



A STUDY ON LIQUIDITY AND PROFITABILITY ANALYSIS OF SELECTED IT COMPANIES

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ABSTRACT

Financial performance analysis is the process of determining the operation and financial characteristics of a firm from accounting and financial statements. The goal of such an analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports. The study focus on overall financial position of selected IT companies during the specific period based on the selected variables, which may interest not only for the respective companies in the industry but also brings a process of development operational aspects of the entire industry. The study is much important to the management from the point of decision-making purpose, to identify the strength, weakness areas of the company and finally helps to maximize the intrinsic value of the company.

KEYWORDS: *Financial performance, Profitability, Liquidity, Trend Analysis*

INTRODUCTION

Every business organization's lifeblood is considered to be finance. Any business organisation can assess its financial performance through financial statements. The business's financial health is one of the most important considerations for stakeholders. They all want to know if the company will perform better in the future in order to keep their commitment to the business. The primary goal of financial health measurement is to show that the company is profitable and not in imminent danger of going out of business. In the modern world, it is essential to evaluate each business organization's financial performance.

Nowadays, it is impossible to imagine a world without finance. Our economic activity's "essence" has been referred to as finance on sometimes. Since it reduces operating costs and increases profitability, controlling expenses is a major element of effective business management. An asset needs regular maintenance in order to increase its output. A company is required to pay off its debts on schedule. The return on investments, return on assets, value added, etc. of the activity encourages these results.

STATEMENT OF PROBLEM

Every companies primary priority is its profitability. In order to drive the firm in the proper direction, management must have adequate level of profitability. At the same time liquidity is also equally important as it helps to know the financial position. Measuring liquidity helps you to find the right balance, monitoring the financial health of your company and positioning it for strategic growth. Hence it is important to analyse the indicators of liquidity that have an impact on the profitability of a company. Therefore, this research is undertaken to study the impact of liquidity and profitability of selected IT Companies. So, the main aim of the study is to analyse the financial position of the company over a period of time in terms of profitability, liquidity and trend analysis.

OBJECTIVES OF THE STUDY

- To Find the Profitability Position of Selected IT Companies in India.
- To Evaluate Liquidity Position of Selected IT Companies in India.



RESEARCH METHODOLOGY

RESEARCH DESIGN

The study purely depends on the secondary data which are collected mainly from the moneycontrol.com for this study were selected based on purposive sampling method. Accordingly, the study includes top five companies. The period of study is for five years (2018- 2019 to 2021- 2022)

TOOLS-RATIO ANALYSIS

The study or assessment of the cost estimates included in the company's financial statements is known as ratio analysis. It can be applied to evaluate a variety of company characteristics, such as profitability, liquidity, solvency, and operational efficiency. Ratio analysis can provide information into a company's relative financial and future prospects. We can get information on profitability, liquidity, earnings, extended viability, and other subjects. When deciding which companies to invest in, the results of these comparisons might help to make decisions more effectively. In this study various ratios of liquidity and profitability is used.

REVIEW OF LITERATURE

Appah Ebimobowei, Onowu Joseph Uche and Tonye Young-Arney (2021), "A Study on Liquidity and Profitability Ratios on Growth of Profits of Listed Oil and Gas Firms in Nigeria". In this study, Data for the study was taken from 2014 through 2019 and was gathered using an ex-post facto and correlation design. The study made the recommendations amongst others that firms should use financial ratios to measure the level of corporate profit growth.

Dr P.R Brinda Kalyani (2021), "A Study on the Financial Performance of Infosys Limited". From 2016 to 2020 study was conducted. It was observed that the firm's market value was larger than its loans. The business's structure is essentially unchanged, although technology is constantly evolving. The company's growth and financial changes are shown by the 5-year trend value.

Anil Kumar Goyal (2020), "A Study on to Analyse the Financial Performance of India's Bharat Petroleum Corporation's". The profitability, liquidity, and solvency ratios are applied by the author to evaluate the company's financial performance. The research spans the study years of 2004–2005 through 2011–2012. Conclusion: During the research period, the company was unable to even approach the optimal fast ratio, which may pose a threat to its short-term liquidity.

