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A Comparative study of financial performance: with special reference to Tata consultancy Services Ltd and Infosys Ltd

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Abstract

Tata consulting Ltd and Infosys Ltd are both the world's leading IT firms and big giants IT companies in India. Both firms play a vital role in the country's economy and in the eyes of investors and consumer. The purpose of this article is to assess and compare the financial performance of Tata consultancy services and Infosys for the period of five years starting from 2016-17 to 2020-21. The objective of the present study is to evaluate various aspects of financial performance such as profitability and liquidity. To analyze the data, accounting technique financial ratios and statistical tools T test have been used.

Keywords: Tata consultancy services, Infosys, financial performance profitability, liquidity

Introduction

The Indian IT industry developed as the country's core, has flourished as job growth, export growth, FDI's attraction, etc. have grown. The IT industry is knowledge based – as opposed to other common Indus trials. Well planned IT workforce operation can contribute to a speedy economic performance. In the growth of the economy, the IT industry aids many other industries, including services and developed industries. IT industry contributed 138,000 net new hires to this sector, expanding industry workforce to 4.47 million and representing 8 percent of GDP and 52 percent of the country's services exports. Nearly one third of the industry's revenues now account for between 50 and 53 billion dollars which increase five times the overall growth of services. It is anticipated that by 2025 the sector will rise to $350 billion and that BPM would account for $50 55 billion of its overall revenue. Indian IT has received considerable investment from major countries in fundamental skills and strengths. Between April 2000 and September 2020, India's hardware and software sector attracted US$62.47 billion of total foreign direct investment (FDI). The industry is second to FDI inflow according to data published by the Industry and Internal Trade Promotion Department (DPIIT). There was also a bigger transition to results-based pricing in the pandemic year (10%). In the year 2020 offshoring was also up 4% from 2019. In order to develop a causal relation between these components, the evaluation of the performance of this sector requires financial analysis. Financial analysis analyzes the sector's strength and weakness. The study is therefore focused on analyzing to evaluate India's IT sector financial performance.

Literature Review

(Patjoshi, 2015) Examined the financial performance of Hindlco and Nalco for the period of 10 years from 2005-06 to 20114-15 by applying various financial ratio. this study pertained to Hindlco

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and Nalco's comparative financial performance. researcher concluded from subsequent assessments that both the overall profitability, liquidity, and credit quality of the company decreased substantially over the whole research period. In conjunction with standard current ratios and debt equity ratios the liquidity positions for Hindlco and Nalco were unacceptable. All Nalco profits were better than Hindlco in comparisons of financial performance and also Nalco was better able to perform than Hindlco in the case of inventory management.

(Dr.Veena K.P., 2018) have conducted a study on A comparative study financial performance of Canara Bank and Union Bank of India. The aim of the study was to highlights the profile of selected banks and evaluate the financial performance in terms of Capital adequacy ratio. Statistical tools such as mean, S.d, and Co-efficient of variation were used to analyze the data. Researchers have made their findings on the basis of data analysis that Canara Bank outperforms Union Bank in terms of financial strength. There was no difference between selected banks as both banks kept their importance below 5% significance level. Both banks' weaknesses must turn into an opportunity to compete in the market. The Canara Bank performs well and is good, as opposed to the Union Banks in India, in terms of financial performance.

(Shankarii & Muthukumar, 2017) undertook a study on " A comparative study of financial performance analysis on Non-Banking financial companies". The purpose of the research was to examine the financial strength and growth of selected NBFCs for the period of five years from 2011 to 2015. Ratio analysis technique has been used to analyze the data. The ratios for all NBFCs picked differ from each other significantly. According to the findings the Muthoot has done well in terms of profitability compare to manappuram. Researchers have recommended that the NBFC credit policy reduce interest rates, allowing smaller firms to borrow loans for their various capital requirements.

