spoke to the employees there. In 1999, it made $100 million, in 2004 it made $1 billion, and in 2017 it made $10 billion.

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Infosys announced in 2012 that it would open a new office in Milwaukee, Wisconsin, to serve Harley-Davidson. This would be the company's 18th international office in the United States.

In 2011, Infosys hired 1,200 people in the United States, and in 2012, they added another 2,000 people to their staff. In April 2018, Infosys said that it was going to grow in Indianapolis, Indiana. The project will cover more than 120 acres, and it is expected to create 3,000 new jobs, which is 1,000 more than was said before.

Infosys started a product subsidiary called Edge Verve Systems in July 2014. Its main focus is on enterprise software products for business operations, customer service, procurement, and commerce network domains [11, 12]. The assets of Finacle Global Banking Solutions were officially moved from Infosys to Edge Verve Systems in August 2015. They are now part of Edge Verve Systems' product line.

Literature review

CS Arvinder Kaur et al. (2018) looked at the liquidity, leverage, efficiency, and profitability of a sample of Indian IT businesses during a 10-year period (from 2007-08 to 2016-17). Financial Analysis is attempted here using a variety of accounting measures and statistical methods like Anova and CAGR to compare the profitability of a few different types of IT businesses. According to the data, TCS has been performing admirably in terms of both gross profit and net profit ratio. When looking at ROI again, TCS comes out on top, followed by HCL, Infosys, and Wipro. If you look at ROE as a metric, HCL's performance stands out above that of TCS, Wipro, and Infosys. Based on the examination of the current ratio, it can be concluded that TCS has the maximum liquidity, followed by Wipro, HCL, and Infosys.

Both Tata Consultancy Services (TCS) and Infosys were analysed using valuation ratios in a research conducted by R Judith Priya, V Sukithangam, J Subhashree, and C Uma (2018). Tata Consultancy Services (TCS) has been determined to have a higher worth than Infosys. Investors seeking consistency in returns are drawn to these valuation measures. Based on the findings of the study, investments in Tata Consultancy Services (TCS) can only benefit.

Objectives

- To study the impact of liquidity and solvency position of the selected IT companies like TCS and Infosys.

- To improve the financial performance of selected IT companies using share analysis.

- To study is to profitability of Indian major IT companies.

Methodology

The research design used for this study is descriptive research design. Descriptive method describes the subject of the research and it focuses more on "what" of the subject rather than

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"why" of the subject. The researchers have taken companies within information technology (IT) industry as information technology (IT) industry is growing rapidly and changing the shape of Indian business standards. So that the process of analysis will be helpful for determining financial strengths and weaknesses of the selected information technology (IT) companies [13, 15]. 2 companies which satisfied the above conditions were selected as sample for the study. The selected companies are like TCS and Infosys. The main source of the data for the present study is the Prowess database of the Centre for Monitoring Indian Economy and Capital line plus corporate database. Other sources of data were annual published reports of the companies, The Reserve Bank of India Bulletin, Annual survey of industries , Bombay Stock Exchange official Directory, C M I E monthly review of the Indian Economy and yearly reports on corporate sector, Kothari Industrial year book, Coimbatore Stock Exchange, Libraries of various institutions, Research publications, Dailies and periodicals such as Economic times, Financial Express, Business Standard, Dalal street, Capital Market, Business World, Business India, Business today and various news papers.

MEASUREMENT OF DU PONT MODEL

DuPont analysis is considered as one of the most important tools for financial analysis. Most of the multinational and large companies usually make use of DuPont analysis for analyzing the performance of their businesses. Modified twice after its initial conception, the original DuPont method of financial ratio analysis was developed in 1918 by F. Donaldson Brown, an engineer at DuPont in charge of understanding the finances of a company that DuPont was acquiring, who recognized a mathematical relationship between profitability and return on equity (ROE) that was determined by return on assets (ROA).

