Financial Performance Analysis of TCS Company With Reference to IT Sector in India

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Abstract
This study deals with financial performance analysis of TCS Company with reference to IT sector in India. The research mainly concentrates and analysis on the profitability, Turnover & solvency position of TCS Company. The ten years annual report of the companies was taken from websites (2011 to 2020). The secondary data was obtained through balance sheet, financial statements, journals and articles etc. The analytical tools used for this study are ratio analysis and Future trend analysis it helps to know the financial position of the company. The result of the study is based on the performance in financial fluctuations and interpretations of TCS Company with reference to IT sector in India.
Keywords: Financial performance, IT sector, Annual report, Ratio analysis, Future Trend analysis.

Introduction:

The term financial performance analysis refers to the process of determining financial strength and weakness of the organization by establishing strategic relationship between the items of the balance sheet, profit & loss account and other operative data. The purpose of financial performance is to diagnose the information contained in financial statements. So as to judge the profitability and financial soundness of the firm. In general, profit making is one of the major objectives of any organization. Also it is considered that increase in the value of the organization can be obtained by profit maximization.

Information Technology

Information Technology (IT) encompasses the study and application of computers and any form of telecommunications that store, retrieve and send information. IT includes a combination of hardware and software used together to perform the essential functions people need and use every day. Most IT professionals will work with an organization to focus on and meet their needs technologically by understanding what they need, showing them options on what current technology is available to do their needed tasks, then implementing the technology into their current setup, or creating a whole new set up.

Tata Consultancy Services (TCS) is an Indian multinational information technology (IT) services and consulting company headquartered in Mumbai, Maharashtra, with its largest campus located in Chennai, Tamil Nadu, India. As of February 2021, TCS is the largest IT services company in the world by market capitalization ($200 billion). It is a subsidiary of the Tata Group and operates in 149 locations across 46 countries. TCS is the second largest Indian company by market capitalization and is among the most valuable IT services brands worldwide. . As of 15 September 2021, TCS has recorded a market capitalization of US$200 billion, making it the first Indian IT firm to do so.

Review of Literature:

Reetika Verma (2021) analyzed the financial performance analysis of two leading banks of India. This paper aims to evaluate financial performance of HDFC and SBI bank on the basis of accounting ratios and also to study the functioning of the Indian banking system. In this paper different ratios of both the banks are compared. Capital adequacy ratio, debt equity ratio, leverage ratios, profit and loss account ratios, net interest margin ratio, return on equity and other ratios are used to compare the performance of both the banks. This research is based on the data collected from financial statements of the banks. The performance of both the banks is compared from the year 2015 to 2020. It is observed that performance of HDFC is better than SBI not only in terms of ratio analysis but also in terms of customer satisfaction.

Shashi Gupta (2020), studied on fundamental analysis of selected IT companies listed at NSE. Fundamental analysis is studied in three parts. Economic analysis deals with fundamental factors like GDP, IIP, fiscal deficit, inflation, current account deficit etc. Industry analysis Indian IT sector is analyzed based on entry barriers, type of industry, government interference, Porter's five force model. Finally, Company analysis deals with various ratios such as dividend payout ratio, EPS, P/E ratio, Debt-Equity ratio are used. It also focuses on the calculation of intrinsic value of shares and compared with Market value. If intrinsic value is greater than market value the share is said to be undervalued whereas if market value is greater than intrinsic value, the share is overvalued. From the study Wipro, TCS and Infosys shares are undervalued and suggested to buy and hold the shares.

Objectives of the study:

- To assess the profitability and solvency position of TCS company.
- The financial ratio analysis has been measuring the turnover of earning capacity, financial soundness and operating efficiency of TCS Company.
- The use of the financial tools such as ratio analysis and future trend analysis helps to judge the financial performance of IT sector in TCS Company.

Methodology:

Research methodology is a way to systematically solve the research problem. The systematic method used in this study is collecting data and at analyzing the data to find a solution to the search problem.

Type of Research:

Analytical Research has to use facts or information which is already available analyzes these to make a critical evaluation of the material. The tools are used.

