Growth and Profitability Analysis of Selected IT Companies

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Abstract-This paper focuses on the performance of selected IT industries in terms of ratios. The study covers a period of five years and applies various profitability ratios and found that the performance of HCL Technologies was satisfactory except in Return on net worth and return on long term funds whereas in case of Tech Mahindra return on net worth and return on long term funds is satisfactory. Wipro showed an average performance during the study period. Authors have used ANOVA to find out the significant difference between the companies and between the years. This paper also enhances the knowledge of the investor about the growth of the IT companies.

1. Introduction

Profitability is a class of financial metrics that are used to assess a business's ability to generate earnings as compared to its expenses and other relevant costs incurred during a specific period of time. For most of these ratios, having a higher value relative to a competitor's ratio or the same ratio from a previous period is indicative that the company is doing well[1]. Profitability is the primary goal of all business ventures. Without profitability the business will not survive in the long run. So measuring current and past profitability and projecting future profitability is very important [2]. The profitability ratios are useful to get insight of a business. It helps an analyst to get indication on the sufficiency or adequacy of profits. The statistical tools are used to find out how well a firm is performing in terms of its ability to generate profit. These tools are quite useful tools to understand the efficiencies/inefficiencies of a business and thereby assist management and owners to take corrective actions. Profitability ratios are used as the tools for financial analysis and these tools communicate about the final goal of a business. The purpose behind calculating the profitability ratios is to measure the operating efficiency of a business and returns generated by a business. The different stakeholders of a business are interested in the profitability ratios for different purposes. The stakeholders of a business include owners, management, creditors, lenders etc [3].

2. Types of Profitability Ratios:

HCL Technologies Limited, Wipro Limited and Mahindra Tech are Indian global IT companies offering its different services including software consulting. This paper analysis the profitability of these three IT companies. The different profitability ratios used for analyzing the financial performance of these companies are summarized in Figure 1 and briefed in this section:

The **net profit ratio** reveals the remaining profit after all costs of production, administration, and financing have been deducted from sales and income taxes recognized. As such, it is one of the best measures of overall results of a firm, especially when combined with an evaluation of how well it is using its working capital. The measure is commonly reported on a trend line to judge performance over time. It is also used to compare the results of a business with its competitors. Net profit is not an indicator of cash flows, since net profit incorporates a number of non-cash expenses, such as accrued expenses, amortization, and depreciation. It is defined as the ratio of net profit to the net sales. **Gross profit ratio** is a profitability ratio that shows the relationship between gross profit and total net sales revenue. It is a popular tool to evaluate the operational performance of a business. The ratio is computed by dividing the gross profit figure by net sales. The gross profit ratio is defined as the ratio of gross profit to net sales. **Operating ratio** shows the efficiency of a company's management by comparing operating expense to net sales. **Return on net worth** is also known as return on equity

(RoE). It is defined as the ratio of net income to the shareholder's equity. Hence, RoE is a good indicator of a firm's ability at generating profits. **Return on long term fund** establish the relationship between the net profit and long term fund the term long term fund refer to the total investment made in business for long term. It is calculated by dividing the earnings before interest and tax by the total long term. **Dividend payout ratio** is defined as the ratio of yearly dividend per share to the earnings per share. It is also defined as the ratio of dividends to the net income.

