

FINANCIAL PERFORMANCE ANALYSIS OF INFOSYS LIMITED

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ABSTRACT

Infosys Limited was incorporated on 2nd July, 1981 in Pune, India. Infosys is a NYSE listed global IT company with more than 1872 clients from 56 countries across the world. It has more than 3,22,000 employees that are continuously working to provide better services. This study aims to understand the financial position of Infosys Limited with the help of ratio analysis. The researcher used the secondary data from company's annual reports, journals, books and different websites in order to analyse the financial stability of Infosys Limited. The study period is confined to 7 years starting from 2017-18 to 2023-24. The financial performance analysis is very helpful for assessing and forecasting short term as well as long term growth of the company. It is found that the financial performance of Infosys Limited is far better than many other companies of IT sector of India.

Keywords: Profitability Ratio, Liquidity Ratio, Solvency Ratio, Financial Performance.

Introduction

Infosys Limited is an Indian multinational company that works in the field of information and technology sector and various outsourcing services. It was established on 2nd July, 1981 in Pune, India. It is the second largest information technology company after Tata Consultancy Limited with its headquarters in Bangalore, India. The Co-founder and Chairman of Infosys Limited is Nandan M. Nilekani and the CEO and MD of Infosys Limited is Salil Parekh. From a capital of US\$250, it has been grown to become a US\$ 18.55 billion (Q3 FY24 revenues) company with a market Capitalization of US\$ 76.29 billion. It Pioneered the Global Delivery Model and became the first IT Company from India to be listed on NASDAQ.

Review of Literature

Ravichandran and Venkata Subramanyan (2016) undertaken a study regarding financial performance analysis of Force Motors Ltd. for the period of 5 years that started from 2010-2015. The main objectives of the study is to compare the financial performance and to analyse the financial changes over a period of time. It was found that the company maintained a very attractive records related to it's financial position.

R Judith Priya, V Sukithangam, J Subhashree, and C Uma (2018) conducted a comparative study between Tata Consultancy Limited and Infosys Limited using ratio analysis. They have found that the TCS has performed better than Infosys in terms of solvency, liquidity and efficiency. In addition, an investment in TCS should be more fruitful.

P. R. Brindakalyani (2021) had conducted a study on financial performance analysis of Infosys Ltd. Using secondary data from various sources. The period of this study was ranging from 2016-17 to 2020-21. It was revealed that the market value was very high as to cover it's debts. Additionally, it was marked that the company is growing rapidly with technological changes.

Objective of the Study

To analyse financial performance of Infosys Limited through Liquidity and profitability ratios.

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The paper was presented in the National Multidisciplinary Conference organised by Maharani Shree Nandkuverba Mahila College, Bhavnagar, Gujarat on 21st January, 2024.

Research Methodology

The main objective of the study is to understand the financial performance of Infosys Limited for the period of 7 years ranges between 2017-18 to 2023-24. For the purpose of study, the secondary data have been used in this study from various sources such as company's website, BSE, Money control etc. To analyse the data various methods and techniques were used to define the overall performance of the company.

Period of the Study

The study covers the period of 07 years starting from 2017-18 to 2023-24

Tools and Techniques

- Ratio Analysis

Limitation of the Study

The study is purely based on the secondary data that are gathered from various sources, sometimes it may not be accurate. Additionally, it is historical in nature. Therefore, it does not reflect the exact situation of the particular company.

Analysis and Interpretation

Liquidity Ratio

Liquidity ratios are a measure of the ability of a company to pay off its short-term liabilities. Liquidity ratios determine how quickly a company can convert the assets and use them for meeting the dues that arise. The higher the ratio, the easier is the ability to clear the debts and avoid defaulting on payments.

Types of Liquidity Ratio

- Current Ratio
- Quick Ratio (Acid Test)
- Absolute Liquidity Ratio
- Current Ratio

The current ratio is a measure of a company's ability to pay off the obligations within the next twelve months. This ratio is used by creditors to evaluate whether a company can be offered short term debts. It also provides information about the company's operating cycle. It is also popularly known as Working capital ratio.

Current ratio is calculated as follow;

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Table 1: Shows Current Ratio

Year	Current Assets (In Crore Rs.)	Current Liabilities (In Crore Rs.)	Ratio
2017-18	44,090	11,662	3.78
2018-19	46,223	15,430	3.00
2019-20	43,820	15,220	2.88
2020-21	48,282	17,622	2.74
2021-22	52,437	24,976	2.09
2022-23	52,082	27,442	1.89
2023-24	79,952	27,086	2.95

Interpretation

The table 1 shows the data about current ratio of the company. This ratio generally ranges between 1.89 to 3.78 for the period of 7 years. In 2017-18, the current ratio was to be the highest while the year 2022-23 was the lowest current ratio.