(a) Ratio Analysis
(b) Future Trend Analysis

Data Analysis

(a) Ratio Analysis

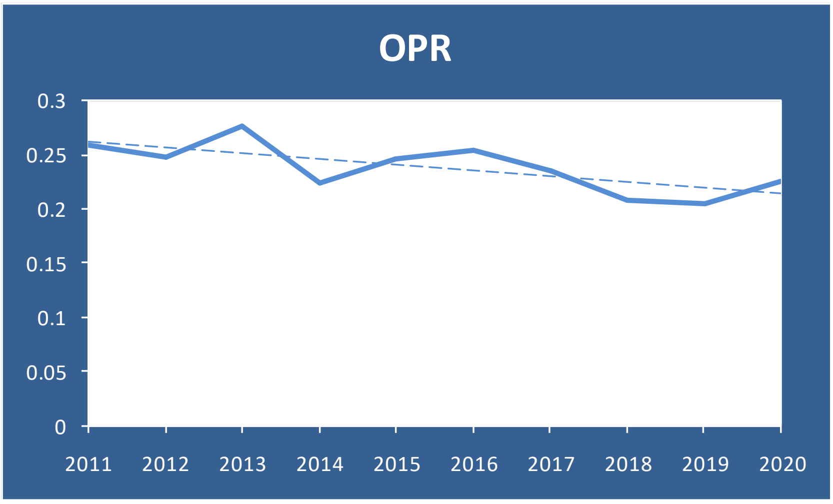
I. Profitability Ratio:

This type of ratio analysis suggests the Returns that are generated from the Business with the Capital Invested.

Table: 1.1 Operating Profit Margin Ratio

Year	Revenue (Rs. In Cr.)	COGS (Rs. In Cr.)	Operating Expenses (Rs. In Cr.)	Total Assets (Rs. In Cr.)	EBIT (Rs. In Cr.)	OPR
2011	48893.83	1787.88	34458.52	41394.49	12,647.43	0.258671288
2012	62989.48	2453.76	44949.57	52267.22	15,586.15	0.247440525
2013	81809.36	2577.99	56656.57	57604.19	22,574.80	0.275943975
2014	94648.41	3312.58	70166.70	63065.30	21,169.13	0.223660704
2015	108646.21	3821.67	78056.42	77668.54	26,768.12	0.246378774
2016	117966.00	2272.00	85655.00	89758.00	30,039.00	0.254641168
2017	123104.00	3595.00	90588.00	103252.00	28,921.00	0.23493144
2018	146463.00	8963.00	106957.00	114943.00	30,543.00	0.20853731
2019	156949.00	9941.00	114840.00	120899.00	32,168.00	0.204958299
2020	164177.00	9599.00	117631.00	1,30,759	36,947	0.225043703

Figure: 1.1 Operating Profit Margin Ratio



Interpretation:

This ratio speaks about the profit earned by the company after making payments for its variable cost of production. This ratio is an indicator of business risk. Lower operating margin is desirable because it indicate that firm has enough money to meet its operating expenses. From the table and figure we can understand that the ratio has fluctuated considerably in the last 10 years. The ratio has decreased from 0.258671288 in 2011 to 0.225043703 in 2020.

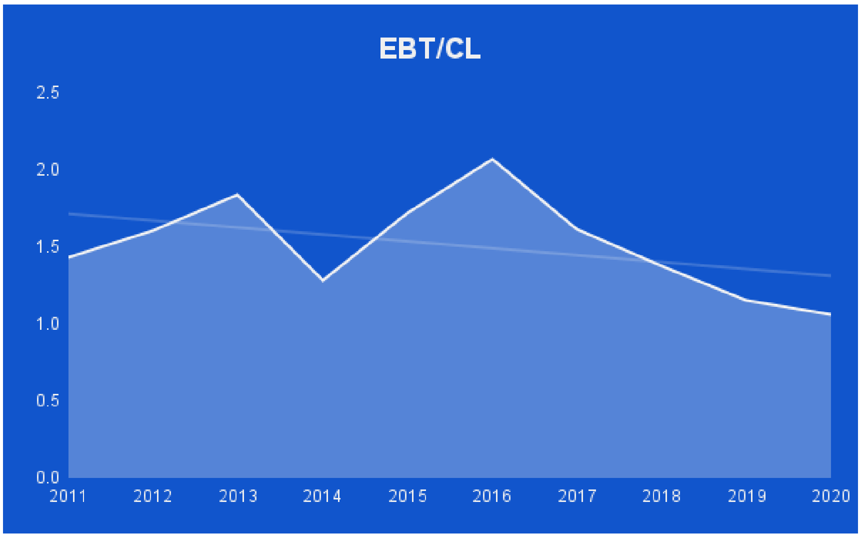
II. Solvency Ratio:

This ratio analysis helps us in understanding the solvency or debt paying capability of the company.

