



INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT AND MANAGEMENT

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PERFORMANCE ANALYSIS OF SOFTWARE INDUSTRIES THROUGH VALUE ADDED APPROACH - AN EMPIRICAL STUDY ON INFOSYS LTD.

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ABSTRACT

The degree of survival of an enterprise is determined by the level of performance they attained. The parameter of performance measure of an enterprise may be the variables of financial or non- financial nature. Any how the financial variables get the final determinant of the business progress among the other variables. The analysis of value added approaches gets more important than the other, especially in the IT industries. Value added is meaningful measure of corporate performance than conventional measures. In this context this paper tries to explain performance evolution by Infosys Ltd by the value added reporting for the period of 2001-02 to 2010-11. The analysis of VAS proves that the company is in a right direction.

KEYWORDS

VAS, Cost of Bought – in –Goods, Gross Value Added (GVA) ,Value Added Ratios and Value Added Reporting.

INTRODUCTION

The degree of survival of an enterprise is determined by the level of performance they attained. The parameter of performance measure of an enterprise may be the variables of financial or non- financial nature. Any how the financial variables get the final determinant of the business progress among the other variables. The analysis of value added approaches gets more important than the other, especially in the IT industries. The main reason is the value added approach exhibits the clear picture of the distribution of funds to the stake holders such as owners, capital providers, employers, and governments. Value added is a basic and important measurement to judge the performance of an enterprise. It indicates the net value or worth created by the manufacture during a specific period of time. No enterprises can survive and grow, if it fails to generate wealth. An enterprise may exist without profit, but can not survive without adding value. Value added is meaningful measure of corporate performance than conventional measures based on traditional financial accounting and can be particularly useful for employee's oriented approach, which will allow more fruitful discussion with employees and can be especially useful in productivity arrangement. The value added is a basic and broad standard comprises investment by shareholders, debentures holders, creditors and specialized financial institutions. If such investment not creates wealth (value addition), it means that is misuse of public funds. Therefore the concept of value added has a direct linkage with the concept of performance of the business.

RATIONAL OF THE STUDY

Every business has the responsibility of accountability towards their mobilization of funds they made. It may be in the form of employers, capital providers, governments, and retained by the firm itself, towards development and expansion of activities.

The growth of business is depends on the accomplishment of effective capital utilization, further the yardstick of the performance of business is not only to earn profit but also the way it disclose the profit or earnings to its stack holders. As such the value added techniques is considered to be a effective tool for measuring the performance on enterprises in this regard.

Looking to the significance of the measure of value added techniques the increasing numbers of enterprises in Western Countries are presenting the value added statement (VAS) in their annual reports. This practice is yet to be set in India. Presentation of value added state in annual reports is neither statutory nor obligatory for companies in India. Although for better disclosed and transparency point of view some companies have started presenting value added statement in their annual reports keeping this context in background researcher try to explain performance evolution of Infosys ltd by the value added reporting, from 2001-02 to 2010-11.

This research paper is dividing four sections.

- 1st section includes introduction of Sample Company, rational of study and objectives of the study.
- 2nd section deals research methodology of the study including hypothesis and limitation of the study.
- 3rd section deals with data analysis including various ratios and co- efficient of correlation of variables and student T-test and
- 4th section is for conclusion and suggestion.

PROFILE OF THE COMPANY

Infosys technologies are a pioneering company in the field of information technology. The company started its operations in 1981 as a private limited company with seven promoters and later on became a public limited company in the year 19992. Infosys completed its initial public offering of equity shares in India in 1993 and its initial public offering of ADSs in the United States in 1999. It became the first Indian software company to be added to the NASDAQ-100 index. It has received capability maturity model level (CMM-5) status which indicates that the company has a high quality of organization management system and processes and methodology.

The company has five subsidiaries globally-Infosys BPO Limited, Infosys technologies (Australia), Infosys Technologies (China), Infosys technologies(US) and Infosys technologies (Latin America).Infosys BPO previously known as progenies a subsidiary BPO of the company. In 2007, Infosys increased its stake in progeon to 98.9 Percent after acquiring shares from Citicorp International financial company and a subsequent buyback offer to its share holder. The company has presence across the globe with 52 global development centers spread over USA, Europe, Australia, and Asia. Infosys and its subsidiaries had 94,379 employees as on 94,379 employees as on 30 June 2008.

