

Profitability Ratio Investigation of Selected Indian IT companies: A Comparative Study

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Abstract:

The prime objective of any business concern is to earn maximum profit. The stakeholders like management, owners, competitors, government, investors, employees, suppliers, financial institutions, creditors and customers are directly or indirectly interested to know the real profitability of the business. Therefore, the study of selected pioneer Indian IT companies for the period from 2010-11 to 2014-15 reveals the difference in the profitability of the companies. From the analysis, it was found that financial performance of Oracle Fin. Services is very satisfactory in terms of Net Profit Ratio and EPS, but its Net worth Ratio and Return on Capital Employed are not so sound. If we analyze Net worth Ratio and Return on Capital Employed of selected Indian IT companies, it is cleared that TCS is the highest among the other companies and Tech Mahindra has the lowest performance. If we consider EPS then Infosys pays highest EPS of Rs. 139.49 and Wipro pays lowest EPS of Rs. 20.58. It is suggested that the Government of India should provide maximum benefits of SEZ (Special Economic Zone) and STP (Software Technology Parks). Major Indian IT companies should maintain international standards to provide software services to their customers. IT industry is based on well trained manpower. Therefore, Government of India should develop more educational institutions and training center to create more and more engineers.

Key words: IT, ITES, Profitability, Net Profit Ratio, Net worth Ratio, Return on Capital Employed, EPS

Introduction:

Indian Information Technology (IT) industry has played a key role in putting India on the global map. IT-BPO sector has become one of the significant growth sectors for the Indian economy. In addition to fuelling India's economy, this sector is also positively influencing the lives of its people through an active direct and indirect contribution to various socio-economic parameters such as employment, standard of living and diversity. IT sector has played a significant role in transforming India's image from a slow moving bureaucratic economy to a place of innovative entrepreneurs and a global player in providing world class technology solutions and business services. According to National Association of Software and Service Companies (NASSCOM). "The sector is estimated to have grown by 19% in the F.Y. 2011, clocking revenue of almost US\$ 76 billion. India's outsourcing industry has witnessed a rebound and registered better than

expected growth according to NASSCOM."

What is IT/ITES?

The IT and ITES sector comprise of services that are related to information technology, research and development services as well as engineering designs, hardware and BPO.

IT: The application of computers and telecommunication equipment to store, transmit, retrieve, and manipulate data, in context of business or an enterprise.

ITES: Information technology enabled services (ITES), is a form of outsourced service which has emerged due to involvement of IT in various fields such as banking, finance, telecom, insurance among others. Some of the examples of ITES are medical transcription, back-office accounting, insurance claim, credit card processing and many more.

Statement of the Problem

The word, profit 'comes from a Latin word, 'to make progress'. Profit can be defined into

ways. One in economic point of view and second is accounting point of view. Economic profit is an increase in the wealth that an investor possess by making investments, taking into consideration all the costs associated with that investments including opportunity cost of capital. From the accounting point of view, Profit means difference between Revenue Incomes and Revenue Expenditures. The primary objective of the business undertaking is to earn maximum profit. Profit earning is considered as an essential for the survival of the business. In the income statement, there are four levels of profit margins. These are Gross Profit (GP), Profit Before Interest & Tax (PBIT), Profit Before Tax (PBT) and Profit After Tax (PAT). In the words of Lord Keynes, "Profit is the engine that drives the business enterprise." Profit consists of two words, Profit and Ability. Whereas Profitability can be measure in terms of profit shown as percentage of sales and percentage of investments. Profitability is the profit earning capacity contributing to the survival of the business. Profitability analysis shows the operating efficiency of the business. Different stakeholders want to the profitability of the business. So, in this paper we have attempted to analysis profitability ratios of selected Indian major IT companies.

Literature Review The IT sector has played a crucial role in the development of Indian economy. A few studies in the IT sector were found in the course literature review. Some of the important studies are briefly discussed as under.

Bhatt (2012) studied in his research paper about profitability ratio analysis with specific reference to Indian Petroleum Industry including BPCL, HPCL, ONGC and RIL. It is found that ONGC's profitability is the highest among other petroleum companies in India.

