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A STUDY ON FINANCIAL RECITAL AND POSITION OF SELECT PRIVATE SECTOR INFORMATION TECHNOLOGY COMPANIES IN INDIA

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ABSTRACT

Information Technology (IT) industry has providing more development and creating more revenues in our Indian economy. The efficiency of the industry mainly depends on the financial aspects which are influenced by the various factors. In the year 2008, Indian economy has faced severe recession due to slow down of United States (US) economy. Indian IT companies had affected and lost more revenues at the time in India. Hence, the Information Technology industries are purposely selected for the study to evaluate its performance through various financial aspects. A research design is a definite plan for obtaining a sample from a given population. The present study was fully focused on the secondary data which are collected from the different sources. In India, there are more than thirty Information Technology companies are functioning, only private sector Information technologies Sector have been taken into account for the study. The researcher has selected 5 IT companies data of 13 years from 2003-04 to 2016-17. In addition, correlation analysis and were also applied using financial ratio as variables.

KEYWORDS: *Financial Performance, Economy, Information Technology, Ratio*

1. INTRODUCTION

Information Technology (IT) industry has providing more development and creating more revenues in our Indian economy. IT sector has become one of the most robust industries in the world. The Information Technology Industry of India dates back to 1967 when the Tata Group in collaboration with Burroughs set up the first software zone, SEEPZ in Mumbai. In 1973, SEEPZ became the first software export zone which saw 80 per cent of the software export in the 1980s. Since then, the IT sector of India has grown by leaps and bounds and has acquired India a brand name in the IT and ITES sector in the global scenario. The major hubs for the IT export sector are Bangalore, Chennai, Hyderabad, Delhi, Mumbai and Kolkata. Bangalore has earned the sobriquet, 'The Silicon Valley of India' owing to the maximum IT export. The IT-ITES sector can be broadly classified into two categories like Business Process Outsourcing (BPO) and Domestic and IT export. The growth in the BPO sector under the supervision of the IT-ITES sector has been phenomenal. The estimated employment

generation in the FY 2012 was an expected 230,000 thus providing direct employment to 2.8 million and indirect employment 88.9 million people all over the country. According to a report prepared by Gartner, the top five outsourcing companies of India are TCS, Cognizant, Infosys, Wipro and HCL Technologies. The top five IT companies of India had a golden time during 2012 when the collective revenue growth of these companies was 13.3 per cent.

The information technology in India is looking towards a bleak future in general in the current year. However, small sparks of encouragement are there. As per the statement of BVR Mohan Reddy, chairman and managing director, Infotech Enterprises Limited, a global technology solution provider, "Such periods of uncertainty in the past have provided a great platform for organizations to refine strategy and execute initiatives that increase competitive advantage and accelerate growth." The Indian IT sector will witness a predictable slump of growth from 16 per cent of last year to a discouraging 11 per cent of this year. Hyderabad is, in a little better position as it has

been proactive in changing its infrastructure to keep pace with the changing face of the global IT export scenario. The Recession period, the free fall of rupees against dollar compounded with other factors has resulted in a severe decline in the hiring process of the IT sector. The employment generation capacity of this sector has shrunk considerably. IT professionals including ex- IT sector employees are now seeking employment in financial services, telecommunications and manufacturing industries which have recently witnessed a phenomenal growth.

2. STATEMENT OF THE PROBLEM

Information Technology industry is one of the leading industries in India. In India Information Technology industries are operating in private sector. The Information Technology industry plays a significant role in the development of the country. It is necessary that it functions in an efficient manner and generates sufficient surpluses. The reward of capital is profit that could be earned through its efficient utilization of its resources. The success of any business undertaking depends upon its efficient performance. The efficiency of the industry mainly depends on the financial aspects which are influenced by the various factors. In the year 2008, Indian economy has faced severe recession due to slow down of United States (US) economy. Indian IT companies had affected and lost more revenues at the time in India. Hence, the Information Technology industries are purposely selected for the study to evaluate its performance through various financial aspects.

3. LITERATURE REVIEW

It is mandatory to review the literature available with respect to the area of the research study. Measuring the performance of the corporate sector has always been an area of controversies from the point of view of the government, shareholders, prospective investors, creditors, employees and any other stockholders. Several studies have been undertaken to evaluate the financial performance in the corporate sector. According to **Donnell and Goldberg (1964)** has measured an adequacy of cash and other current assets together with their efficient handling virtually determines the survival or demise of an enterprise. Many times of business failure takes place, due to lack of working capital. **Altman (1968)** took 66 firms in general and applied multiple discriminate analysis to discriminate the failed firms from the non failed firms, on the basis to the weighted combination of five financial ratios. The study helps to predict the bankruptcy with 45 percent degree of accuracy. He also revealed that the predictive ability of the model declined very sharp when the number of years prior to the failure increased. **Barnes and Paul (1978)** had studied on the uses of financial ratios. Financial ratios are used to assess the ability of a firm to pay its debts, determine managerial effectiveness, and evaluate a firm's performance. The study presents considerable advances in using financial ratios and their statistical

