

## Before-after effect of Covid-19 on the financial performance – A study of selected IT companies in India

By

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### Abstract

Information Technology is a fast-growing industry in the Indian economy, and in recent decades has been a successful segment in the international market. In the fiscal year 2017-2018, the country held approximately 55 percent of the global service sourcing market share, with striking figures of this segment's contribution to the country's GDP. With around 75% of the world's digital talent focused in India, the country has become the world's digital capabilities hub. Due to globalization and government attention have boosted this industry's performance even more. This study analyses Covid-19's before and after effect on IT companies' financial performance. The study shows that the liquidity position of all selected companies was good before and after Covid-19. By adapting to the pandemic Covid-19 situation, companies must improve their profitability. For efficient business work, work from home and other steps are very effective. Effective use of assets will improve the turnover and activities of selected IT firms.

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**Keywords:** Covid-19, IT companies, profitability, Liquidity, activity

### Introduction

COVID-19 has been the world's biggest threat in decades, impacting all people's livelihoods. Nearly every aspect of everyday life has moved quickly online, from remote working to online medical appointments, while people are kept secured mostly in home. Covid19's impacts can be felt all over the world, and it's having a big influence on the technology industry. which takes place because of concerns about raw material, to problems in the materials supply chain, to rising inflation on products. This increase in remote working has allowed an emphasis on evaluating and assessing the end-to-end value path Furthermore, a reduced carbon emission can result in enhanced sustainability. By the time the pandemic began to appear in March 2020, the IT-BPM industry revenue had already begun to decline by 1.5% as a result of the lock-downs and fears caused by the global impact. The rapid increase in the need for digitization around the world, on the other hand, is most likely the primary reason why technology-driven enterprises are now leading the way to a faster global recovery. The service-based industry is on its way to bouncing back, according to Several companies and CIOs reallocated resources to concentrate on digitization in the first and second quarters of FY21. Companies will need to take strategic moves in order to be successful in the next normal.

### Literature Review

**Pravakar Sahoo, Ashwani** (2020) has conducted a study on COVID-19 and Indian Economy: Impact on Growth, Manufacturing, Trade and MSME Sector. The main objective of the study was to evaluate the impact of covid-19 on Indian economy and various sectors like manufacturing, trade and MSME

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sector and identifies critical policy strategies for mitigating the economy's potential fallout. Researchers have used GVA (Gross Value Added) and NVA (Net Value Added) tools for analysis. It was founded that the Mining, construction, trading, hotel and transportation services and financial services are the most impacted sectors. The manufacturing industry may decline between 5.5% to 20%, from best cases to the worst.

**Dr. Kishore Kumar Das, Shalini Pathak** (May, 2020) undertook a study on “The impact of Covid-19 in Indian economy. The aim of the study was to assess the impact of pandemic on different sectors and GDP of India. Researchers have analyzed Concerning COVID 19, major business industries have been disrupted, and it is obvious that various sectors such as tourism and aircraft, telecoms, cars and transport are most affected by the disaster. In this case, the wellbeing of employees is at optimum risk in all retail industries closing their businesses. The government of several countries has helped workers to pay their employees' wages. Researchers have suggested that work from home, improvements in supply chain.

**Dr. Goral K. Joshi** (December 2020) has conducted a study on Changing Scenario of E-Commerce business during Covid-19. Researcher has explained in detail about impact of covid-19 on e-commerce in India, challenges faced by e-business during Covid-19 and suggest the roadmap of E-commerce business after Covid-19. Researcher concluded that Due to the situation of this pandemic, the e-commerce sector in India has expanded the reach of MSME and the Indian government also announced a 2 trillion Rs financial package to help the enterprise.

## Research Methodology

### Objective of the study

The study has been carried out for the following purpose:

To evaluate the before-after effect of Covid-19 on the financial performance of selected Information Technology companies in India.

### Scope of the study

The study will be carried out on the basis of its market capitalization for selected companies in the Indian IT Industry. The research covers Two years beginning in 2019-20 to 2020-21. The purpose of the study is to evaluate the financial performance of selected IT companies. Financial ratios will be used in order to assess the financial strength and performance of selected Indian IT companies. This paper deals with the IT companies of India.

### Sample Design

The study is related to the IT industry in India. Samples were selected on the basis of market capitalization. top five IT companies have been selected as given below.

- (1) Tata Consultancy Services (TCS)
- (2) Infosys
- (3) Wipro
- (4) HCL
- (5) Tech Mahindra

## Sources of Data

The data used in this paper is based on secondary data. Moneycontrol.com website, annual reports of businesses, journals and papers, and other sources were used to obtain audited annual financial reports of selected IT companies for the years 2019-20 to 2020-21. Under the study, the financial situation and financial ratios of selected IT companies were collected from the annual reports of the companies.