(Kannappan, 2015) has made a study on financial position and performance analysis with special reference to Tata consultancy services. The objective of the study was to evaluate financial performance of TCS for the period of five years from 2010-11 to 2014-15 by utilizing financial ratios. Researcher founded in his article that the liquidity and solvency position of TCS was very satisfactory during the study period.

Objectives of the study

The objectives of the study are as follows:

- To analyze the financial performance of Tata Consultancy Services and Infosys Ltd
- To analyze and compare the profitability, liquidity of Tata Consultancy Services Ltd and Infosys Ltd

Hypothesis of the study

- H_0: There is no significant difference among financial ratios of Tata Consultancy Services Ltd and Infosys Ltd
- H_1: There is significant difference among financial ratios of Tata Consultancy Services Ltd and Infosys Ltd

Research Methodology

The study examined the financial performance of two major Indian information technology firms, Tata Consultancy Services Ltd and Infosys Ltd in terms of profitability and liquidity for the period of five years starting from 2016-17 to 2020-21. India is home to many of the world's leading information technology firms. the study is based on the secondary data. Financial data was required for analysis in the study. Such data were obtained from the website www.moneycontrol.com and the annual reports of the companies were obtained from the respective companies' official websites. The researchers used financial ratio as a financial tool, The financial ratios assist to interpret the results, compare them with previous years, and identify trends in the industry. as well as mean, two paired T test as statistical tools.

Data Analysis and Interpretation

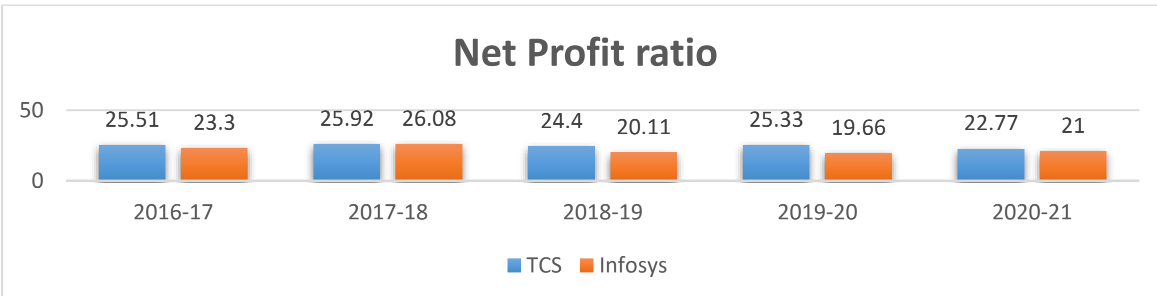
Profitability and liquidity analysis of Tata Consultancy Services Ltd and Infosys Ltd

1. Net Profit Ratio (%)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	25.51	25.92	24.40	25.33	22.77	24.79
Infosys	23.30	26.08	20.11	19.66	21	22.03

Source: www.moneycontrol.com

Figure 1



Interpretation

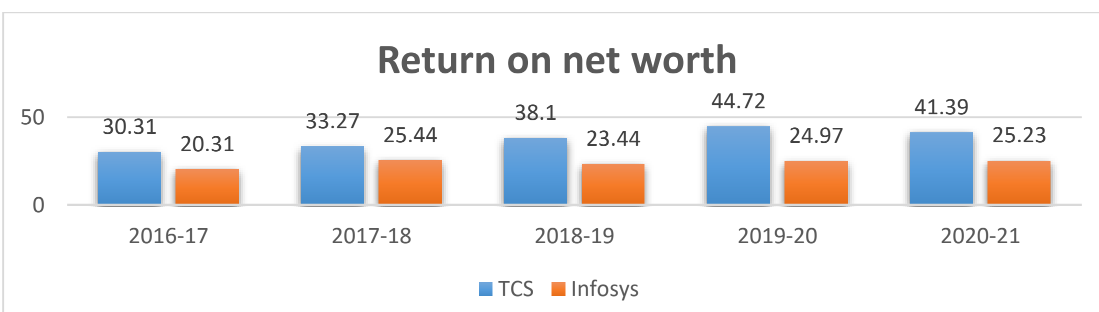
As indicated in table no.1, the Net profit ratio of TCS and Infosys was fluctuated from 2016-17 to 2020-21. The net profit margin of TCS was declined at 22.77% in 2020-21. Infosys was facing up-down trend in terms of net profit and it was at the peak in 2017-18. The higher net profit margin was gained by Infosys in 2017-18 with 26.08%. the average net profit ratio of TCS (24.79%) was better than Infosys (22.03%) during the study period, it clearly shows that the TCS has done well compare to Infosys.

