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Financial Performance – Comparative Analysis between Infosys and TCS

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Abstract – Performance of overall finance of business can be measured by using the historical data related to finance and the future soundness and health of the company. Finance is important aspect of business need to check in determining that a company and organization is how much capable, stable, liquid and solvent. For the purpose of checking company specific performance a researcher, study its financial statement and income statement. On the other hand researcher may check or compare the past performance and trend of the company to get the reliable results of the analysis. Trade creditors, suppliers, investors, management and government is interested to know the financial performance of the company. Analysis of finance supports government organizations to stable the taxation system and any the company can check its own level of performance by using the analysis of financial statements time to time. Further the investors of companies can also draw an idea and make up mind to invest their funds in any specified company as their funds produce a worth.

Keywords- Financial Performance, Solvent, Liquid, Financial Statement.

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INTRODUCTION

Analysis of finance is a course of action that the major performance indicator in term of liquidity, profitability and furthermore efficiency of business operations of an organization can be assessed. To check the problems and investment opportunities, ratio analysis has been added as techniques. Indian economy is emerging from the slow moving economy to the fast moving by having its innovative entrepreneurs and meeting international demands of technology and business services. In today's India every types of business or non-business transactions or tasks such as income tax return, e-ticketing and passport servicing, is being done through internet. IT industry played a key role in putting India at international level and has been a most significant growth contributor for the Indian economy. IT is the important determinant of the progress of nations communities and individuals and it is a powerful tool enables for developing countries.

Infosys Limited is one of the biggest and the second largest company in Indian IT industry and it has offices in 22 countries by 2016 revenues and development centres in India, Japan, China, UK, Australia and Canada and headquarter is situated at Bangalore in India. Infosys Technologies Ltd. make and delivers technology-enbaled solutions of business to the its clients internationally. It provides a range of solutions to its international customers and a broad area of organizations. Further, Infosys introduced many services such as IT, consulting, services, BPO and engineering.

Infosys got a rank among world's five best performing organizations or companies in term of software and services by **forbes magazine in April 2009,** rated amongst the "50 most innovative companies" by **business week and** was placed at 15th number in term of largest IT services provider worldwide by **HFS research** according to 2013 ranking**.** The company has been voted India's most appreciated company in the wall street journal Asia and its has well renowned clients such as Accenture, IBM, US navy, US army and the New York city board of education.

TCS was founded by the Tata group, a large company, in 1986, a major subsidiary and the oldest IT service firm in India. TCS is now placed among the big four most valuable IT services brand worldwide. It is the world's 10th largest IT services provides, measured by revenues. Since its listing on August 25, 2004 now contributes more than 61% to the group's market cap in comparison with only 33% before five years according to a report given by economic times beaureau on July, 2013. TCS has strengthen its presence in Japan with local associates, new customer relateionship and a partner with shared strategic vision common values. Its potential clients are CISCO, VODAFONE, SBI, BRITISH TELECOM, TATA McGraw hill, CITIBANK, WALMART, NOKIA and many more.

REVIEW OF LITERATURES

In order to make the research good review of various literature have been done by the researcher, few of the below research studies are given below;

Vasanthamani (1982) anlysed the financial performance of lakshmi machine works with a view to analyse the future of performance potential and liquidity position of the business found that it was able to meet worth of creditors out of its own current assets. Further to check the quick liabilities, quick ratio taken into account without any problem in business.

Rajalakshmi (1998) evaluated the performance of finance with a view to analyse the performance of future potentials. Further checked the liquidity position and the quick ratio revealed the quick liabilities and the creditors with their assets of the company.

Raveendran (2003) concluded that the liberalized policy should at the upgradation of technology thereby imporving the quality, productiviey, measure for cost control, modernanisation, upgradation and computerisation of the industry will help in strengthening the forward and backward linkages of the engineering industry within the state.

Reddy (2003) evaluated the financing methods and practices to check the pattern of investment and ahead utilization of fixed assets to assess the situations of working capital and suggestive measure has been added to improve the profitability of business. Ahead found that industry need to introduce additional fund along with restructuring of finances and modernization of technology for better operating performance.