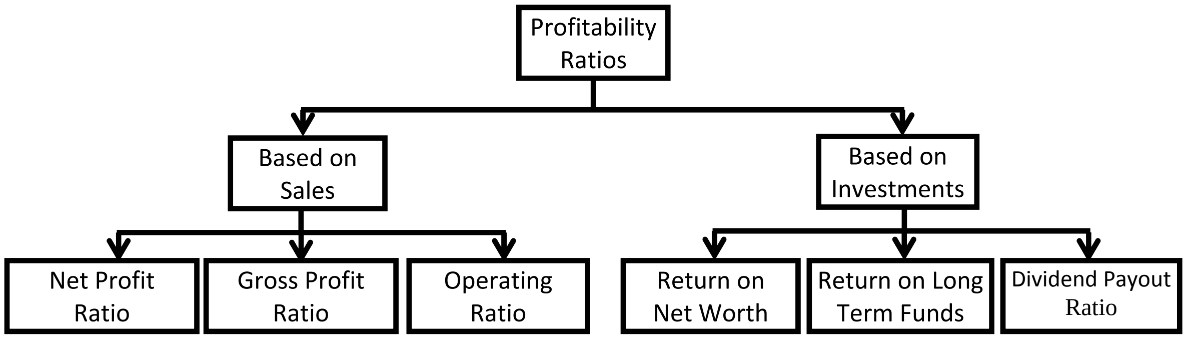

Figure 1: Profitability Ratio

3. Review of literature

Lakshmi and Narasa [4] have studied for five years to know the financial soundness of Cipla Ltd using various ratios and concluded that overall performance of Cipla Ltd was good. Solanki [5] has analyzed the sugar industry of two regions (northern and southern) on the basis of EBDIT, EBIT, GROSS PROFIT, PAT, and PBT and found that some sugar companies of southern region are performing better than that of their northern region's counterparts. Kavitha and Palanivelu [6] have measured the growth and profitability position of Iron and Steel Industries listed in BSE and NSE. For that, they have used ratio analysis and t-test and found that the Current Ratio, Quick Ratio, Short term solvency of BSE and NSE listing companies were found to be satisfactory. Koradia [7] has examined the profitability of three public sector oil companies. He has used four ratios (Operating Profit, Gross Profit, Net profit and Capital employed ratio) and ANOVA in this regard and found that there is significant difference between profitability ratios over the year except return on capital employed. Venkatesan and Nagarajan [8] have analyzed the profitability of selected steel companies of Tata, Sail, Bhushan, Jsw and Visa and found that Tata and Sail showed better performance than Bhushan and Jsw. Visa's financial position was not satisfactory during the study period. In last decade, the profitability and growth of IT companies is rarely analyzed using any statistical tool. In this paper, authors have proposed that analysis using ANOVA statistical tool.

4. Research Methodology

The present study is mainly based on secondary data which has been collected from the newspapers, director's report, journals, books, research papers, websites, and various other documents of the organization. Data has been collected for a period of last five years (i.e. from 2010 to 2014) mainly to analyze growth and profitability of HCL Technologies. In order to evaluate the growth and profitability, financial and statistical tools like ratio analysis, percentage and correlation have been used.

5. Objectives of the Study

The present study has been conducted to examine and evaluate all the aspects of the growth and profitability of IT companies on certain parameters through ratio analysis. The following are the broad objectives of the study:

- To analyse the trends in the growth and profitability of HCL Technologies, Wipro and Tech Mahindra during the last five years.

- To appraise the financial position of HCL Technologies, Wipro and Tech Mahindra through various ratios.
- To study the significance relationship between the companies and between the years by using ANOVA.

6. Hypotheses of Study

H0→There is no significant difference in Net Ratio between the companies and between years.
H0→There is no significant difference in Gross Profit Ratio between the companies and between years.H0→There is no significant difference in Operating Ratio between the companies and between years.
H0→There is no significant difference in Return on Net Worth between the companies and between years.
H0→There is no significant difference in Return on Long Term Funds between the companies and between years.