Infosys provides software services like application development and maintenance, consulting services and package implementation, infrastructure management systems integration product engineering and BPO. These services are provided to more than 500 active clients across industry segments like banking, financial services, insurance, manufacturing, telecom, retail, transportation and others. Banking and financial services (BFSI) is the largest industry vertical contributing 36 percent to revenues. It is followed by telecom (21 percent), manufacturing (15 percent), and retail (12 percent). The company has developed a core banking application, Finacle, which caters to the large and medium sized bank in South Asia, parts of Africa, Europe and India.

Exports account for 92.5 percent of revenues. The US is the largest export destination of the company accounting for 62 percent of total revenues. it is followed by Europe which accounts for 28 percent of revenues.

During 2007-08 the company incurred capital expenditure amounting to Rs.1, 370 crore as against Rs.1, 443 crore in the previous year. The company plans to expand its operations by adding around 26,881 seats to its 77,754 completed seats. As per the CMIE capex survey, the outstanding investment5 projects of Infosys stood at Rs.6, 674 crore as on 23 October 2008. The investment projects include software parks and development centers.

DATA AND METHODOLOGY OF THE STUDY

This research paper is based on the 10 years financial performance of the Infosys Ltd which is one of the leading IT company in India, the data of Infosys limited for the year (2001-02 to 2010-11) used in this study have been taken from secondary sources e.g. published annual reports of the company. Editing, classification and tabulation of the financial data, which are collected from the above mentioned sources, have been done as per the requirement of the study. For the analysis of value added reporting data are analyze in a following ways.

1 Value added statement.

2 Value added ratios.

For assessing the behavior of data statistical techniques has been also used. Eg. Mean, Co-efficient of Correlation, Growth Rate, Regression Analysis, Student T-test and Chi-square Test in this study.

OBJECTIVES OF THE STUDY

This research paper is based on the following objectives:

1. To understand the concept of the value added reporting.
2. To evaluate performance of the sample company with value added accounting and Value added ratios
3. To study intra firm comparison of last 10 years performance of sample company.

HYPOTHESIS OF THE STUDY

The following hypotheses are framed for this study.

1. There is no significant relation between Gross value added and Sales revenue during the study period.
2. Value added reporting is better method for evaluation of performance analysis of sample company during the last 10 years.

LIMITATIONS OF THE STUDY

1. This research paper is a micro nature research based in the sample of Infosys Ltd.
2. This research paper is based on the 10 years financial performance of the sample company from 2001-02 to 2010-11.
3. For the analysis of financial data, as per the requirement data's are grouped and sub grouped.

VALUE ADDED REPORTING

Accounting procedure: In case of value added reporting accounting procedure will be divided into two parts;

1. Generation of value added and
2. Application of value added

GENERATION OF THE VALUE ADDED

Value addition is the increase in the market value brought by an alteration in the form, location and availability of a product or services excluding the cost of brought in material or services used in the product or services. In simple words the value added is an excess of turnover + income from services over the cost of brought in material and cost of the services. Here turnover indicates (Gross sales + sales tax and duties – (rebate+ return – (commission + discount goods used for self consumption). Income from services includes income in the form of dividend, rent, commission and other income. The word cost of brought in material includes purchases of material and consumes during the year adjustment of WIP and finished goods. The term cost of services represent the cost of services paid to the external parties for using the facilities given by them the employees cost excise duty and depreciation have not the included in the cost of brought material and services . There are certain non- value added items appear on the debit and credit side of profit and loss accounts ,e.g., profit and loss on sale of investment and fixed assets, provision for bad debts, provision for taxation on operating exp.(Donations) these items should carefully be treated.

$$Va = S+I-C$$

Here, Va means Value addition, S means Sales, I mean Income from services and C cost of brought in material and services.

APPLICATION OF VALUE ADDED

Value added will be shared by three segments, e.g. (1) Employees, (2) Government, (3) Capital providers and remaining share will be retained by the company for their development and expansion activities. The employees comprise all human resources e.g. workers and staff, the share available to salary and gratuity, to the PF bonus and remuneration to the top managerial person. The Government provides not only the infrastructural facilities but also condition conducive to operational activities, hence the share of value added had also to be given tom the government in form of custom duty, excise duty, sales tax and wealth tax. Shareholders are the ultimate claimant of value added. As such a share in the value added is to them in the form of dividend from the financial management point of view the profit ploughing back or retained earnings also belong as to them. But since they have not yet been paid out they are to be separately distributed under the heading, reinvestment in business. Providers of capital by outsiders' agencies like bank financial institution, debentures holders will be given in the form of interest.

SIGNIFICANCE OF THE VALUE ADDED REPORTING

Value added reporting is new concept and method in Indian corporate environment to evaluate the performance of corporate sector. Its significance not only for the external purpose it is equally important for internal purpose also. Significance of value added reporting is explained with following views.