Chakraborty (2006) used techniques of ratio analysis, which is regarded as the time tested method of appraising the financial performance of any corporate enterprises. Study can go long way in improving the performance of public sector companies in general and petroleum.

Chaudhary (2008) used profitability ratios as gross profit, operating profit, net profit, return on Assets, return on capital employed and dividend per share to judge the performance of finance.

Daniel (2013) Analysed performance by using various activity and financial ratios whether the organization keeping static growth and found a sound situation in all the area or not. On the basis of this company suggested some corrective measures to reduce the expenses, consequently it will be able to increase the profitability of company.

Rupesh and Yuvraj Kumbhaj (2014) analysed and compared the financial position, profitability and liquidity and potential of TCS and WIPRO by using the by using the ratios and found that WIPRO is better performing then TCS.

OBJECTIVES OF THE STUDY

1. To analyse and compare financial performance of Infosys Limited and TCS.

2. To compare liquidity, profitability and efficiency of the company.

RESEARCH METHODOLOGY

Current study is quantitative in nature because researcher obtains the audited financial statement to draw a conclusion. Sample size taken from two companies viz. Infosys Technologies limited and Tata Consultancy Limited. Collection of data in this research is secondary source, has been collected through Annual reports of Infosys and TCS industries, Research papers and another government and private websites. Data analysis of the study done through ratio analysis tools such as Liquidity ratio, Current ratio, quick ratio, profitability ratio, Gross profit ratio, net profit ratio, efficiency ratio, debtor turnover ratio, Assets turnover ratio and 'mean & standard deviation'.

Financial performance of Infosys and TCS – Finance is the backbone of any business organization to run each and every operations in it. Financial performance is depend on the Liquidity, profitability and efficiency of any organization checked using the ratio analysis and Standard deviation herewith.

Liquidity Analysis

Liquidity Ratios of the Companies

Current Ratio	2011	2012	2013	2014	2015	Average	SD	CV
Infosys	4.82	4.53	4.31	3.48	3.34	4.096	0.584691	14.27469
TCS	2.9	2.69	3	2.97	2.64	2.84	0.147377	5.189377
Quick ratio								
Infosys	4.76	4.49	4.25	3.43	3.3	4.046	0.580434	14.34588
TCS	2.88	2.66	3.01	2.98	2.64	2.834	0.15641	5.519044

Source – Computed from the Annual reports of Infosys and TCS

Above table depict the average current ratio of Infosys and TCS are 4.096 and 2.84 respectively. The results shows that the current ratio of Infosys in the year 2011, 2012 and 2013 are above then that of current ratio and below in 2014 and 2015. Current ratio of TCS in the year 2013 and 2014 are above than average and below in 2011, 2012 and 2015. It can be interpreted that Infosys was performing well in the beginning years but lesser in the subsequent year whereas, the performance of TCS is good in later years as compare to the beginning years.

Further, average quick ratio of Infosys and TCS are 4.046 and 2.834 respectively. It is found that the quick ratio of Infosys in the year 2011, 2012 and 2013 are above and below in the year 2014 and 2015. Quick ratio of TCS is above than average in the year 2011, 2013 and 2014 and below in the year 2012 and

2015. Here results shows that the liquidity of Infosys is better in the beginning years than the later years and the performance of TCS is mixed with some increase in 2011, 2013 and 2014 and decreases in 2012 and 2015.

The outcome of the liquidity analysis of Infosys Limited shows better solvency position due to higher liquidity and is in safe position in comparison to TCS which has the lower liquidity than Infosys.

