



Financial Analysis of Information and Technology Industry of India (A Case Study of Wipro Ltd and Infosys Ltd)

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Keywords

Information and Technology (IT), Return on Capital (ROC), New York Stock Exchange (NYSE), Earning Before Interest and Taxes (EBIT), Return on Equity (ROE), Net Profit Ratio (NPR)

Jel Classification

F65, D80.

Abstract

Financial analysis now a day is an important instrument for the critical review of the performance of a business. It helps the concern to analyse the financial data and provide information which is required to take decisions regarding investments and also help to understand financial position better. The financial analysis portrays the financial health of a company and helps the companies to improve their financial resources and manage generated funds efficiently.

Information and technology industry has grown up extraordinarily in India during previous years. Its contribution in economy has also increased with a huge margin. Investment in IT industry is considered as a profitable and less risky investment destination in the Indian context. The paper is an attempt to facilitate the investor and the management to assess the financial position of a firm from the proprietor's point of view. In order to identify the financial management efficiencies this paper will analyse management of proprietor's funds in IT Companies of India, Specifically for Wipro Ltd. & Infosys Ltd. The paper will also suggest the initiatives to be taken by both the companies for improving their financial management techniques and achieving the optimum capital structures.

Introduction of Financial Analysis

Financial analysis is a process of considering the financial strength and weakness of a firm by forming strategic relationship between the items of the balance sheet, profit and loss account and other financial statements.

According to Metcalf and Titard, "It is a process of evaluating the relationship between component parts of a financial statement to obtain a better understanding of a firm's position and performance".

In the words of Myers, "Financial statement analysis is mainly a study of relationship among various financial factors in a business as disclosed by a single set-of statement, and a study of trend of these factors as shown in a series of statements.

The financial analysis facilitates in identifying the trends, it also measures the liquidity, solvency and profitability of the firm in such a manner that can give a comparative view of the different aspect of the performance of an organization. For the purpose of analysis, balance sheet, income statement and cash flow statement are considered as the main financial statements for a company. The balance sheet is a snapshot in terms of the company's assets, liabilities and shareholders' equity. Balance sheet is used to analyze trends in assets and liabilities. The income statement begins with sales and ends with net income. It provides an operating report of a business from the activity and profitability aspects. The cash flow statement provides an overview of the company's cash flows from operating activities, investing activities and financing activities.

Proprietors' funds are the indispensable part of a capital structure of a company. Proprietors are basically owners of a company having investment in either equity shares or preference shares. A rational investor analyse thoroughly the financial position of any concern before investing in it. A company can also get the better performance if it uses the proprietor's funds in an efficient way.

Research Methodology

Source of Data: For the purpose of study the data is collected preferably from the secondary sources. Financial statements of the companies as well as annual reports are taken into consideration. In addition to this a number of financial journals and magazines are also used for the study.

Duration of the study: For the purpose of in-depth study financial data for a period of five years commencing from the year 2011-12 to the year 2015-16 is taken into consideration.

Area of the study: For the present study, two companies, Wipro Limited and Infosys Limited are selected. The companies are leading companies in the information and technology industry of India.

- 1. WIPRO Ltd** It is one of the most successful technological companies in India and around the world. Wipro an Indian based company was founded as a peanut oil company with name of Western Indian Vegetable Products in 1945 by M.H. Premji and later was renamed "Wipro Ltd." by his son Azim H. Premji.
- 2. Infosys Ltd.** Established in 1981, Infosys Ltd. is a NYSE listed global consulting and IT services company with more than 199,000 employees. From a capital of US\$ 250, it has grown to become a US\$ 10.1 billion (LTM Q3 FY17 revenues) company with a market capitalization of approximately US\$ 34.1 billion.

Review of Literature

1. Bhunia, A., Mukhutl, S., (2011) identified that understanding financial statements is a key to fundamental stock analysis and overall investment research. Financial statements provide an account of a company's past performance, a picture of its current financial strength and a glimpse into the future potential of a firm. The goal is to enhance an ability to make a sound judgment about a company's financial strength and future prospects by using financial statements in your personal investment research.