Table1: Operating Profit Ratio

Year	HCL Technologies	Wipro	Tech Mahindra
2010	27.830	24.000	24.380
2011	22.310	21.900	19.140
2012	28.180	19.070	16.520
2013	36.670	20.860	19.630
2014	44.310	23.500	21.850

Source: www.moneycontrol.com

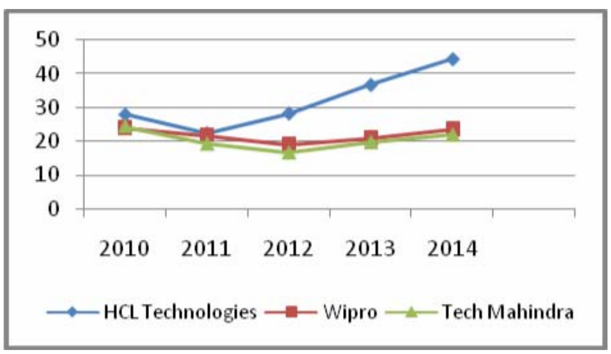

Figure1: Operating Profit Ratio

7. Growth and Profitability Comparison

The operating profit ratio of HCL was 27.83% in 2010. In the very next year it came down to 22.31%. Thereafter it showed a rising trend and reached to 44.31% in 2014. It is evident from the Table 1 that the operating profit margin ratio of Wipro had a fluctuating trend and ranged from 19.07% in the year 2012 to 24% in the year 2010. The operating ratio of Tech Mahindra was 24.38% and showed a fluctuating trend and reached to 21.85% in 2014. This is illustrated in Table 1 and plotted in Figure 1.

The net profit ratio of HCL has showed an increment of 15% whereas there is decline of 3% of net profit ratio in Wipro during the study period. The net profit ratio of Tech Mahindra remained was 16.43% in 2010 and reached to a low of 8.75% in 2012. Thereafter it started rising and reached to 16.40% in 2014. This is mentioned in Table 2 and plotted in Figure 2.

Table 2: Net Profit Ratio

Year	HCL Technologies	Wipro	Tech Mahindra
2010	20.180	20.920	16.430
2011	17.210	17.950	13.950
2012	21.180	14.230	8.750
2013	28.720	16.350	11.040
2014	34.880	18.290	16.400

Source: www.moneycontrol.com

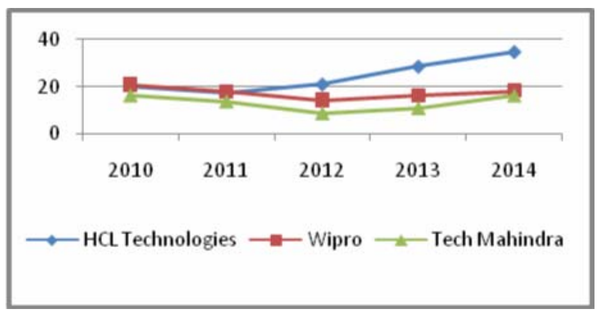

Figure 2: Net Profit Ratio

Table 3: Gross Profit Ratio

Year	HCL Technologies	Wipro	Tech Mahindra
2010	22.430	21.470	21.490
2011	18.020	19.620	16.360
2012	24.210	16.710	13.650
2013	33.140	18.750	17.010
2014	41.340	21.600	19.230

Source: www.moneycontrol.com

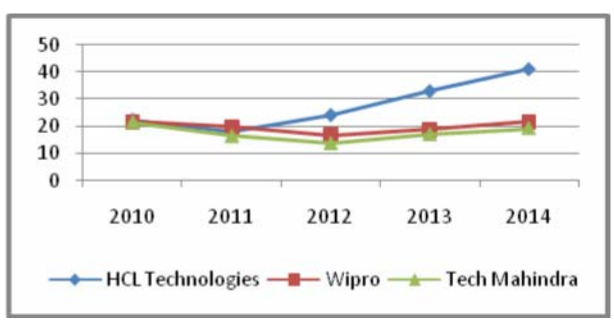

Figure 3: Gross Profit Ratio

22.43% in 2010.Wipro's gross profit showed a changeable trend and reached to 21.60% in 2014 from 21.47%.There was a drop in Tech Mahindra's gross profit ratio from 21.49% in 2010 to 13.65% 2012 but after that it showed an improvement and reached to 19.23% in 2014 as mentioned in Table 3 and plotted in Figure 3.

