

Study on a Financial Stability of Selected Indian Information Technology Companies through Pearls Analysis

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Abbreviation

IT = Information Technology

USD = United States Dollar

US = United States

GDP = Gross Domestic Product

BPO = Business Process Outsourcing

WOCCU = World Council for Credit Unions

CV = Coefficient of Variance

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ABSTRACT

This paper is a try at addressing the issue of development of pearls analysis in INDIAN information technology companies of India. It is based on six basic things which includes protection, effective financial structure, assets quality, rate of return and cost, liquidity, sign of growth. All these help in measuring the financial performance of the company. The purpose for including the indicators is to examine how change in one ratio has ramifications for numerous other indicators. To the best of researcher's knowledge and based on the review of literature it can be said that this is the first try to apply pearls system in india in the i.t companies. It has been mostly used in financial institutions.

1. Introduction

India has occupied the leadership position in Information Technology and Information Technology enables services sector in all over the world in the recent years. Strong demand for past few years has placed India amongst the fastest growing IT markets in Asia-Pacific region. The annual revenue of IT & Information Technology enabled services including domestic and export segment in 2007 is expected to exceed USD \$ 47.8 billion which shows an increase of nearly 28% in current fiscal and ensures the growth of 21% over 2005-06. But China, Russia, Taiwan, Vietnam are also upcoming IT superpower who can give cutthroat competition to India. INDIAN IT sector is one of the most flourishing Industries but there is a fear of collapsing of INDIAN IT sector with the recession in US Market. So this type of study is mandatory to carry on at this point of time to reveal. The actual financial scenario of this industry and to check whether it will continue its. Growth position or able to hold the leadership position to next decade. As no study can efficiently start without literature review, we attempt to do so in the next section.

Meaning

PEARLS MEANS

P = PROTECTION

E = EFFECTIVE FINANCIAL STRUCTURE

A = ASSET QUALITY

R = RATE OF RETURN AND COSTS

L = LIQUIDITY

S = SIGN OF GROWTH

2. Literature Review

A few studies in this field of IT industry were found in the course of review of literature. contents of the important one are briefly discussed below:

- Somesh Kumar (2007) examined in his study the growth performance and past and present trend of INDIAN IT industry. He also discussed about the government policies and its effect, with adverse or favorable. He described how IT sector acts as a catalyst of growth and development.
- T.S.Srinivasan (2005) examined in this study the growth rate of revenues as earned by IT sector and its growing contribution towards GDP. He made the comparison of spending on this sector between India and Chiana and also presented. The consequences of trouble as arise with year 2000 problems with its effect on this sector. That made great differences in revenues. But still the consistent growth rate can be observed from this study.
- Rafiq Dossani (2005) discussed in his study the evolution of India's software industry and the effect of rigid and hostile government policies concerned this sector internal as well as international market. He also shows that technologically sophisticated industry can develop even when many conditions typically present elsewhere are missing. He also examined the conditions in which transnational entry was made.

- Balaji Parthasarathy (2004) discussed in his study about the details of different Phases of IT industry starting prior to 1984. He presented the revenues earned by this Industry from international as well as from domestic market, percentage of export revenues and share of Software Technology Park's in such revenues from pre liberalized period. He also examined the government policies and its effect with briefly discussing the contribution towards GDP by this sector.
- Suma. S. Athreye (2003) discussed about the growth of INDIAN Software Companies during different periods and showing the growth of software exports for different times with a detailed study on slowdown period. This study also presented the picture of financial liberalization along with the evolution in INDIAN Software Industry where the evolving strategies of firm lie at the heart of an unfolding dynamic of sector's growth.

3. Statement Problem

The INDIAN Information Technology industry accounts for a 7.3% of the country's GDP and export earnings as of financial year 2011, while providing employment to a significant number of its tertiary sector workforce. More than 2.5 million people are employed in the sector either directly or indirectly, making it one of the biggest job creators in India and a mainstay of the national economy. In 2010-11, annual revenues from I.T.-BPO sector is estimated to have grown over US\$ 76 billion compared to China with \$35.76 billion and Philippines with \$ 8.85 billion. India's outsourcing industry is expected to increase to US\$ 225 billion by 2020. The Information Technology Industry is thus, very important

industry for Nation's development and growth. The companies fall under this industry will have to be assessed to have proper industry picture. We had an example of "Satyam Saga" which was the black spot for this developing industry. Here, researcher will try to assess the financial stability of the selected companies using PEARLS technique developed by WOCCU (World Council for Credit Unions, USA). Therefore, the statement of problem for this research is,

"AN ANALYTICAL STUDY OF SELECTED INDIAN INFORMATION TECHNOLOGY COMPANIES LISTED ON NATIONAL STOCK EXCHANGE BY PEARLS ANALYSIS"

4. Objectives of the study

1. The objective of the study is to check the financial stability of the selected companies listed on National Stock Exchange by PEARLS Analysis.
2. To study the Financial Stabilization of selected I.T. companies through PEARLS analysis.
3. To evaluate the Performance of selected INDIAN I.T. companies.