Rathi, Mala; Goyal and Krishnawatar (2020), "A Study on Financial Performance Analysis of Tata Consultancy Services Limited". They sought to assess the financial performance of Tata consultation services in their study paper. The financial performance of the company during the last 5 years was analyzed using a number of ratios and statistical tools. The research shows that the company's revenue, net profit, and earnings are on the upswing. Therefore, it was determined that the business is expanding positively and quickly.

Sugandha Sharma and Abhishek Raizada (2020), "A study on Correlation between Liquidity and Profitability of IT Sector Companies" had made an attempt to study the relationship between liquidity and profitability. 5 leading companies were taken, Infosys ltd, Wipro ltd, IBM, Tech Mahindra and HCL. Research hypothesis were framed and were analyzed based on combined score of the mean value and was concluded that IBM ranked the highest followed by Infosys and HCL (in the same rank), then Wipro and finally Tech Mahindra.

DATA ANALYSIS AND INTERPRETATION

The process of evaluating information and making appropriate conclusions from it using different analytical techniques is known as data interpretation. Researchers can categories, manipulate, and summarize data with the help of data analysis to find answers to major things. Finding patterns and trends in data is the process of conducting data analysis. Giving meaning to the data is the process of data interpretation.

LIQUIDITY RATIOS

The ability of a corporation to satisfy its short-term debts is reflected by its liquidity ratios. Liquidity ratio shows a company's capacity to quickly convert its assets and utilize them to meet its liabilities. The bigger the ratio, the simpler it is to pay off debts and maintain the current payments.

CURRENT RATIO

The current ratio, also known as the working capital ratio, is a metric that aids businesses in assessing their capacity to settle short-term liabilities within a year. It seeks to demonstrate how individuals might make the most of their current assets to pay off their creditors' short-term debts.

