

## A STUDY ON STRATEGIC FINANCIAL PERFORMANCE IN SOFTWARE INDUSTRY

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### ABSTRACT

Financial statements of a firm are highly useful to all stakeholders. The profit and loss account and balance sheets are the two most important financial statements. They are prepared according to commonly accepted principles, reflecting past and current effects of the decisions made by the management. Evaluation of financial performance involves the use of financial statements, figures are dumb, however, they may tell vivid story of financial adventures of a business enterprise, if systematically analyzed and interpreted. Financial performance evaluation pinpoints the strengths and weakness as of firm, like x - raying.

**KEYWORDS:** Sampling Design, Period of Study, Sources

### INTRODUCTION

#### Evolution of Indian Software Industry

Information Technology (IT) Industry in India is one of the fastest growing industries. Indian IT industry has built up valuable brand equity for itself in the global markets. IT industry in India comprises of software industry and information technology enabled services (ITES), which also includes business process outsourcing (BPO) industry. India is considered as a pioneer in software development and a favorite destination for IT and IT-enabled services. The origin of IT industry in India can be traced to 1974, when the mainframe manufacturer, Burroughs, asked its India sales agent, Tata Consultancy Services (TCS), to export programmers for installing system software for a U.S. client.

The IT industry is originated under unfavorable conditions. Local markets were absent and government policy toward private enterprise was hostile. The industry was begun by Bombay based conglomerates which entered the business by supplying programmers to global IT firms located overseas. During that time Indian economy was state-controlled and the state remained hostile to the software industry through the 1970s. Import tariffs were high (135% on hardware and 100% on software) and software was not considered an "industry", so that exporters were ineligible for bank finance.

Government policy towards IT sector changed when Rajiv Gandhi became Prime Minister in 1984. His New Computer Policy (NCP-1984) consisted of a package of reduced import tariffs on hardware and software (reduced to 60%), recognition of software exports as a "de-licensed industry", i.e., henceforth eligible for bank finance and freed from license-permit raj, permission for foreign firms to set up wholly-owned, export-dedicated units and a project to set up a chain of software parks that would offer infrastructure at below-market costs. These policies laid the foundation for the development of a world-class IT industry in India. Today, Indian IT companies such as Tata Consultancy Services (TCS), Wipro, Infosys, and HCL et al are renowned in the global market for their IT prowess.

### **About The Financial Performance**

The relationship between investment in information technology (IT) and its effect on organizational performance continues to interest academics and practitioners. In many cases, due to the nature of the research design employed, this stream of research has been unable to identify the impact of individual technologies on organizational performance. This study posits that the driver of IT impact is not the investment in the technology, but the actual usage of the technology. This proposition is tested in a longitudinal setting of a healthcare system comprising eight hospitals.

Monthly data for a three-year period on various financial and nonfinancial measures of hospital performance and technology usage were analyzed. The data analysis provides evidence for the technology usage-performance link after controlling for various external factors. Technology usage was positively and significantly associated with measures of hospital revenue and quality, and this effect occurred after time lags. The analysis was triangulated using three measures of technology usage. The general support for the principal proposition of this paper that actual usage may be a key variable in explaining the impact of technology on performance suggests that omission of this variable may be a missing link in IT payoff analyses

### **Techniques of Financial Analysis**

The published financial statements do not always convey to the reader the real significance of operating results and financial health of the business. In order to find out the financial statements is more meaningful. One should depend on certain techniques for analyzing the financial statements. The main objective of these techniques is to minimize or reduce the financial data and to use in a more appropriate and understandable terms.

The following are the various techniques commonly applied in analyzing financial statements to evaluate the financial soundness of a firm:

- Ratio Analysis
- Trend Analysis
- Common Size Analysis
- Comparative Statement Analysis
- Statistical Techniques of Analysis
- Diagrammatic and Graphic Presentation of Financial Data.

### **Problem Focus**

The software industry has become a part of everyday life, be it providing solutions for business or entertainment. In the last 15 years the Indian software industry has brought a tremendous growth for the emerging economy and also the industry is the main component of the Information technologies not only in India and other leading develop countries also. The Indian IT sector has proved to be the country's fastest growing segment, even in troubled times.

