STRATEGIC FINANCIAL COMPARATIVE ANALYSIS: AN EMPIRICAL STUDY OF IT SECTOR COMPANIES

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ABSTRACT

This study is primarily based on to compare the financial performance of the major IT giants on the basis of important financial indicators. IT industry is one of the major sector that is rapidly emerging and re-shaping the Indian markets. The companies that were selected for the study are Infosys Ltd., Tech Mahindra & Tata Consultancy. The time period selected for the analysis is from FY 2016-2019. The financial indicators that are selected for the study are Liquidity, Solvency, Activity and Profitability. For the purpose of analysis, one way anova is used in the study. Analysis on different type of financial ratios representing Liquidity, Profitability, Activity and Solvency position of these companies have been performed. It is concluded that there is no substantial gap in the financial output of established units in the Indian IT industry in terms of liquidity, solvency, operation, and profitability status, based on the study and testing of hypothesis.

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Keywords: *Solvency, Liquidity, Activity and Financial Ratio.*

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Introduction

The ITITES (Information Technology and Information Technology Enabled Services) sector is a rapidly emerging area that is reshaping Indian market norms. Software creation, consulting, software administration, cloud applications, and business process outsourcing are also part of this industry (BPO). According to a Times of India post, India's liberalisation was made possible by its IT industry. The industry began in the 1990s with nearly $100 million in revenues and about 5,000 workers. It is now a globally flourishing market, with India's IT exports reaching about $70 billion and 2.8 million workers employed in the field. According to the report, the IT sector is now one of the country's top two sectors.

According to a report by India's tech industry council, the National Association of Software and Services Companies, India's IT industry is projected to expand at a pace of 12 to 14 percent in 2016-2017. (NASSCOM.) As India's economy needs more hardware, applications, and other IT services, this obviously demonstrates that information technology is an industry that will definitely be one of the emerging markets in the future. India's role in the global offshore IT industry is focused on five factors, according to a NASSCOM-McKinsey report: ample expertise, urban infrastructure advancement, organisational excellence, a favourable market climate, and finally, sustained growth in the domestic IT sector. Despite a global pandemic and initial instability, the sector expanded by 2.3 percent, with sales increasing from $190 billion last year to $194 billion this year, according to the survey. Although IT exports have increased to $150 billion from $147 billion last year, domestic demand has also increased from $43 billion to $45 billion this year. The BPM sector expanded by 2.3 percent, adding $38 billion to total sales. The amount of software goods rose by 2.7 percent to $9 billion. "Not only have we emerged more robust and important from the crisis, but we've also.

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Literature Review

India's tech exports have exploded in recent years. Its popularity has been largely due to a combination of natural resources, benevolent indifference and constructive support from an otherwise intrusive government, and good timing. The majority of Indian tech exports have been comparatively routine services including low-level programming and servicing. Given the rapid growth in demand for engineers and the comparatively inelastic availability of engineers, there is considerable scepticism about the Indian software industry's ability to preserve its success. The findings of a study on the Indian tech industry are presented in this article

According to **B. Mathivanan (2009),** the share test is one of the frameworks of coins based exams in which proportions are used as a measuring stick for determining an agency's budgetary situation and execution. Investigation and translation of different bookkeeping percentages provides a professional and knowledgeable examiner with a more in-depth interpretation of the cash-related condition and execution of the company than what he would have gotten from a study of budget summaries. The productivity and liquidity studies of IT companies were explained as a result of this investigation.

The study by **Akshita Jain (2015)** looked at the presentations of 20 Indian IT companies based on ten financial indicators. The structure is made up of entities that have similar execution but aren't exactly like individual organisations. In addition, the paper looked at the company's bunch analysis and the example to party. The method's findings revealed that Wipro is the best entertainer and consistently powerful out of a group of 20 firms, while company analysis revealed that TCS is the only one in its private class, despite the fact that Wipro and Infosys are virtually indistinguishable companies. The medical categorization here also assisted in the identification of the organization's implementation and offered vital statistics to both economic experts and cutting-edge investors, enabling them to continue pouring money into the organisation and designing innovative mission techniques.

The research of **Twinkle Prusty (2016)** looked into the degree to which company management, through board execution, influences the coin-related execution of selected IT companies in India. The examination determines whether or not there is a significant link between much of the board advisory enterprise (BC) and affiliation of board (COB) with the ROA and ROCE of the chosen IT organisations. In the interest of the Information innovation companies (particularly, TCS, Infosys, Wipro, HCL Technologies, and Tech Mahindra), the paper explained the each year evaluations of the top five Indian registered businesses centred totally on their well-known assets as of February 2016.