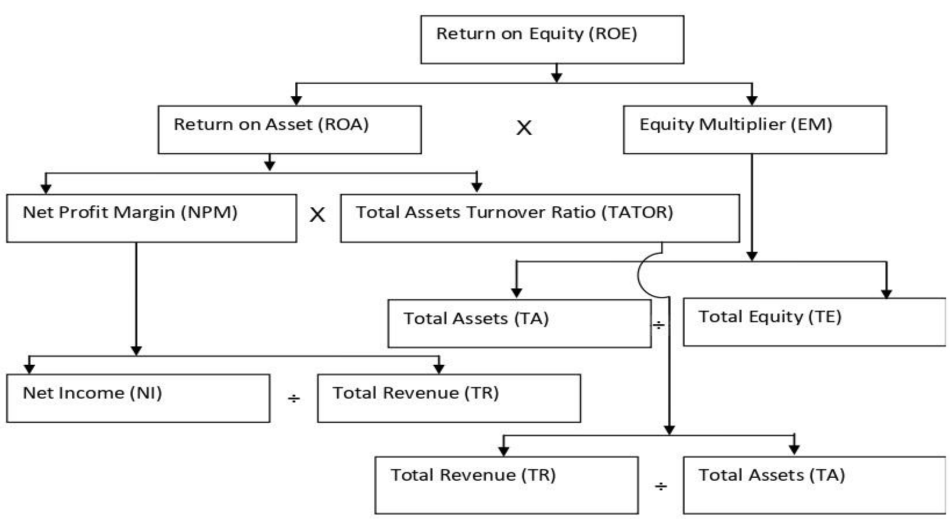

Figure 1. DuPont Chart

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Return on Equity (ROE) – ROE is a basic test of how effectively a company's management uses investors' money – ROE shows whether management is growing the company's value at an acceptable rate. Also, it measures the rate of return that the firm earns on stockholder's equity. Because only the stockholder's equity appears in the denominator, the ratio is influenced directly by the amount of debt a firm is using to finance assets. Practically, ROE reflects the profitability of the firm by measuring the investors' return.

$$ROE = \frac{Net\ Income}{Sales} \times \frac{Sales}{Assets} \times \frac{Asstes}{Equity} = \frac{Net\ Income}{Equity}$$

ROE = (Net Profit Margin) × (Total Asset Turnover) × (Equity Multiplier)

Return on Investment (ROI) – ROI is the return earned from the investment made by the firm. This gives the actual position of the firm. ROI shows whether the management is in profitable position or not. It measures the earnings of the firm. It multiplies profit margin and Asset Turnover.

ROI = **Assets Turnover** (Operating Income × Total Assets) × **Profit Margin** (EBIT × Operating Income)

There are basic measured the ratios of ROE, ROA applying the Du Pont analyses, which have been demonstrated with the aim of show the change periodically. Du Pont analysis (ROI and ROE) is an important tool for judging the operating financial performance. It is an indication of the earning power of the firm.

Results and Discussion

Table 1: Du-Pont analysis of TCS

Years	NPM (%)	AT (Times)	ROA (%)	EM (Times)	ROE (%)
2016-17	22.34	103.26	25.46	1.32	30.49
2017-18	21.02	106.91	24.29	1.15	30.33
2018-19	21.54	123.78	27.38	1.38	35.18
2019-20	20.7	125.08	28.3	1.33	38.6
2020-21	19.8	124.30	26.2	1.48	37.7
Mean	21.08	116.66	26.32	1.332	34.46
SD	0.9467840	10.6604721	1.5746999	0.1198749	3.4920882
CV	4.491	9.14	5.98	8.99	11.32

Table 2: Du-Pont analysis of Infosys

Years	NPM (%)	AT (Times)	ROA (%)	EM (Times)	ROE (%)
2016-17	21.00	74.21	17.21	1.45	20.80
2017-18	22.82	81.63	20.06	1.35	24.68
2018-19	18.63	92.62	18.17	1.99	23.71