nature. **Gupta (1979)** in his study on "Financial Ratios as for warning indicators of sickness", has made a study of 41 Indian textile companies, 20 sick and 21 non-sick, to test the predictive power of 63 financial ratios and concluded that the two ratios, viz., earnings before depreciation, interest and taxes, sales were significant. **Amita S.Kantawala (2002)** in his study on "Financial Performance of Non-Banking Finance Companies (NBFCs) in India", concluded that there exists a significant difference in the profitability ratios, leverage ratios and liquidity ratios of various categories of NBFCs. The analysis of variance along with the details the average ratio may become a useful guide to companies to decide the dissatisfaction or continuation in the same line of business considering overall profitability within the regulatory frame work. **Sachin Mittal, (2012)** has attempted to examine the working capital trends on the basis of size of working capital, ratio of working capital to total assets, fitting trend line analysis, and correlation amongst the profit, sales and current assets. The present study opined that in India, cement industry has low level of profitability due to mismanagement of current assets and current liabilities. The study unearthed that the cement industry in India are failing to maintain the required level of working capital.

4. OBJECTIVES OF THE STUDY

The crucial objectives of the present study are,

1. To evaluate the financial performance of the selected Information Technology companies through financial ratios.
2. To examine the relationship between liquidity and profitability of the selected Information Technology industries.
3. To study the relationship between the financial ratios and years of the present study.

5. METHODOLOGY

The Information Technology industry has been purposefully selected for the present study due to its valuable contributions in the progress of the economical conditions of the country. The present study was fully focused on the secondary data which are collected from the different sources. A meticulous effort has been to collect the required and relevant data. Prowess database of the Centre for Monitoring Indian Economy (CMIE) is used for the data collection and apart from the published annual reports, IT companies details were collected from various sources like Industry survey reports, Journal, Magazine, Newspaper and other related websites.

Researcher has selected only a small amount of bits pieces from the universe for the purpose of the study on the basis of stratified sampling. The sample so selected constitutes the sample design for the purpose. A research design is a definite plan for obtaining a sample from a given population. In India, there are more than thirty Information Technology companies are functioning,

only private sector Information technologies Sector have been taken into account for the study. The researcher has selected 5 IT companies data of 13 years from 2003-04 to 2016-17. Because of certain constraints and limitations in the forms of non-availability of financial data during the entire span of the study period or non-functioning of Information

technologies Sector in a particular year, for the present study only ten Information Technology companies have been selected. The sample study units which have been chosen for the present study are as follows:

Table-1 Selected Information Technology Companies for the Present Study

S.No.	Name of the IT Companies
1	Blue Star Infotech Limited (BSIL)
2	HCL Technologies Limited (HCL)
3	Hexaware Technologies Limited (HTL)
4	Infosys Limited (IL)
5	Mindteck (India) Limited (MTIL)

Source: Annual Reports of IT Companies

5.1 DATA COLLECTION AND ANALYTICAL TOOLS

The present study is based mainly on secondary data, all the secondary data for this study were collected from the published financial reports of the selected private Information Technology Sector. The period of the present study commences with the accounting year 2003-04 and ends with the year 2016-17. The financial and statistical analysis approach plays a vital role in the financial environment. To enjoy the benefit of financial and statistical analysis researcher has collected, assembled and correlated the data, classified the data appropriately and condensed them into a related data series. In addition, correlation analysis and were also applied using financial ratio as variables. The tools and techniques are used by researcher namely Ratio Analysis, Arithmetic mean, Compound Annual Growth Rate (CAGR), correlation analysis and ANOVA test.

6. PROFILE OF SELECT INFORMATION TECHNOLOGY (IT) COMPANIES

The researcher has selected 5 IT companies based on the capital investment in the present study. The selected IT companies' details are given below:

Blue Star Infotech Limited (BSIL) is an India-based company, which is engaged in providing technology, consulting and outsourcing services. The Company offers outsourced product development (OPD), digital transformation, package implementation, application development, business intelligence and analytics, maintenance and testing services. **HCL Technologies Limited (HCL)** is a global technology company. The Company operates in three segments: Software services, Information Technology (IT) Infrastructure services and Business Process Outsourcing services. The Company's services line include, Business Services, Custom Application Services, Engineering and Research and Development (R&D) Services, Enterprise Application Services, Enterprise Transformation Services, IT Infrastructure Management Services and Outsourcing. **Hexaware Technologies Ltd (HTL)** is a leading provider of IT and BPO services, listed