Swapna&Sujatha (1011) examined how does the IT industry is playing its predominant role in Indian economy with its various trends like contribution to GDP in India, IT exports, IT revenues trends and employment opportunities.

Vijayasri (2013) analysed the IT sector in India and the relationship between Information Technology and Indian economy. It also examines the government incentives to promote the IT sector.

Puttanna(2014) studied Performance Analysis

of Information Technology Sector in India. The main objective of this paper is to understand the EBIT-EPS analysis of 10 BSE companies in IT sector. It also conducts a comparative study of EBIT-EPS analysis and security returns of IT sector. The study on EBIT-EPS analysis reveals that all the companies in IT sector are following different strategy with respect of their earnings and debt funding. **Rupesh&Yuvrajanalyzed** the Financial Performance of TCS and Wipro with respect to Ratio Analysis for financial year 2011-12. The financial analysis implies that the current and future financial health of TCS is better than that of Wipro Ltd.

Dossani (2005) explained in his paper about the origins, growth and sustainability of Indian software industry. The paper also discusses about the effect of rigid and hostile government policies concerned with this sector domestic and international market. The paper shows that technologically sophisticated industry can develop even when many conditions typically present elsewhere are missing. The paper also throws light on the conditions in which transnational entry was made.

Objective of the Study

The main objective of this study is to analyze the profitability of Indian major IT companies.

RESEARCH METHODOLOGY

Scope of the Study

The study will be conducted for five selected Indian IT companies on the basis of their Turnover. The study will be undertaken for a period of 5 years initiating from April, 2011 to March, 2015. The aim of the study is to analysis of profitability of selected Indian IT companies. Hence, the present study is pertaining to IT sector. The technique of Ratio Analysis will be used to compare the profitability of the selected Indian IT companies.

5.2 Sample Design

The study will attempt to understand the profitability of selected Indian IT companies. For this purpose, the sample plan will be as follows.

- (1) Sample Unit IT companies
- (2) Sample Size 5 IT companies
- (3) Sampling Method Judgmental Sampling Technique (Non-Probability Sampling Method).

List of the selected Indian IT companies

In the present study, the selection of the Indian IT companies will be made on the basis of Turnover. The list of 5 Indian IT companies as follows.

- TCS
- Infosys
- Wipro
- Tech Mahindra
- Oracle Financial Services

Profile of the Selected Indian IT Companies:

1. **Tata Consultancy Limited (TCS Limited):**

TCS is one of the multinational Indian IT services, IT consulting and business Solutions Company. Its head office is in Mumbai, Maharashtra, India. It is one of the subsidiary company of the Tata Group. It operates approximately in 46 countries. It offers a consulting led integrated portfolio of IT and IT enabled services delivered through its unique Global Network Delivery Model (GNDM). TCS was established in 1968 by a division of Tata Sons limited. Its early contracts included punched card services to sister company TISCO (now become Tata Steel). In 1981, TCS established India's first dedicated software research and development center that was the Tata Research Development and Design Centre (TRDDC). In 1985, TCS established India's first client dedicated off shore development center, setup for clients Tandem .On 25th August, 2004, TCS became a publicly listed company. In 2005, TCS became the first India-based IT services company and entered the bioinformatics market. In 2006, TCS designed an ERP system for the Indian Railway Catering and Tourism Corporation. In 2011, TCS entered the small and medium

enterprises market. TCS has become the first Indian IT company to cross 3 lakhs-crores market cap.

2. **Infosys Limited:** Infosys Ltd. is one of the well-known Indian multinational companies. It provides various software products and services like information technology, business consulting and outsourcing services. On the basis on 2014 revenues, Infosys Ltd. is the second largest India-based IT services company. On 15th February, 2015, its market capitalization was Rs. 2,63,735cores (US\$ 42.51 billion). It is 6th largest publicly traded company in India. An idea of Infosys was born on a morning in January, 1981 in Pune. Six months later, on July, 1981, Infosys was registered as a private limited company. Infosys Limited was founded by Narayan Murthy. Infosys was cofounded by six people namely Nandad Nilekani, N. S. Raghavan, S. Gopalakrishnan, S. D. Shilbulal, K. Dinesh, Ashok Arora. The company was incorporated as „Infosys Consultants Pvt. Ltd.“ with an initial capital of Rs. 10,000 (US\$ 250) in Model Colony, Pune. The first client of the company was Data Basics Corporation, New York in 1983. Change in the name of the company: In April, 1992, the company changed its name to “Infosys Technologies Private Ltd.” In June, 1992, It became a public limited company and it changed its name to “Infosys Technologies Limited”. It was late renamed to “Infosys Limited” in June, 2011.