Table: 1.2 EBT to Current Liability Ratio

Year	Revenue (Rs. In Cr.)	Cost Of Goods & Services (Rs. In Cr.)	Oper. Exp. (Rs. In Cr.)	Total Assets (Rs. In Cr.)	EBIT (Rs. In Cr.)	Int. (Rs. In Cr.)	EBT (Rs. In Cr.)	Current Liabilities (Rs. In Cr.)	EBIT/CL
2011	48893.83	1787.88	34458.52	41394.49	12647.43	22.23	12625.20	8835.48	1.42892067
2012	62989.48	2453.76	44949.57	52267.22	15586.15	48.49	15537.66	9676.91	1.60564271
2013	81809.36	2577.99	56656.57	57604.19	22574.80	38.52	22536.28	12265.70	1.83734153
2014	94648.41	3312.58	70166.70	63065.30	21169.13	104.19	21064.94	16463.63	1.279483322
2015	108646.21	3821.67	78056.42	77668.54	26768.12	19.83	26748.29	15569.00	1.718048044
2016	117966.00	2272.00	85655.00	89758.00	30039.00	32.00	30007.00	14512.00	2.067737045
2017	123104.00	3595.00	90588.00	103252.00	28921.00	52.00	28869.00	17828.00	1.619306709
2018	146463.00	8963.00	106957.00	114943.00	30543.00	198.00	30345.00	22084.00	1.374071726
2019	156949.00	9941.00	114840.00	120899.00	32168.00	924.00	31244.00	27060.00	1.154619364
2020	164177.00	9599.00	117631.00	130759.00	36947.00	634.00	36313.00	34155.00	1.06318255

Figure: 1.2 EBT to Current Liability Ratio



Interpretation:

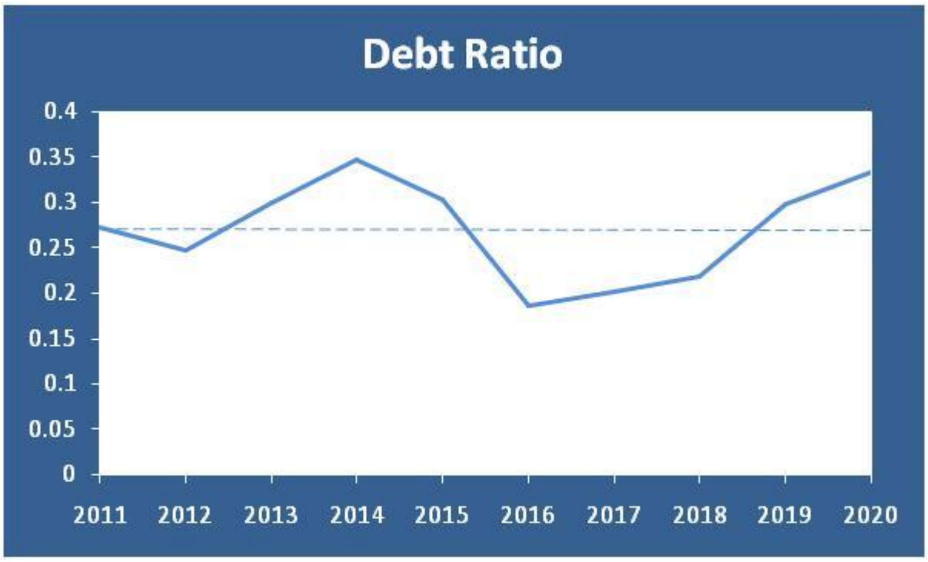
This ratio helps us in understanding the solvency of the company. It helps us in understanding the profit before paying tax which is available for meeting its current liabilities. From the table and figure we can understand that the ratio for the company is fluctuated. It has decrease from 1.42892067 in 2011 to 1.06318255 in 2020. This means that debt paying capability of the company is decreasing.