Current Ratio = Current Assets/Current Liabilities



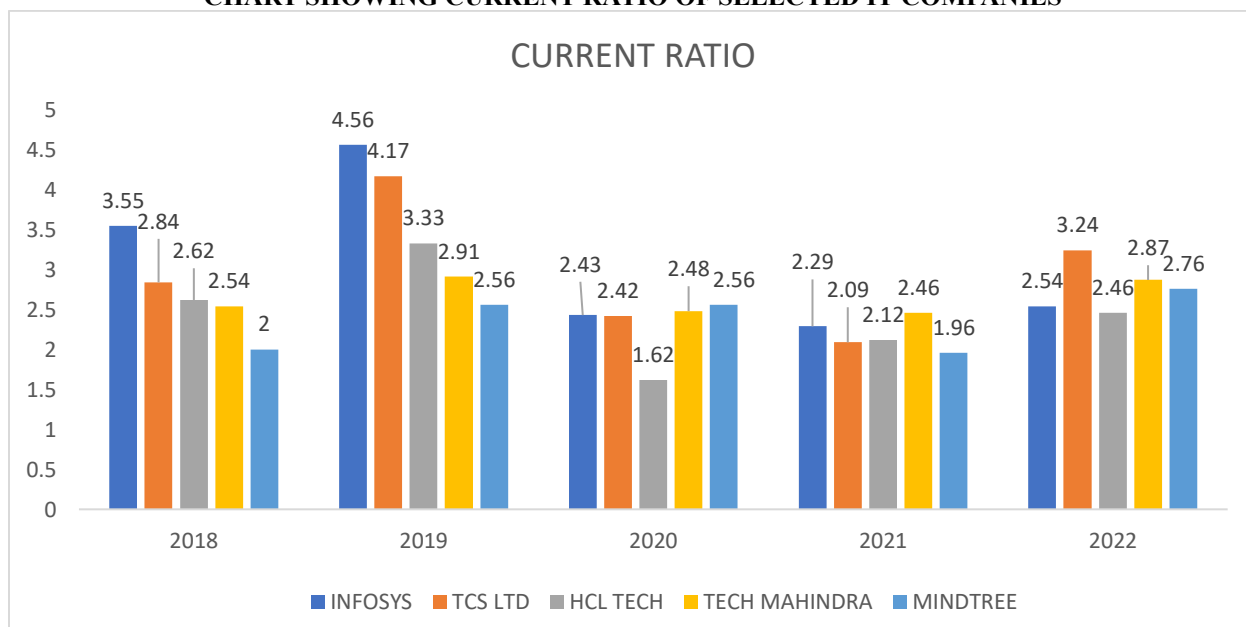
TABLE NO 1
TABLE SHOWING CURRENT RATIO OF SELECTED IT COMPANIES

YEAR	INF	TCS	HCL	TM	MT
2018	3.55	4.56	2.43	2.29	2.54
2019	2.84	4.17	2.42	2.09	3.24
2020	2.62	3.33	1.62	2.12	2.46
2021	2.54	2.91	2.48	2.46	2.87
2022	2.00	2.56	2.56	1.96	2.76

INTERPRETATION

The above table shows current ratio position of selected IT companies during the year 2018-2022. The current ratio of Infosys ranges from 3.55 in the year 2018 and gradually falls which results to 2.00 in the year of 2022. TCS ratio ranges from 4.56 in the year 2018 and gradually falls which results to 2.56 in the year of 2022. The current ratio of HCL ranges from 2.43 in the year 2018 and gradually increases which results to 2.56 in the year of 2022. Tech Mahindra ratio ranges from 2.29 in the year 2018 and gradually falls which results to 1.96 in the year of 2022. The current ratio of Mindtree ranges from 2.54 in the year 2018 and gradually increases which results to 2.76 in the year of 2022.

CHART NO 1
CHART SHOWING CURRENT RATIO OF SELECTED IT COMPANIES



QUICK/LIQUID/ACID TEST RATIO

The Quick Ratio (also referred to as the acid test ratio) is a financial ratio formula whose main aim is to help the companies measure their ability to pay off their short-term liability dues within the next 90 days with the help of their near-cash assets.

Liquid ratio = liquid asset/current liabilities.



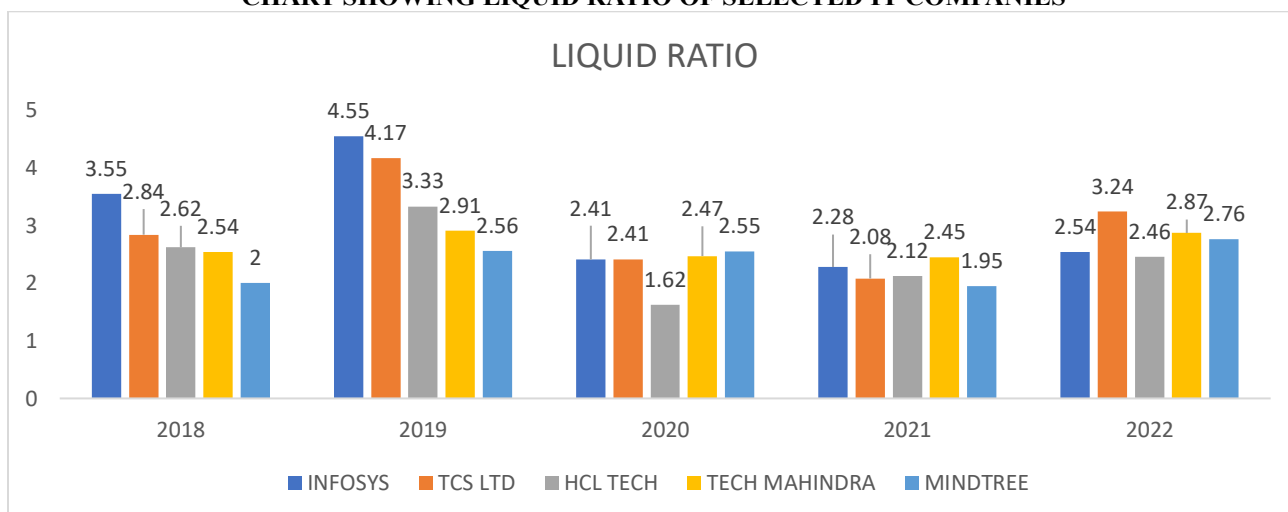
TABLE NO 2
TABLE SHOWING LIQUID RATIO OF SELECTED IT COMPANIES

