

A study on A Descriptive Statistics of Financial Performance of IT Companies: “A Comparative Study with respect to HCL & WIPRO”

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ABSTRACT

This paper present the statistical analysis of financial performance of two IT companies named HCL & Wipro on the basis of its annual financial reports for the period 2010-2011 to 2014-15. The whole study based on the objective of to analyze the liquidity position, profitability position, capital structure and working capital position of both the IT companies. In this study the descriptive statistics and T-test is used to do comparative analysis of both the company. The analysis shows that (1) Due to more use of outside debt it has increased the interest burden on Wipro and it leads to unsatisfactory situation. (2) It has also founded that liquidity position is not up to accepted level because of more current liabilities. (3) The capital structure shows that Wipro use more outside debt rather than equity. It is suggested to Wipro to increase internal debt, to increase production levels, to control operation cost and to adopt forward integration strategy to expand the market.

1. Introduction

In our present day economy, finance is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium or small, needs finance to carry its operations and to achieve its targets. In fact, finance is so indispensable today that it is rightly said to be the lifeblood of an enterprise. Without adequate finance, no enterprise can possibly accomplish its objectives. Financial management is applicable to every type of organization, irrespective of its size kind of nature. It is as useful to a small concern as to a big unit. A trading concern gets the same utility from its application as a manufacturing unit may expect. This subject is important and useful for all types of ownership organizations where there is a use of finance, financial management is helpful. Every management aims to utilize its funds in a best possible and profitable way. So this subject is acquiring a universal applicability. Financial Management is indispensable in any organization as helps in:

- (1) Financial planning and successful promotion of an enterprise;
- (2) Acquisition of funds as and when required at the minimum possible cost ;
- (3) Proper use and allocation of funds;
- (4) Taking sound financial decisions ;
- (5) Improving the profitability through financial controls;
- (6) Increasing the wealth of the investors and the nation; and
- (7) Promoting and mobilizing individual and corporate savings.

1.2 Objectives of Financial Management

Financial management is concerned with procurement and use of funds. Its main aim is to use business funds in such a way that the firm's value/earnings are maximized. There are various alternatives available for using business funds. Each alternative course has to be evaluated in detail. The pros and cons of various decisions have to be looked into before making a final selection. The decisions will have to take into consideration the commercial strategy of the business.

Financial management provides a framework for selecting a proper course of action and deciding a viable commercial strategy. The main objective of a business is to maximize the owner's economic welfare. This objective can be achieved by:

- [1.2.1] Profit maximization
- [1.2.2] Wealth maximization

1.3 IT Sector

Information technology is concerned with the development, management and use of computer-based information systems. The Information Technology Association of America has defined information technology as “the study, design, development, application, implementation, support or management of computer-based information systems”, but the term has also been applied more narrowly to describe a branch of engineering dealing with the use of computers and telecommunications equipment to store, retrieve, transmit and manipulate data. Although commonly used to refer to computers and computer networks, IT encompasses other information-distribution technologies such as television and telephones, a wider field more explicitly known as information and communications technology. The information technology industry has become of the most robust industries in the world. IT, more than any other industry or economic facet, has an increased productivity, particularly in the developed world, and therefore is a key driver of global economic growth. Economies of scale and insatiable demand from both consumers and enterprises characterize this rapidly growing sector. Indian IT sector contributes to approximately 7.5 % to the GDP of the country. Not only it has placed India as the IT hub but this sector has also created huge employment opportunities. Top 5 IT firms employs approximately 7 lakh people worldwide. The presence of Indian IT is felt across the globe.

2. Review of literature

Brynjolfsson [1996], however, cautioned that these findings do not account for economic theory of equilibrium which implies that increased IT spending does not imply increased profitability. More recent firm level studies, however,

point a more positive picture of IT contributions towards productivity. These findings raise several questions about mis-measurement of output by not accounting for improved variety and quality and about whether IT benefits are seen at the firm level or at the industry level. Such issues have been discussed in detail and to a lesser extent.

Dos et al. [1993] studied statistical correlation between IT spending and performance measures such as profitability or stock's value. It is found that there is an insignificant correlation between IT spending and profitability measures, implying thereby that IT spending is unproductive.

3. Research Methodology

Research Methodology is a systematic and continuous method of defining a problem collecting the facts and analyzing them, reaching conclusion forming generalization.

3.1 Research Statement:

A Descriptive Statistics of Financial performance of IT companies: - A comparative study with respect to HCL & WIPRO”

3.2 Need of the study

The basis for financial planning, analysis and decision-making is revealed by the financial information. Financial information is needed to predict, compare and evaluate the firm's earning ability, long-term financial strength and short term financial strength as well as its working ability. With liberalization and globalization in the world today, financial statements are increasingly being studied and used by various classes of people who are directly or indirectly related and interested in the concern. This study/research is related to financial comparison of both IT companies. Nevertheless, they provide some extremely useful information to the extent. Thus, the financial statements provide a summarized view of the financial position and operations of a firm. Therefore, much can be learnt about a firm from a careful examination of its financial performance reports. The analysis of financial performance is, thus, an important aid to financial analysis. The focus of financial analysis is on key figures and relationship that exists between them. The analysis of financial performance is a process of evaluating the relationship between the component parts. The IT companies have important contribution in our economy of our country. The present research seeks to fill this gap.