Profitability Analysis

Profitability Ratios of the Companies								
GP Ratio	**2011**	**2012**	**2013**	**2014**	**2015**	**Average**	**SD**	**CV**
Infosys	29.5	29.03	25.85	24.06	25.98	26.884	2.064467	7.679166
TCS	27.97	27.64	26.92	29.09	23.96	27.116	1.726228	6.366087
NP Ratio								
Infosys	24.85	24.69	23.36	21.25	23.2	23.47	1.296626	5.524612
TCS	24.29	21.29	22.09	23.42	20.97	22.412	1.263715	5.638565

Source – Computed from the Annual reports of Infosys and TCS

It is found that Average Gross profit ratio of Infosys and TCS are 26.884 and 27.116 respectively. GP of Infosys in 2011 and 2012 are above than the average GP ratio and below in the year 2013, 2014 and 2015. GP ratio of TCS in the year 2014 is above than the average GP ratio and below in the year 2011, 12, 13 and 2015. Average net profit of of Infosys and TCS are 23.47 and 22.412 respectively. NP of Infosys in the year 2011 and 2012 are above the average and below in the year 2013, 14 and 15. NP ratio of TCS in the year 2011 and 2014 are above the average of Net Profit Ratio and below in the year 2012, 13 and 15. It can be inferred that the comparative variability of TCS is lesser than the Infosys. Profitablity ratio of Infosys is in better postion in comparison to TCS due to the favorable ratio Infosys can diversify its risks through expansion and diversification.

Efficiency Analysis

Efficiency Ratios of the Companies								
DTR	**2011**	**2012**	**2013**	**2014**	**2015**	**Average**	**SD**	**CV**
Infosys	6.75	6.4	6.22	6.5	5.9	6.354	0.284366	4.475385
TCS	4.85	4.19	4.52	5.06	4.9	4.704	0.311294	6.617646
ATR								
Infosys	1.12	1.18	1.16	1.21	1.12	1.158	0.034871	3.011329
TCS	1.7	1.77	1.8	1.82	1.85	1.788	0.051147	2.860562

Source – Computed from the Annual reports of Infosys and TCS

From the above table it has found that the Average Debtors Turnover Ratio of Infosys and TCS are 6.354 and 4.704 respectively. DTR of Infosys in the year 2011 and 2012 are above than the average DTR and below in the years 2013, 14 and 15. Here it can be interpreted that in the beginning years of study period Infosys is performing well in comparison of the later years. For TCS, the DTR in the year 2011, 2014 and 2015 is above that the average and below in the years 2012 and 2013.

Assets Turnover Ratio of Infosys in the year 2012, 13 and 14 are above than the Average ATR and below in the year 2011 and 2015. Hence, it can be interpreted that in the beginning year it is performing lower than the Average then performing well in net three years and again decline in the3 last year. Result depicts that Infosys is having better speed of converting various account into sales or cash in comparison with TCS.

CONCLUSION AND FINDINGS

The present paper investigates the performance of Infosys and TCS for the period from the year 2011 to 2015. Many different ratios are used to calculate the performance of Infosys and TCS all of the calculated ratios shown that Infosys is in the better position in comparison of TCS. Higher the liquidity rate, higher the margin of the company to cover the short-term debts therefore Infosys is in better position than TCS in term of covering short-term debt. In respect of the profitability Infosys has performed well and leads in this area in comparison to TCS. In term of efficiency Infosys again performed well have greater efficiency in utilizing its own assets. Infosys has DTR of 6.354, ATR 1.158 and average score of 3.756 which is better than TCS having DTR of 4.704, ATR of 1.788 and an average score of 3.246. It can be seen that Infosys has a better quality of utilizing its assets to optimum level in comparison of TCS and have higher efficiency ratio. Above analysis found that the Infosys is in better position in comparison to the TCS as the competitor of it. Infosys has kept top position in term of liquidity analysis, profitability analysis and efficiency analysis.

LIMITATIONS OF THE STUDY

Study is based on secondary sources of data and time and resources constrained suffers few limitations. Study is limited to the secondary sources of data and the limitations of it may affect the original results. Secondary data have taken from the Annual reports of Infosys and TCS. It might be possible that the data has been shown in Annual reports may be window dressed which does not depict the actual financial position of the business organization.

SCOPE OF THE STUDY

Data used in the study is for 5 years only, for better results it can be taken more than five years. More ratios can be used to measure the overall performance of the companies. Any other companies can be used for the study and lastly the whole IT sector can be selected to check the overall performance of IT sector in India.

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