2. Return on Net Worth (%)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	30.31	33.27	38.10	44.72	41.39	37.56
Infosys	20.31	25.44	23.44	24.97	25.23	23.88

Source: www.moneycontrol.com

Figure 2



Interpretation

The table no-2 shows the Return on net worth TCS and Infosys for the period of 5 years from 2016-17 to 2020-21, as shown in table no.2 return on net worth of TCS was increased in beginning from

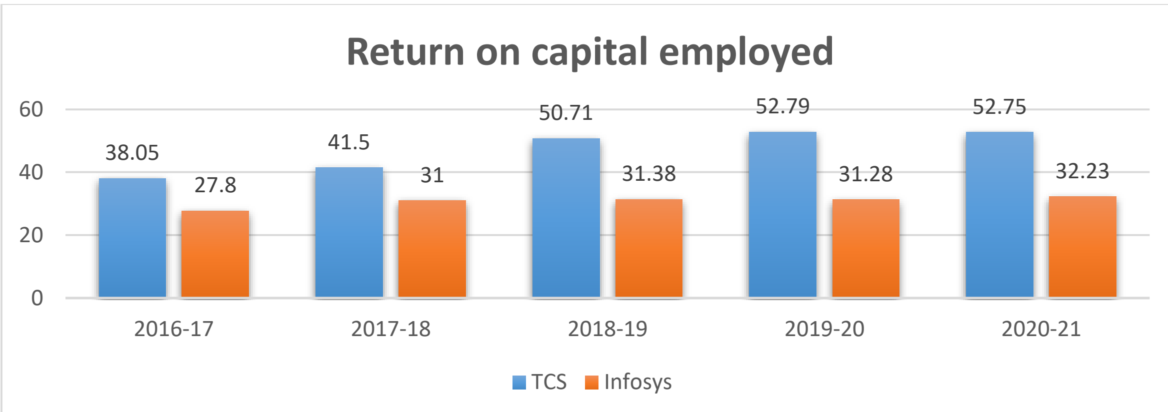
2016-17 to 2019-20. The higher ratio was noted in 2019-20 with 44.72% by TCS. In terms of Return on net worth, Infosys was seeing an up-and-down pattern, peaking in 2017-18. Infosys achieved a greater Return on net worth of 25.44% in 2017-18. During the research period, TCS's average Return (37.56%) was higher than Infosys's (23.88%), indicating that TCS outperformed Infosys.

3. Return on Capital Employed (%)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	38.05	41.50	50.71	52.79	52.75	47.16
Infosys	27.8	31	31.38	31.28	32.23	30.74