YEAR	INF	TCS	HCL	TM	MT
2018	3.55	4.55	2.41	2.28	2.54
2019	2.84	4.17	2.41	2.08	3.24
2020	2.62	3.33	1.62	2.12	2.46
2021	2.54	2.91	2.47	2.45	2.87
2022	2.00	2.56	2.55	1.95	2.76

INTERPRETATION

The above table shows liquidity ratio position of selected IT companies during the year 2018-2022. The liquidity ratio of Infosys ranges from 3.55 in the year 2018 and gradually falls which results to 2.00 in the year of 2022. TCS ratio ranges from 4.55 in the year 2018 and gradually falls which results to 2.56 in the year of 2022. The liquidity ratio of HCL ranges from 2.41 in the year 2018 and gradually increases which results to 2.55 in the year of 2022. Tech Mahindra ratio ranges from 2.28 in the year 2018 and gradually falls which results to 1.95 in the year of 2022. The liquidity ratio of Mindtree ranges from 2.54 in the year 2018 and gradually increases which results to 2.76 in the year of 2022.

CHART NO 2
CHART SHOWING LIQUID RATIO OF SELECTED IT COMPANIES



ABSOLUTE LIQUID RATIO

The ability of a corporation to pay down obligations entirely using liquid assets is assessed using the cash ratio, a liquidity indicator (cash and cash equivalents such as marketable securities). It is used by creditors to assess how readily a corporation can pay down short-term liabilities.

Absolute Liquid Ratio = Absolute liquid assets / Current liabilities.

TABLE NO 3
TABLE SHOWING ABSOLUTE LIQUID RATIO OF SELECTED IT COMPANIES

YEAR	INF	TCS	HCL	TM	MT
2018	2.34	1.80	1.35	1.21	1.36
2019	1.85	1.82	1.59	0.90	1.86
2020	1.78	1.49	0.81	0.98	1.53
2021	1.84	1.15	1.30	0.91	1.28
2022	1.20	1.23	1.77	1.27	1.26