T. Ambika (2017), the study featured the financial analysis in more big expertise alludes to how loads economic considerations are being or have been exercised and is a huge part of coins danger the executives. It is a method of calculating the financial consequences of a private company employer's procedures and obligations. It is used to measure a company's well-known financial well-being over a given time span, and it can also be used to focus on comparable groups in a particular sector or to look at firms or fields in well-known.

Arjun (2014) This investigation demonstrates that any kind of business enterprise necessitates various types of capital, especially fixed capital and working capital. Long-haul requests necessitate fixed resources, while short-term requests necessitate running capital. The efficacy standard of a business organisation partnership is determined by the two capitals. Better walking capital management allows for increased gainfulness feature and competitiveness, which is essential to pay returns to the issuer's assets, which are often returned to investors. It's the same when it comes to deciding on a liquidity position. Viable working capital management can be achieved by appropriate oversight over stable channels, as well as modern-day assassination techniques.

Pramod and Hema (2012) conducted a working capital assessment of five firms in the Indian IT industry over a period of eleven years, using ratio analysis, descriptive statistics, and other techniques. The report ended with an overview of the company's financial results, including current and fast percentages, current asset on overall asset, revenue, and turnover, among other aspects, using hypothesis and ANOVA. These characteristics were also studied in this study.

The ultimate target of a company's sustainability will be accomplished by making optimal use of capital. It is concerned with growing the capital of shareholders or members (BC, Victory, 2009). Financial measures such as return on equity (ROE), return on assets (ROA), net interest margin (NIM), capital asset ratio, growth rate of overall sales, and cost/income ratio are historically used to measure bank efficiency.

Swaran and Bansal (2010) conducted a comparative study of the cooperative sector and performed working capital management using ratio analysis, t-tests, and operating cycle analysis, among other techniques. Both sectors should focus on their liquidity and current asset use, as well as working capital management strategies, execution, and profitability steps, according to the report.

Objectives of the Study

The primary objective of this research paper is to analyse the financial performance of identified services in the IT industry in India with regard to Liquidity, Solvency, Activity and Profitability. 3 major IT companies has been selected for the same which are Infosys Ltd, Tech Mahindra Ltd and Tata consultancy.

Hypothesis of the Study

The following hypotheses are framed and tested in the study:

H_{01}:   There is no significant difference in the financial performance of identified units in the IT industry in India with regard to liquidity position.

H_{02}:   There is no significant difference in the financial performance of identified units in the IT industry in India with regard to solvency position.

H_{03}:   There is no significant difference in the financial performance of identified units in the IT industry in India with regard to efficiency position.

H_{04}:   There is no significant difference in the financial performance of identified units in the IT industry in India with regard to profitability position.

Methodology

The study is primarily focused on secondary data obtained from Annual Reports of sample companies, written materials in the form of books and reports, papers from newspapers,and websites. The research of the IT industry extends a four year period, from 2016-19. The analysis method used in this analysis was quantitative. Since it employs statistics, a comparative methodological discipline that uses mathematical ideas for descriptive data analysis, point inference, and hypothesis testing, a quantitative approach is important (Creswell, 2008).

Data Analysis and Results

Anova-Test is performed on sixteen financial ratios (variables) chosen from various segments such as liquidity, solvency, operation, and profitability. Such as current ratio, fast ratio, absolute cash ratio, debt-equity ratio, total assets to debts ratio, proprietary' who are mainly involved in understanding the firm's willingness to pay. So the Null Hypothesis holds that there is no difference between the financial performances of the above listed companiesand the security of the IT industry in India with regard to the Solvency of their debt. As a consequence, long-term solvency rates suggest the Position is a no-go.

- **Liquidity Ratio:** Liquidity ratios are a type of financial metric that is used to assess a debtor's ability to repay existing loan liabilities without having to raise additional funds. Liquidity ratios calculate metrics like the current ratio, fast ratio, and operating cash flow ratio to determine a company's ability to pay debt commitments and its margin of protection. Present liabilities are usually compared to liquid assets in liquidity ratios to determine the potential to fund short-term commitments and obligations in the event of an emergency.

- **Profitability Ratio:** Profitability ratios are a class of financial metrics that are used to assess a business's ability to generate earnings relative to its revenue, operating costs, balance sheet assets, or shareholders' equity over time, using data from a specific point in time. Profitability ratios can be compared with efficiency ratios, which consider how well a company uses its assets internally to generate income (as opposed to after-cost profits).

- **Solvency Ratio:** The word "solvency" refers to a company's ability to fulfil its financial commitments. Debenture investors, banking companies, and borrowers selling merchandise on an instalment plan all fall under a company's long-term indebtedness. Long-term creditors are primarily involved in learning about a company's willingness to pay. So the Null Hypothesis holds that there is no substantial interest paid on long-term borrowings on a regular basis, repayment of the gap in financial output of defined units the principal sum due at maturity, and the security of the steel industry in India with regard to the Solvency of their debt. As a result, long-term solvency ratios suggest the Position is refused and that the Alternative is accepted.