The software is a service industry, a major component of India's IT sector, showed significant momentum, higher than that of other industries in the country. India continued to be a compelling investment destination, as leading companies either set up shop here or enhanced their existing infrastructure. The IT services sector has witnessed

tremendous growth in the last decade, fuelled by an increasing number of business expansions, acquisitions and green field projects funded both with domestic and foreign private investment.

Some of the services typically rendered by the IT companies include Application Development (AD), Application Management (AM), consulting and testing services performed either offshore (in India) or onsite (at the client location outside India). India has become one of the most favored destinations for outsourcing and IT-Enabled Services (ITES). The shift in the role of IT from merely supporting business to transforming business, which is driving productivity gains and creating new business models, has increased the importance of IT to the success of companies worldwide. The ability to design, develop, implement and maintain advanced technology platforms and solutions to address business and customer needs has become a competitive advantage and a priority for corporations worldwide.

Because of world financial and economic crisis in almost all countries economy went down in the last two years. In India the major sources of income is through Software Industry and its exports almost all software companies are facing financial crisis especially the top 10 software companies in India.

In the year 2005, TCS Net profit growth is 2959 percent but it went down to 83 percent in the year 2008, Wipro net profit growth is 24.1 percent in the year 2002 and it went down to 9.24 percent in 2008. The other leading companies as like Infosys, Satyam are also facing the financial crisis in the global meltdown. Hence the study aim is to analysis the financial performance of Software Industries with reference to India.

### **Objectives of the Study**

- To analyze the financial performance of Software Industries in India
- To identify the fixed assets and working capital turn over.
- To analyze the significance of capital efficiency, return on capital employed.
- To analyze the correlation between exports sale and software revenue growth, dividend and book value of shares and return on capital employed and return on net worth.

### **REVIEW OF LITERATURE**

**Alex (1994)** Examines the Economic Value Added and Market Value Added of Chemical Industries in his study, "Star to sail by". He observes that a growing number of companies worldwide are emphasizing shareholder value as a way to ensure long-term prosperity. He supports Economic Value Added as a measure of shareholder value, which is already used in the United States and also being considered by companies in other countries. He recommends that Economic Value Added as one of the financial models to determine the financial performances of companies. He encourages employees and managers to think as investors do and the act according to their interest.

**G. Sundarsana Reddy (2003)**, In his study an attempt has been made to access an evaluation of financial performance of paper industries in Andhra Pradesh to Evaluate the Financing Method to analyze the Investment pattern and utilization of fixed assets to ascertain the working capital conditions, to review the profitability performance and to suggest measures to improve profitability.

**Khalifa, Nermine M (2013)** This paper investigates the different software quality perceptions from the different stakeholders' perspectives and presents a critique to previously developed quality models and measurement theory

frameworks associated. It emphasizes the rationale beyond the selection of the Goal Question Metric (GQM) as an evaluation method for the development of the software project with the desired quality needs satisfying the software system. Then it ends up with several concluding remarks that pinpoint the main discussion points and offers guidance for further research.

## **METHODOLOGY**

The researcher, being an external analyst, had to depend upon mainly secondary data for the purpose of this study titled is "The Financial Performance of Software Industries with Reference to India" from the top ten Indian software companies, which is enlisted by NASSCOM, out of the top ten Indian software companies, the three selected Indian software companies are Tata Consultancy Services, Wipro and Infosys Technologies Ltd has been selected for this study. Hence the data and information required for this study have been collected mostly from the annual reports of the above selected Indian Software Companies for the period from 2005-2006 to 2012-2013.

Though there was found apathy or indifference on the part of executives in supplying information, the researcher could overcome through moral persuasion and intensive pestering. It was made clear to them that the information so collected would be exclusively used for academic purposes and proper secrecy would be maintained. Editing, classification and tabulation of the financial data collected from the above-mentioned source have been obtained. The data for the years 2005-2006 to 2012-2013 has been taken in order this study the financial performance pattern in terms of overall growth, operating, profitability, capital efficiency, short terms solvency and dividend payout ratio over a period of 8 years from 2005-2006 to 2012-2013.