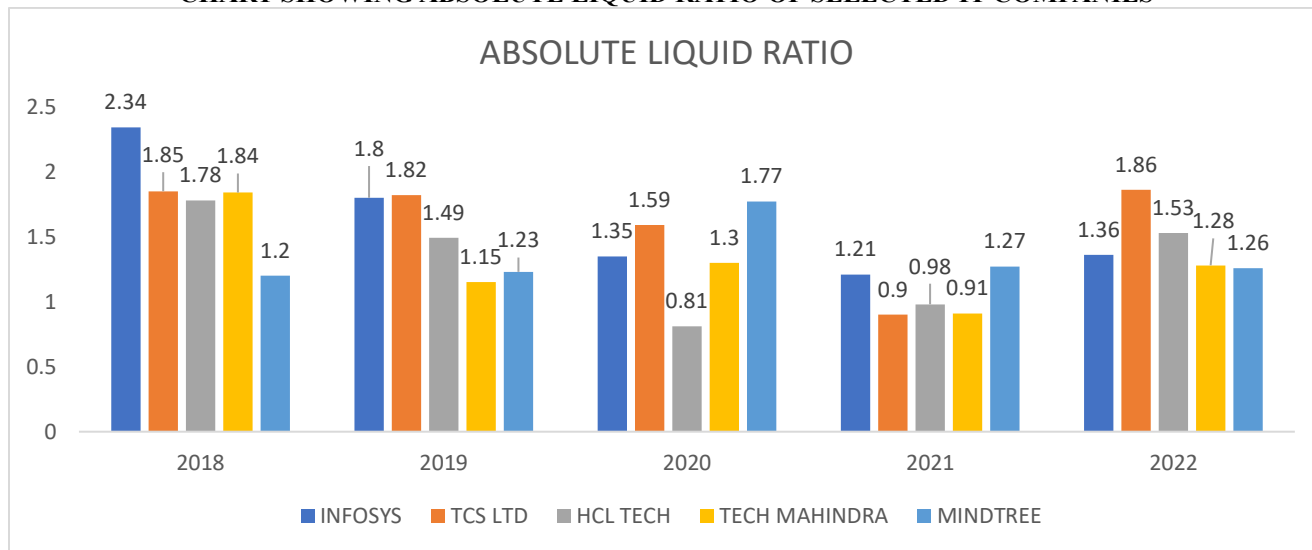
INTERPRETATION

The above table shows absolute liquid ratio position of selected IT companies during the year 2018-2022. The absolute liquid ratio of Infosys ranges from 2.34 in the year 2018 and gradually falls which results to 1.20 in the year of 2022. TCS ratio ranges from 1.80 in the year 2018 and gradually falls which results to 1.23 in the year of 2022. The absolute liquid ratio of HCL ranges from 1.35 in



the year 2018 and gradually increases which results to 1.77 in the year of 2022. Tech Mahindra ratio ranges from 1.21 in the year 2018 and gradually increases which results to 1.27 in the year of 2022. The absolute liquid ratio of Mindtree ranges from 1.36 in the year 2018 and gradually falls which results to 1.26 in the year of 2022.

CHART NO 3
CHART SHOWING ABSOLUTE LIQUID RATIO OF SELECTED IT COMPANIES



PROFITABILITY

GROSS PROFIT RATIO

The gross profit ratio, also known as gross profit margin, is a financial metric that measures the profitability of a company's sales after deducting the cost of goods sold (COGS). The gross profit ratio is expressed as a percentage and is calculated by dividing the gross profit by the total revenue.

$$\text{Gross Profit Ratio} = (\text{Gross Profit} / \text{Total Revenue}) \times 100$$

TABLE NO 4
TABLE SHOWING GROSS PROFIT RATIO OF SELECTED IT COMPANIES

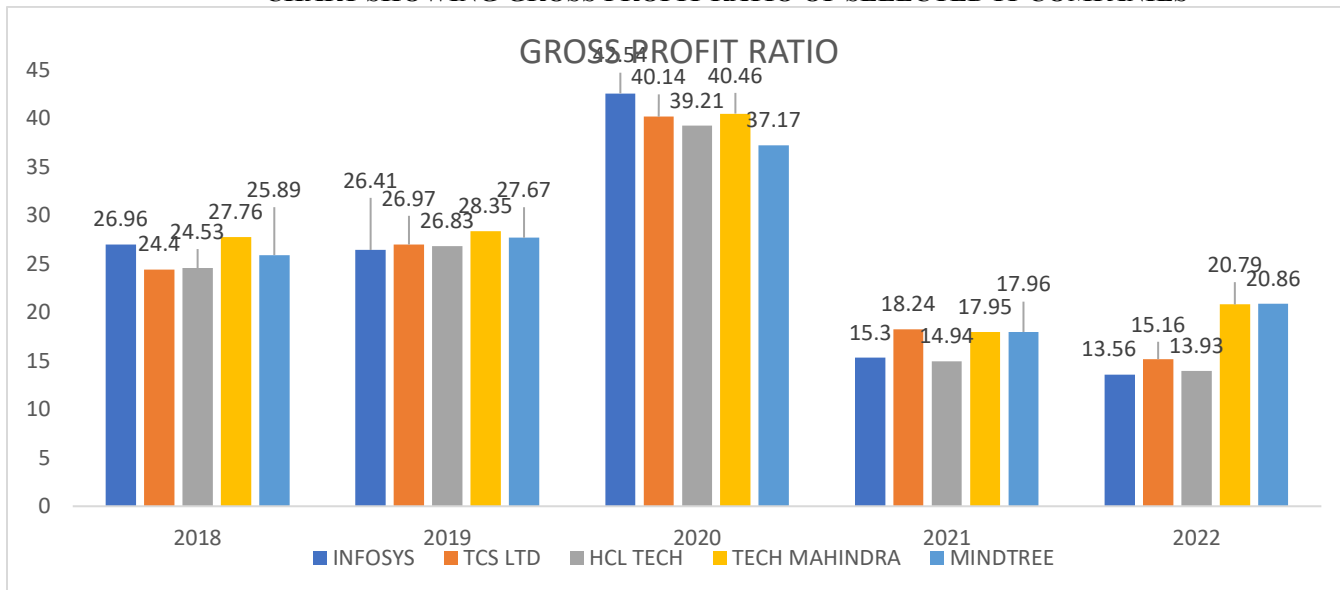
YEAR	INF	TCS	HCL	TM	MT
2018	26.96	26.41	42.54	15.30	13.56
2019	24.40	26.97	40.14	18.24	15.16
2020	24.53	26.83	39.21	14.94	13.93
2021	27.76	28.35	40.46	17.95	20.79
2022	25.89	27.67	37.17	17.96	20.86