among the Top 20 Indian global IT services organizations. Founded in 1990, they are a US\$ 364 Million company with presence in 36 locations worldwide. With the help of clients achieve a competitive advantage by co-developing innovative IT, Process capabilities and ensure that they are delivered through flexible business models. **Infosys Limited (INL)** was started in 1981 by seven people with \$250. Infosys also provides a complete range of services by leveraging their domain and business expertise and strategic alliances with leading technology providers. Infosys' offerings span business and technology consulting, application services, systems integration, product engineering, custom software development, maintenance, re-engineering, independent testing and validation services, IT infrastructure services and business process outsourcing. **Mindteck (India) Limited (MTIL)** is a technology company that provides information technology (IT) software services. The Company's operating segments include Software services and IT-enabled services. It has developed smart metering solutions with multiple connectivity options, such as Wi-Fi, Internet Protocol version 6 over low power wireless personal area networks and ZigBee.

7. ANALYSIS AND INTERPRETATION

The financial performance of the any business organization can be measured in many forms. In this chapter an attempt has been made to analyze the financial performance of the selected information technology sector in terms of liquidity position, solvency position, efficiency in utilization of assets and profitability position. Ratio analysis is a powerful tool for financial analysis. In the present study, the ratios are divided into four major categories namely Liquidity ratios, Leverage ratios, Turnover or Activity ratios and Profitability ratios. A number of ratios can be calculated to evaluate the financial performance of an undertaking.

Table 2- Financial Performance of Selected IT Companies in India

Sl. No.	Ratio	Variables		BSIL	HCL	HTL	INL	MTIL
1.	Short-term Liquidity Ratios	Current ratio	Mean	2.36	1.33	2.00	3.72	2.56
			CAGR (%)	3.53	4.91	-10.15	6.71	-6.47
		Liquid ratio	Mean	1.81	0.92	1.41	3.21	2.35
			CAGR (%)	4.16	12.76	-7.14	11.73	-6.70
2.	Long-term Liquidity ratio	Proprietary ratio	Mean	0.95	0.91	0.92	0.93	0.93
			CAGR (%)	0.10	-0.75	0.10	-0.21	0.64
		Fixed Assets ratio	Mean	10.35	25.07	20.85	29.91	4.40
			CAGR (%)	-8.80	30.05	-2.36	4.59	-9.96
3.	Turnover ratios	Debtors Turnover ratio	Mean	3.46	4.96	4.28	6.70	3.44
			CAGR (%)	-0.89	-0.65	1.12	-2.82	9.10
		Total assets turnover ratio	Mean	1.41	0.98	0.81	1.16	0.45
			CAGR (%)	-4.09	8.78	1.64	-3.52	5.42
		Fixed assets turnover ratio	Mean	2.94	2.96	2.43	3.86	3.73
			CAGR (%)	-6.75	0.73	0.04	3.73	13.38
4.	Profitability ratio	Gross profit ratio	Mean	14.97	30.16	28.10	36.80	10.77
			CAGR (%)	-11.00	1.26	6.34	0.13	-0.57
		Net profit ratio	Mean	10.07	23.01	22.31	27.15	7.67
			CAGR	-14.16	0.25	6.63	-0.52	-14.25
		Return on capital employed ratio	Mean	18.62	26.70	22.33	43.23	5.35
			CAGR (%)	-17.08	14.72	8.66	-2.47	-7.93

Source: Secondary Data

The above table-2 shows that the financial position of selected IT companies in India. To sum up, among the selected five companies, the mean value of Infosys Limited is high and the CAGR is very high in this company during the study period. Liquid ratio's thumb rule is 1:1. It is considered to be in a fairly good current financial position. In other words quick assets should not be less than quick liabilities. The Infosys Limited has maintaining highest values in the present study and HCL tech companies growth is high based on the CAGR value.

The long-term liquidity ratio ratio shows effective utilization of share capital of select information technologies sector. In Blue Star Infotech Limited companies mean value is higher than that of other companies which leads to good financial position. The Mindteck Limited has highest growth rate comparatively other study units. The sum up, the mean value is very low in Mindteck (India) Limited and value is very high in Infosys Limited and utilized more capital funds on fixed assets. It has highest growth rate in HCL tech companies in India.

The debtors turnover ratio shows that Infosys Limited contain highest value and Mindteck (India) Limited, Blue Star Infotech Limited, Hexaware Technologies Limited and Tata Elxsi Limited companies was under below the industry average and it indicates the inefficient debtors management. The CAGR of Mindteck (India) Limited is 9.10 per cent which has highest growth rate among the units in the present study. The total assets turnover ratio indicates Infosys Limited, HCL

Technologies Limited, Hexaware Technologies Limited and Mindteck (India) Limited was below the industry average and it indicates the inefficient total assets management. To sum up, the mean value shows the performance of the fixed assets turnover ratio of the selected Information Technologies companies are low and growth rate was very high in Mindteck Limited. The result of the above company shows abnormal utility of the fixed assets.

