Chapter – 6

FINDINGS, SUGGESTIONS AND CONCLUSIONS
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In this chapter, researcher made an attempt to describe the findings based on the analysis of the secondary data. The researcher explores the ways and means to offer suggestions for effectiveness of financial performance of selected 4 IT companies and conclusion of the study.

FINDINGS OF THE STUDY

- The Share capital position of selected IT companies i.e., TCS, Infosys, Wipro and HCL had shown increased trend over the decade under study.
- The Reserves and Surplus position of selected IT companies had recorded an increasing trend over the study period and further it is observed that the growth of reserves were quite appreciable.
- The Net worth position of selected IT companies were recorded an increasing trend during the study period except HCL during first 4 years it was fluctuating.
- The total liabilities of selected IT companies had recorded an increasing trend during the study period, but the liabilities were heavily increasing in TCS.
- The Fixed assets had recorded an increasing trend in all the selected IT companies during study period.
- The overall position of Net Block had recorded an increasing trend during the study period except Wipro companies net block position was decreased during 2012-13.
- The capital work in progress position of selected IT companies had recorded fluctuating trend during the study period. Among selected companies, HCL had recorded increased trend during the study period.
- The investment position had recorded an increasing trend in TCS and Wipro, whereas in Infosys and HCL were fluctuated during the study period.
- The Sundry debtors had recorded an increasing trend in TCS & Wipro, and fluctuating trend identified in Infosys and HCL companies during the period of study.
- The Cash and Bank balance of selected IT companies had recorded an
increasing trend during the study period and immediate increasing trend was identified during the year 2010-11 in all selected IT companies.

- The Loans and Advances position of selected IT companies had recorded increasing trend with slight fluctuations during the study period.

- The Current assets had recorded an increasing trend in all selected IT companies in all years of study.

- There was a substantial increasing trend in TCS when compared to other selected IT companies during study period.

- The total current liabilities and provisions had recorded increasing trend followed by slight fluctuations in all the selected companies except Wipro under the study.

- The total current assets of selected IT companies has recorded slight fluctuations, except HCL recorded negative net current asset position from 2004-05 to 2005-06.

- The total assets of selected IT companies has recorded increasing trend during the study period except HCL during 2007-08.

- The findings related to the dividend per share revealed that the Dividend per share has been fluctuating in all selected I.T Companies over the 10 years of the study period.

- The operating profit per share of both TCS and Wipro had shown fluctuations during the period under study. However, in case of Infosys and HCL, the operating profit had increased at the end of the study period.

- The net operating profit per share of both TCS and Wipro had shown fluctuations during the period under study. However, in case of Infosys and HCL, the net operating profit had increased at the end of the study period.

- The free reserves per share had been fluctuating in all the I.T companies over the years of the study period except for Infosys.

- The bonus in equity capital of TCS and HCL had increased at the last years of study period but bonus in equity capital of Infosys and Wipro companies had shown gradual incremental consistency during the study period.

- The operating profit margin of selected IT companies had been fluctuating
during the entire study period in case of four selected sample companies which are included in the study.

- The Gross profit margin had been highly fluctuating in the entire selected IT companies during the entire study period. Among selected IT companies, the HCL had shown number of deviations in gross profit margin comparatively.

- The adjusted cash margin of sample IT companies had been fluctuating during the entire study period, but however, the change was found to be very less.

- The Net profit margin of sample IT companies had been fluctuating during the entire study period with minimum amount of change. But among these selected companies, the net profit margin had recorded highest fluctuations in HCL comparatively.

- The return on net worth in the sample IT companies had heavily declined at the end of the period in all IT companies except HCL and TCS.

- Return on long term funds of sample IT companies had heavily declined. In case of TCS, Infosys and Wipro had got moderate decrement and HCL Tech value is drastically increased.

- The analysis of the current ratio reveals that it had drastically increased in TCS & HCL and Infosys and Wipro got the moderate increase during the study period.

- The observation relating to quick ratio reveals that it has drastically increased in case of TCS & HCL. But, Infosys and Wipro got the moderate increase during the study period.

- The Fixed charges coverage ratio has been extremely fluctuating in the sample IT companies. While TCS and Infosys got huge increase and in case of Wipro it was drastically decreased whereas HCL was moderately increased during the study period.

- The position of assets turnover ratio has been fluctuating and declined in case of all companies except HCL.

