

Financial Efficiency and Capital Structure of NSE Rated Selected Software Companies in India

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Abstract: Today, this software industry has come to stay as part and parcel of human life. Indian software industry plays a significant role in developing the national economy, from an inward looking economy into a dynamic digitally empowered society. First software industry started at Mumbai and increased the export of software at multinational level across India. In 1970s, Indian Import duties are very high and industry grade are not provided to the software units. This creates a lag in the growth of software companies due to inadequate financial assistance. The present research work has taken effort to analyze the financial and capital structure of NSE rate top 5 software companies from the year 2007-08 to 2017-18. It provides detailed information about software industries growth and recent developments in India during recession period. The study is based on the secondary data taken from the CMIE data, annual reports published by software companies in India. The researcher has selected NSE top rated 5 software companies and also used the convenience sampling method. The selected companies are namely Tata Consultancy Services (TCS), Wipro, Infosys, HCL Technologies and Mphasis. The study has used various analytical tools like Mean, Ratio Analysis, Compound and Annual Growth Rate (CAGR), Analysis of Variance (ANOVA) and Correlation Analysis.

Index Terms - Analysis of Variance, Correlation Analysis, Software Industry and Ratio Analysis.

I. INTRODUCTION

Today, this software industry has come to stay as part and parcel of human life. Indian software industry plays a significant role in developing the national economy, from an inward looking economy into a dynamic digitally empowered society. Software industry provides a collection of computer programs and related data for providing instructions to a computer on what to do and how to do it. It embraces the peculiarity of move ahead the nation into the new-age economy. Local software markets are deficient and government guidelines toward private companies are aggressive. First software industry started at Mumbai and increased the export of software at multinational level across India. In 1970s, Indian Import duties are very high and industry grade are not provided to the software units. At that time, the software program exporters are not qualified for availing bank loan. This creates a lag in the growth of software companies due to inadequate financial assistance. The present study contains detailed financial and capital structure information about selected software companies in India.

II. LITERATURE REVIEW

The present research work contains various earlier studies related to the financial performance and capital structure of software companies. Some other literature works are studied the theoretical and analytical aspects of software companies' performances in the Indian software industry. Wang (2011)³² conducted for the companies listed on Taiwan stock exchange during the period from 2001 to 2007. The study concluded that intellectual capital and financial performance of software companies in Taiwan were positively correlated. Ogundipe et.al. (2012)³⁵ examined that there was a significant negative relationship exists between cash conversion cycle and market valuation and a firm's performance. Anthony & Parthasarathy (2013)³⁷ researched about the financial performance of Tata Consulting Services from the financial year from 2008 to 2012. The main objective of this study was to know about the company's performance especially during the global economic downturn period from 2008 to 2010. The study concluded that the company is always been on the path to reach the goal and shows profitable growth. Choi et.al. (2014)⁴⁰ examined the factors influencing performance of software companies. Finally, it was concluded that mobile and non-mobile software companies' standardization and marketing strategy reflects the different effects on financial and technical performance. Hema (2014)⁴¹ appraised the financial performance of TCS focused that whether the need for software development companies has increased to a greater extent or not. As a result, the IT sector has evicted a mushroom growth of software development and consultancy companies in the recent past. The growth of company in terms of working capital and total assets also found to be satisfactory. Shenbagam & Kannappan (2015) studied the financial position and performance analysis of Tata Consultancy Services. The study concluded that the information technology (IT) industry emerged as one of the healthiest industries in the world. IT industry achieved an improved productivity, particularly in the developed countries and it is an important key to achieve global economic growth.

III. STATEMENT OF THE PROBLEM

In India, software companies are playing a vital role in contribution to GDP and employment generation. The amazing performance and growth has resulted in high rate of return to investors and attracted a good number of investors from within and abroad. Though, the IT industry, software sector particularly have proved its health and wealth few of the following questions left unanswered during the previous studies and the investors too are concerned about finding answers to the questions and ultimately to have a knowledge base on the financial strength of software companies. Thus, the research study has been conducted to build an apprehension on financial performance of selected software companies.

IV. OBJECTIVES OF THE STUDY

The objectives of the research work are given below:

1. To study the financial performance of the selected NSE rated software companies in India.

2. To analyze the significant differences in liquidity, capital efficiency and profitability ratios of the selected software companies in India.
3. To study the significant relationship between the financial ratios of top NSE rated selected software companies in India.

V. RESEARCH METHODOLOGY

The present research work has taken effort to analyze the financial and capital structure of software companies from the year 2007-08 to 2017-18. It provides detailed information about software industries growth and recent developments in India during recession period. The study is based on the secondary data taken from the CMIE data, annual reports published by software companies in India. The researcher has selected NSE top rated 5 software companies and also used the convenience sampling method. The selected companies are namely Tata Consultancy Services (TCS), Wipro, Infosys, HCL Technologies and Mphasis. The study has used various analytical tools like Mean, Ratio Analysis, Compound and Annual Growth Rate (CAGR), Analysis of Variance (ANOVA) and Correlation Analysis.

VI. RESEARCH METHODOLOGY

The research study presents a growth and developments of software industry with the selected top NSE rated companies in India. It helps to identify the software industries movement particularly based on the capital structure, profitability and liquidity positions and the analysis results provides that the impacting factors of the profitability in the selected software companies in India. The capital efficiency of the software companies are measured by the profitability of the business concern. It facilitates that the people to distinguish the efficiency of software companies, which helps to investor to invest the money in that software companies in India

VII. FINDINGS AND DISCUSSION

The research utilized more analytical tools to assess the financial position of the selected software companies in India.

7.1 Ratio Analysis

Ratio analysis establishes the relationship between any two variables. It is a widely used tool of financial analysis and predicts the actual position of the companies or institutions.