### **Sampling Design**

The sample companies have been selected on the basis of size of the company. Several variables can be used as the measure the firm's size. Some of them are net profit, total assets, gross profit, total share capital and net sales. Each variable cannot represent the exact firm size in isolation to other variables. That is each variable has its own limitations. The great advantage of the total assets as a measure of the firm size is that this variable can represent the overall size of the firm compared to other variables. Moreover, figures for total assets are readily available from company's published annual report balance sheets, which the entire firms have to publish.

Based on this the size has been determined on the basis of the investment in total assets of these software companies (Tata Consultancy Services, Wipro, and Infosys Technologies Ltd) end of the financial year 2012-2013 during the study period. Those companies which have invested more than Rs.5000 crores in total assets end of the financial year 2012-2013 during the study period, have been selected for the present study.

In India only five top Indian software companies have invested more than Rs. 5000 corer in total assets. (The top five companies are enlisted by NASSCOM, Tata Consultancy Services, Wipro, Infosys Technologies Ltd., Satyam Computer Services and HCL) Out of which three companies have been selected and the remaining two omitted due to the non-availability of required data relating to entire phase of the study period.

Table showing the sources of selecting three Indian software companies list which have been selected for the present study based on its value of investment in Total Assets.

### Sources of Selecting Software Companies

**Table 1**

S. No.	Company Name	Total Assets as on 31st March 2010 (Value Rupees in Crores)
1.	Infosys Technologies Limited	7865
2.	Wipro limited	7567
3.	Tata consultancy services limited	6735

Source: Secondary Data

### Period of Study

The present study covers a period of 8 years starting from 2005-06 to 2012-13 in order to evaluate the financial performance of selected software companies in India. Sources of Data the data used for the present study is mainly based on secondary data. The required data for the sample companies were collected from the corporate data base, audited annual reports, published research reports and financial research journals of the company is for the period 2005-06 to 2012-13. It contains a highly normalized data built on a sound understanding of disclosures on where all registered public limited company compulsorily disclose the data as per SEBI guidelines in India. The audited annual report provides financial statements, ratio analysis, fund flows, products profile, returns and risk on the stock market. The annual report of the industry used by govt. authority, individual, financial journal and NASSCOM analysis report used the annual report as a data source.

### Mean and Standard Deviation

Table showing Mean and Standard Deviation of TCS, Infosys and Wipro

**Table 2**

Particulars	Company					
	Infosys		TCS		Wipro	
	Mean	SD	Mean	SD	Mean	SD
EPS Growth	42.47	33.15	888.65	1274.35	.86	67.68
Opex & Admin Exp to Soft. Revenue	7.53	.73	68.19	7.06	7.06	7.90
Net Profit to Total income	34.76	1.97	23.43	1.60	18.25	8.86
Return on capital Employed	82.76	29.53	98.17	70.42	56.83	59.42
Fixed Asset Turn Over Ratio	.24	.03	8.40	1.46	1.07	1.48
Working Capital Turn Over Ratio	.78	.58	4.08	.95	2.02	1.63
Total Revenue Growth	45.41	29.51	666.49	1080.06	45.49	1.24
Net Profit Growth	43.77	32.88	829.49	1419.84	21.05	35.24
Current Ratio	3.32	.97	3.32	.21	5.18	9.84

### EPS Growth

Equity per share growth rate is another one factor to determine the corporate growth, the mean value of TCS (888.65), when it compared with other two selected software companies, it has got tremendous growth in EPS within a short span of period, the second position in EPS growth rate of Infosys (42.77) and the last one is Wipro EPS growth is very low (0.86) when it is compared with other two software companies.

### Operating and Administrating Expenses to Software Revenue

Operating and administrating expenses of TCS mean value is (68.19) which is the highest. This can be interpreted that company has maintained and controlled its operating and administrating expenses. Mean value of Infosys, Wipro are

(7.53) and (7.09) respectively.

### **Net Profit Total Income**

Infosys (34.76) net profit to total income is highest compared to other two software companies, TCS and Wipro net profit mean values were found to be 23.43 and 18.25 respectively. Wipro mean value was found to be lowest among all the other software companies.