- The expenses as composition of total sales ratio has moderately increase in case of all companies except HCL.
• The dividend payment ratio with respect to net profit has been fluctuating in all the companies during the entire study period. Further, this ratio is increased when compare with first and last years of study period except HCL was drastically decreased.

• The earnings retention ratio has been fluctuating in all the companies during the entire study period except HCL which was drastically increased.

• The earnings per share was drastically increased in Infosys & HCL and slight increase was recorded in Wipro & TCS during the study period.

REGRESSION ANALYSIS

A. Influence of Net profit on Current Assets, Total Assets, Fixed Assets, Total Expenses and Net SalesRegression Analysis

• **TCS:** Current Assets, Total Assets and Net sales have a positive effect on Net profit whereas Fixed assets and Total expenses have negative effect on Net profit. However, these independent variables did not significantly affect the Net profit as indicated by the t-test results.

• **Infosys:** Fixed assets and Net sales have a positive effect on Net profit whereas Current Assets and Total Assets have negative effect on Net profit. However, these independent variables did not significantly affect the Net profit as indicated by the t-test results.

• **Wipro:** Total Assets and Net sales have a positive effect on Net profit whereas Current Assets, Fixed Assets and Total Expenses have negative effect on Net profit. However, these independent variables significantly affect the Net profit as indicated by the t-test results.

• **HCL:** Current Assets, Total Assets and Net sales have a positive effect on Net profit whereas Fixed Assets and Total Expenses have negative effect on Net profit. However, these independent variables did not significantly affect the Net profit as indicated by t-test results.

B. Influence of Working Capital on Total Expenses

• **TCS:** Increase in working capital resulted into the increase in total expenses. The working capital significantly affected the total expenses in TCS as shown by t test results. It highlighted the fact that TCS could not be free from their
interest burden and other expenses by increasing their current asset position.

- **Infosys:** Increase in working capital resulted into the increase in total expenses. The working capital significantly affects the total expenses in Infosys as shown by t test results. It highlighted the fact that Infosys could not be free from their interest burden and other expenses by increasing their current asset position.

- **Wipro:** Working capital resulted into the increase in total expenses. The working capital significantly affected the total expenses in WIPRO as shown by t test results. It highlighted the fact that WIPRO could not be free from their interest burden and other expenses by increasing their current asset position.

- **HCL:** Working capital resulted into the increase in total expenses. The working capital significantly affected the total expenses in HCLTECH as shown by t test results. It highlighted the fact that HCLTECH could not be free from their interest burden and other expenses by increasing their current asset position.

**C. Influence of Working Capital on Total Assets**

- **TCS:** Working capital resulted into the increase in total assets. The working capital significantly affected the total assets in TCS as shown by t-test results. It highlighted the fact that TCS can considerably increase their total assets by augmenting their working capital position.

- **Infosys:** Working capital resulted into the increase in total assets. The working capital significantly affected the total assets in Infosys as shown by t-test results. It highlighted the fact that Infosys can noticeably increase their total assets by increasing their working capital position.

- **Wipro:** Working capital resulted into the increase in total assets. The working capital significantly affected the total assets in WIPRO as shown by t test results. It highlighted the fact that WIPRO can considerably increase their total assets by enlarging their working capital position.

- **HCL:** Working capital resulted into the increase in total assets. The working capital significantly affected the total assets in HCLTECH as shown by t-test results.
results. It highlighted the fact that HCLTECH can considerably increase their total assets by enlarging their working capital position.

**D. Influence of Working Capital on the Profitability**

- **TCS:** The independent variables such as Debtor Turnover Ratio, Working Capital Turnover Ratio and Cash Turnover Ratio did not significantly affect the PBT to total assets. But, Current Ratio and Liquid Ratio significantly affected the PBT to Total Assets Ratio as indicated by the t-test results.

- **Infosys:** Liquid ratio, debtor turnover ratio and cash turnover ratio have a positive effect on PBT to total assets ratio whereas current ratio and working capital turnover ratio have negative effect on PBT to total assets ratio. However, these independent variables did not significantly affect the PBT to total assets ratio except Debtor turnover ratio as indicated by the t-test results.

- **Wipro:** Current ratio, liquid ratio and working capital turnover ratio have a positive effect on PBT to total assets ratio whereas Debtor Turnover Ratio and Cash Turnover ratio have negative effect on PBT to total assets ratio. However, these independent variables did not significantly affect the PBT to total assets ratio as indicated by the t-test results.