INTERPRETATION

The above table shows gross profit ratio position of selected IT companies during the year 2018-2022. The gross profit ratio of Infosys ranges from 26.96 in the year 2018 and gradually falls which results to 25.89 in the year of 2022. TCS ratio ranges from 26.41 in the year 2018 and gradually increases which results to 27.67 in the year of 2022. The gross profit ratio of HCL ranges from 42.54 in the year 2018 and gradually falls which results to 37.17 in the year of 2022. Tech Mahindra ratio ranges from 15.30 in the year 2018 and gradually increases which results to 17.96 in the year of 2022. The gross profit ratio of Mindtree ranges from 13.56 in the year 2018 and gradually increases which results to 20.86 in the year of 2022.



CHART NO 4
CHART SHOWING GROSS PROFIT RATIO OF SELECTED IT COMPANIES



NET PROFIT RATIO

The net profit ratio, also known as net profit margin, is a financial metric that measures a company's profitability after all expenses, including taxes, interest, and depreciation, have been deducted from its revenue.

$$\text{Net Profit Ratio} = (\text{Net Profit} / \text{Total Revenue}) \times 100$$

TABLE NO 5
TABLE SHOWING NET PROFIT RATIO OF SELECTED IT COMPANIES

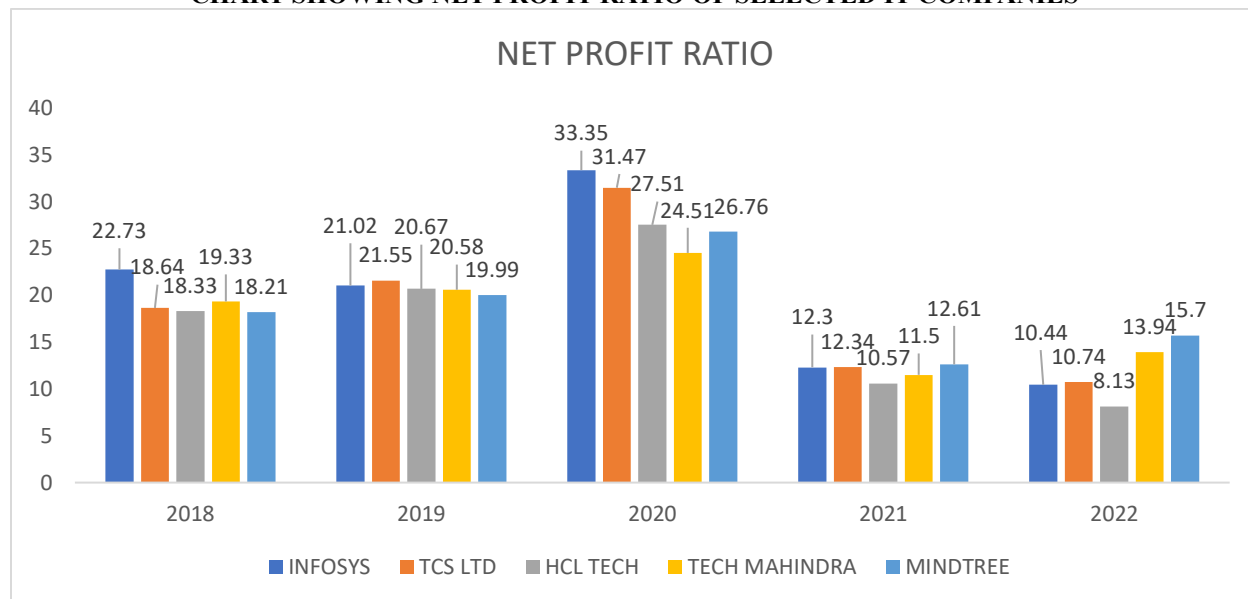
YEAR	INF	TCS	HCL	TM	MT
2018	22.73	21.02	33.35	12.30	10.44
2019	18.64	21.55	31.47	12.34	10.74
2020	18.33	20.67	27.51	10.57	8.13
2021	19.33	20.58	24.51	11.50	13.94
2022	18.21	19.99	26.76	12.61	15.70