Source: www.moneycontrol.com

Figure 3



Interpretation

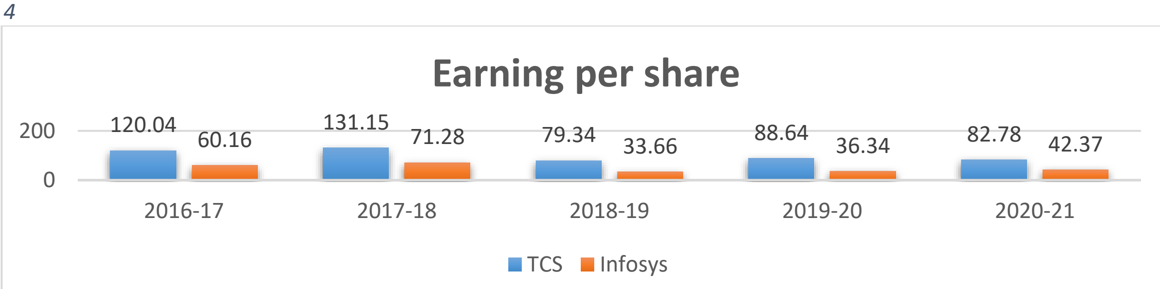
Table no. 3 displays the Return on Capital Employed of TCS and Infosys for the five-year period from 2016-17 to 2020-21, as shown in table no.3, TCS's ROCE has been grown from 2016-17 to 2019-20. TCS reported a higher ratio of 52.79 % in 2019-20. Infosys experienced an increasing pattern in terms of ROCE, 8, Infosys obtained a higher ROCE with 32.23%. TCS's average ROCE (47.16%) was higher than Infosys's (30.74 %) during the research period, denoting that TCS surpassed Infosys.

4. Earnings per Share (Rs)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	120.04	131.15	79.34	88.64	82.78	100.39
Infosys	60.16	71.28	33.66	36.34	42.37	48.76

Source: www.moneycontrol.com

Figure 4



Interpretation

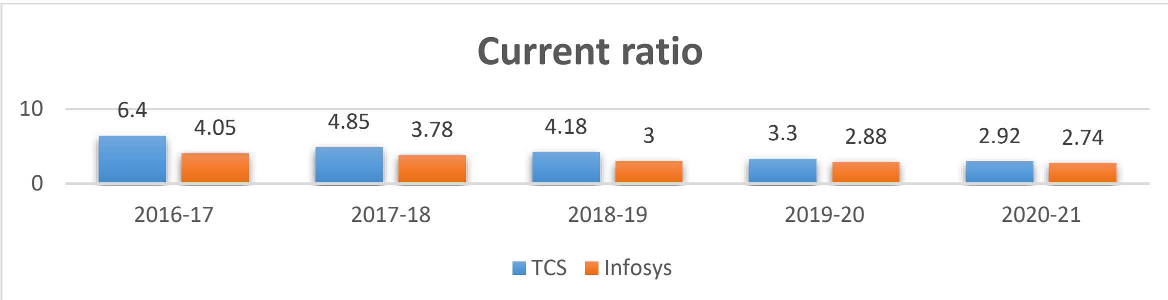
As shown in table No. 4, TCS's EPS has declined from 2018-19 with lowest EPS Rs 79.34. after 2018-19, TCS come back with increasing trend in context with EPS. TCS reported high ratio of 131.15 Rs. In contexts of EPS in 2017-18, Infosys witnessed fluctuated trend in terms of EPS and It was decreased in 2018-19 to 2019-20. TCS's average EPS (100.39Rs) was significantly greater than Infosys's (48.76Rs), signifying that TCS had exceeded Infosys.

5. Current ratio

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	6.40	4.85	4.18	3.30	2.92	4.33
Infosys	4.05	3.78	3	2.88	2.74	3.29