Table: 1.3 Debt Ratio

Year	Total Assets (Rs. In Cr.)	Total Liabilities (Rs. In Cr.)	Debt Ratio
2011	41394.49	11256.49	0.271932086
2012	52267.22	12926.18	0.247309499
2013	57604.19	17235.03	0.299197506
2014	63065.30	21898.36	0.347233106

2015	77668.54	23521.59	0.302845785
2016	89758.00	16672.00	0.185743889
2017	103252.00	20766.00	0.201119591
2018	114943.00	25044.00	0.217881907
2019	120899.00	36150.00	0.299009917
2020	130759.00	43651.00	0.333827882

Figure: 1.3 Debt Ratio



Interpretation:

The Debt ratio is a solvency ratio which will help us in understanding the percentage of company's assets which are made out of liabilities. Higher debt ratio is considered risky. This means that the shareholder's equity is low and there is probably high solvency risk. Rapidly expanding companies, companies with strong signs of financial distress and company facing declining revenues and poor long-term prospects of growth, will have high debt ratio. Low debt ratio is sign of financial health and indicates that company has to deal with very less liabilities. From the table and figure we shall understand that, in TCS, the ratio has declined from 0.271932086 in the year 2011 to 0.333827882 in 2020. This means that TCS has very less liabilities to deal with and is financially strong, with less solvency issues.

III. Turnover Ratio:

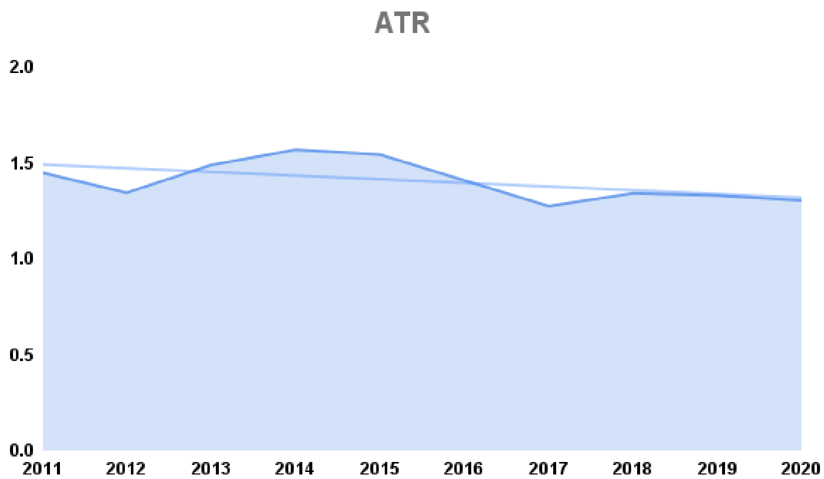
These ratios signify how efficiently the assets and liabilities of the company are been used to generate revenue.

Table: 1.4 Asset Turnover Ratio

Year	Revenue(Rs. In cr.)	TA-B (Rs. In cr.)	TA-E (Rs. In cr.)	Avg Asset (Rs. In cr.)	ATR
2011	48893.83	26043.11	41394.49	33718.80	1.450046562
2012	62989.48	41394.49	52267.22	46830.86	1.34504228
2013	81809.36	52267.22	57604.19	54935.71	1.489183765
2014	94648.41	57604.19	63065.30	60334.75	1.568721472

2015	108646.21	63065.30	77668.54	70366.92	1.543995531
2016	117966.00	77668.54	89758.00	83713.27	1.409167268
2017	123104.00	89758.00	103252.00	96505.00	1.275623025
2018	146463.00	103252.00	114943.00	109097.50	1.342496391
2019	156949.00	114943.00	120899.00	117921.00	1.330967343
2020	164177.00	120899.00	130759.00	125829.00	1.304762813

Figure: 1.4 Asset Turnover Ratio



Interpretation:

The asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The asset turnover ratio can be used as an indicator of the efficiency with which a company is using its assets to generate revenue.

The higher the asset turnover ratio, the more efficient a company is at generating revenue from its assets. Conversely, if a company has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate sales. From the table and figure we can indicate that the ratio has increased from 1.450046562 in 2011 to decreased in 1.304762813 2020. This shows that TCS is not efficient in utilizing its assets to generate revenue. But in the recent years it has managed to improve its efficiency.