Table-7.1 Overall Financial Position of Selected Software Companies in India

Company	Liquidity		Solvency		Profitability		
	CR	LR	DER	PR	GPR	NPR	ROCE
TCS	2.30	2.29	5.76	1.14	32.01	25.26	53.09
Wipro	2.17	2.11	0.20	0.83	24.25	17.87	20.91
Infosys	4.09	4.09	0.00	82.77	36.74	26.39	36.50
HCL	1.66	1.84	0.09	0.90	33.27	24.16	33.67
Mphasis	1.59	1.62	0.05	0.97	24.99	18.61	28.92

Table-7.1 denotes that liquidity ratios of selected software companies were satisfied except HCL and Mphasis company in the study. The software companies have maintained the lower debt fund compared to equity funds. These banks have earned more profitability in the current research work.

7.2 ANOVA Test

This research study employs the analysis of variance to check the difference between the liquidity ratios of selected software companies during the study period.

Table-7.2
ANOVA - Significant Difference between the Selected Software Companies and Years

Variable	Source of Variation	SS	df	MS	Calculated Value F	p-value	Table Value F	Significance
Current Ratio	Between Years	2.61	9	0.29	0.29	0.97	1.954	Accepted
	Between Companies	174.97	4	12.49	12.72	4.06	1.771	Rejected
	Error	123.79	36	0.98				
	Total	301.39	49					
Liquid Ratio	Between Years	2.93	9	0.32	0.26	0.98	1.954	Accepted
	Between Companies	145.51	4	10.39	8.47	1.22	1.771	Rejected
	Error	154.57	36	1.22				
	Total	303.02	49					
Debt-Equity	Between Years	3.27	9	0.36	1.29	0.24	1.954	Accepted
	Between Companies	51.51	4	3.67	13.14	1.31	1.771	Rejected

Ratio	Error	35.28	36	0.28				
	Total	90.06	49					
Proprietary Ratio	Between Years	756.15	9	84.01	0.99	0.44	1.954	Accepted
	Between Companies	62483.12	4	4463.08	52.89	8.27	1.771	Rejected
	Error	10630.69	36	84.37				
	Total	73869.96	49					
Gross Profit Ratio	Between Companies	1004.09	9	111.56	2.43	0.01	1.954	Rejected
	Between Years	8967.61	4	640.54	13.99	1.40	1.771	Rejected
	Error	5767.14	36	45.77				
	Total	15738.85	49					
Net Profit Ratio	Between Companies	283.58	9	31.50	1.18	0.30	1.954	Accepted
	Between Years	6041.70	4	431.55	16.24	5.41	1.771	Rejected
	Error	3347.26	36	26.56				
	Total	9672.55	49					
Return on Capital Employed	Between Companies	1393.02	9	154.78	1.07	0.38	1.954	Accepted
	Between Years	20785.54	4	1484.68	10.31	3.88	1.771	Rejected
	Error	18139.28	36	143.96				
	Total	40317.85	49					

Source: Calculated Values at 5 percent Significant Level

Table-7.2 inferred that the no significant of difference between the financial ratios, capital structure and profitable ratios except gross profit ratio in the present study. In the year-wise analysis, the framed hypothesis is rejected in all the cases, and concluded that there is significant difference in profitability ratios between selected years of study.

7.3 Correlation Analysis

Correlation is a tool used to measure the degree of association or relationship between two or more variables. When the two variables move in the same direction the correlation is termed as positive.

Table-7.3 Correlation Analysis

Particulars	TCS		Wipro		Infosys		HCL		Mphasis	
	r	P-value	r	P-value	r	P-value	r	P-value	r	P-value
CR	.162	.656	-.659	.038*	.042	.908	.521	.122	.503	.138
LR	.115	.752	-.645	.044*	.042	.908	.593	.071	.283	.429
DER	.071	.845	-.807	.005**	0	0	-.351	.320	-.701	.024*
PR	-.706	.023*	.879	.001**	-.793	.006**	.195	.590	-.061	.868
GPR	.116	.750	.509	.133	-.390	.265	.939	.000**	.513	.129
NPR	.177	.625	.655	.040*	.789	.007**	.893	.001**	.699	.025*

* p-value is significant at 5 percent level (p<0.05) ** p-value is significant at 1 percent level (p<0.01)

Table-7.3 indicated that liquidity ratios have a positive correlation with Return on Capital Employed in case of TCS, Infosys, HCL and Mphasis. In case of Debt Equity ratio, only TCS has positive correlation with Return on Capital Employed. With regards to Proprietary ratio, it is negatively correlated with Return on Capital Employed, in case of companies like TCS, Infosys and Mphasis. Hence, these companies are need to improve the capital structure in order to yield better return. As far as profitability ratios are concerned, the ratios are positively correlated with Return on Capital Employed in case of companies such as TCS, Wipro, HCL and Mphasis.

VIII. CONCLUSION

Indian IT companies had a decent year in term of financial performance driven by factors like digitization and non-linear growth models. The NSE top 5 software companies have attained higher profitability in the present study. The drive towards digital Technologies, Internal cost optimization to improve profitability continued in financial year 2017-18. The Indian IT industry grew by 7.7% in financial year in 2017-18. India's share in the global sourcing market about 38 percent in financial year in 2017-18. However, the growth projection for 2018-19 is muted. The growth will be driven by new digital technologies while legacy business will be under pressure but at the same time the adoption of new digital technologies will bring huge disruption industries' traditional business model. The Indian Government emphasizing on better technology enabled delivery mechanism for a multitude of Government project. Further, with the new digital India and start up Indian initiatives being launched, the domestic market for software services has a bright future ahead.

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