1. Comparison of performance

Value added is an alternative performance measure to profits value added is superior performance measure because it bounces attention of inputs controllable by the management and value added by deducting material cost allows attention to be directed at more comparable items.

2. Productivity measurement :

For the measurement of productivity value added providers better information e.g value added per rupees of capital employed , value added per rupees of sales, value added per rupees of labour cost , value added per rupees of employees , value added per labour/ machine per hours.

3. Resources allocation :

Resources allocation is decisions are normally based on the concept of maximum appropriate criterion because it incorporates the rewards to the employees as well as to providers of capital fund. For profile maximization ranking insure the allocation are based in contribution per units of the limiting factors and for value added maximization ranking would be on value added per units limiting factors.

4. Incentive schemes for the employee:

The value added reporting is found useful by many companies for explaining company results to employees the value added concept of profit is often an motivating and employees may well find the concept of creating wealth or adding value more acceptable one of the significant uses of the value added concept its incorporates in companies incentives schemes or bonuses schemes . The schemes work by establishing a have ratio of value added to the pay roll and thereby creating a base index. If the index moves favorable in later period a bonus is payable to share members.

VALUE ADDED REPORTING ANALYSIS

Value added statement is new concept in Indian corporate environment for financial reporting. A typical statement of added value is prepared as routine part of management information system is largely a rearrangement of information contain in income statement. That rearrangement provides a better means of understanding an enterprise contribution to the society. Value added statement of Infosys ltd. reveals that way by which the company has generated value added for the various segments of the society.

As per **Table I** sales revenue of Infosys Ltd has been increasing from 2670 corers to 25385 corers between 2001 -02 to 2010-11. Indices show a growth of 100% to 950% during the study period. The total values addition by the company during the study period is significantly increasing during the period of 2006-07 to 2008-09. Whereas the values addition decreased during the period 2009-10 due to economic slowdown in western countries specifically in United States as they have more clients for Infosys Ltd in US only. The indices of value addition show the growth rate of 950.75 % during the study period. The simple reason is being the company has expand their activities during the study period in different live of technology such as BPO and Business solutions to various global industries. Highest contribution will be made in the year 2010-2011 (950.75) the year 2008-2009 (812.4%).

Application of value added: application of value added is very important for social object point of view. Under application of value added major segment are payment to employee contribution to Govt., payment to capital providers and amount which are retained by the company.

Payment to employees: Payments to employees are gradually increasing from 1117.87 corers to 15901.05 corers during the study period of 2001-02 to 2010-11. But in terms of percentage with disposal of value addition, highest percentage with disposal of value addition, highest percentages is in the year 2010-2011 (75.1%) followed by 2009-10 (72.7%) and 2005-2006(63.2%) and so on ,one of the observation between the years 2001-02 to 2003-04 and 2008-09 to 2010-11 the percentage of disposal of value added is increasing constantly. This shows during that period a constant growth is made by the company

Contribution to Government: in case of payment to Govt. it includes excise duty, local taxes income tax, wealth tax etc. as per table1 company contributed a large amount during the last 3 years of study period between 6.26% to 11.23% of the value added, further the table shows there must be a constant increase in the payment of tax during the study period, shows growth in the business activities. Highest contribution was made in the year 2010-11 (2378 corer) there it followed by 2009-10, 2008-09 and so on.

Payment to capital providers: it consists of two major factors such as interest to money lenders and dividend to the share holders in case of interest provided to money lender the indebt liability has been fluctuating during the study period in both respects of amount as well as percentage with total value addition. Further the table1 shows that there is no interest liability during the period 2007-08 and 2008-09. But the interest liability for the last 2 years of the study period is gradually increasing. The reason is the company the company wants to redeem the long term liability for the future benefits.

From the share holders' point of view, the percentage of dividend declared is 5.42% constantly during the study period. This shows the positive signs of performance in their business activities.

Retained earnings: the table shows the fluctuating trend for retained earnings during the study period. It varies between 4415 crore to 670.47 crore during the study period. One of the trend which is observed that the last two years there exists a decline trend due to change in the management policy as the company wants not to retained their profits where as they want to go for diversification of funds.

VALUE ADDED RATIO'S ANALYSIS

For apprising the performance and judging the productivity of the Infosys Ltd following ratios ratio are considered for analysis. Ratios are the important tools for analysis of financial statement but traditional ratios are not relevant for the analysis of value addition by the company. Therefore a few new value added ratios are developed to signify the value added reporting in modern Era.

