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EMPIRICAL INVESTIGATION ON DETERMINANTS OF CORPORATE FINANCIAL PERFORMANCE: STUDY ON INDIAN IT INDUSTRY

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ABSTRACT

The present paper is an empirical study which provides an in depth knowledge about the factors which affect the financial performance of corporates in IT sector in India. For the purpose of study, the study consist the sample of 31 BSE listed corporates of IT sector in India for the period 2005-2013. The OLS regression is used to provide the empirical evidence. The study finds that the Tax and size of corporate have significant association with profitability. For other factors we could not find a significant evidence of association with financial performance.

KEYWORDS: *financial performance, growth, underwriting risk,*

INTRODUCTION

The indicator of success of a corporate is financial performance of the corporate. The performance of business is very important because it leads towards growth of whole sector where it is involved and of the overall prosperity of economy (Cekrezi, 2015). Profit is an essential pre-requisite for an increasing competitiveness of a company that operates in globalized market (Burca & Betrina, 2014). The financial performance is affected by various decesions taken by corporates regarding financing and investment decesions which have a direct effect on success of corporates. The present paper aims to analyze the financing and investment decesions affecting financial performance of corporates in IT (Information Technology) sector in India.

IT sector is fastest growing sector in India and expected to grow in coming years also. The contribution of this sector is increasing with time. Due to its contribution, India becomes the largest IT capitals in whole world and 2nd largest exporters of IT. The present prime minister of India 'Narender Modi' also started 'Digital India' scheme to provide secured position to this sector and this very point attract the researchers to study in this area.

LITERATURE REVIEW

Cekrezi, (2015) analyze the factors affect financial performance of insurance company. For this, the sample consist 5 insurance companies from 2008-13.the regression analysis is used. He found that leverage & risk have negative affect on ROA of company and fixed assets have positive affect on ROA of company. Amariati, (2013) analysis the financial factors affecting profitability in manufacturing firms listed in Nairobi Stock Exchange in Kenya. The study used descriptive research and found that Kenyan manufacturing firms have volatile business environment, high competition, and inappropriate Govt. policies. Thus, financial factors affect profitability. Burca and Batrica (2014) undertook the study on determinants of financial performance in insurance companies in Romania. The study used econometric model for analysis purpose. The paper found that significant determinants are size, growth, underwriting risk, risk retention ratio & solvency margin. Deitiana & Habibuw (2015) analyzed the factors affecting the financial performance of property and real estate corporates in Indonesia. For the purpose of study, Sample consists of real estate and property taken from Indonesian Stock Exchange (IDX). For analysis purpose, Descriptive statistics, panel model and pooled OLS are used. It was found that leverage and age of firm have significant effect on firm's financial performance. Financial performance is measured by ROA. Mirza & Javed (2013) undertook the study on determinants of financial performance of firms. For the purpose of study, 60 firms from Karachi stock exchange are taken for 2007-11. Fixed effect model is used for analysis purpose\

. It was found that positive effect of corporate governance and risk management on performance of firm. Sambasivam & Ayele (2013) analyzed the performance of insurance corporates in Ethopia. The paper examines the effect of various factors age, size, liquidity, leverage, growth and tangibility of assets on financial performance of company. Regression is used for analysis purpose. It was found that growth; size and capital are significantly positively related with firm performance. Liquidity and leverage are negatively related with firm performance. Age and tangibility of assets have not significant impact on profitability of firms. Philip Hardwick & Mike Adams (1999), Hafiz Malik (2011) are among others, who have suggested that although there are different ways to measure profitability, It is better to use ROA (Sambasivam & Ayele, 2013). Innocent et al. (2014) analyzed the effect of financial leverage on financial performance of pharmaceutical companies in Nigeria. For this, sample consists of quoted pharmaceutical companies for 2001-12. The descriptive statistics and regression are used for analysis purpose. It was found that DR, DER have negative impact on ROA & ICR have positive impact on ROA. But these independent variables have not significant impact on financial performance. Saravanan (2009) analysed the impact of promoters' family control and corporate governance variables on performance of firm and found that there is no significant impact of ownership type on firm's performance. Liargovas and Skandails (2007) attempted to study the determinants of financial performance and competitiveness of corporates in Greek. For the purpose of study, 102 Greek industries were taken for 1997-2004 and found that leverage, export, location size and management competence significantly affect the firms competitiveness and performance.

RESEARCH METHODOLOGY AND SAMPLE SELECTION

For the purpose of study, our sample consists of 31 IT companies listed in BSE stock exchange for 2005-2013 leading to 279 firm year observations. The data are collected from CMIE Prowess. For analysis purpose the paper use the OLS regression.

$ROA_{it}= a_0+b_1SIZE_{it}+b_2LEV_{it}+b_3CAPINT_{it}+b_4ETR_{it} +e_{it}$ (error term)

Where ROA (Return on Assets) is proxy of profitability and financial performance of firm.

DEFINITION OF VARIABLES

ROA	Profit before depreciation, interest and tax /total assets
SIZE	Log (Total assets)
LEV	Borrowing/Total assets
CAPINT	Fixed assets/Total assets
TAX	Tax paid by firm-Deferred tax/ PBDITA

ANALYSIS FOR TABLES

Table 1 provides the result of descriptive statistics in IT sector. Average profitability of firms are 21% approx. and average tax paid is 12% approx. average size of firms is 4 and capital intensity is 17.76% and debt capacity is 7%.

TABLE 1. DESCRIPTIVE STATISTICS

	ROA	*TAX*	*SIZE*	*CAPINT*	*LEV*
Mean	0.212912	0.118797	3.899038	0.177653	0.070511
Median	0.195224	0.111111	3.757381	0.144479	0.007327
Mode	0.173801	0.018374	3.660097	0.301013	0
Standard Deviation	0.100081	0.074298	0.730227	0.132761	0.11233
Minimum	0.003656	0.000178	2.543944	0.014021	0
Maximum	0.556529	0.329311	5.762577	0.754206	0.551895

Table 2 provides the result of correlation matrix. Tax and size have positive correlation between them. Capital intensity has negative correlation with size. Leverage and size also have negative relation. Capital intensity and size have negative relation between them. But the coefficient of all the variable is less than 0.80. So there is no problem of multicollinearity.

Table 3. provides the result of OLS regression.

TABLE 2. CORRELATION MATRIX.

	Tax	*Size*	*Capint*	*Lev*
Tax	1	0.349738	0.163521	-0.28305
Size	0.349738	1	-0.39067	-0.31315
Capint	0.163521	-0.39067	1	0.237875
Lev	-0.28305	-0.31315	0.237875	1

TABLE 3 OLS REGRESSION

Variables	Coeff.	t-statistics
Intercept	-0.037	-0.45
Tax	0.628**	2.11
Size	0.045**	2.28
Capint	0.093	0.83087
Lev	-0.179	-1.42346

Table 3 provides the result of OLS regression. Tax has positive significant association with ROA. More profitable the company, more it pay the tax. Size and profitability also have the significant impact of ROA. Large firm pay more tax as compared to small firms.

CONCLUSION

The major objective of paper is to analyze the determinants of profitability. For getting the objectives of paper we used the sample of 31 companies from IT sector for 9 years. The result provides the information that tax and size have significant impact on financial performance of companies while for others factor, we could not find the evidence of significance. For further study, the researchers can include more determinants for analyzing the financial performance of corporates.

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