2. Thomson, R., (2008) said that financial analysis is the process of identifying the strengths and weakness of the firm with the help of accounting information provided in the Profit and Loss Account and Balance Sheet.

3. Anthony, R., (2007) identified that Accounting as a means of collecting, summarizing, analysing and reporting in monetary terms, information about the business. This simple definition highlights the importance of accounting and financial information in the business enterprise. There is a reference to the following accounting principles and scope of the field of accounting and finance.

4. Gordon, M., Shilinglaw, G., (2006) the author explains the importance of business and financial reporting. He highlighted that the economy depends on the business organizations for goods and services. The financial activities of business enterprises of production and sale are of utmost importance.

5. Wilson, P. R., Carpenter, J. H., (2005) said that the financial statement assumes an important place in modern management. Executives, officers, and directors of

corporation should be able to make an authentic examination of the financial statement of their business if they exist to plan fruitfully and wisely.

6. Reilly., Brown, (2004) identified that the major source of information regarding a stock is the corporation's financial statement. Financial statement are intended to provide information on the resources available to management, how these resources were financed, and what the firm accomplished with them. Corporate shareholders annual reports include three required financial statement: the balance sheet, the income statement, and the statement of cash flow.

7. George, T., Schleifeer, L.F., (2003) identified that financial analysis of companies is usually undertaken so that investors, creditors, and other stakeholders can make decisions regarding their companies. The focus of this paper is on the financial analysis of companies who trade freely and therefore make the data and information public needed by stakeholders.

8. Altman, E. (1968). In this study author talks about relationship among various financial factors in a business as disclosed by a single set of statements and a study of trend of those factors as shown in a series of statements.”

Objective of Study: A number of IT companies are analysed in a number of ways by researchers. But the significance of financial analysis from the proprietor’s view in IT companies is yet to be analysed. Following are the main objectives of the present study.

1. To analyze the proprietors funds of companies i.e. Infosys ltd. and Wipro ltd.
2. To analyze the profitability position of selected IT companies under the study.
3. To analyze the return on shareholder’s funds and to know the utilisation power of equity funds in both the companies.
4. To suggest the financial management efficiency to the companies under the study.

HYPOTHESIS:

Hypothesis testing is a technique through which some claims can be proved or disproved. It is a logical test of findings and conclusions.

For the present study the following hypothesis are formulated

Null Hypothesis (Ho): There is no significant difference between the financial positions of the companies under study.

Alternative Hypothesis (H1): There is a significant difference between the financial positions of the companies under study.

Tools for the study

Ratio Analysis:

Ratio analysis is used to evaluate various aspects of a company's operating and financial performance such as its efficiency, liquidity, profitability and solvency. Ratios are also compared across the different companies in the same sector to see how they stack up, and to get an idea of comparative valuations. The following ratios are calculated in order to analyse the financial position of the companies under study.

- 1 Return on Capital Employed
- 2 Return on Shareholders' Funds or Equity
- 3 Net Profit Ratios
- 4 Proprietary Ratio
- 5 Debt Equity Ratio

Return on Capital Employed: Return on Capital employed (ROC) is profitability ratio which reflects a relationship between the profit earned and the capital employed in a firm. It measures the level of efficiency in generating profits from the employed capital. The profit here is an operating profit often called as earning before interest and taxes (EBIT) where as the capital employed is a surplus amount of total assets over current liabilities.

Table No.1

Return on Capital Employed

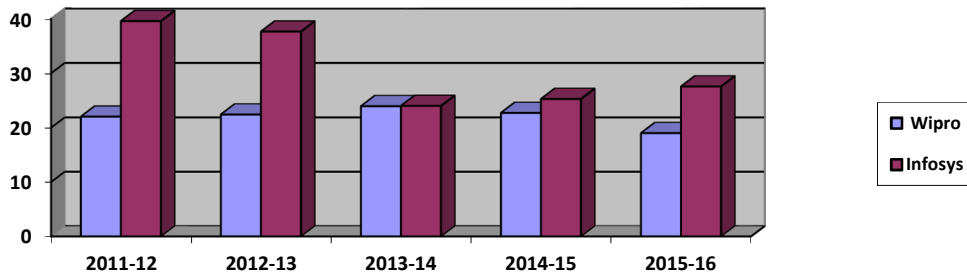
| Company | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---------|---------|---------|---------|---------|---------|
| Wipro | 22.04 | 22.44 | 23.96 | 22.73 | 19.02 |
| Infosys | 28.46 | 25.15 | 24.01 | 25.29 | 27.58 |

