



Analysis of the Financial Statements of Selected IT Company of India

DR. Aashka Thakkar (Assistant Professor, Parul University), Roshan Shringey (Student, Parul University)
Janki Vyas (Student, Parul University)

Abstract: By creating suitable links between the elements of the balance sheet and profit and loss account, the current study intends to assess the financial strength, position, and weaknesses of the selected IT companies. TCS, Wipro, L&T, Infosys, and Tech Mahindra are among the five IT firms analyzed. The research was carried out over a five-year period, from 2016-17 to 2019-20, and the essential data was gathered from the company's official websites and annual reports. The study is limited by the fact that it relies solely on publicly available financial data. The analysis is critical in determining the firm's liquidity, solvency, profitability, and other indications of a reasonable and regular corporate operation. The study ensures the enough returns to the shareholders to maintain at least its market value with the help of some ratios. The study will help investors to make decisions regarding investment.

Key words: IT Companies, financial performance, performance indicators, comparative analysis.

1. Introduction.

The abbreviation "IT" stands for "INFORMATION TECHNOLOGY." According to the "Oxford Dictionary," "the study or use of electronic technology, especially computers, for storing and understanding information" (current 8th edition). Information technology is the use of computers to store and retrieve data and information (IT). In contrast to personal or recreational technology, IT is usually utilised in the context of corporate activities. ICT (information and communication technology) is a subset of IT (ICT). A computer system operated by a small number of IT users that includes all hardware, software, and auxiliary devices is known as an information technology system (IT system).

What does IT Company do?

- An IT company has a variety of duties that are essential for corporate success.
- They conduct a range of activities behind the scenes, in addition to ensuring that your machines are working.
- People may use systems and equipment to keep things operating well in their businesses thanks to IT firms.

- They help teams use technology to obtain information, interact, and automate activities every day.

Financial analysis:

Financial analysis is the process of assessing the performance and appropriateness of companies, projects, budgets, and other financial operations. Financial analysis is often done to determine if a company is stable, solvent, liquid, or lucrative enough to support a financial investment.

2. Literature review:

Brinda Kalyani, Dr. P.R. (2021): We have attempted to assess the financial performance of one of the largest IT companies, Infosys, in this article. Infosys is an Indian multinational corporation that provides consulting, software development, and business process outsourcing services to clients throughout the world. On the basis of revenue, Infosys is placed 10th among the top ten IT businesses in the world. They've been around for 39 years, offering a global financial platform and supporting in the expansion of career possibilities, especially for women. Project work, software development, consulting, and a range of other IT-related duties were divided among employees' responsibilities.

Professor Haitham Nobanee and Shaikh Salman Masood (2020): The goal of this assignment is to conduct a financial analysis and research on the firm Tata Motors Limited. For this report, both quantitative and qualitative methodologies were employed. Introduction and literature review are examples of qualitative approaches. Analyses and charts are examples of quantitative approaches. For three years, data was gathered from Yahoo Finance: 2017, 2018, and 2019. This report explains whether the changes are significant or little, as well as the financial situation of Tata Motors Limited. They came to the conclusion that if the firm correctly manages its assets and finances its debt, it should be able to recoup from the loss.

Mr. S. Ajith Adithyaa and Ms. D. Caroline Rebecca (2020): This study focuses on Mahindra Finance's financial performance. The purpose of the report was to examine the firm's financial flow. They conclude that the firm's net profit and sales are not in good shape, and that if the corporation concentrates on these areas, it will grow into a powerful organization in the future.

3. Objectives of the Study:

- To determine the earning potential or profitability.
- To be aware of the financial stability and solvency of the firm.
- To do a comparative analysis with other businesses.
- To assess the financial condition of IT companies and study their financial developments in terms of solvency and profitability over the last five years.

4. Research methodology

The study included both analytical and descriptive research methods. Analytical research is an organized and inquisitive investigation that uses information that are already accessible to reach a conclusion. Descriptive research is an expressive and pictorial representation of data for the purpose of interpreting and communicating the study's findings. Vertical analysis is the term used in descriptive analysis.