Liquid Ratio

The Liquidity ratio assesses a company's ability to repay its short-term debt obligations. This is accomplished by comparing a company's liquid assets to its current liabilities. This ratio is used to determine how well a company can meet its short-term debt with its most liquid assets. The standard liquid ratio is 1:1.

$$\text{Liquid ratio} = \frac{\text{Liquid asset}}{\text{Current Liabilities}}$$

Table 2: Shows Liquid Ratio

Year	Liquid Assets (In Crore Rs.)	Current Liabilities (In Crore Rs.)	Ratio
2017-18	44,090	11,662	3.78
2018-19	46,223	15,430	3.00
2019-20	43,820	15,220	2.88
2020-21	48,282	17,622	2.74
2021-22	52,437	24,976	2.09
2022-23	52,082	27,442	1.89
2023-24	79,952	27,086	2.95

The table 2 shows that relationship between liquid assets and current liabilities. In most of the cases liquid ratio was more than 2. It suggests that the Infosys limited has been in a strong position. The highest liquid ratio was 3.78 in 2017-18 while the lowest liquid ratio was 1.89 in 2022-23.

Absolute Liquid Ratio

Cash ratio is a measure of a company's liquidity in which it is measured whether the company has the ability to clear off debts only using the liquid assets (cash and cash equivalents such as marketable securities). It is used by creditors for determining the relative ease with which a company can clear short term liabilities.

It is calculated by dividing the cash and cash equivalents by current liabilities.

Cash ratio = Cash and equivalent / Current liabilities

Table 3

Year	Absolute Liquid Assets (In Crore Rs.)	Current Liabilities (In Crore Rs.)	Ratio
2017-18	22,676	11,662	1.94
2018-19	21,628	15,430	1.40
2019-20	17,568	15,220	1.15
2020-21	19,649	17,622	1.12
2021-22	17,737	24,976	0.71
2022-23	11,010	27,442	0.42
2023-24	19,498	27,086	0.72

Interpretation

The table no. 3 is related to absolute liquid ratio of a company. In 2017-18 the absolute liquid ratio was to be at the highest level while in the year 2022-23 it was be at the lowest level. This ratio plays an important role in assessing company's ability to pay off all the debts using liquid assets. This ratio ranges between 0.42 to 1.94 for the last 7 years.

Interpretation**Profitability Ratio**

Profitability ratios are a type of accounting ratio that helps in determining the financial performance of business at the end of an accounting period. Profitability ratios show how well a company is able to make profits from its operations.

Types of Profitability Ratio

- **Net Profit Ratio**
- **Operating Profit Ratio**
- **Earning Per Share**
- **Return on Capital Employed**
- **Return on Net Worth**
- **Net Profit Ratio**

Net profit ratio is an important profitability ratio that shows the relationship between net sales and net profit after tax. When expressed as percentage, it is known as net profit margin.

Formula for net profit ratio is

Net Profit Ratio = Net Profit after tax ÷ Net sales*100

Or

Net Profit Ratio = Net profit/Revenue from Operations × 100

It helps investors in determining whether the company's management is able to generate profit from the sales and how well the operating costs and costs related to overhead are contained.

Table 4

Year	Net Profit (In Crore Rs.)	Sales (In Crore Rs.)	Ratio
2017-18	16,155	61,941	26.08
2018-19	14,702	73,107	20.11
2019-20	15,543	79,047	19.66
2020-21	18,048	85,912	21.01
2021-22	21,235	1,03,940	20.43
2022-23	23,268	1,24,014	18.76
2023-24	27,234	1,28,933	21.12

Interpretation

The above table describes net profit ratio of Infosys Limited for the period of 7 years starting from 2017-18 to 2023-24. Every business unit is run for the ultimate purpose of profit. This ratio gives an idea about company's net profitability. As we can see in the above table, net profit ratio of 26.08% was to be in 2017-18 while 18.76% of net profit was in the year of 2022-23. It is clearly seen that the COVID-19 affected Adversely to company's profit as it decreases the net profit ratio over the period of time.

Operating Profit Ratio

Operating profit ratio is a type of profitability ratio that is used for determining the operating profit and net revenue generated from the operations. It is expressed as a percentage.

The formula for calculating operating profit ratio is:

$$\text{Operating Profit Ratio} = \text{Operating Profit} / \text{Revenue from Operations} \times 100$$

$$\text{Or Operating Profit Ratio} = 100 - \text{Operating ratio}$$

Table 5

Year	Operating Profit (In Crore Rs.)	Sales (In Crore Rs.)	Ratio
2017-18	19,908	61,941	32.14
2018-19	19,927	73,107	27.26
2019-20	20,477	79,047	25.90
2020-21	24,457	85,912	28.46
2021-22	27,828	1,03,940	26.77
2022-23	30,694	1,24,014	24.75
2023-24	31,757	1,28,933	24.63

Interpretation

The above table shows the operating profit ratio of Infosys Limited for the last 7 years. The operating profit has been consistently increasing as it was Rs.19,908 Crore in 2017-18 and Rs.31, 757 Crore in 2023-24. The ratio ranges between 24.63% to 32.14% for the last seven years.

Earnings Per Share (EPS)

Earnings per share or EPS is a profitability ratio that measures the extent to which a company earns profit. It is calculated by dividing the net profit earned by outstanding shares.

The formula for calculating EPS is:

$$\text{Earnings per share} = \text{Net Profit} \div \text{Total no. of shares outstanding}$$

Having higher EPS translates into more profitability for the company.