Table 4: Return on Net worth

Year	HCL Technologies	Wipro	Tech Mahindra
2010	38.000	27.680	25.910
2011	36.200	22.710	20.580
2012	29.530	19.230	13.370
2013	20.450	23.310	15.600
2014	21.410	25.160	31.260

Source: www.moneycontrol.com

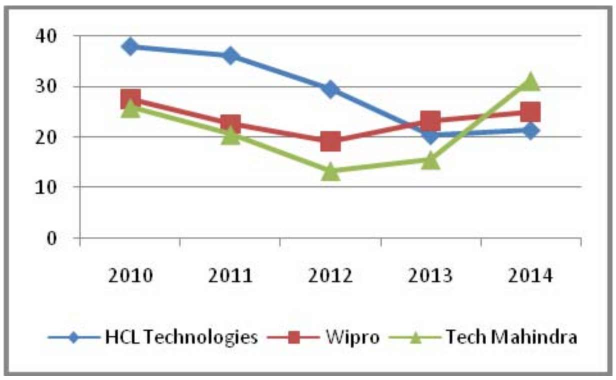

Figure 4: Return on Net worth

The overall Return on Net worth ratio of HCL Technologies and Wipro were disappointing whereas Tech Mahindra showed an improvement of 5% during the study period as mentioned in Table 4 and plotted in Figure 4.

It is analyzed from Table 5 that the Return on Long Term Funds of HCL Technologies was 47.41% in 2010. Thereafter, it continues to decline and reached to 20.74% in 2013.After that it showed a bit improvement of 1% in 2014.Wipro showed a fluctuating trend throughout the study period and reached to 29.47% in 2014 from 23.06% in 2010. Tech Mahindra's return on long term funds was 19.47% and reached to a high of 32.61% in 2014.

The overall gross profit ratio of HCL showed much improvement and reached to 41.3% in 2014 from

Table 5: Return on Long Term Funds

Year	HCL Technologies	Wipro	Tech Mahindra
2010	47.410	23.060	19.470
2011	42.050	22.440	16.180
2012	34.470	22.040	16.050
2013	20.740	26.720	17.510
2014	21.710	29.470	32.610

Source: www.moneycontrol.com

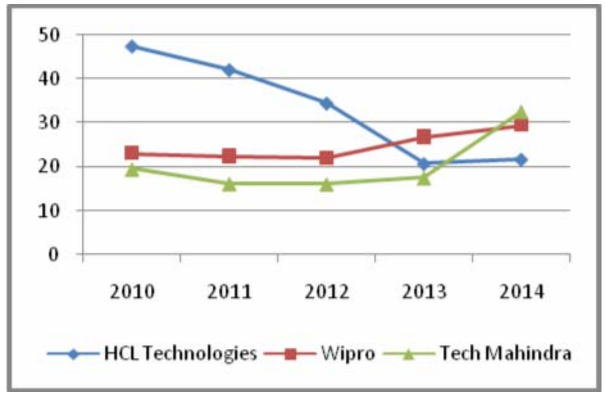

Figure 5: Return on Long Term Funds

8. Data Analysis

From Table 6, it can be seen that the calculated value of 'F' (4.720) is more than the table value of 'F' (4.459) at 5% level of significance. Hence, the null hypothesis is rejected, and thus, the differences between operating profit margin in between the companies are significant. Further, calculated value of 'F' (0.05705) is less than the table value of 'F' (3.8378) at 5% value of significance, the null hypothesis is accepted, and thus, the difference between operating profit margin between years is not significant.

Table 6: Analysis of Variance of Operating Profit Ratio

Sources of variance	Sum of square	Degree of freedom	Mean square variance	f-ratio	f- critical Value (5%)
Between the companies	787	2	393	4.720	4.459
Between the years	19	4	4.750	0.057	3.838
Residual	666	8	83.250	-	-

Source: Computed from Table 1.