5. Limitations of the study

- The study preliminary uses secondary data and thus the limitations related to collection and use of secondary data will apply.
- The study will use various statistical techniques to analyze the data and the limitations of such tools may affect the outcome of the study.
- The period of the study will also affect the outcomes as this study considers the financial statements of the last 5 years only. The results are to change if the financial statements of more than 5 years are taken.

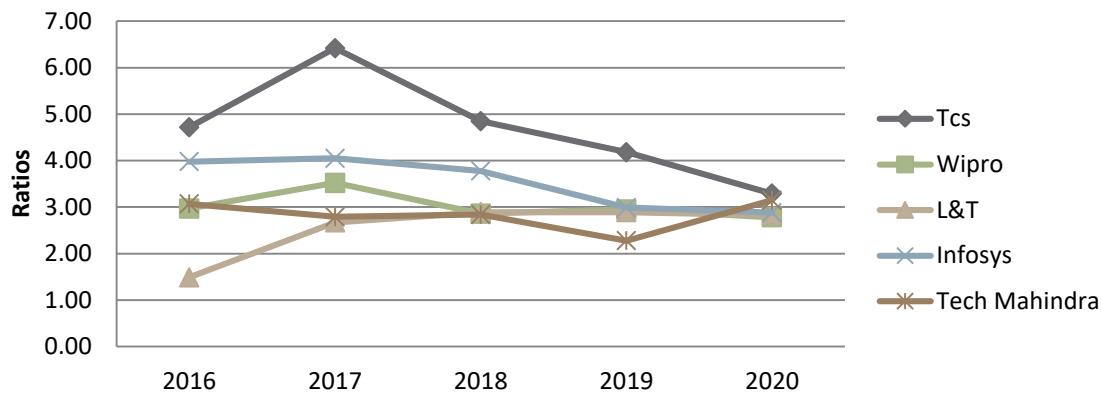
6. Data analysis and interpretation.

1) Current Ratio:

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	4.72	2.97	1.49	3.98	3.07
2017	6.42	3.52	2.67	4.05	2.79
2018	4.85	2.86	2.89	3.78	2.84
2019	4.18	2.95	2.89	2.99	2.28
2020	3.29	2.78	2.83	2.88	3.15
MEAN	4.69	3.02	2.55	3.53	2.82
SD	1.14	0.29	0.60	0.56	0.34

Source: Secondary Data

The above data has been represented in the below graph:



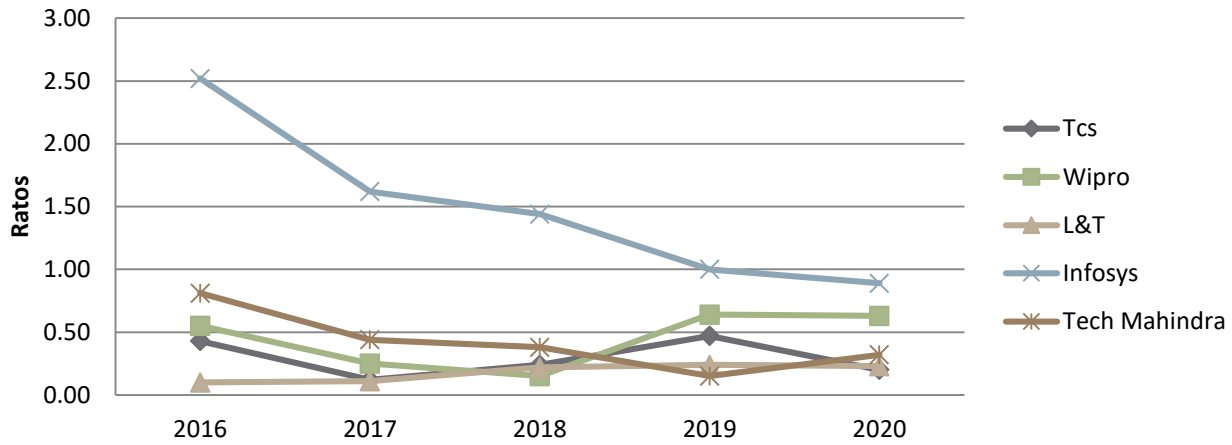
- Generally, investors and other professionals consider a ratio which falls under 1.2:1 which indicates that the company has ability to meet short-term liabilities.
- From the above data it is seen that all the 5 companies have their current ratios more than the ideal ratio.
- This indicates that the companies are capable to repay the debt but companies fail to invest in short term assets efficiently which shows that current assets are not used efficiently.
- Hence they have to be more careful while investing into their current assets and try to maintain the ideal ratio.