1. **Gross value added to sales ratio:** reveals the contribution of companies' sales revenue towards the value addition. An effective sales promotion policy would enable a company to enhance the performance of the company in this regard. As per table II sales ratio reveals almost an increasing trend over the years, which reflect that the company has are effective sales promotion policy to enhance the performance of the company.
2. **Gross value added to material cost ratio:** focuses the material productivity of the company. Higher the ratio greater will be the efficiency of the enterprise in terms of utilization of materials. It is observed from the table that the gross value added ratio to material cost ratio shows fluctuation over the periods. It ranges from 1.19 to 1.43 times, indicate that the company is highly efficient in terms of utilization of materials.
3. **Gross value added to Fixed Assets:** indicates the capital productivity of the company. Greater the ratio higher will be the efficiency is highly efficient in terms of higher productivity. It is observed that the value added to fixed assets ratio registered the fluctuating trend during the study period, results poor management in handling the fixed assets.
4. **Gross value added to labour productivity ratio:** it reveals the labour productivity of the enterprise. A higher ratio indicates that the company is the highly efficient in terms of the labour productivity. Since it registered fluctuating trend during the study period. It reflects that there is needed of efficient labour management of the company.
5. **Value added to net worth ratio:** indicates the amount of wealth created per rupee to network greater the ratio higher will be the safety of provider of capitals. The table shows that the ratio of net worth is fluctuating trend specifically during the last quarterly there exists decreasing trend. This is due to economic slowdown in the Asian countries.
6. **Gross value added to capital employed ratio:** reflects the efficiency of capital utilization in generating the quantum of value added. It reflects that how much value added per unit of capital investments. It recognized as more significant than traditional ratio of net profit to capital employed as an index of managerial efficiency. The table shows the fluctuating trend during the study period.

That it is clear that the financial ratios using value added figures can be regarded as the index of managerial performance and they would be more sensitive to display the vivid picture about the efficiency of management of a highly complex and comparative business environment.

TESTING OF HYPOTHESIS

A coefficient of correlation is calculated between two variables Sales (X) and Value added (Y) it is 0.99 that shows higher degree correlation between sales and value addition. Significance of correlation will also be tested through Student T-test as:-

Null hypothesis (Ho): There is no significant relation between sales and value addition.

Alternative hypothesis (H1): There is significant relation between sales and value addition

$$T = \frac{r \sqrt{(n-2)}}{\sqrt{1-r^2}}$$

$$= \frac{0.99 \sqrt{11}}{\sqrt{1-(0.99)^2}} \times 10^{-2}$$

$$= 19.85$$

Calculated value of t = 19.85 which is more as compared to critical value of t=2.31 at 5% level of significance .Hence null hypothesis rejected that means there is significant correlation between sales and value addition.

Hence the generation of value added analysis reveals directly the performance of company. Further the value added generation and application are even during the study will not be proved. The main reason is behind the company increase their production and launch new product in Global Market as well as outsourcing of human resources which will decrease cost of production.

IMPLICATION OF THE STUDY

The following are the most important implication of the study.

1. Revenue from sales shows better performance it increases from 2670 cores to 25385 cores and registered 930.75% growth during the study period.
2. Cost of brought in material significantly managed especially in the last five Years of the study period
3. Payment to the government has been increase during study period results that the company discharges their social responsibility more by way of paying excises duty, custom duty and other taxes.
4. The company maintains liquidity position effectively during the study period except the last three years, sources that the company has an effective management of long term debt.
5. In case of shareholders the company declared dividend, constantly (5.42%) during the study period, reflects that the company follows a conservative dividend policy and most of the profit will be retained for development activities.

- Regarding the retained earnings the company allowed an appropriate amount for investment and development point of view it is in the form of both retained earnings and depreciation.
- As per the ratio concerns unlike traditional financial ratio, value added ratio are equally important and useful to judge the efficiency and effectiveness of the enterprises as regards sales promotion, utilization of fund, capital, productivity, labour productivity etc.

CONCLUDE REMARKS

From the analysis so far it may conclude that the performance analysis of the Infosys Ltd on the basis of value added reviews the distributive judgment in respect of the entire stake holders of the company. This is not possible through the performance analysis on the basis of net profit figure only. Further the empirical study on Infosys Ltd. shows that from the total value added, the major part of total value has been distributed among the employees, followed by government, finance institution, bankers and share holders. This shows the performance of the company is in a right path during the study period. As the VAS analysis is useful to judge the performance and productivity of a company, the managers can adopt this type of techniques in their managerial decision process. It is worthwhile to the mention further, the academicians, the professional body of accountants should come forward the focus the significance of value added statement with a view to popularize the statement among the uses of financial statement and to produce accounting standard for standardized presentation data in this statement.