Table 7: Analysis of Variance of Net Profit Ratio

Sources of variance	Sum of	Degree of	Mean Square	f-ratio	f-critical

	Square	Freedom	Variance		Value (5%)
Between the companies	560	2	280	3.404	4.459
Between the years	23	4	5.750	0.070	3.838
Residual	656	8	82.250	-	-

Source: Computed from Table 2.

It is evident from the Table 7 that the calculated value of ‘F’ (3.404) is less than the table value of ‘F’ (4.459) at 5% level of significance. Hence, the null hypothesis is accepted and thus, the differences between net profit margin (in between the companies) are not significant. Further, calculated value of ‘F’ (0.06990) is less than the table value of ‘F’ (3.8378) at 5% value of significance, the null hypothesis is accepted, and thus, the difference between operating profit margin between years is not significant.

Table 8: Analysis of Variance of Gross Profit Ratio

Sources of variance	Sum of Square	Degree of Freedom	Mean Square Variance	f-ratio	f-critical Value (5%)
Between the companies	556.850	2	278.425	3.200	4.459
Between the years	69.120	4	17.280	0.200	3.838
Residual	696.410	8	87.050	-	-

Source: Computed from Table 3.

It is evident from the Table 8 that the calculated value of ‘F’ (3.20) is less than the table value of ‘F’ (4.459) at 5% level of significance. Hence, the null hypothesis is accepted, and thus, the differences between operating profit margin in between the companies are not significant. Further, calculated value of ‘F’ (0.20) is less than the table value of ‘F’ (3.8378) at 5% value of significance, the null hypothesis is accepted, and thus, the difference between operating profit margin between years is not significant.

Table 9 shows that the calculated value of ‘F’ (2.94) is less than the table value of ‘F’ (4.459) at 5% level of significance. Hence, the null hypothesis is accepted and thus, the differences between operating profit margin in between the companies are not significant. Further, calculated value of ‘F’ (0.00441) is less than the table value of ‘F’ (3.8378) at 5% value of significance, the null hypothesis is accepted, and thus, the difference between operating profit margin between years is not significant.

Table 9: Analysis of Variance of Return on Net Worth

Sources of variance	Sum of Square	Degree of Freedom	Mean Square Variance	f-ratio	f-critical Value (5%)
Between the companies	500	2	250	2.940	4.459
Between the years	1.500	4	0.375	0.004	3.838
Residual	678.880	8	84.860	-	-

Source: Computed from Table 4.

Table 10: Analysis of Variance of Return on Long Term Fund

Sources of variance	Sum of Square	Degree of Freedom	Mean Square Variance	f-ratio	f-critical Value (5%)
Between the companies	1414.330	2	707.165	4.574	4.459
Between the years	-341.099	4	85.275	0.551	3.838
Residual	1236.920	8	154.615	-	-

Source: Computed from Table 5.

Table10 shows that the calculated value of ‘F’ (4.57371) is more than the table value of ‘F’ (4.4590) at 5% level of significance. Hence, the null hypothesis is rejected, and thus, the differences between operating profit margin in between the companies are significant. Further, calculated value of ‘F’ (0.551) is less than the table value of ‘F’ (3.8378) at 5% value of significance, the null hypothesis is accepted and thus, the difference between operating profit margin between years is not significant.

9. Conclusion

There is no significant difference between the years in operating profit ratio, net profit ratio, gross profit ratio, return on net worth ratio and return on capital employed ratio. Whereas there is significant difference between the companies in operating profit ratio and return on capital employed ratio. But there is no significant difference between the companies in net profit ratio, gross profit ratio, and return on net worth ratio.

It can be concluded from the above ratios that the performance of HCL Technologies in terms of operating profit ratio, net profit ratio and gross profit ratio showed a very good performance. Return on net worth and return on long term funds of HCL Technologies is not satisfactory whereas in case of Tech Mahindra, it was good. Wipro showed an average performance during the study period.

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