2) Liquid Ratio

[Assumed that current investment were not done in equity or bonds]

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	0.43	0.55	0.10	2.52	0.81
2017	0.12	0.25	0.11	1.62	0.44
2018	0.24	0.15	0.22	1.44	0.38
2019	0.47	0.64	0.24	1.00	0.15
2020	0.20	0.63	0.23	0.89	0.32
Mean	0.29	0.44	0.18	1.49	0.42
SD	0.15	0.23	0.07	0.65	0.24

The above data has been represented in the below graph:

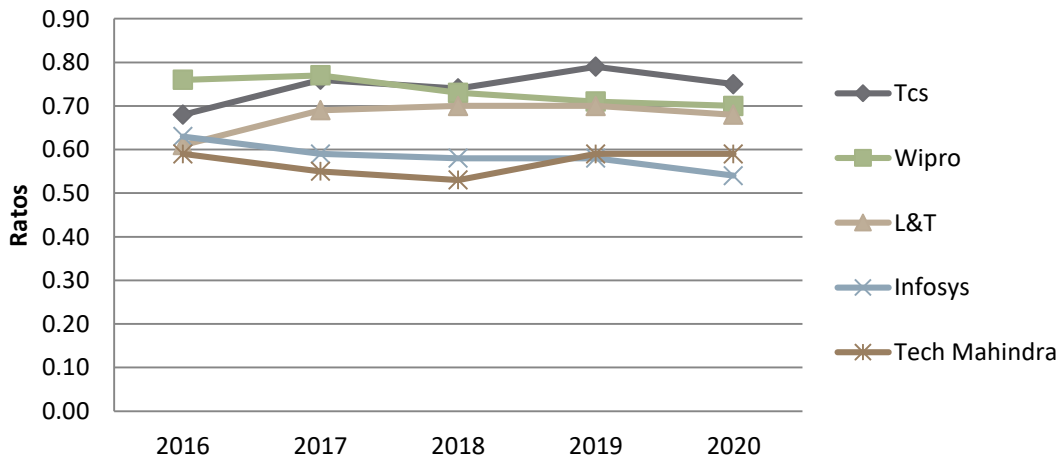


- From the given statistics, it can be shown that only Infosys meets the optimal ratio. It indicates that the corporation is effectively managing its stock position.
- Other businesses' ratios fluctuate and are below the optimal ratio, indicating that they are not effectively managing their stock positions. It shows that cash would be insufficient to settle their liquid liabilities, and that they would require more cash than they have on hand, which is not a positive indicator for the firm.
- As a result, all four corporations must examine their liquid assets in order to satisfy their liquid liabilities. They may increase it by boosting sales turnover, paying off debts as soon as feasible, and so on.