IV. Earnings Ratio:

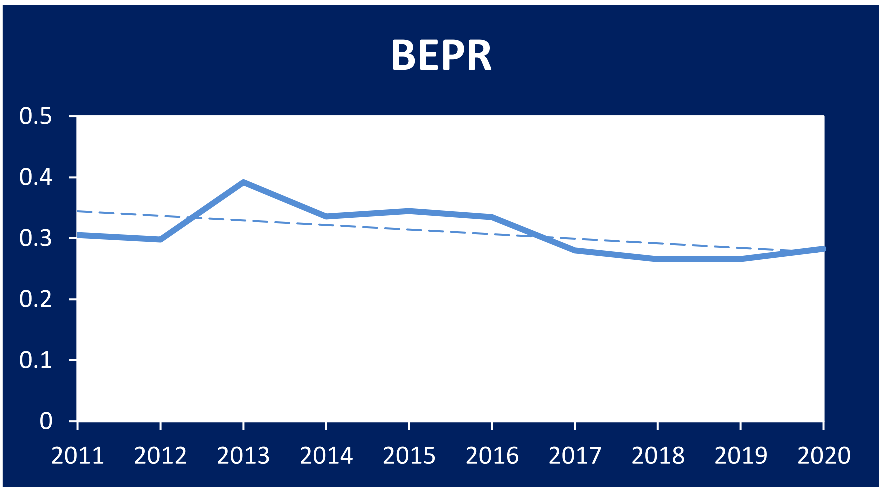
This ratio analysis type speaks about the returns that the company generates for its shareholders or investors.

Table: 1.5 Basic Earning Power ratio/ Return on Total Assets

Year	Revenue (Rs. In Cr.)	Cost Of Goods Sold (Rs. In Cr.)	Operating Expenses (Rs. In Cr.)	Total Assets (Rs. In Cr.)	EBIT (Rs. In Cr.)	BEPR
2011	48893.83	1787.88	34458.52	41394.49	12647.43	0.30553
2012	62989.48	2453.76	44949.57	52267.22	15586.15	0.29820
2013	81809.36	2577.99	56656.57	57604.19	22574.80	0.39190

2014	94648.41	3312.58	70166.70	63065.30	21169.13	0.33567
2015	108646.21	3821.67	78056.42	77668.54	26768.12	0.34465
2016	117966.00	2272.00	85655.00	89758.00	30039.00	0.33467
2017	123104.00	3595.00	90588.00	103252.00	28921.00	0.28010
2018	146463.00	8963.00	106957.00	114943.00	30543.00	0.26572
2019	156949.00	9941.00	114840.00	120899.00	32168.00	0.26607
2020	164177.00	9599.00	117631.00	130759.00	36947.00	0.28256

Figure: 1.5 Basic Earning Power ratio/ Return on Total Assets



Interpretation:

This ratio is the true measures of productivity of the firm's assets, independent of any tax or leverage factors. Since a firm's ultimate existence is based on the earning power of its assets, this measure continually outperforms other profitability measures in assessing the risk of corporate failure, including cash flow. The higher the BEP ratio, the more effective a company is at generating income from its assets. From the table and figure we can understand that the ratio has increased from 0.30553 in 2011 to decrease in 0.28256 2020. This means that TCS efficiency in generating income from its assets has fluctuating considerably.