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TABLE – I: VALUE ADDED STATEMENT OF (VAS) INFOSYS LTD., FOR THE PERIOD OF 10 YEARS (2001-02 TO 2010-2011)

(Rs. In Crores)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Generation of Value Added										
Income-> Sales/Service rendered	2670	3722.3	4976.33	7416.54	9521	13893	16692	21693	21140	25385
Value of output(VO)	2670	3722.3	4976.33	7416.54	9521	13893	16692	21693	21140	25385
VO indices	100.00%	139.41%	186.38%	277.77%	356.59%	520.34%	625.17%	812.47%	791.76%	950.75%
Other income	0	99.61	123.38	123.9	139	378	704	473	910	1147
Gross Output	2670	3722.3	4976.33	7540.44	9660	14271	17396	22166	22050	26532
Less: Value of Input(VI) 1. Software development and B.P.O. Expenses	430.93	679.05	791.37	1200.7	1630	2392	2576	3093	13417	4498
Gross Value Added(GVA)	2239.07	3043.25	4184.96	6339.74	8030	11879	14820	19073	18633	22034
GVA Indices	100.00%	135.92%	186.91%	283.14%	358.63%	530.53%	661.88%	851.83%	832.18%	984.07%
Less: Depreciation	160.58	188.95	236.73	286.92	437	514	598	761	905	854
Net Value Added(NVA)	2078.49	2854.3	3948.23	6052.82	7593	11365	14222	18312	17728	21180
NVA Indices	100.00%	137.33%	189.96%	291.21%	365.31%	546.79%	684.25%	881.02%	852.93%	1019.01%
Distribution of NVA										
To Employees Cost/(Salaries/welfare)	1117.87	1677.12	2450.96	3539.16	4801	7112	8878	11405	12888	15901
	53.78%	58.76%	62.08%	58.47%	63.23%	62.58%	62.42%	62.28%	72.70%	75.08%
To providers of Capital(Interests Financial charges)	17.16	18.25	26.1	54.83	21	11	0	0	743	1068
	0.83%	0.64%	0.66%	0.91%	0.28%	0.10%	0.00%	0.00%	4.19%	5.04%
To Government(Tax (Direct & Indirect))	135.56	201	227.54	325.58	487	488	1008	1147	1717	2378
	6.52%	7.04%	5.76%	5.38%	6.41%	4.29%	7.09%	6.26%	9.69%	11.23%
To Owner's										
i) Dividend	137.43	191.11	972.96	356.55	1238	654	1902	1345	1674	1149
	6.61%	6.70%	24.64%	5.89%	16.30%	5.75%	13.37%	7.34%	9.44%	5.42%
ii) Retained earnings	670.47	766.82	270.67	1776.7	1046	3100	2434	4415	786	684
	32.26%	26.87%	6.86%	29.35%	13.78%	27.28%	17.11%	24.11%	4.43%	3.23%
Net Value Added(NVA)	2078.49	2854.3	3948.23	6052.82	7593	11365	14222	18312	17728	21180

Sources: Data are compiled on the basis of information available in Annual Reports of Infosys Ltd.

Note: Figures in percentage indicates the distribution of Net Value Added

TABLE – II: VALUE ADDED RATIOS FOR MEASURING PERFORMANCE AND JUDGING PRODUCTIVITY OF INFOSYS LTD. (IN TIMES)

YEAR →	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Mean
SET OF RATIOS ↓											
GVA/Sales	0.84	0.82	0.84	0.85	0.84	0.86	0.89	0.88	0.88	0.87	0.86
GVA/Material Cost	1.43	1.29	1.30	1.39	1.33	1.33	1.39	1.43	1.25	1.19	1.33
GVA/Fixed Asset	3.94	4.37	5.46	5.39	5.14	5.53	5.55	5.02	3.77	4.21	4.84
GVA/Labour Productivity	0.21	0.20	0.16	0.17	0.15	0.16	0.16	0.18	0.14	0.19	0.17
GVA/Network	1.08	1.06	1.29	1.21	1.16	1.06	1.10	1.07	0.81	0.85	1.07
GVA/Capital Employed	1.20	1.12	2.11	1.78	1.49	1.28	1.33	1.19	0.99	0.88	1.34

Source: Compiled and calculated from annual reports of Infosys Ltd (From 2001-02 to 2010-11)

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