3) Net working capital ratio:

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	0.68	0.76	0.61	0.63	0.59
2017	0.76	0.77	0.69	0.59	0.55
2018	0.74	0.73	0.70	0.58	0.53
2019	0.79	0.71	0.70	0.58	0.59
2020	0.75	0.70	0.68	0.54	0.59
Mean	0.74	0.73	0.67	0.58	0.57
SD	0.04	0.03	0.04	0.03	0.03

The above data has been represented in the below graph:



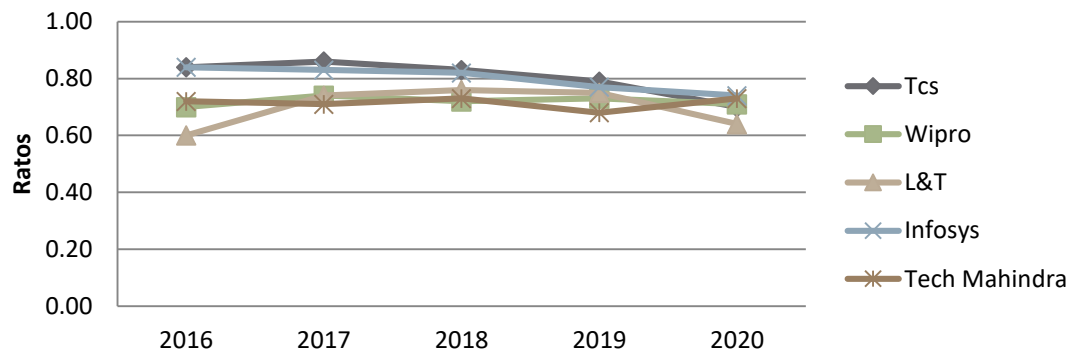
- It can be observed from the table above that none of the firms had ratios equal to or greater than 1. As a result, all of the firms have a negative balance, implying that they are not effectively managing their day-to-day operations.
- They may enhance it by paying vendors on time, properly managing inventories, and substituting short-term debt with long-term debt, among other things.

✓ Leverage Ratio:

1) Proprietary ratio

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	0.84	0.70	0.60	0.84	0.72
2017	0.86	0.74	0.74	0.83	0.71
2018	0.83	0.72	0.76	0.82	0.73
2019	0.79	0.73	0.75	0.77	0.68
2020	0.70	0.71	0.64	0.74	0.73
Mean	0.80	0.72	0.69	0.80	0.71
SD	0.06	0.02	0.07	0.04	0.02

The above data has been represented in the below graph:



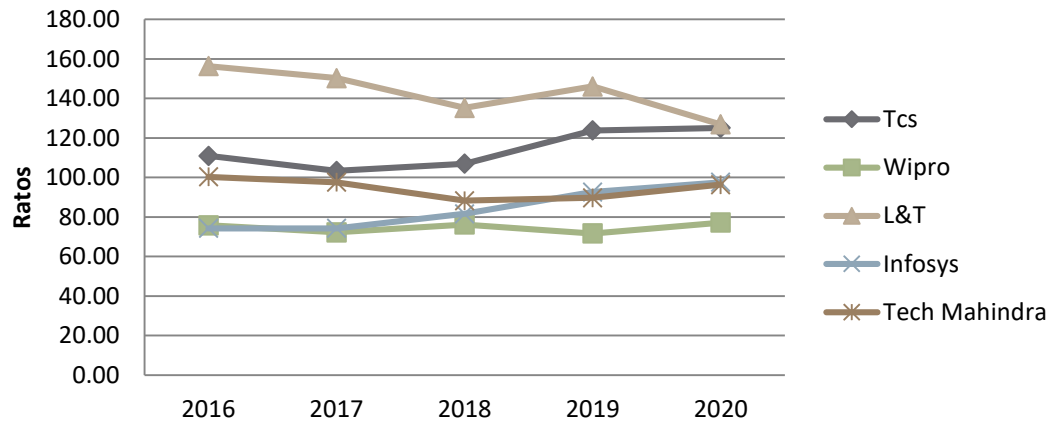
- From the aforementioned statistics, it can be observed that all of the firms adhere to the optimal ratio. It shows that the owner's contribution to the overall assets was reasonable, and they keep their portion of the company's assets.
- The higher the ratio, the stronger the company's long-term financial situation, and in most cases, the ratios are growing compared to the previous year. As a result, all of the firms are effectively managing their assets.