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2019-20	18.30	97.53	18.5	1.56	25.50
2020-21	19.30	91.45	18.3	1.68	25.60
Mean	20.01	87.488	1.028	1.606	24.05
SD	1.68575205	9.4007723	1.0287225	0.2474469	1.9735551
CV	9.42	10.75	5.578	15.40	8.203

Net Profit Margin (NPM): The net profit margin is that the ratio of after-tax profits to income. It shows the remaining profit after the deduction of all costs of production, administration and financing from sales and income taxes. It is the best measure to see the overall results of the firm as well as to see how well it is using its working capital. It is used to compare the business results with the competitors.

$$NPM = \frac{Net\ Profit}{sales} \times 100$$

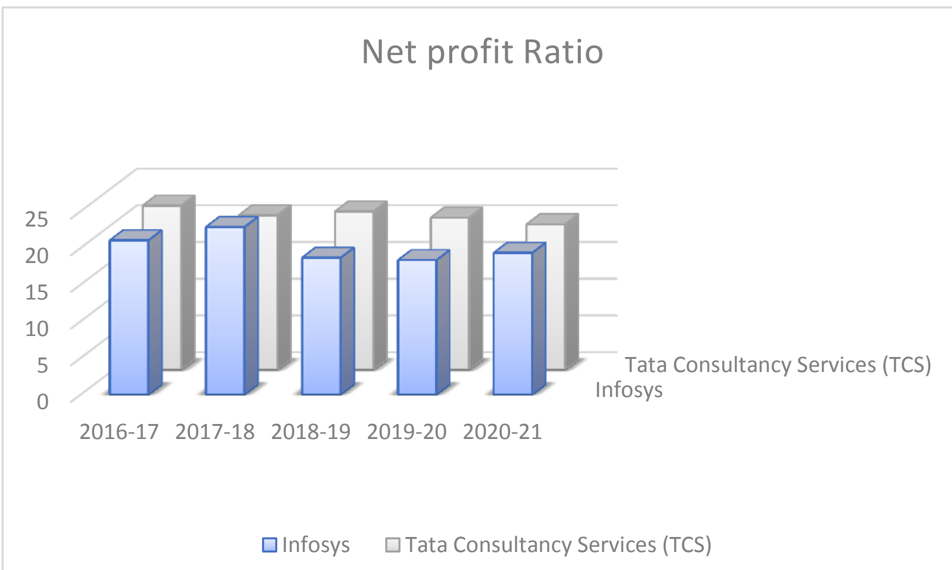

Figure 2: Net profit Margin

The net profit of TCS stood at Rs 384,490 m in FY22, which was up 18.1% compared to Rs 325,620 m reported in FY21. This compares to a net profit of Rs 324,470 m in FY20 and a net profit of Rs 315,620 m in FY19. Over the past 5 years, TCS net profit has grown at a CAGR of 10.4%. The net profit of INFOSYS stood at Rs 221,460 m in FY22, which was up 14.0% compared to Rs 194,230 m reported in FY21. This compares to a net profit of Rs 166,390 m in FY20 and a net profit of Rs 154,100 m in FY19. Over the past 5 years, INFOSYS net profit has grown at a CAGR of 8.3%.

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Assets Turnover Ratio (AT):

Assets Turnover Ratio (AT) – AT offers a different take on management effectiveness and related profit earns for assets. Assets include things like cash in the bank, accounts receivable, property, equipment, inventory and furniture.

$$AT = \frac{Sales}{Total\ Assets}$$

Company/ Year	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Average**
TCS	103.26	106.91	123.78	125.08	124.30	116.67
Infosys	74.21	81.63	92.62	97.53	91.45	87.49