### **Return on Capital Employed**

TCS has got highest return on capital employed, mean value is (98.17) when it compared with other two software companies, Infosys rate of return is (82.76) and the third mean value is (56.83) for Wipro from these highest rate of return on capital employed is TCS and the lowest one is Wipro.

### **Fixed Asset Turnover Ratio**

Fixed assets turnover ratio (9.15) and TCS fixed asset turnover ratio (8.40) was highest compared to other two software companies. Wipro (1.07) fixed asset turnover ratio was found to be moderate. Infosys (0.24) fixed asset ratio was found to be least compared to all other software companies.

### **Working Capital Turns over Ratio**

In order to find out the mean value of selected three software companies, the mean and standard deviation is applied, to find out the working capital turnover efficiency of all selected companies are similar or not. The mean value of Wipro (2.02) is satisfactory level when it is compare with other two software companies. TCS has got (4.08) mean value so it is highly satisfaction level, compared to all other two companies, Infosys mean value working capital is very less (0.78), this indicates the low efficiency of working capital management among all companies.

### **Total Revenue Growth**

Total revenue growth is one of the milestone developments of any software companies. In this study, the total revenue growth performance of selected three software companies was measured. And it is inferred the mean value of TCS is (666.49) very high growth rate of revenue when it is compared with other selected two software companies. The second growth level of revenue is least difference between Infosys and Wipro (45.41 & 45.49) which is almost no difference is total revenue growth between Infosys and Wipro and last one is and it has only and very merges mean value of (20.13). Based on the above analysis, TCS has tremendous performance is total revenue growth company.

### **Current Ratio**

The current ratio is a tool to find out the short term position of corporate, in this study mean and Standard deviation were used to find out the performance of short term solvency Position of selected three software companies. Wipro has got high liquidity position and its mean score is (5.18) and the least level maintained by both TCS and Infosys and score value (3.32).

### **Net Profit Growth**

Net profit growth is reflecting the real growth of organization is this selected three software companies means Standard deviation were used to analyze the growth role of net profit performance of software companies. The mean value

of TCS has (829.49) which is indicating its strength of overall financial performance and the second position has reached Infosys company and its mean value is (43.77) and the least position is Wipro the mean value is only (21.05). Based on the above analysis TCS has got highest net profit growth rate performance among the selected software companies.

## CONCLUSIONS

The Indian software industry has brought about a tremendous success for the emerging economy. The software industry is the main component of the information technology in India. Presently there are more than 500 software firms in the country which shows the monumental advancement that the India software Industry has experienced. In India, the software boom started somewhere in the late 1990's. The business software boom started with the emergence of Y2K problems, when a large number of skilled personnel were required to fulfill the mammoth database-correction demand in order to cope up with the advent of the new millennium. In India the major sources of income is through software Industry and its exports almost all software companies are facing financial crisis especially the top ten software companies in India.

Hence the study aim is to analysis the financial performance of software companies with reference to India. Based on the objectives of this research, the study has analyzed the overall performance of the leading software companies, some of the important statistical tools and ratio analysis were used to measure the financial performance of these companies. From the ANOVA analysis the following results were found and they were found to be relevant to the current scenario.

Net profit growth, EPS growth, Fixed asset turnover, Working capital, Operating and administrative expenses are found to be highly significant between the three software companies. The second part of the study used Tamhane comparison to study the relationship between dependent variables (Net profit growth, fixed asset turnover, working capital, operating and administrative expenses) and selected three software companies. The results were found to be more informative and they were well correlated with the ANOVA findings. Based on the above two test in this study the mean and standard deviation of dependent variable of selected three software companies were interpreted to identify the positions of various ratios, the results obtained are similar to the existing scenario. Based on the above analysis in this study the overall performance of TCS was found to be comparatively good with the other two software companies and Infosys position was found to be somewhat satisfactory, even though they have gained a good net profit.

Hence the company will not be considered for further studies and also the company which is recently acquired by Tech. Mahindra, rest of the three companies from 2001-05 performance was good but from 2005 -08 overall financial performances went down. Again which is clearly indicates from 2009 onwards the financial performance of selected three software companies are highly satisfactory level and these companies are in a growing position in Indian software growth and contribution to Indian economy.

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