✓ Activity Ratio:

1) Assets Turnover Ratio

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	110.97	75.82	156.41	74.25	100.36
2017	103.33	72.26	150.34	74.23	97.61
2018	106.96	76.2	135.24	81.67	88.30
2019	123.84	71.69	146.09	92.67	89.72
2020	125.13	77.15	126.94	97.59	96.38
Mean	114.05	74.62	143.00	84.08	94.47
SD	9.92	2.47	11.85	10.67	5.22

The above data has been represented in the below graph:



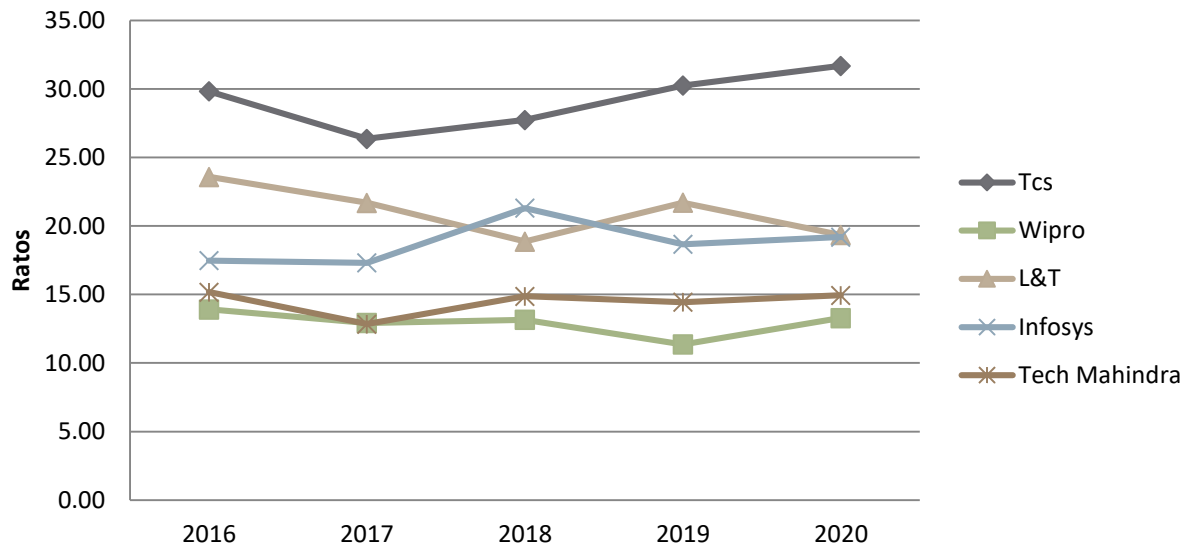
- If the ratio is larger than one, it is always a good sign since it indicates that the organization can create enough money to sustain itself. If it's less than one, the company's total assets won't be able to generate enough income at the conclusion of the year.
- From the table above, it can be observed that the ratio of all firms in each year has been greater than 1, which is beneficial to the company. The data shows that all organizations are able to better utilize their assets to produce money, but when comparing them, it appears that L&T is doing it in a more effective and efficient manner than the others.
- They may enhance it through increasing sales, selling ineffective assets, and better managing inventory, among other things.

D) Profitability ratio:

1) Return on assets:

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	29.83	13.92	23.58	17.48	15.18
2017	26.37	12.92	21.69	17.32	12.84
2018	27.74	13.16	18.87	21.31	14.88
2019	30.25	11.36	21.70	18.67	14.44
2020	31.69	13.29	19.35	19.20	14.95
Mean	29.17	12.93	21.04	18.79	14.46
SD	2.11	0.95	1.93	1.61	0.94

The above data has been represented in the below graph:

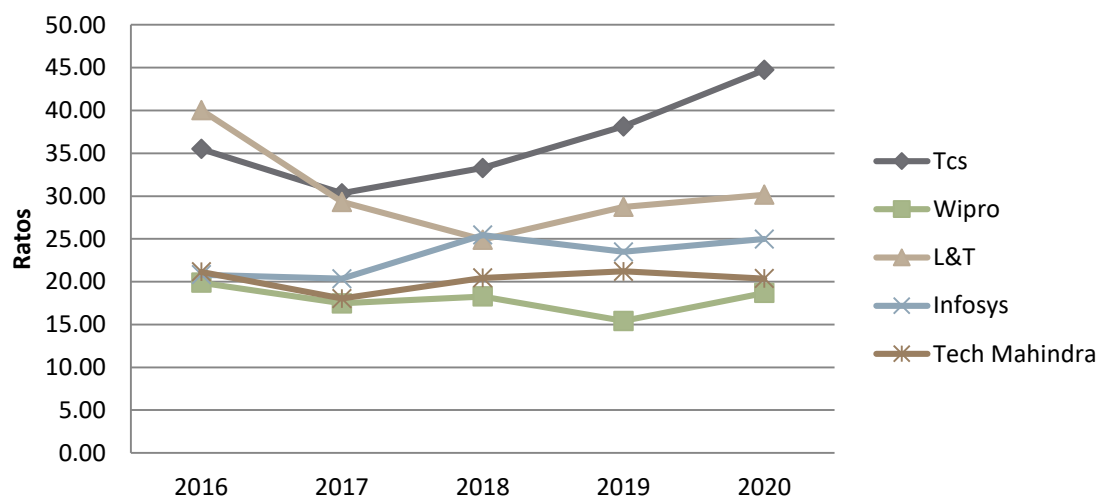


- The accompanying table shows that the ratio of all firms in each year has been more than 1, which is beneficial to the company. The data shows that all of the firms use their resources efficiently to generate revenue, however when compared to one another, TCS uses its resources more efficiently than the others.
- They may increase it through boosting net income, lowering total assets, and raising the efficiency of current and fixed assets, among other things.

2. Return on equity:

YEAR	TCS	WIPRO	L&T	INFOSYS	TECH MAHINDRA
2016	35.51	19.89	40.05	20.81	21.16
2017	30.33	17.47	29.32	20.34	18.04
2018	33.28	18.27	24.9	25.45	20.44
2019	38.14	15.41	28.74	23.49	21.21
2020	44.73	18.68	30.15	24.99	20.36
Mean	36.40	17.94	30.63	23.02	20.24
SD	5.47	1.66	5.64	2.35	1.29

The above data has been represented in the below graph:



- All of the firms' ratios are larger than one in every year, showing that they are all successfully employing money from shareholders to produce profits and develop the company, as seen in the table above.
- However, when comparing them, it can be seen that TCS is more effective in generating profit for the company than the others.
- As a result, other companies should take the necessary steps to increase the ratio by increasing profit margins, distributing idle cash, and so on.

7. Findings

- TCS has the strongest liquidity position among the others, indicating the capacity to pay short-term commitments on time, according to the examination of liquidity ratios.
- TCS has a solid position compared to others, which represents the capacity to fulfil long-term commitments, according to the examination of leverage ratio.
- L&T, among others, has a solid position as a result of the efficient conversion of assets into sales, according to the examination of the Activity ratio.
- TCS has a great position compared to others in terms of profitability ratio, which represents the percentage of the company's assets and shareholders in the profit.

8. Suggestions

- As this is secondary data, there are no ideas that can be linked to us. However, we would like to advise that the net profit, which is dropping when it is computed in the Common Size Statement, should be given special attention because profit is the primary goal of every organization, and cost reduction should be prioritized.

9. Conclusion

- Each of the five corporations has a strong overall position. In the previous five years, they have made a considerable profit. The firms' long-term solvency condition is excellent. They are maintaining solid financial performance, which may be improved further if the firms focus on operational and administrative costs, boost asset turnover, and disperse idle capital, among other things. Based on the data, it can be determined that all are fierce competitors, however TCS is somewhat better than the rest among the five IT firms.

10. Reference

- <https://finance.yahoo.com>
- <https://www.sec.gov/>
- <https://www.moneycontrol.com/>