## Tools and Techniques of Data Analysis

Different accounting methods and statistical tools have been applied test the hypothesis and objectives are given below.

Ratio Analysis, Charts and Graphs

## Period of the study

The present research evaluates the financial performance of selected IT companies for the period of two years starting from 2019-20 to 2020-21

## Data analysis and Interpretation

Researchers has used the various financial ratios to assess the financial performance of selected IT companies in India as given below.

### (1) Profitability Ratios

Net profit ratio  
Return on capital employed  
Return on net worth

### (2) Liquidity Ratios

Current ratio  
Quick ratio

### (3) Activity Ratios

Asset turnover ratio

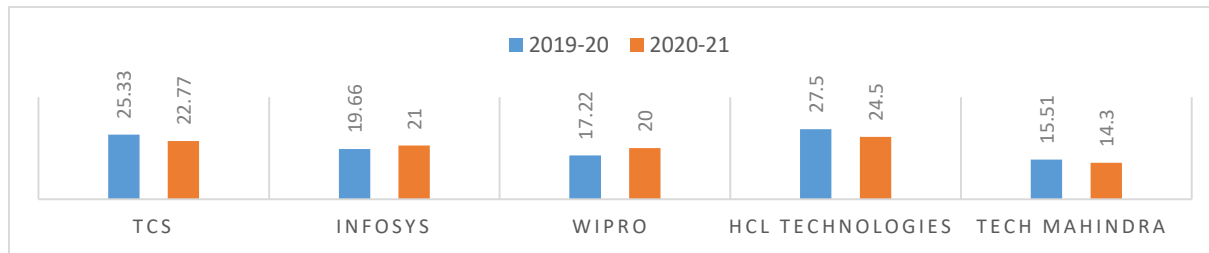
## Profitability ratios

$$(1) \text{ Net Profit Ratio} = \frac{\text{Net Profit}}{\text{Net Sales}} \times 100$$

Company/Year	2019-20	2020-21
TCS	25.33	22.77
Infosys	19.66	21
Wipro	17.22	20
HCL technologies	27.50	24.5

Tech Mahindra	15.51	14.30
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Source: compiled by author



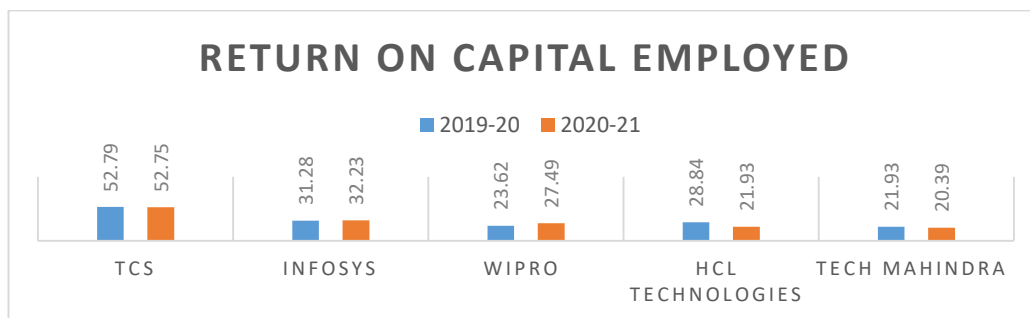
**Interpretation**

The above table shows the Net profit margin of selected Indian IT companies during the financial year 2019-20 to 2020-21. The table shows that during the study period, HCL Technologies had the highest net profit margin (27.5%). A decent net profit margin has been also rendered by Tata consultancy services but after covid-19 period it was declined to 22.77%. The lowest net profit was occurred by Wipro and Wipro’s net profit margin increased 2.78% in 2020-21. It is obvious that during the study period, HCL Technologies was better at net profit margin.

$$(2) \text{ Return on Capital Employed} = \frac{\text{Earning Before Interest and Tax (EBIT)}}{\text{Capital Employed}} \times 100$$

Company/Year	2019-20	2020-21
TCS	52.79	52.75
Infosys	31.28	32.23
Wipro	23.62	27.49
HCL technologies	28.84	21.93
Tech Mahindra	21.93	20.39