Source: www.moneycontrol.com

Figure 5



Interpretation

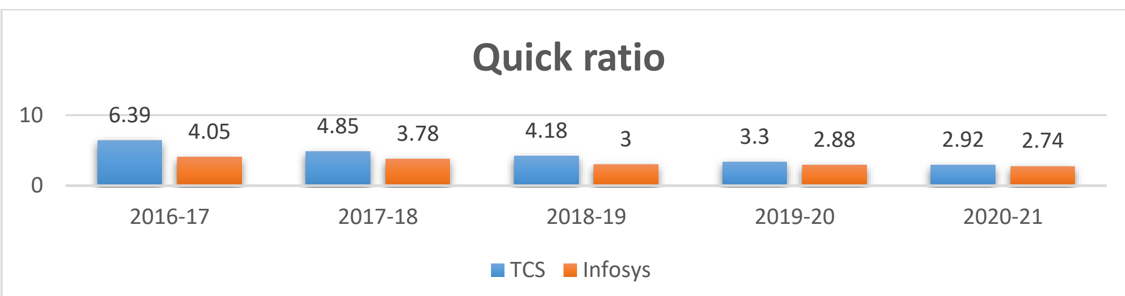
Above figure-5 shows the current ratio during the study period of five years starting from 2016-17 to 2020-21. The current ratio of TCS was decreased constantly from 2017-18 to 2020-21 and the highest current ratio was noted in 2016-17 with 6.40. Infosys has also witnessed decreasing trend during study period. the highest ratio was gained in 2016-17 with 4.05. the average current ratio of TCS (4.33) was better than Infosys (3.29).

6. Quick ratio

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	6.39	4.85	4.18	3.30	2.92	4.33
Infosys	4.05	3.78	3	2.88	2.74	3.29

Source: www.moneycontrol.com

Figure 6



Interpretation

The figure-6 above depicts the Quick ratio over a five-year study period beginning in 2016-17 and ending in 2020-21. TCS's Quick ratio decreased steadily from 2017-18 to 2020-21, with the highest Quick ratio of 6.40 recorded in 2016-17. During the study period, Infosys have also seen a gradual decline. The highest ratio, 4.05., was acquired in 2016-17. TCS's average Quick ratio (4.33) was significantly higher than Infosys' (3.29).

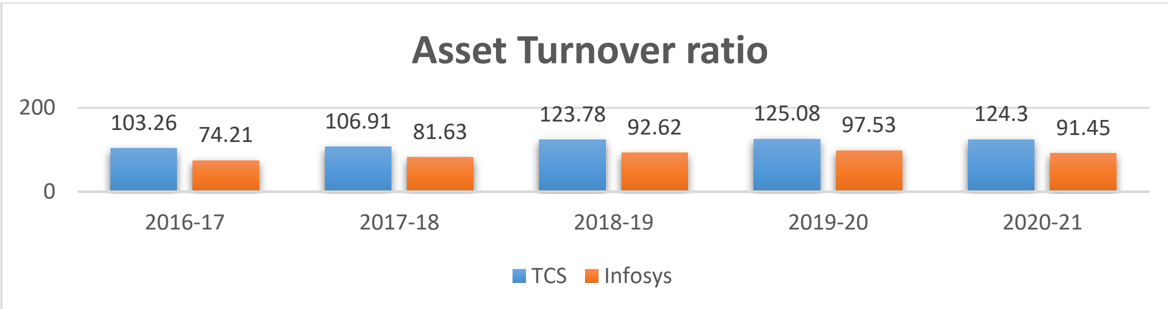
7. Asset turnover ratio (%)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average

TCS	103.26	106.91	123.78	125.08	124.30	116.67
Infosys	74.21	81.63	92.62	97.53	91.45	87.49

Source: www.moneycontrol.com

Figure 7



Interpretation

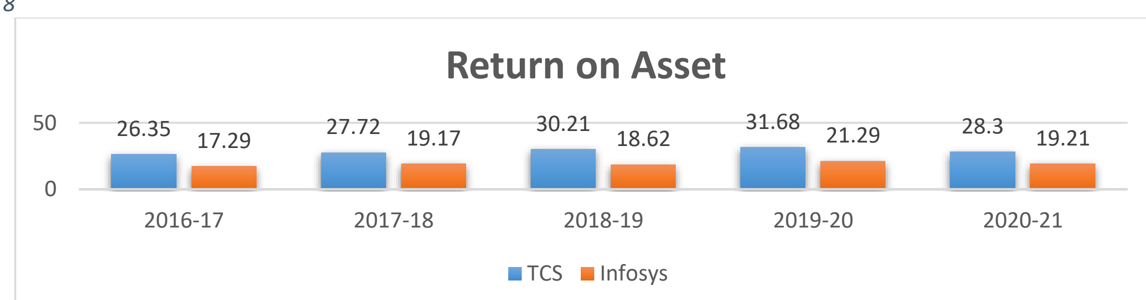
The following figure-7 shows the Asset turnover ratio over a five-year study period. TCS has done well in terms of assets turnover, TCS's Asset turnover ratio increased steadily with a maximum current ratio of 125.08% recorded in 2019-20. In the course of the study, Infosys also noticed an increasing trend throughout research study. the highest ratio was achieved in 2019-20 with 97.53%. The average Asset turnover ratio of TCS (116.67%) was higher than that of Infosys (87.49%).