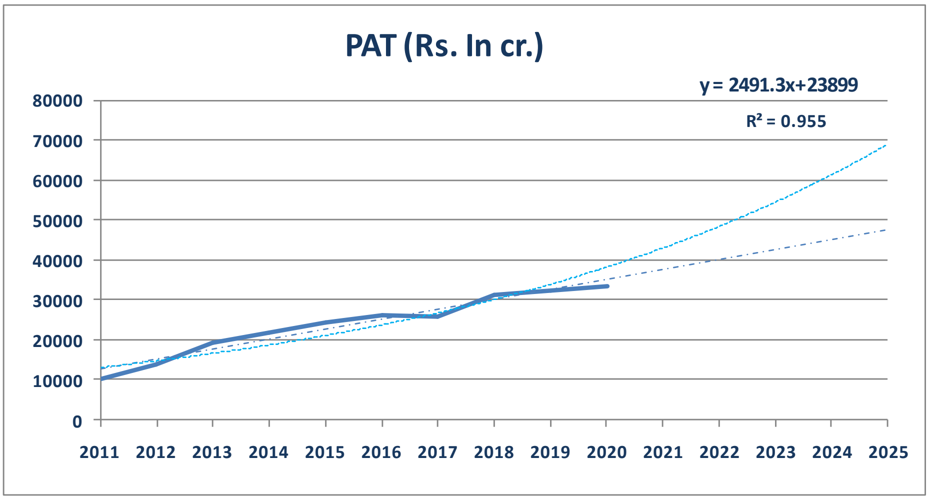
(c) Future Trend Analysis

Table: 2.1 Trend- PAT

Year	PAT (Rs. In cr.)	Trend	Growth
2011	10413	12689.00	13272.93
2012	13917	15180.13	14932.75
2013	19164	17671.27	16800.13
2014	21912	20162.40	18901.02
2015	24270	22653.53	21264.65
2016	26289	25144.67	23923.84
2017	25826	27635.80	26915.58
2018	31472	30126.93	30281.44
2019	32340	32618.07	34068.21
2020	33388	35109.20	38328.53

2021		37600.33	43121.61
2022		40091.47	48514.07
2023		42582.60	54580.88
2024		45073.73	61406.36
2025		47564.87	69085.38

Figure: 2.1 Trend- PAT



Interpretation:

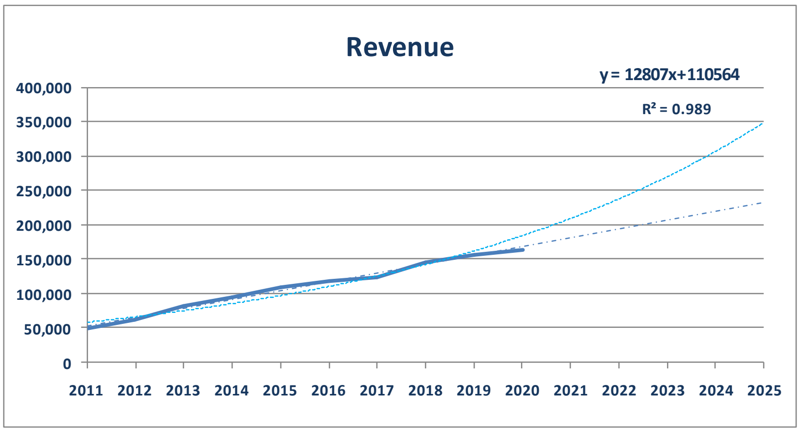
The above table and figure shows the Linear and Exponential trends of PAT. The regression line equation is y =2491.3x + 23899. The R squared value is 0.955, which means that 95% of the actual data fall in line with the trend lines. Thus the projections are expected to be more precise. In the year 2025, PAT is projected to be 47564.87 in linear method and 69085.38 in Exponential method.

Table: 2.2 Trend - Revenue/Sales

Year	Revenue (Rs. In cr.)	Trend	Growth
2011	48,893.83	52931.36	58291.633
2012	62,989.48	65738.75	66233.506
2013	81,809.36	78546.15	75257.41
2014	94,648.41	91353.54	85510.765
2015	108,646.21	104160.93	97161.076
2016	117,966.00	116968.33	110398.67
2017	123,104.00	129775.72	125439.8
2018	146,463.00	142583.11	142530.2
2019	156,949.00	155390.51	161949.05
2020	164,177.00	168197.90	184013.61
2021		181005.29	209084.32
2022		193812.69	237570.76
2023		206620.08	269938.3
2024		219427.47	306715.72

2025		232234.87	348503.83

Figure: 2.2 Trend - Revenue/Sales



Interpretation:

The above table and figure shows the Linear and Exponential trends of Revenue. The regression line equation is y = 12807x + 110564. The R squared value is 0.989, which means that 98% of the actual data fall in line with the trend lines. Thus the projections are expected to be more precise. In the year 2025, Revenue is projected to be 232234.87 in linear method and 348503.83 in Exponential method.

Conclusion:

The financial ratios are the basic and most important part of any business .it describes the firm's financial position .as the data indicates that the TCS is an international services. The company has performed fairly well for the past ten years in the area of ratio analysis.

Financial performance analysis of the company shows that the financial ratio of profitability, solvency, turnover and earnings ratios are fluctuating but maintain good financial position of the company. The future trend analysis also shows good projections growth of the company.

The company's profit has an increasing trend and it was possible only through effective controlling and managing of finance. The study concludes that the financial performance of the TCS Company is considered satisfactory.

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