3.3 Research Design

A research design is plan of action to be carried out in connection with a research project. It is the conceptual structure within which research is conducted and it constitutes the blue print for the collection, measurement and analysis of data. It is the specification of methods and procedures for acquiring the information needed for solving the research problem. According to Jahoda and Selltiz “A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” Prof. Miller – has defined research design as “The planned sequence of the entire process involved in conducting a research study.”

3.3.1 Source of Data: The study is based on secondary data. The secondary data are collected from information various journals, magazines, newspapers and annual reports, literature and websites and through various search engines.

3.3.2 Sample selection: The convenient sample method has been adopted to select the Information Technology companies namely HCL & Wipro for the present study.

3.3.3 Period of study: The study covers a period of 2010-11 to 2014-15.

3.4 Objectives of study:

To know the profitability, liquidity and activity ratio and debt equity of both the IT companies.

3.5 Hypothesis

Null hypothesis: Ho: There is no significant difference in the profitability, liquidity and activity ratio and debt-equity between HCL & Wipro.

Alternative hypothesis: H1: There is significant difference in the profitability, liquidity and activity ratio and debt-equity between HCL & Wipro.

3.6 Scope of the study

The scope of study is confined only to selective IT companies on the basis of their financial performance and analyzing the financial performance of the IT companies. The study is restricted to collecting information about the companies from websites and annual report.

3.7 Tools of Analysis

The following tools and techniques are used for the present study.

3.7.1 Ratio Analysis

3.7.2 Descriptive statistics

3.7.3 T - test

DESCRIPTIVE STATISTICS

Sr. No.	Ratio	Maximum		Minimum		Range		Mean		S.D.		C.V.	
		HCL	WIPRO	HCL	WIPRO	HCL	WIPRO	HCL	WIPRO	HCL	WIPRO	HCL	WIPRO
1	Return on capital employed	28.57	29.47	21.94	22.04	7.51	7.43	25.55	25.5	3.29	3.18	12.41	12.46
2	Fixed assets turn over	4.42	4.59	3.81	3.46	1.15	1.13	4.11	4.1	0.54	0.47	11.51	11.46
3	Gross profit	20.98	21.60	16.89	16.71	4.71	4.89	19.62	19.42	1.89	1.84	9.54	9.496
4	Net profit	20.03	19.88	15.87	14.78	5.18	5.1	17.91	17.83	2.05	2	11.59	11.34
5	Earning per share	31.28	33.18	20.04	19.05	14.02	14.13	24.99	24.97	6.38	6.30	25.27	25.23

6	Operating profit margin	24.51	23.5	20.57	19.07	4.21	4.43	21.58	21.53	1.68	1.67	7.81	7.75
7	Debt equity	0.20	0.22	0.14	0.15	0.09	0.07	0.189	0.186	0.04	0.03	16.27	16.13
8	Interest coverage	43.85	42.95	11.28	10.77	32.51	32.18	26.43	26.38	11.61	11.79	44.94	44.69
9	Current ratio	2.14	2.16	1.58	1.55	0.63	0.61	1.78	1.87	0.26	0.24	12.88	12.83
10	Stock turnover	184.6	169.8	37.51	36.42	132.9	133.38	86.68	87.27	54.91	54.44	62.46	62.38

[Sources : Descriptive statistics has been performed in MINITAB 17]

- As above Table, the HCL Company outperformed compare to Wipro in terms of return on capital employed ratio with a highest mean of 25.55 and Wipro underperformed compare to HCL in the term of return on capital employed ratio i.e. was 25.50. According to CV, there is the high variability in Wipro and less in HCL. Hence, HCL may be considered to be more consistent in terms of return on capital employed ratio.
- As above Table, the HCL Company outperformed compare to Wipro in terms of fixed assets turnover ratio with a highest mean of 4.11 and Wipro underperformed compare to HCL in the term of fixed assets turnover ratio i.e. was 4.1. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of fixed assets turnover ratio.
- As above Table, the HCL Company outperformed compare to Wipro in terms of gross profit ratio with a highest mean of 19.62 and Wipro underperformed compare to HCL in the term of gross profit ratio i.e. was 19.42. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of gross profit ratio.
- As above Table the HCL Company outperformed compare to other IT company in terms of net profit margin ratio with a highest mean of 17.91 and Wipro underperformed compare to other sample company in the term of net profit margin ratio i.e. was 17.83. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of net profit margin ratio.
- As above Table, the HCL Company outperformed compare to other IT companies in terms of earning per share with a highest mean of 24.99 and Wipro underperformed compare to HCL in the term of earning per share i.e. was 24.97. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of net profit margin ratio.
- As above Table, the HCL Company outperformed compare to other IT companies in term of operating profit margin with a highest mean of 21.58 and Wipro underperformed compare to other sample companies in the term of operating profit margin ratio i.e. was 21.53. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of return to net worth ratio.
- As above Table, the HCL Company outperformed compare to Wipro in terms of Debt equity with a highest mean of 0.189 and Wipro underperformed compare to HCL in the term of debt equity ratio i.e. was 0.186. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of debt equity ratio.
- As above Table, the HCL Company outperformed compare to Wipro in terms of Interest coverage with a highest mean of 26.43 and Wipro underperformed compare to HCL in the term of Interest coverage ratio i.e. was 26.38. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of debt equity ratio.
- As above Table, the Wipro Company outperformed compare to HCL in terms of current ratio with a highest mean of 1.87 and HCL underperformed compare to Wipro in the term of debt equity ratio i.e. was 1.78. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of debt equity ratio.
- As above Table, the Wipro Company outperformed compare to HCL in terms of stock turnover ratio with a highest mean of 87.27 and HCL underperformed compare to Wipro in the term of stock turnover ratio i.e. was 86.68. According to CV, there is the high variability in HCL and less in Wipro. Hence, Wipro may be considered to be more consistent in terms of debt equity ratio.