5. Research methodology

Sample Size

Sample size of the study is 4 selected INDIAN information technology companies.

Sample Area

Sample area of the study is different states of india.

Sample Period

Sample period of the study is the period of 10 years.

TABLE - A
SELECTED COMPANIES WITH LISTING DATE AND ISIN CODE

SR. NO.	NAME OF THE COMPANY	ISIN CODE	LISTING DATE
1.	CMC Ltd.	INE314AOI017	9 th June, 1999
2.	HCL Infosystems Ltd.	INE236AO 1020	1 st January, 1997
3.	Infosys Technologies Ltd.	INE009AOI 02 I	8 th February, 1995
4.	Wipro Ltd.	INE075AO 1 022	8 th November. 1995

6. Limitations of the study

- Present study will be based on secondary data and secondary data has its own limitations which might affect the study.
- Present study will be done considering PEARLS analysis only and there are certain ratios which are not applicable to Information Technology companies so it will be one of the major limitations of the study.

7. Hypothesis of the study

- H0: There would be no significant difference in Protection Ratios in selected units.
- H1: There would be significant difference in Protection Ratio in selected units.
- H0: There would be no significant difference in Effective Financial Structure Ratios in Selected units.
- H1: There would be significant difference in Effective Financial Structure Ratios in Selected units.

TABLE B : ANALYSIS OF SOLVENCY
Selected Information Technology Companies (Figures in Percentage)

YEAR	CMC	HCL INFO	INFOSYS	WIPRO	AVERAGE
2001	95.427	219.693	237.031	102.295	163.6115
2002	96.360	181.654	295.875	101.074	168.74075
2003	100.128	132.481	357.625	102.096	173.0825
2004	100.255	118.682	1396.137	102.865	429.48475
2005	128.828	120.246	1612.923	101.294	490.82275
2006	166.335	150.367	1815.000	100.955	558.16425
2007	143.786	129.386	1681.024	102.592	514.197
2008	183.444	135.730	1840.382	88.236	561.948
2009	218.668	120.034	2051.728	140.080	632.6275
2010	237.065	126.528	2086.973	131.271	645.50
AVERAGE	147.030	143.480	1337.470	107.276	
OVERALL AVERAGE	433.814				
S.D	52.5957537	32.8035102	745.8181564	15.7113821	
C.V	35.77212385	22.86277544	55.76335592	14.64575683	

Source :Calculated from the annual Reports of Selected Companies during study under review.

CMC INFOTECH LIMITED

Table B shows the company wise Solvency during study period. It reveals from the above table that the solvency ratio of CMC InfoTech Ltd., registered a continuous increasing trend during study period of ten financial years starting from 2000-01 to 2009-10. According to WOCCU, the ideal solvency ratio for the institution would be minimum 110 percent. It reveals from the above table that CMC InfoTech Ltd. did not achieve the target in first four years during the period under review i.e. financial year 2000-01 to 2003-04. After the financial year 2Q03-04 the company achieved the goal which has been laid down by WOCCU. However, the Solvency ratio of the CMC InfoTech Ltd. showed an increasing trend except the financial year 2006-07 during the study period. The ratio ranges from 95.426 percent to 237.064 percent. It also reveals from the above table that the growth of solvency ratio was slow in first four years and it increased rapidly in last six year during the study period. The solvency ratio achieved its standard in the financial year 2004-05. The CMC InfoTech Ltd. has got 147.030 percentages as the average for ten years which is higher than the minimum standard laid down by WOCCU. Comparing company's average with overall average of the industry, it can be concluded that CMC's solvency ratio was lower than industry average so company need to focus on its solvency. The company's average for ten years was 147.030 percent and industry average during the same period was 273.244 percent. Coefficient of variance shows the movement or variability or the consistency in the ratio. The higher the CV, the lower will be the consistency. Here, company's CV was 35.772 percent which shows that the company has got moderate variability in the said ratio. Finally, it can be concluded that the solvency of CMC InfoTech Ltd, was satisfactory during the study period.

HCL INFOSYSTEMS LIMITED

Table B shows the company wise Solvency analysis during study period. It reveals from the above table that the solvency ratio of HCL Info Systems Ltd., registered a fluctuating trend during study period of ten financial years starting from 2000-01 to 2009-10. According to WOCCU, the ideal solvency ratio for the institution would be minimum 110 percent. It reveals from the above table that HCL Info Systems Ltd. has achieved the standard ratio in every year during the

period under review. However, the Solvency ratio of the HCL Info Systems Ltd. showed fluctuating trend during the study period. The ratio ranges from 126.528 percent in financial year 2009-10 to 219.693 percent in financial year 2000-01. It also reveals from the above table that the growth of solvency ratio was always high during the study period. The HCL Info Systems Ltd. has got 143.480 percentages as the average for ten years which is higher than the minimum standard laid down by WOCCU. Comparing company's average with overall average of the industry, it can be concluded that HCL's solvency ratio is much lower than industry average so company need to increase its solvency. The company's average for ten years was 143.480 percent and industry average during the same period was 273.244 percent. Coefficient of variance shows the variability or the consistency in the ratio. The higher the CV, the lower will be the consistency. Here, company's CV was 22.863 percent which shows that the company has got low variability in the said ratio which is positive sign for company's solvency. Finally, it can be concluded that the solvency of HCL Info Systems Ltd, has more than satisfactory during the study period as the ratio is higher in every year than the standard ratio during the study period. The company needs to focus on the consistency part of the said ratio as it is not stable during last ten years