Source: moneycontrol.com

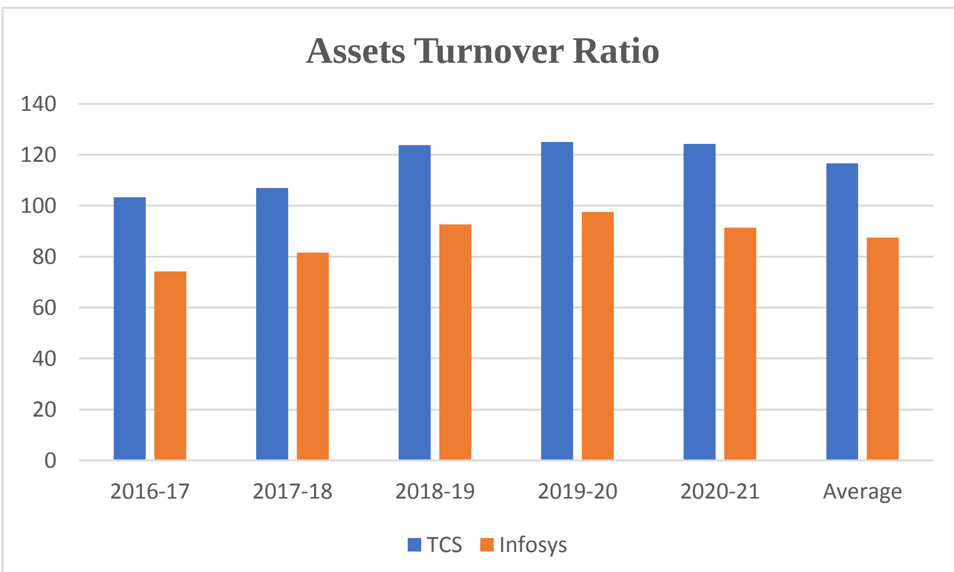

Figure 3: AT

Figure 3 above displays the Asset turnover ratio during the course of the five-year study period. TCS has maintained a healthy asset turnover ratio, with a peak of 125.08% reached in 2019-20. Infosys found the same rising trend throughout the study's duration of study. In 2019-2020, the ratio reached a record high of 97.53%. TCS's average Asset turnover ratio of 116.67 percent was greater than Infosys's average of 87.49 percent.

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Return on Equity (ROE):

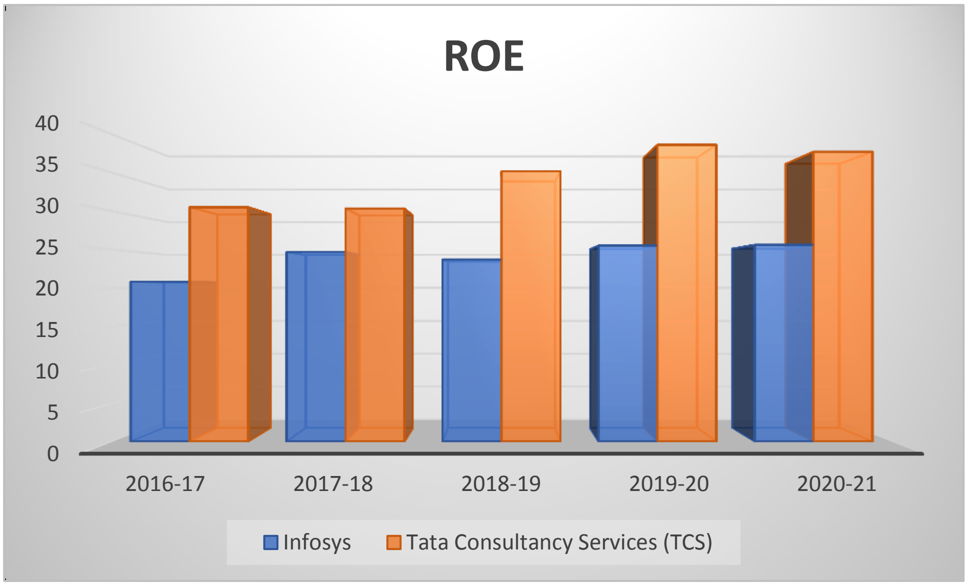

Figure 4: ROE

From the above graph we can depict that TCS has a decrease in two years that is 2017 and 2018 but it later got increased in further years presently it is 38.6. Infosys is comparatively low when compared to TCS it has least in the year 2016 and in 2021 it is 25.60.