3. **Wipro Limited:** Wipro Limited (formerly Western India Products Limited) is an Indian multinational provider of Information Technology (IT) services, consulting and outsourcing services. Its head quarter is in Bangalore, Karnataka, India. The company operates in four segments: IT products and services, Consumer care and lighting, Healthcare and Infrastructure engineering. Its founder was Mohamed Hashim Premji. Azim Hashim Premji is the Chairman of Wipro. Wipro has 40+ „Centers of Excellence“ that create solutions around specific needs of industries.

Wipro delivers unmatched business value to customers through a combination of process excellence, quality frameworks and service delivery innovation. Wipro is the World's first CMMi Level 5 certified software services company and the first outside USA to receive the IEEE Software Process Award.

4. **Tech Mahindra Limited:** Tech Mahindra Limited is an Indian multinational Information Technology (IT), networking technology solutions and Business Process Outsourcing (BPO) to the telecommunications industry. It is a specialist in digital transformation, consulting and business re-engineering solutions. The company operates mainly into two sectors telecom business and enterprise solutions business. Tech Mahindra Limited established in 24th October, 1986. It created a joint venture of Mahindra & Mahindra and British Telecommunications. Anand Mahindra is the founder of Tech Mahindra. Its headquarters at Pune, India. Tech Mahindra Limited is an India-based IT company engaged in the business of computer programming, consultancy and related services. It offers IT services and solution to telecommunications sector across the world. In 1994, the company awarded the ISO 9001 certification by BVQI. In 2009, the company expanded its portfolio by acquiring the leading global business and information technology services company, Mahindra Satyam Limited.

5. **Oracle Financial Services Software Limited (OFSSL):** Oracle Financial Services Software Limited is an India-based provider of Information Technology (IT) solutions to the financial services industry. It is a world leader in providing IT solutions to the financial service industry. The company was incorporated in 27th September, 1989 as Citicorp Information Technology Industries Limited. The company addressing the entire financial services space through a comprehensive portfolio of products, IT services, consulting and knowledge process

outsourcing services. There was a company of CITIBANK in 1990 named as Citicorp Oversea Software Limited (COSL). Over a period of time another company was merged into it and new company was established named as Citicorp Information Technologies Industries Limited (CITIL). Mr. Rajesh Hukku was the head of CITIL. While COSL's mandate was to serve Citicorp's internal needs globally and be a cost center, software market. Largely known as i-flex and then eventually renamed to Oracle Financial Services Software Limited (OFSSL). Oracle Financial Services Software Limited was incorporated in September, 2008 and is engaged in providing products and services to financial industry. During its incorporation it was named as Citicorp Information Technology Industries and later in March, 2000 the name was changed to i-flex Solutions. Oracle Corporation holds 81% of stake in the company.

5.3 Hypothesis

Null Hypothesis: "There is no significant difference in the profitability ratios of various selected Indian IT companies during the period of study."

5.4 Sources of Data

Such research paper will be based on Secondary Data available from the annual reports of the companies, websites, Journals, etc. Before using Secondary Data the researcher will check Reliability, Suitability and Adequacy of data.

5.5 Tools of Analysis

1. **Statistical Tool:** One-way ANNOVA will be used for testing hypothesis.

2. **Ratio Analysis:** It is used to analyze and interpret financial statements of selected Indian IT companies. Generally, Net Profit Ratio, Net Worth Ratio, Return on Capital Employed and EPS will be used to check the profitability of various Indian IT

companies.