Source: Moneycontrol.com

It is depicted from the table no. 1 that the ROC in Wipro Ltd was 22.04 in the year 2011-12, it reached at 23.96 in the year 2013-14 although it got reduced and reached 19.02 at the end of study period. Where as in Infosys Ltd. the same were highest in the beginning at 28.46 and there from it got declined continuously till the year 2013-14 but afterwards it was increased and reached 27.58 in the year 2015-16. As stated earlier the ROC

reflected an efficiency of generating profit by the optimum utilization of capital employed so from the table no. 1 it is clear that the Infosys Ltd. is more efficient than Wipro Ltd., in the context of utilization of capital for generating profits.

Exhibit No.1.1



The return on capital employed of Infosys Ltd. is higher than wipro through out the study period because of better management of assets and dividend decisions. It is suggested to Wipro to manage the funds in the same way as managed by the Infosys so that return on capital employed can be increased.

Return on Equity: Return on Equity is another magnified parameter for testing the capital utilization for profit generation. The ratio is a strong indicator of efficient fund management for profit generation from the equity share holder’s point of view. It reflects a relationship between the profit after tax and preference share dividends and the equity share capital invested in a business. The higher ratio represents a better and efficient management of equity funds.

Table No.2

Return on Equity

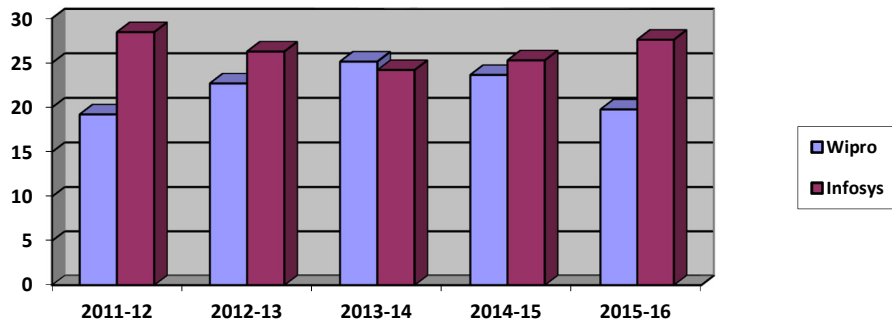
| Company Name | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--------------|---------|---------|---------|---------|---------|
| Wipro | 19.23 | 22.71 | 25.16 | 23.66 | 19.79 |
| Infosys | 28.46 | 26.29 | 24.21 | 25.30 | 27.61 |

Source: Moneycontrol.com

As shown in the table no. 2 the ROE were increased till the year 2013-14 but than after it got reduced and reach where it was in the beginning of the study period with some corrections. But in the Infosys Ltd. the trend was reversed as the ROE was decreased till the year 2013-14 and than it got increased to some extent and reached at 27.61 at the end. The ratio clearly reflects that Infosys is managing its equity capital better than the

Wipro Ltd not only this but it also got alert of their performance and initiated some rehab actions within time which was not reflected in Wipro Ltd.

Exhibit No.2.1



Net Profit Ratio: The net profit percentage is the ratio of after-tax profits to net sales. It reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales, and income taxes recognized. As such, it is one of the best measures of the overall results of a firm, especially when combined with an evaluation of how well it is using its working capital. The measure is commonly reported on a trend line, to judge performance over time. It is also used to compare the results of a business with its competitors.

Table No.3

Net Profit Ratio

| Company Name | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--------------|---------|---------|---------|---------|---------|
| Wipro | 14.23 | 17.95 | 19.06 | 19.88 | 18.12 |
| Infosys | 25.60 | 24.28 | 22.99 | 25.71 | 29.24 |

Source: Moneycontrol.com

The net profit ratio in Wipro Ltd was 14.23 % in the year 2011-12 and there from the same got reached at 19.88 % in the year 2014-15 but in the year 2015-16 it was decreased to 18.12%. where as in case of Infosys Ltd. the NPR was 25.60% in the year 2011-12 and from there it reached at 29.24% in the year 2015-16 , with a continues increasing trend.