T-test

Sr. No.	Ratio	T value	DF	P value	T table
1	Return on capital employed	10.27	8	0.000	2.31
2	Fixed assets turn over	4.68	8	0.002	2.31
3	Gross profit	6.69	8	0.000	2.31
4	Net profit	8.41	8	0.000	2.31
5	Earning per share	3.75	8	0.018	2.31
6	Operating profit margin	6.39	8	0.000	2.31

7	Debt equity	11.84	7	0.000	2.37
8	Interest coverage	4.37	8	0.01	2.31
9	Current ratio	5.06	8	0.001	2.31
10	Stock turnover	10.14	8	0.001	2.31

(1) Return on capital employed

The calculated value of statistics $|t| = 10.27$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the Return on capital is not same in both the IT companies.

(2) Fixed assets turn over

The calculated value of statistics $|t| = 4.68$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the fixed assets turnover is not same in both the IT companies.

(3) Gross Profit Ratio

The calculated value of statistics $|t| = 6.69$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the Gross Profitability is not same in both the IT companies.

(4) Net profit Ratio

The calculated value of statistics $|t| = 8.41$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the net Profitability is not same in both the IT companies.

(5) Earning per share

The calculated value of statistics $|t| = 3.75$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that earning per share is not same in both the IT companies.

(6) Operating Profit Margin

The calculated value of statistics $|t| = 6.39$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the Operating profit margin is not same in both the IT companies.

(7) Debt Equity

The calculated value of statistics $|t| = 11.84$ is greater than the table value $t_{0.05, 7} = 2.37$. So H_0 is rejected at 5% level of significance. Hence, we can say that the debt equity ratio is not same in both the IT companies.

(8) Interest coverage Ratio

The calculated value of statistics $|t| = 4.37$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the Interest coverage is not same in both the IT companies.

(9) Current ratio

The calculated value of statistics $|t| = 5.06$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the current ratio is not same in both the IT companies.

(10) Stock turnover

The calculated value of statistics $|t| = 10.14$ is greater than the table value $t_{0.05, 8} = 2.31$. So H_0 is rejected at 5% level of significance. Hence, we can say that the Stock turnover ratio is not same in both the IT companies.

4. Conclusion

The present study of financial performance analysis in both IT companies was conducted with the help of annual reports, various financial tools; statistic tools are used in the study.

- (1) The profitability of the HCL was satisfactory at during study period but it was very unsatisfactory in Wipro because the gross profit ratio and net profit ratio was very low the reason behind the unsatisfactory profitability position may be the high cost of production and operating expenses.
- (2) It can be concluded from the return on capital employed ratio that it was not utilized in an efficient manner because it was highly unsatisfactory during the whole span taken for the study in Wipro.
- (3) It can be concluded from fixed assets turnover ratio that the fixed Assets have utilized in an efficient manner in HCL. It means increase in the investment in fixed Assets has brought about commensurate gain.
- (4) The liquidity position in HCL was highly unsatisfactory compare to Wipro. The current ratio was highly unsatisfactory but the improvement was marked during last 3 year of study.
- (5) It can be concluded from debt equity ratio that HCL was highly geared by borrowed fund which was adversely affected the profitability of the HCL. The debt equity ratio was also unsatisfactory in Wipro. It can be seen that both the IT companies has faced the burden of borrowed fund during the whole span of five years that taken for study.
- (6) The inventory management in Wipro was unsatisfactory which indicates the inefficiency in inventory management and control. The inventory management is marked little bit good in HCL compare to Wipro.
- (7) The interest coverage ratio of both HCL and Wipro was satisfactory which indicates the fund is sufficient to pay periodically interest charges to lenders it shows the security in investment but the ratio was too high in both the IT companies it shows the firm is not making proper use of outside debts.
- (8) The cost of goods sold and operating expense in Wipro was very high. It can be concluded that the management of Wipro did not have efficient control over their expenses. However the HCL has controlled their expense to considerable extend during the last year of the study period

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