8. Return on assets (%)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	26.35	27.72	30.21	31.68	28.30	28.85
Infosys	17.29	19.17	18.62	21.29	19.21	19.12

Source: www.moneycontrol.com

Figure 8



Interpretation

The figure-8 above portrays the Return on assets over a five-year study period. TCS has performed well in terms of Return on assets. Return on assets TCS has continuously grown, reaches maximum Return on assets of 31.68 % in 2019-20. Infosys observed a fluctuating trend all across the research period and highest ratio was noted in 2019-20 with 21.29%. the average Return on assets (28.85%) of TCS was significantly superior than Infosys's (19.12%).

9. Earning retention ratio (%)

Company/ Year	2016-17	2017-18	2018-19	2019-20	2020-21	Average
TCS	61.27	63.22	66.46	4.11	64.96	52
Infosys	49.49	53.58	6.36	38.54	49.26	39.45

Source: www.moneycontrol.com

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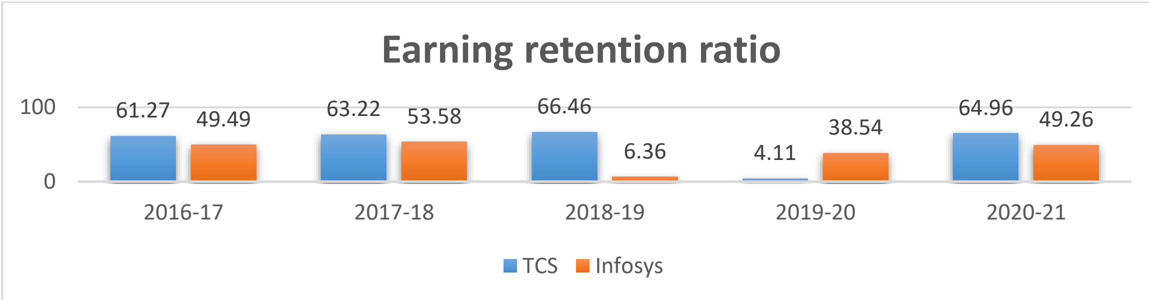
Figure 9



Interpretation

The following figure-9 shows the Earning retention ratio for a five-year study period. TCS has outperformed in terms of Earning retention ratio. TCS had the highest Earning retention ratio of 66.46% in 2018-19. During the study period, Infosys demonstrated a fluctuating trend, with the highest ratio of 53.58% in 2017-18. TCS's average Earning retention ratio (52) was much higher than Infosys's (39.45%).

Hypothesis test

Figure 10

	T test (two sample assuming equal variance)							
Ratios	Companies	Means	Variance	Degree of freedom	P value	Critical value of 'T'	calculated value of T	Null hypothesis (H0)
Net profit ratio	TCS	24.79	1.57	8	0.0698	2.31	2.092	Accepted
	Infosys	22.03	7.09					
Return on Net worth	TCS	37.56	34.30	8	0.001	2.31	4.9049	Rejected
	Infosys	23.88	4.60					
Return on capital employed	TCS	47.16	47.64	8	0.0008	2.31	5.16	Rejected
	Infosys	30.74	2.91					
Earnings per share	TCS	100.39	555.89	8	0.0037	2.31	4.02	Rejected
	Infosys	48.76	265.05					
Current ratio	TCS	4.33	1.91	8	0.1596	2.31	1.55	Accepted
	Infosys	3.29	0.34					
Quick ratio	TCS	4.33	1.90	8	0.1595	2.31	1.55	Accepted
	Infosys	3.29	0.34					