Exhibit No.3.1

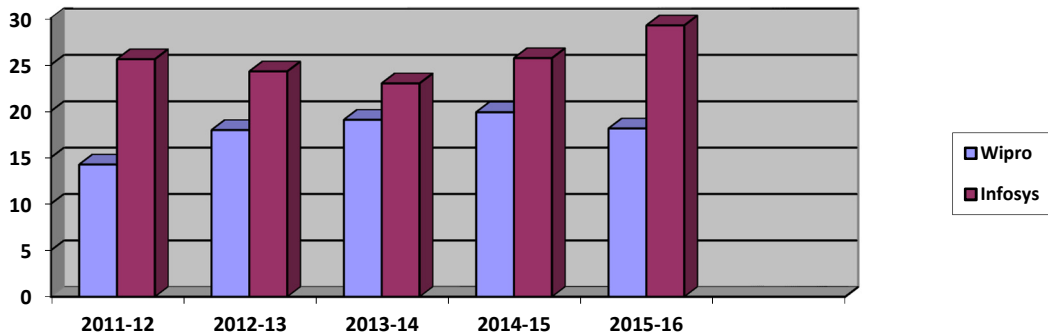


Exhibit no. 3.1 is clearly showing that NPR is always placed better in Infosys Ltd. than Wipro Ltd. Infosys had always succeeded in maintaining a handsome margin of net profit over the Wipro Ltd.

Proprietary Ratio: Proprietary ratio refers to a ratio which helps the creditors of the company in seeing that their capital or loans which the creditors have given to the company are safe. Proprietary ratio can be calculated as follows – Proprietors funds/Total Assets

In the above formula proprietary funds includes equity and preference share capital of the company and reserves and surplus of the company, while total assets of company includes both fixed assets and current assets of the company but it excludes fictitious assets which company may have.

Table No.4

Proprietary Ratio

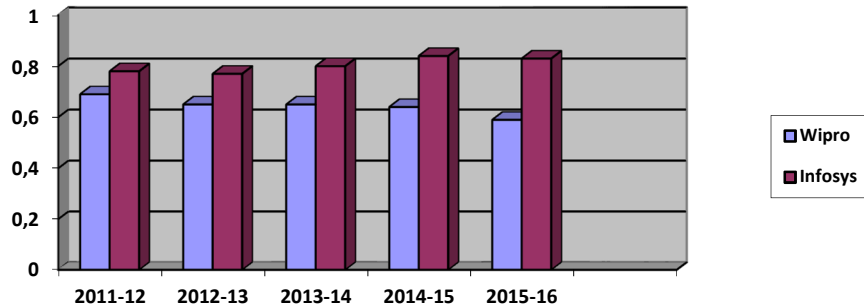
| Company Name | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--------------|---------|---------|---------|---------|---------|
| Wipro | 0.69 | 0.65 | 0.65 | 0.64 | 0.59 |
| Infosys | 0.78 | 0.77 | 0.80 | 0.84 | 0.83 |

Source: Moneycontrol.com

As far as proprietary ratio is concerned it seems that both the firms are relying upon their own funds rather than debt capital although Infosys has a higher proprietary ratio than Wipro Ltd through the study period. It is depicted from the table no. 4 that Wipro Ltd is diluting its capital structure with a very slow rate which means that the company is representing more of debt capital in its capital structure where as Infosys Ltd. is strengthening its capital structure by its own funds the Prop Ratio in Wipro Ltd got

decreased every year and reached 0.59 from 0.69 during the study period where as in Infosys Ltd. the same was increased from 0.78 to 0.83 at the end of study period.

Exhibit No.4.1



Debts Equity Ratio: The debt to equity ratio is a financial, liquidity ratio that compares a company's long term debts to total equity. The debt to equity ratio shows the percentage of company financing that comes from creditors and investors. A higher debt to equity ratio indicates that more creditor financing (bank loans) is used than investor financing (shareholders).