- **Activity Ratio:** An activity ratio is a type of financial metric that indicates how efficiently a company is leveraging the assets on its balance sheet, to generate revenues and cash. Commonly referred to as efficiency ratios, activity ratios help analysts gauge how a company handles inventory management, which is key to its operational fluidity and overall fiscal health.

Liquidity Analysis

Current Ratio
ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	6.753	3	2.251	.987	.446
Within Groups	18.247	8	2.281		
Total	24.999	11			

Observation

From the above table, we can see that Significance value between the groups is 0.446 and is greater than 0.05. Hence, the H_0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to liquidity position.

Quick Ratio
ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	2.503	3	.834	.402	.755
Within Groups	16.594	8	2.074		
Total	19.097	11			

Observation

From the above table, we can see that Significance value between the groups is 0.755 and is greater than 0.05. Hence, the H_0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to liquidity position.

Activity Analysis

- **Creditors Turnover Ratio**

ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	29.938	3	9.979	.287	.834
Within Groups	278.166	8	34.771		
Total	308.104	11			

Observation

From the above table, we can see that Significance value between the groups is 0.755 and is greater than 0.05. Hence, the H_0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to activity position.

Debtors Turnover Ratio
ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	.348	3	.116	.229	.874
Within Groups	4.046	8	.506		
Total	4.394	11			

Observation

From the above table, we can see that Significance value between the groups is 0.874 and is greater than 0.05. Hence, the H_0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to activity position.

Solvency Analysis

- **Debt to Equity Ratio**

ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	.000	3	.000	.407	.752
Within Groups	.001	8	.000		
Total	.001	11			

Observation

From the above table, we can see that Significance value between the groups is 0.752 and is greater than 0.05. Hence, the H0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to solvency position.

Profitability Analysis

Net Profit Margin Ratio

ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	7.306	3	2.435	.070	.974
Within Groups	276.703	8	34.588		
Total	284.009	11			

Observation

From the above table, we can see that Significance value between the groups is 0.974 and is greater than 0.05. Hence, the H0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to profitability position.

Return on Net Worth Ratio

ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	51.831	3	17.277	.206	.889
Within Groups	669.795	8	83.724		
Total	721.626	11			

Observation

From the above table, we can see that Significance value between the groups is 0.889 and is greater than 0.05. Hence, the H0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to profitability position.

EPS Ratio

ANOVA

Sum of Squares		df	Mean Square	F	Sig.
Between Groups	1188.309	3	396.103	.231	.872
Within Groups	13721.123	8	1715.140		
Total	14909.433	11			

Observation

From the above table, we can see that Significance value between the groups is 0.872 and is greater than 0.05. Hence, the H0 is accepted stating that there is no significant difference in the financial performance of identified units in the IT industry in India with regard to profitability position.

Conclusion and Findings

The aim of this analysis was to analyse the financial results of a few units in India's IT industry. The current ratio is used to measure the financial efficiency of the chosen units' liquidity, solvency, operation, and profitability. Current Ratio, Quick Ratio, Creditors Turnover Ratio, Debt to equity Ratio, Proprietary Ratio, Interest Coverage Ratio, Total Assets Turnover Ratio, Inventory Turnover Ratio, Debtors Turnover Ratio, Creditors Turnover Ratio, Debtors Turnover Ratio, Net Profit Margin, Return on

Net Worth Ratio, EPS are the ratios used in this study. All null hypotheses are dismissed, leading to the result that there is no substantial gap in the financial output of established units in the Indian IT industry in terms of liquidity, solvency, operation, and profitability status, based on the study and testing of hypothesis.

Comparison of financial perfromance for Tech Mahindra, Infosys & Tata Consulatancy
S.No	Fiancial Ratios Selected	Test Performed	Decision
1	Current Ratio	One-way Anova	Rejected
2	Quick Ratio	One-way Anova	Rejected
3	Creditors Turnover Ratio	One-way Anova	Rejected
4	Debtors Turnover Ratio	One-way Anova	Rejected
5	Debt to Equity Ratio	One-way Anova	Rejected
6	Net Profit Margin Ratio	One-way Anova	Rejected
7	Return on Net Worth	One-way Anova	Rejected
8	EPS	One-way Anova	Rejected

Currently, all IT companies are focused on inspiring implementation on front-end deals. As a result, the situation of Profit After Tax is fine. TCS and INFOSYS have a higher benefit after tax to sales ratio (above 20%), while Tata consultancy and Tech Mahindra have remained in the 12 percent to 19 percent range. Tech Mahindra's fortunes are now on the downside.

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