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	Asset turnover ratio	TCS	116.67	113.65	8	0.0017	2.31	4.59	Rejected
		Infosys	87.49	88.37					
	Return on assets	TCS	28.85	4.42	8	2.73	2.31	8.54	Rejected
		Infosys	19.12	2.08					
	Earning retention ratio	TCS	52	720.58	8	0.4205	2.31	0.8490	Accepted
		Infosys	39.45	373.11					

Above figure-10 shows the hypothesis testing with application of T- test (sample assuming equal variances) of financial ratios of TCS and Infosys for the period of five years from 2016-17 to 2020-21. The table reveals that the null hypothesis H0 has been accepted in Net profit ratio, current ratio, quick ratio and earning retention ratio, it means there is no significant difference among these financial ratios of Tata consultancy services and Infosys. In terms of return on net worth, return on capital employed, earning per share, asset turnover ratio and return on assets, the null hypothesis H0 has been rejected and alternative hypothesis H1 is accepted, it means there is significant difference among these financial ratios of Tata consultancy services and Infosys.

Findings

The results of the study show that in the Tata consultancy services, the net profit ratio is higher than Infosys. This shows that Tata consultancy services has superior income capacity. Tata consultancy services is also better performer than Infosys in terms of net worth ratio. This refers to that the Tata consultancy services investors getting better returns on net worth. In addition, the research results show that the return on assets in Tata consultancy services is higher. That shows that the Tata consultancy services return on assets is higher. It shows that the TCS efficiently using their assets. The analysis suggests that it is higher return on the capital employed in Tata consultancy services it shows that the TCS using their capital efficiently and generates the profit. This shows that the bank is more able to earn returns than the ICICI bank. Overall, the Tata consultancy services 's profitability is greater with regard to the profit ration and its earning capability is stronger than that of Infosys. In practically all measures of profitability, Tata consultancy services is better at Infosys. Profitability can be increased through the increase of sale, reduce in cost. In terms of liquidity both companies have done well but allover TCS was leading in terms of liquidity. Earning retention of TCS was higher than Infosys, it indicates that TCS can grow rapidly and they can use the earnings in research and development for the company. Allover Tata consultancy service’s financial position and performance was better than the Infosys ltd.

Conclusion

The purpose of the study was to analyze and compare the financial performance of Tata Consultancy Services and Infosys. According to the findings of the study, Tata Consultancy Services' financial performance outperforms of the Infosys. According to this analysis, Tata consulting services create higher profit. TCS outperformed Infosys in terms of profitability. Infosys can take steps to boost its profit potential. Infosys' average net profit ratio was lower than TCS'. Infosys should keep costs and expenses under control in order to increase net profit. TCS has performed well in terms of ROCE; nevertheless, Infosys can improve its return on capital employed by reducing non - essential assets and paying off debts in order to reduce liabilities. TCS had a higher return on net worth than Infosys. Infosys should boost its net worth through increasing its profit margins and asset turnover. TCS' earnings per share were also higher than Infosys'. By raising net income, Infosys can increase EPS. TCS and Infosys both performed well in terms of liquidity, however TCS had a stronger liquidity position than Infosys. Infosys should improve its liquidity position by reducing overhead expenses, paying down obligations, and negotiating longer payment terms. TCS has surpassed Infosys in terms of asset turnover. Infosys can boost asset turnover through higher profitability, better inventory management, and more efficient asset management. Infosys' earnings retention was lower than TCS'; nonetheless, Infosys can improve the ratio by applying cost-cutting methods and maximize the profits.

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