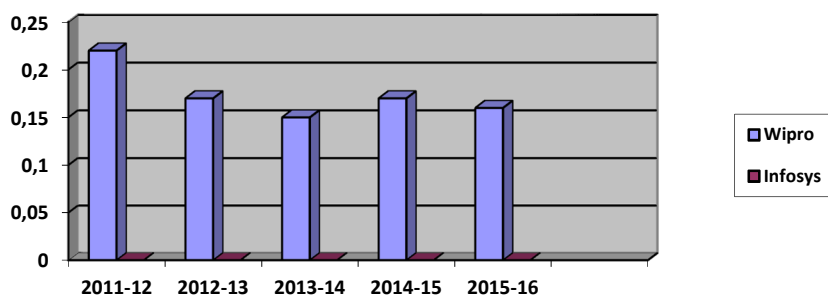
Table No.5

Debts Equity Ratio

| Company Name | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--------------|---------|---------|---------|---------|---------|
| Wipro | 0.22 | 0.17 | 0.15 | 0.17 | 0.16 |
| Infosys | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Source: Moneycontrol.com

Exhibit No.5.1



As per the table no. 5 in comparison to Wipro Ltd, Infosys has no debts capital in its capital structure. As a result the debts equity ratio in Infosys Ltd. were 0.00 through out the study period although in the beginning years it was of negligible value as Infosys Ltd.

have some long term debts. But Wipro Ltd is using its debts capital in its capital structure. Although it is also trying to reduce the part of capital financed through long term debts which is also reflected in its ratio, the debts equity ratio which was 0.22 in the year 2011-12 reached 0.18 in the year 2015-16.

Hypothesis Testing: For the analysis of financial position of companies under study, an inter comparison of firms from five dimensions is made by applying the student's t test at 5% level of significance. The following table depicts observations and conclusions of the application of test. As shown in the table no 6 the null hypothesis is rejected in all cases. The acceptance of H_0 denotes that there is no significant difference between the financial positions of companies under study but the rejection of null hypothesis indicates that there is a significant difference between the same.

Table No. 6
Hypothesis Testing

| | ROCE | ROE | NPR | PROP Ratio | D/E Ratio |
|-----------------------|---|--|--|---|--|
| Ho | $\mu_{\text{Wipro}} = \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} = \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} = \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} = \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} = \mu_{\text{Infosys}}$ |
| Hi | $\mu_{\text{Wipro}} \neq \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} \neq \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} \neq \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} \neq \mu_{\text{Infosys}}$ | $\mu_{\text{Wipro}} \neq \mu_{\text{Infosys}}$ |
| Degree of freedom | 8 | 8 | 8 | 8 | 8 |
| Significance level | 5% | 5% | 5% | 5% | 5% |
| Test | Two tailed | Two tailed | Two tailed | Two tailed | Two tailed |
| Critical value of t | 2.306 | 2.306 | 2.306 | 2.306 | 2.306 |
| Calculated value of t | 3.485 | 3.104 | 3.726 | 7.610 | 14.40 |
| Ho is | Rejected | Rejected | Rejected | Rejected | Rejected |
| Conclusion | There is a significant difference between the mean ROCE of Wipro Ltd. and Infosys | There is a significant difference between the mean ROE of Wipro Ltd. and Infosys | There is a significant difference between the mean NPR of Wipro Ltd. and Infosys | There is a significant difference between the mean PROP Ratio of Wipro Ltd. and Infosys | There is a significant difference between the mean D/E Ratio of Wipro Ltd. and Infosys |

Conclusion:

Wipro and Infosys Ltd. both are leading companies in the information and technology industry. Both the companies have an important role to play for the economy as well as investors. With reference to the above analysis the financial position of Infosys Ltd. can be said as better than that of Wipro Ltd. As seen in the above analysis, almost on every parameter the performance of Infosys Ltd. surpassed the Wipro Ltd. Although it is not an alarm warning situation for Wipro Ltd but in comparison to Infosys Ltd. it should improve its management efficiency in utilizing the proprietors fund. Moreover Infosys should also give their emphasis on using debts capital in order to increase its value and getting optimum capital structure.

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