Equity multiplier (EM): The last and most important component of DuPont model is the equity multiplier which shows how the firm can take benefit from (leverage) debt to increase its ROE. A higher equity multiplier indicates high financial leverage, which means the firm relies more on borrowed loan or other sources of debt to finance its assets. The organization can increase its ROE by increasing equity multiplier. But if a company already has high financial leverage, taking an additional loan will create a situation of not being able to fulfil obligation towards creditors and which results in a chance of being bankrupt.

$$EM = \frac{\text{Assets}}{\text{Equity}}$$

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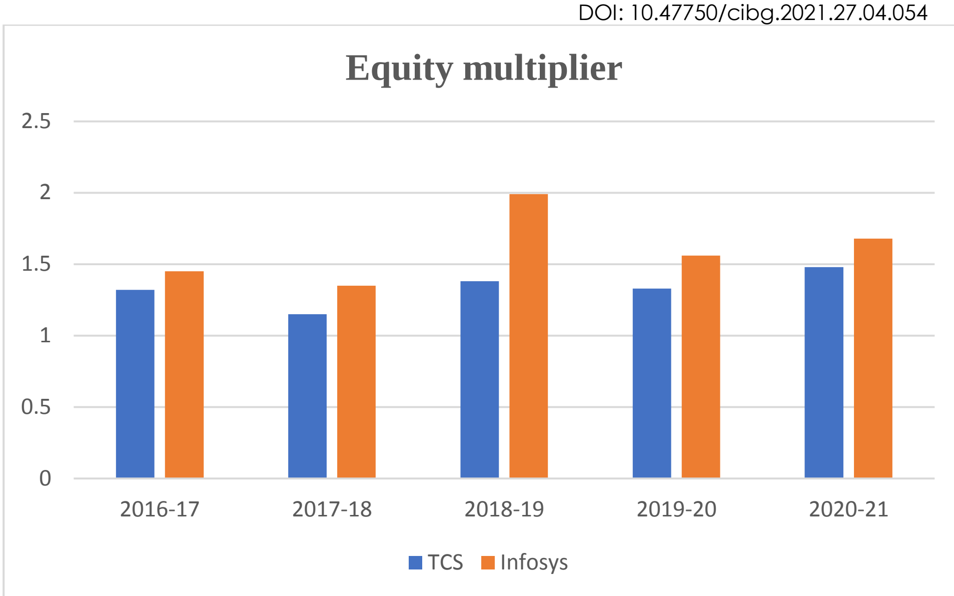

Figure 5: EM

Return on Assets (ROA) – ROA offers a different take on management effectiveness and reveals how much profit a company earns for every dollar of its assets. Assets include things like cash in the bank, accounts receivable, property, equipment, inventory and furniture

$$ROA = \frac{Net\ Income}{sales} \times \frac{sales}{Total\ Assets} = \frac{Net\ Income}{Total\ Assets}$$