Table 6

Year	Net Profit (In Crore Rs.)	No. of Shares (in Lakh)	EPS
2017-18	16,155	21,841.14	73.97
2018-19	14,702	43,562.79	33.75
2019-20	15,543	43,562.79	35.68
2020-21	18,048	42,606.61	42.36
2021-22	21,235	42,067.39	50.48
2022-23	23,268	41,485.60	56.09
2023-24	27,234	41,500.00	65.62

Interpretation

The table no. 6 concerns with the earning per share of Infosys Limited. This ratio depends on the net profit of a company. The earning per share ratio of Infosys Ltd. was 73.97 and 65.62 in 2017-18 and 2023-24 respectively. This suggests that the company is generating profit continuously for the last couple of years and giving a healthy returns on investment to the shareholders.

Return on Capital Employed

Return on capital employed (ROCE) or Return on Investment is a profitability ratio that measures how well a company is able to generate profits from its capital. It is an important ratio that is mostly used by investors while screening for companies to invest.

The formula for calculating Return on Capital Employed is:

$$\text{ROCE or ROI} = \text{EBIT} \div \text{Capital Employed} \times 100$$

Where EBIT = Earnings before interest and taxes or Profit before interest and taxes

Capital Employed = Total Assets – Current Liabilities

Table 7

Year	ROCE (%)
2017-18	31.00
2018-19	31.38
2019-20	34.03
2020-21	35.30
2021-22	40.55
2022-23	45.09
2023-24	41.37

Interpretation

The ROCE of the Infosys Ltd is ranging from 31.00% to 45.09%. It was continuously increase in the same direction as it is been 31.38% in 2018-19, 35.30% in 2020-21 and 45.09% in 2022-23. It is generally believed that a ROCE of at least 20% is good sign of strong financial position. It is most useful ratio for comparison among the companies of same industry. TCS has the highest ROCE with 64.28% while the average ROCE of Infosys Ltd is 39.99%. It is a measure of profitability of a company. Therefore, company should always try to improve this ratio.

Return on Net Worth

This is also known as Return on Shareholders funds and is used for determining whether the investment done by the shareholders are able to generate profitable returns or not.

It should always be higher than the return on investment which otherwise would indicate that the company funds are not utilised properly.

The formula for Return on Net Worth is calculated as:

$$\text{Return on Shareholders' Fund} = \text{Profit after Tax} / \text{Shareholders' Funds} \times 100$$

$$\text{Or Return on Net Worth} = \text{Profit after Tax} / \text{Shareholders' Funds} \times 100$$

Table 8

Year	Return on Net Worth (%)
2017-18	25.44
2018-19	23.44
2019-20	25.09
2020-21	25.36
2021-22	30.90
2022-23	34.79
2023-24	33.54

Interpretation

The above table no. 8 indicates return on net worth of Infosys Ltd for past 7 years. The company constantly gives return to its shareholders for the last couple of years. If we look at it's return on net worth in 2017-18 was 25.44%. Then after 25.36% in 2020-21, 30.90% in 2022-23 and 33.54% in 2023-24. A

minimum return on net worth of 15% is considered to be profitable venture. In contrast, a return on net worth of less than 10% is considered undesirable for a company. It's is clearly suggest that the company is on the right track of growth.

Findings

- The current ratio of the company is favourable as the business has nearly 3 times more assets than it's liabilities.
- The liquid ratio of the company was the highest at 3.78 times in 2017-18 and the lowest at 1.89 times in 2022-23.
- The absolute liquid ratio has been decreased from 1.94 times to 0.72 times in 2017-18 and 2023-24 respectively.
- Net profit ratio of Infosys Ltd was highest at 26.08% in 2017-18 as compare to other financial years. Since then it's been around 22% to 24% level. The company has made the lowest profit at 18.76% in 2022-23
- Operating profit ratio was highest in 2017-18 and lowest in 2023-24.
- Earning per share was 73.97 in 2017-18. Then it decreased for two years. After that it tend to increase from 50.48 in 2021-22 to 65.62 in 2023-24.
- Return on capital employed was gradually increased from 31.00% in 2017-18 to 45.09% in 2022-23. Then it decreased by around 4% in return on capital employed in the year 2023-24.
- Return on net worth was to be 25.44% in 2017-18 and 30.90% in 2021-22. It has been increasing for last 3 years. In 2023-24, return on net worth is become 33.54%. It suggests that the company's financial position is very strong.

Suggestions

- The company can still reduce its liabilities, so that the liquidity position could be improved.
- The company can maintain its profitability position by using their resources effectively and efficiently.
- In order to maintain return on capital employed ratio and return on net worth ratio, the management should take proper decisions regarding their utilisation of monetary resources.

Conclusion

Financial performance analysis of Infosys Ltd has been examined for a period of seven years staring from 2017–18 to 2023–24. The study shows that the financial performance of the company is adequate. The ratio analysis has been used for analysing the financial data collected from secondary sources. The researcher concluded that Infosys Ltd has been doing well for the last couple of years.

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