- **HCL:** Liquid Ratio and Debtor Turnover Ratio have a positive effect on PBT to total assets ratio whereas Current Ratio, Debtor Turnover Ratio and Working Capital Turnover ratio have negative effect on PBT to total assets ratio. The independent variables such as Current Ratio and Liquid Ratio significantly affected the PBT to Total Assets Ratio. On the other hand, the independent variables such as Debtor Turnover Ratio, Working Capital Turnover Ratio and Cash Turnover Ratio did not significantly affect the PBT to total assets ratio as indicated by the t-test results.
SUGGESTIONS

In the challenging economic climate, IT companies should find new ways and means to stimulate growth, improve financial performance and reduce risk. The following are the suggestions offered to improve the financial performance of these companies.

- Working capital tied up in cash flow is quickly being seen as a ‘hidden reservoir’ of efficiencies that can be tapped to fund growth strategies, such as capital expansion. Cash flow locked in receivables can be freed up by using a recipe of business process improvements, specialized technology and effective change management.

- Free cash flow is a measure of how well corporations are generating cash after capital expenditures. It is increasingly being seen as a signpost of corporate efficiency. As the IT companies improve their working capital management, their free cash flow also increases and subsequent increases in shareholder value.

- The pressure to improve margins and profitability has led many IT companies to take a two – pronged approach to centralizing finance functions, along with leveraging third party service providers. Credit, receivables and payable functions are not exceptions to this, and are prime candidates for shared services, where a smaller specialized team of professionals services for the global business units.

- Balancing receivables and payables performance both in house and outsourcing teams is critical to ensure financial success. This often requires a specialized technology platform with multi-language and multi-currency capabilities that both teams can use, while offering measurement and management capabilities to finance executives.

- While the daily operational aspects of managing cash flow are done at the levels of credit, collections and payable departments, the job of optimizing short term liquidity is often done by treasury and corporate finance departments. These personnel have the task of accurately forecasting cash
from receivables and payables and managing any gaps in liquidity.

- The problem of excessive investments in the IT companies can largely be tackled through improved coordination in the functioning of some strategic departments such as finance, personnel, purchase and maintenance. For ensuring effective coordination, strengthening up of management information system in IT companies is essential.

- IT companies need to adopt weekly reporting system in respect of Cash and bank balances. Moreover, the responsibility for arranging funds to meet the working capital requirements should not be thrust upon the finance managers only, rather it should be made a collective responsibility of all the middle level managers.

- During the course of research investigation, it has been found that the management normally consider the liability aspects of the selected IT companies. It is important that these companies do not pay much attention to the profitability of funds employed in it. That is why, the main problem of these companies is to invest in various current assets without proper financial analysis. To overcome this difficulty, the management should considered working capital as equally important and realize that only proper balancing of liquidity and profitability would ensure efficient financial operations.

- Cash management in IT companies can be streamlined by proper planning and control of cash. These IT companies must increasingly adopt objective methods rather than intuitive methods of cash forecasting. Moreover, cash inflows and outflows must be individually managed.

- As better financial performance needs, frequent financial decision making. It is proposed that every IT company should set up a separate ‘portfolio’ to keep vigilance on the global environmental conditions and economic trends.
CONCLUSION

The motive of the present study is to compare the performance, profitability, solvency, etc. of some of the popular IT companies. Every one has its strength and weaknesses, but Infosys and WIPRO clearly indicate the highest mean values. Using the financial analysis instruments, it is possible to show a better delimitation between them. Strong financial statement analysis does not necessarily mean that the organization has a strong financial future. Financial statement analysis might look good but there may be other factors that can cause an organization to collapse. The Long term success of IT companies depends on their financial discipline, efficient process and robust systems. Advancement in the technology and weak global economy often hit the financial strength of these companies and question their sustainability. Though the net worth of the companies are quite appreciable, increase in loans and advances and the increase in current liabilities throw many more challenges before the selected IT companies. These companies also face major fluctuations to maintain the position of their net current assets and total assets. As a result, these companies struggle to generate adequate profit and limit the ability of their business operations.

SCOPE FOR FURTHER RESEARCH

The investigator proposes the following issues for research in IT sector

1. A study on the Impact of global economic recession on the IT companies in India.
2. An Analytical study on the Sources and Deployment of funds in IT companies
3. A study on the Capital Budgeting decisions in IT companies
4. A study on the working capital management in IT companies
5. Empirical study on the employees’ attitude towards the financial decisions of the selected IT companies in India