Net income = Net income after taxes

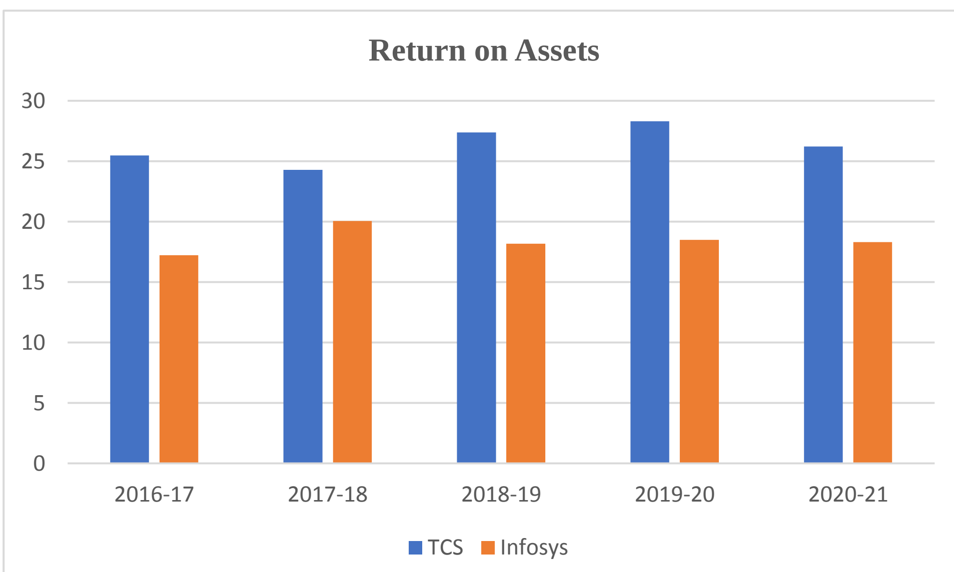

Figure 6: ROA

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The figure-6 shows the Return on assets over a five-year study period. TCS has performed well in terms of Return on assets. Return on assets TCS has continuously grown, reaches maximum Return on assets of 31.68 % in 2019-20. Infosys observed a fluctuating trend all across the research period and highest ratio was noted in 2019-20 with 21.29%. The average Return on assets (28.85%) of TCS was significantly superior than Infosys's (19.12%).

Table 3: Ranking of IT firms based on their mean values

Company	Mean NPM	Mean AT	Mean EM	Mean ROE
Infosys	20.01	87.488	1.606	24.05
TCS	21.08	116.66	1.332	34.46

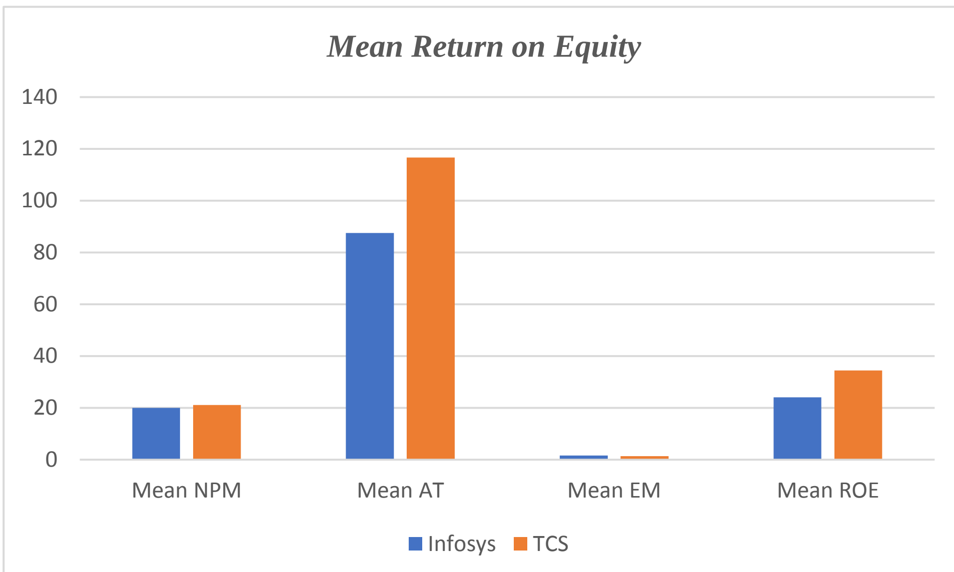

Figure 7: Mean Return on Equity

The figure-7 shows the ROE of Infosys and TCS. Mean Return on Equity. TCS has performed well in terms of assets turnover. TCS has performed well in Net Profit Margin. ROE has, thus, seductiveness to the prospective shareholders and much interest to management.

Conclusion

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

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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 analyzing profitability will bring overall performance of a company. Hence the researchers have analyzed profitability of selected information technology companies (TCS and Infosys) in, India.

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