Data Analysis and Interpretation

1. Net ProfitRatio:

[1] Net Profit Ratio = Net Profit After Interest & Tax * 100 / Net Sales	
(2010-11 to 2014-	(Ratio in

Company Name	2010-11	2011-12	2012-13	2013-14	2014-15	Average
TCS	25.86	28.25	26.40	28.56	26.17	27.05
Infosys	25.38	27.10	24.80	22.99	25.72	25.20
Wipro	18.42	14.79	17.01	19.06	19.88	17.83
Tech Mahindra	14.03	8.79	10.87	16.48	11.77	12.39
Oracle Fin. Services	41.01	41.80	35.04	36.35	31.67	37.17
Average	24.94	24.14	22.82	24.69	23.04	23.93

Testing of Hypotheses:

1, H_0 = There is no significant difference in the Net Profit Ratio of various Indian IT Companies.

ONE WAY ANOVA TABLE.1
Net Profit Ratio of Selected Indian IT Companies

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1785.683	4	446.421	64.707	.000
Within Groups	137.982	20	6.899		
Total	1923.665	24			

Level of Significance=5%

$F_{Cal} = 64.707$ $F_{Tab}=2.87$

$F_{Cal}>F_{Tab}$

Source: Compiled by the author

In the above table, the value with 5 % level of significance is $0.00 < 0.05$. So, we reject the null hypothesis. Therefore, it can be said that there is a difference in the net profit ratio of selected Indian ITcompanies.

Interpretation:The above table shows the

percentage of net profit ratio which is based on net sales. The higher the ratio, the higher net profitability of the business.

Inter Company Comparison:

Above table shows that the Average Net Profit Ratio of Oracle Financial Services is the highest among the other selected Indian IT companies

followed by TCS, Infosys, Wipro and Tech Mahindra. It indicates that the net profitability of Oracle Financial Services is higher as compared to the other selected Indian IT companies.

Comparison with Industry Average:

If the Average Net Profitability of each

company is compared with industry average that is 23.93%, it is found that Oracle Fin. Services, TCS and Infosys are doing better performance whereas; Wipro and Tech Mahindra are poor as compared to an Industry Average.

2 H_0 = There is no significant difference in the Net Worth Ratio of various Indian IT Companies.

ONE WAY ANOVA TABLE. 2

Net Worth Ratio of Selected Indian IT Companies

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1658.119	4	414.530	17.041	.000
Within Groups	486.521	20	24.326		
Total	2144.641	24			

Level of Significance=5%

$F_{Cal} = 17.041$ $F_{Tab}=2.87$

$F_{Cal} > F_{Tab}$

Source : Compiled by the author

In the above table, the value with 5 % level of significance is $0.00 < 0.05$. So, we reject the null hypothesis. Therefore, it can be said that there is a difference in the net worth ratio of selected Indian IT companies.

Interpretation:

Net Worth Ratio shows the percentage of net profit based on net worth of equity shareholders.

Inter Company Comparison:

Above table reveals that the Average Net Worth Ratio of TCS is the highest among the other selected Indian IT companies followed by Infosys, Wipro, Oracle Financial Services and

Tech Mahindra. This ratio of Oracle Financial Services and Tech Mahindra are almost similar. It is concluded that the net profitability with a view point of equity shareholders of TCS is higher as compared to the other selected Indian IT companies.

Comparison with Industry Average:

If the ratio is compared with industry average that is 25.78%, it is found that TCS and Infosys are doing very well whereas; Wipro, Oracle Fin. Services and Tech Mahindra are doing comparatively poor performance.

3. Return on Capital Employed:

[3] Return on Capital employed = Net Profit Before Interest & Tax * 100 / Capital Employed						
(2010-11 to 2014-15) (Ratio in Rs.)						
Company Name	2010-11	2011-12	2012-13	2013-14	2014-15	Average
TCS	44.46	53.63	48.08	53.39	53.93	48.72
Infosys	36.00	38.92	34.27	33.27	34.95	36.40
Wipro	22.44	22.04	26.73	29.48	26.86	23.74
Tech Mahindra	20.09	14.91	17.52	33.84	23.54	17.51
Oracle Fin. Services	20.08	25.07	20.63	20.47	53.95	21.93
Average	28.61	30.91	29.45	34.09	38.65	29.66

3, H_0 = There is no significant difference in the Rate of Return on Capital Employed Ratio of various Indian IT Companies.