INTERPRETATION

The above table shows net profit ratio position of selected IT companies during the year 2018-2022. The net profit ratio of Infosys ranges from 22.73 in the year 2018 and gradually falls which results to 18.21 in the year of 2022. TCS ratio ranges from 21.02 in the year 2018 and gradually falls which results to 19.99 in the year of 2022. The net profit ratio of HCL ranges from 33.35 in the year 2018 and gradually falls which results to 26.76 in the year of 2022. Tech Mahindra ratio ranges from 12.30 in the year 2018 and gradually increases which results to 12.61 in the year of 2022. The net profit ratio of Mindtree ranges from 10.44 in the year 2018 and gradually increases which results to 15.70 in the year of 2022.



CHART NO 5
CHART SHOWING NET PROFIT RATIO OF SELECTED IT COMPANIES



FINDINGS

- The year 2018 had the highest current ratio between Infosys and TCS. With a range of 2.56, HCL will expand consistently with a high rate in 2022. With a range of 3.24, Tech Mahindra reached its peak in 2021 while Mindtree reached its peak in 2019.
- In 2018, Infosys and TCS had the greatest liquid ratio. HCL continues to be measured at 2.41 throughout the early years of the study. Between the years 2018 and 2022, Tech Mahindra's value remained reasonable, whereas Mindtree's value peaked in 2019 with a range of 3.24.
- In 2018, Infosys and TCS had the greatest absolute liquid ratio. HCL shows positive growth, achieving 1.77 in 2022. The greatest range for Tech Mahindra was 1.27 in the year 2022, and the highest range for Mindtree was 1.86 in the year 2019.
- The year 2021 witnessed Infosys and TCS operate with their greatest gross profit ratios. HCL has a rising line that culminates in a value of 37.17 in the year 2022, whereas Mindtree recorded a peak value of 20.86 in that same year. In 2020, Tech Mahindra had the lowest ranking.
- The net profit ratio of Infosys and HCL was high in 2018 and then started to decline. Tech Mahindra and Mindtree performed badly and will reach a high level of performance in 2022. TCS had a range of 21.55 in 2019, which was a high.

SUGGESTIONS

- To strengthen its liquidity position, the company should enhance its absolute liquid assets, such as cash on hand, bank balances, and marketable securities.
- The company will use its resources to improve the performance of the company. The company should keep as much cash on hand as is necessary to pay for every day costs.
- The company will be able to meet its financial demands without depending on future earnings or borrowings if it follows through. The company's resources should be utilized to the utmost extent possible to improve the efficiency of the business's operations.
- They are asked to put some of their immediate resources into activities that will help the company to expand or grow up.

CONCLUSION

In today's competitive business environment, information technology is playing a significant role in India, where there's an ongoing demand to establish trusted financial statements. By using a variety of methods to analyze the financial statement and assess the relationships between different financial statement elements, financial analysis assists in a better understanding of the financial condition and performance of an IT organization. By correctly defining the relationships between the items on the balance sheet and profit and loss account, financial analysis is done to determine the financial strength and weakness of the IT industry. It is evident from



the analysis of the financial performance of a select few IT companies that these companies have greatly improved their performance. The finding is that Mindtree will outperform other companies in the future in terms of financial success.

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