It is obvious from the selected Information Technologies sector companies the gross profit ratio is good during the study period except Mindteck (India) Limited. The average value is higher in Infosys Limited and lower in Mindteck (India) Limited and the growth rate was higher in Hexaware Technologies Limited. To sum up, among the selected five study units the mean value is medium and co-efficient of variation is also high in Blue Star Infotech Limited. The net earnings performance is efficient in Infosys Limited and Blue Star Infotech Limited. The growth rate of the Hexaware Technologies Limited companies is 6.63 percent. The above table-2 shows that return on capital employed ratio of the selected companies. The Infosys Limited shows high mean value because they generate more profits. The growth rate of the HCL Technologies Company is performing well. Hence, the analysis results show that the Infosys limited and Blue star Infotech limited companies position were good comparatively other companies position.

Correlation Analysis:

The researcher has used the correlation analysis for showing the relationship between the

financial ratios of selected IT companies in India. For the correlation analysis is used the some other financial ratios like Current Ratio (CR), Liquidity Ratio (LR), Proprietary Ratio (PR), Fixed Assets Ratio (FAR), Debtors Turnover Ratio (DTR), Total

Assets Turnover Ratio (TATR), Fixed Assets Turnover Ratio (FATR), Gross Profit Ratio (GPR), Net Profit Ratio (NPR) and Return on Capital Employed Ratio (ROCE).

Table - 3 Correlation Analysis - Relationship between Financial Ratios of Selected IT Companies

	CR	LR	PR	FA	DTR	TAT	FAT	GPR	NPR	ROCE
CR	1									
LR	.985**	1								
PR	.472	.441	1							
FA	.139	.049	-.515	1						
DTR	.502	.449	-.339	.900*	1					
TAT	.160	.036	.471	.366	.283	1				
FAT	.729	.824	.201	-.049	.379	-.166	1			
GPR	.181	.092	-.531	.995**	.909*	.301	-.032	1		
NPR	.121	.034	-.590	.986**	.875	.239	-.092	.995**	1	
ROCE	.423	.322	-.187	.932*	.939*	.565	.146	.922*	.883*	1

Note: * 5% level of significance ** 1% level of significance

The above table-3 reveals that the relationship between Financial Ratios of Selected IT Companies in India. The analysis result has highest positive correlation between the variables liquidity ratio and current ratio at 1 percent level. The fixed assets ratios have positive relationship with the ratios like debtors turnover ratio, gross profit ratio, net profit ratio and return on capital employed at 1 percent and 5 percent level in the present study. The debtors' turnover ratio has positive relationship with gross

profit ratio and return on capital employed at 5 percent level. The gross profit ratio has positive relationship with the net profit ratio and return on capital employed at 1 percent and 5 percent level. The net profit ratio has positive relationship with return on capital employed at 5 percent level in the present study. The below table-4 shows the financial performance influences on the selected IT companies in India.

Table - 4 Chi-Square

	BSIL	HCL	HTL	INL	MTIL
Chi-Square	.000 ^a				
df	9	9	9	9	9
Asymp. Sig.	1.000	1.000	1.000	1.000	1.000

a. 10 cells (100.0%) have expected frequencies less than 5. The minimum expected cell frequency is 1.0.

The above table-4 reveals that find out the influencing variables like financial ratios by chi-square test. The selected IT companies like Blue Star Infotech Limited (BSIL), HCL Technologies Limited (HCL), Hexaware Technologies Limited (HTL), Infosys Limited (IL) and Mindteck (India) Limited (MTIL) have significant influences by the financial performance (financial ratios) of the companies in the present study.

8. CONCLUSION

Information Technology industry is one of the leading industries in India. The financial

performance is mostly showing the company position and helps to investment decision in IT companies. Blue Star Infotech Limited companies' current ratio mean value is higher than that of other companies which leads to good financial position. The debtors turnover ratio shows that Infosys Limited contain highest value. The debtor turnover ratio (CAGR) of Mindteck (India) Limited contains 9.10 per cent which has highest growth rate among the units in the present study. The Infosys Limited shows high mean value because they generate more profits. The growth rate of the HCL Technologies

Company is performing well. Hence, the analysis results show that the Infosys limited and Blue star Infotech limited companies position were good comparatively other companies position. The correlation analysis result has highest positive correlation between the variables liquidity ration and current ratio at 1 percent level. The fixed assets ratios have positive relationship with the ratios like debtors turnover ratio, gross profit ratio, net profit ratio and return on capital employed at 1 percent and 5 percent level in the present study. The selected IT companies have significant influences by the financial performance of the companies in the present study. Hence, the selected IT companies are mostly influenced by balanced financial positions and the Infosys ltd. and blue star Infotech ltd. Company's financial positions are good in the present study.

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