ONE WAY ANNOVA ANOVA TABLE. 3

Rate of Return on Capital Employed of Selected Indian IT Companies

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2596.784	4	649.196	10.788	.000
Within Groups	1203.592	20	60.180		
Total	3800.376	24			

Level of Significance=5%

$$F_{Cal} = 10.788 \quad F_{Tab} = 2.87 \quad F_{Cal} > F_{Tab}$$

Source : Compiled by the author

In the above table, the value with 5 % level of significance is $0.000 < 0.05$. So, we reject the null hypothesis. Therefore, it can be said that there is a difference in the rate of return on capital employed of selected Indian IT companies.

Interpretation:

This ratio shows the rate of return on capital employed.

Inter Company Comparison:

Above table indicates that the Average Return on Capital Employed of TCS is the highest

among the other selected Indian IT companies followed by Infosys, Wipro, Oracle Financial Services and Tech Mahindra. It is concluded that the net profitability with a view point of capital employed of TCS is higher as compared to the other selected Indian IT companies.

Comparison with Industry Average:

If the ratio is compared with industry average that is 29.66%, it is found that TCS and Infosys are doing better performance whereas; Wipro, Oracle Fin. Services and Tech Mahindra are doing comparatively poor performance.

4. EarningsPerShare:

[4] Earning Per share = (Net Profit After Interest & Tax - Pref. Dividend) / Number of Equity Shares						
(2010-11to 2014-15) (Ratio in Rs.)						
Company Name	2010-11	2011-12	2012-13	2013-14	2014-15	Average
TCS	38.62	55.97	65.23	94.17	98.31	53.27
Infosys	112.22	147.50	158.75	178.40	105.91	139.49
Wipro	19.73	19.05	22.94	29.95	33.18	20.58
Tech Mahindra	55.32	36.13	50.93	115.02	23.48	47.46
Oracle Fin. Services	115.38	129.71	122.44	136.48	125.04	122.51
Average	68.25	77.67	84.06	110.81	77.19	76.66

4, H₀ = There is no significant difference in the EPS of various Indian IT Companies.

ONE WAY ANOVA TABLE. 4
EPS of Selected Indian IT Companies

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	46939.411	4	11734.853	19.934	.000
Within Groups	11773.932	20	588.697		
Total	58713.342	24			

Level of Significance=5%

F_{Cal} = 19.934 F_{Tab}= 2.87 F_{Cal}>F_{Tab}

Source :Compiled by the author.

In the above table, the value with 5 % level of significance is 0.000 < 0.05. So, we reject the null hypothesis. Therefore, it can be said that

there is a difference in the EPS of selected Indian IT companies.

Interpretation:

This ratio shows earning per share one equity shares. It is useful to know the

Inter Company Comparison:

Above table reveals that the Average EPS of Infosys is the highest among the other selected Indian IT companies followed by Oracle Financial Services, TCS, Tech Mahindra and Wipro. It indicates that EPS with a view point of equity shareholders of Infosys is higher as compared to the other selected Indian IT companies.

Comparison with Industry Average:

If the ratio is compared with industry average that is 76.66, it is found that Oracle Fin. Services and Infosys are doing better performance whereas; TCS, Tech Mahindra and Wipro are poor as compared to industry average.

Findings:

The study of selected pioneer Indian IT companies for the period from 2010-11 to 2014-15 reveals the difference in the profitability of the companies. The financial performance of Oracle Fin. Services is very satisfactory in terms of Net Profit Ratio and EPS, but its Net Worth Ratio and Return on Capital Employed are not so sound. If we analyze Net Worth Ratio and Return on Capital Employed of selected Indian IT companies, it is cleared that TCS is the highest among the other companies and Tech Mahindra has the lowest performance. If we consider EPS then Infosys pays highest EPS of Rs. 139.49 and Wipro pays lowest EPS of Rs. 20.58

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