Source: compiled by author



**Interpretation**

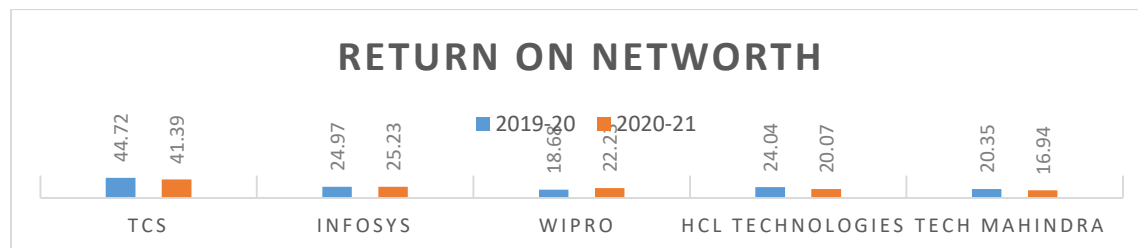
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The table illustrates the return on capital employed of selected Information technologies companies in India from 2019-20 to 2020-21. The table clearly shows that TCS has done well in terms of ROCE, with the highest margin of 52.79% and the ROCE was declined slightly in 2020-21. Wipro was better in terms of ROCE that after pandemic it was increased by 4%. Tech Mahindra and HCL both performed badly, with a decline in ROCE to 20.39% and 21.93%. The other companies performed admirably, with comparable averages.

$$(3) \text{ Return on net worth} = \frac{\text{Net Profit After Interest \& Tax} - \text{Preference Dividend}}{\text{net worth}} \times 100$$

Company/Year	2019-20	2020-21
TCS	44.72	41.39
Infosys	24.97	25.23
Wipro	18.68	22.23
HCL technologies	24.04	20.07
Tech Mahindra	20.35	16.94

Source: compiled by author



### Interpretation

Above graph indicates the Return on net worth of selected companies for the period of five years. TCS's net worth declined by 3% in 2020-21. Wipro's net worth was increased after covid-19 and Tech Mahindra and HCL technologies both have increased their net worth in 2020-21 by 4%. Infosys's performance was average during the study period.

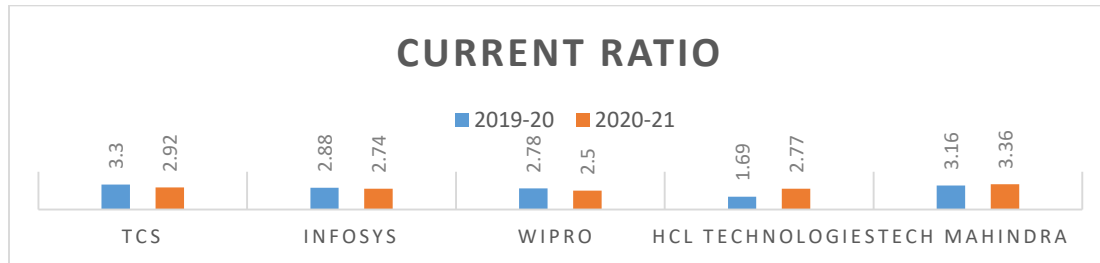
### Liquidity ratios

$$(1) \text{ Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Company/Year	2019-20	2020-21
TCS	3.30	2.92
Infosys	2.88	2.74
Wipro	2.78	2.5

HCL technologies	1.69	2.77
Tech Mahindra	3.16	3.36

Source: compiled by author



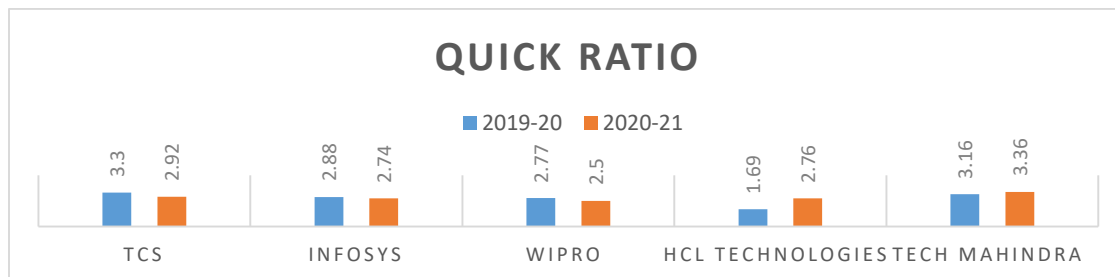
Interpretation

Above table presents the current ratio of selected companies during the given study period. it was observed that the ratio of TCS, Infosys, and Wipro was decreased slightly during the study period but All the companies have done well in terms of current ratio. Selected companies are strongly able to pay its debt in future.

$$(2) \text{ Quick Ratio} = \frac{\text{Current Assets} - \text{inventory} - \text{prepaid expenses}}{\text{Current Liabilities}}$$

Company/Year	2019-20	2020-21
TCS	3.30	2.92
Infosys	2.88	2.74
Wipro	2.77	2.5
HCL technologies	1.69	2.76
Tech Mahindra	3.16	3.36

Source: compiled by author



Interpretation

Above table displays the quick ratio of selected IT companies. It is clearly showing that all the selected IT companies have performed superbly in terms of quick ratio. TCS, Infosys, Wipro ‘s ratio