INFOSYS TECHNOLOGIES LTD.

Table B reveals Solvency of the Infosys Technologies Ltd. during study period. It can be seen from the above table that the solvency ratio of Infosys Technologies Ltd. registered a continuous increasing trend except financial year 2006-07 during study period. According to WOCCU, the ideal solvency ratio for the institution would be minimum 110 percent. It reveals from the above table that Infosys Technologies Ltd. has achieved the goal of standard ratio from the first year onwards during the period under review. It also reveals from the table that Infosys Technologies Ltd. has got the highest solvency during the study period as its ratio is much higher than standard ratio. The ratio ranges from 237.031 percent in financial year 2000-01 to 2086.973 percent in financial year 2009-10. It also reveals from the above table that the growth of solvency ratio was very high during the study period. The solvency ratio achieved its standard in the first financial year 2000-01. The Infosys Technologies Ltd. has got 1337.470

percentages as the average for ten years which is much higher than the minimum standard laid down by WOCCU. Comparing company's average with overall average of the industry, it can be concluded that Infosys Technologies Ltd.'s solvency ratio was also much higher than industry average. The company's average for ten years was 1337.470 percent and industry average during the same period was 273.244 percent. Coefficient of variance shows the consistency in the ratio. There is a negative relationship between CV and consistency. The higher the CV, the lower will be the consistency. Here, company's CV was 55.760 percent which shows that the company has got higher variability in the said ratio during the study period. The variability also exists because of continuous increment in ratio during period under review. Finally, it can be concluded that the solvency of Infosys Technologies Ltd. was highly satisfactory during the study period.

WIPRO LTD

Table B shows the company wise solvency during study period. It reveals from the above table that the solvency ratio of Wipro Ltd. registered a fluctuating trend during the study period. According to WOCCU the ideal solvency ratio for the institution would be minimum 110 percent. It reveals from the above table that Wipro Ltd. did not achieve the target in first eight years during the period under review i.e. financial year 2000-01 to 2007-08. After the financial year 2007-08 the company achieved the goal which has been laid down by WOCCU which is negative sign for company's growth in solvency. The ratio ranges from 88.236 percent in financial year 2007-08 to 140.080 percent in financial year 2008-09. It also reveals from the above table that the growth of solvency ratio was very slow in first eight years and it increased gradually in last two years during the study period. The solvency ratio achieved its standard in the financial year 2008-09. The Wipro Ltd. has got 107.273 percentages as the average for ten years which was lower than the minimum standard laid down by WOCCU. Comparing company's average with overall average of the industry, it can be concluded that Wipro's solvency ratio was much lower than industry average and standard ratio laid down by WOCCU so

company need to focus on its solvency. The company's average for ten years was 107.273 percent and industry average during the same period was 273.244 percent. Coefficient of variance shows the movement or variability or the consistency in the ratio. The higher the CV, the lower will be the consistency. Here, company's CV was 14.646 percent which shows that the company has got lowest variability in the said ratio. The low CV may be because of low increase in ratio. Finally, it can be concluded that the solvency of Wipro Ltd. was not satisfactory during the period under study.

8. Conclusion

The I.T. industry has emerged as one of the most important industries in the INDIAN economy contributing significantly to the growth of the economy. The I.T. industry of India got a major boost from the liberalization of the INDIAN economy. India's software exports have grown at an annual average rate of more than 50% since 1991. The structure of the I.T. industry is quite different from other industries in the INDIAN economy. The I.T. industry of India is hugely dependant on skilled manpower. Primarily a knowledge based industry, the I.T. industry of India has reordered significant success due to the huge availability of skilled personnel in India. The Information Technology Industry is thus, very important industry for Nation's development and growth. PEARLS is a financial performance monitoring system designed to offer management guidance for credit unions and other savings institutions. PEARLS is also a supervisory tool for regulators. The companies fall under Information Technology Industry will have to be assessed to have proper industry picture. The study reveals that selected companies have been working well during the study period. It is also observed that Infosys Technologies Ltd. does not have any external credit so its creditworthiness is the highest amongst selected companies during the period under review. It was also found that GTL and CMC faced problem in many ratios and has to solve this problem. It can also be concluded that the financial performance of all the selected companies is comparatively good.

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