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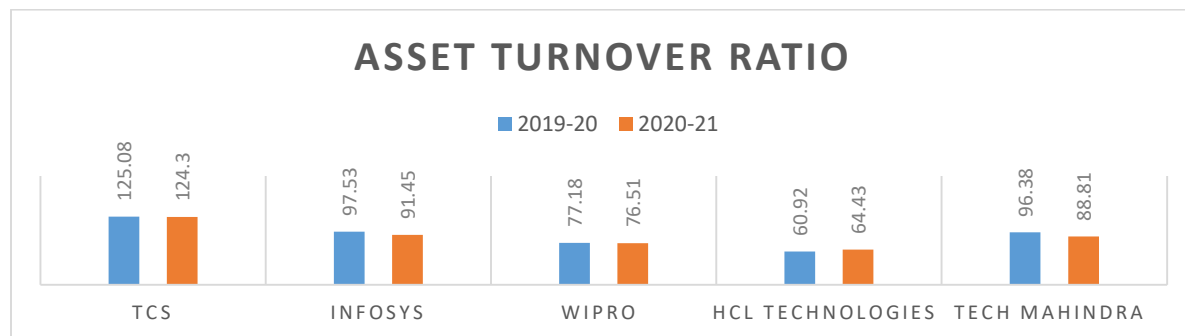
was declined constantly during the period of study but all these companies are able to liquidate of their quick assets.

### Activity ratios

$$(1) \text{ Asset Turnover Ratio (\%)} = \frac{\text{Net Sales}}{\text{Average Total Asset}}$$

Company/Year	2019-20	2020-21
TCS	125.08	124.30
Infosys	97.53	91.45
Wipro	77.18	76.51
HCL technologies	60.92	64.43
Tech Mahindra	96.38	88.81

Source: compiled by author



### Interpretation

Above table demonstrates the Asset turnover ratio for the selected IT companies. TCS was the top of the table in terms of asset turnover ratio with the highest ratio of 124.30% in 2020-21. HCL technologies have increased their asset turnover with 4%. Infosys and Tech Mahindra's ratio was declined during the period of study. All other companies have better asset management and utilization compare to other selected companies.

### Findings

The current study is being conducted with the goal of determining, recommending, and concluding the financial performance of selected IT companies over a 2-year period and effect of Covid-19, from 2019-20 to 2020-21. Financial performance was evaluated based on parameters such as liquidity position, profitability, Activity, financial strength, and financial health. For analyzing financial performance, financial statements were examined using appropriate financial ratios and keeping in mind the findings and suggestions, the following are the key findings of the study relating to the financial performance of selected IT companies. Wipro and Infosys were the better performer in terms of Net profit margin and their ratio was increased after Covid-19 period, other companies' net

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profit was decreased after covid-19 in year 2020-21. ROCE of HCL Technologies and Tech Mahindra were declined slightly after Covid-19 and other companies ROCE was increased after covid-19. Net worth of TCS, Tech Mahindra, and HCL Technologies was declined after Covid-19, other companies were comparatively similar during the study period. the liquidity position of all selected IT companies was better before and after Covid-19 but ratio was declined slightly which don't affect the company's capability to pay the debtors. Asset turnover ratio of Tech Mahindra and Infosys was declined after Covid-19 and other companies have performed similarly before and after Covid-19. Covid-19 has big impact on business activities. slow production as a result of global supply chain disruption. Lockdown and shutdown in companies disrupted the global supply chain and production. Staffing concern ramp up for employees because of remote working. All these causes affected the financial performance of IT companies during the pandemic period.

### Suggestions

In the aftermath of the pandemic, the companies require a clear picture of its starting position. A COVID-19 financial planning team with a number of cross-functional experts should convene to achieve this goal (for instance, in sales and in supply chains). A solid factual basis can be developed together by the financial planning team and cross-functional experts, which tells a comprehensive story about the historical, current and financial trends and potential future indicators. the financial plan the company implemented can be a good anchor for this exercise, as it can help to identify the assumptions which must be changed as a result of the pandemic. All the selected IT companies have to utilize their assets to improve activity ratios, to improve the profitability of selected IT companies have to buy raw materials and other products more effectively in the pandemic period. boost their productivity and reduce the cost.

### Conclusion

The information technology (IT) industry is one of India's most progressive and successful industries. The present research paper analyzes the financial performance of selected IT companies before and after effect of Covid-19. The study reveals that all the selected companies' liquidity position was good before and after Covid-19. Companies have to improve their profitability by adjusting with pandemic Covid-19. work from home and other steps are very effective for efficient work for companies. Effective utilization of assets will improve the asset turnover and activity of selected IT companies. Because of the coronavirus, many new opportunities in the IT industry have arisen, such as the growing demand for 5th generation (5G) technology. This will aid in the expansion of connections that support primed remote interactions. Due to the pandemic, this has become a top priority for many organizations.

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