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AN ANALYTICAL STUDY ON PROFITABILITY AND CONSISTENCY OF INFORMATION TECHNOLOGY SECTOR IN INDIA

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ABSTRACT

Information technology is one of the most promising, growing and developed industries in India. The size of this sector has increased at a tremendous rate of 35% per year during the last 10 years. The contribution of this sector to the Gross Domestic Product is about 8.5%, quite similar to that in United States today. It has created brand value in world as well. But from the point of view of profitability & consistency these are not as good as it is overall industrial sector. They differ from one firm to other. Under the study we have taken the five major players working in the IT sector in India. For the research purpose, there are various ratios which are calculated & further taken into consideration for the different tests. In the study secondary data are used which are collected from internet of all the firms for five financial years from 2008 to 2012. The main objective of study is to analyze the performance of each firm according to their profitability & consistency under the study & give them various ranks according to their performance. The study results confirm that the variables such Gross Profit Margin, Net profit Margin and operating Expenses Ratio, play an important role for measurement of the profitability and consistency of the firm. Thus, it is useful for the measurement of overall performance of various firms under Information Technology industry in India.

KEYWORDS

Performance Analysis, Profitability, Consistency, Information Technology Sector.

1. INTRODUCTION

Information technology (IT) sector in India has played an important role in putting India on the global map. IT industry in India has been one of the most significant growth contributors in the Indian economy. The industry has played a significant role in transforming India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services. The industry has helped India transform from a rural and agriculture-based economy to a knowledge based economy. Information Technology has made possible information access at Gigabyte speeds. It has made tremendous impact on the lives of millions of people who are poor, marginalized and living in rural and far flung topographies. Internet has made revolutionary changes with possibilities of e-government measures like e-health, e-education, e-agriculture, etc. Today, whether its filing Income Tax returns or applying for passports online or railway e-ticketing, it just need few clicks of the mouse. India's IT potential is on a steady march towards global competitiveness, improving defense capabilities and meeting up energy and environmental challenges amongst others. Today information technology sector plays a vital role in the economic growth and development in terms of employment creation, export promotion, revenue generation and improving standards of living. As per NASSCOM the estimated revenue of information technology sector (excluding hardware) are US \$ 87.6 billion in the financial year 2011-12; and the industry is expected to grow by 19% during current financial year 2012-13. Information technology sector has led to employment opportunities, both direct and indirect, of nearly 2.8 million and around 8.9 million respectively. This growth is expected to increase more than 14 million (direct and indirect) by 2015 and to around 30 million by 2030. The market size of the industry is expected to rise to US \$ 225 billion by 2020 considering India's competitive position, growing demand for exports, Government policy support, and increasing global footprint. Information technology sector has also led India's economic growth and the contribution of this sector in the national GDP has risen from 1.2% in 1997-98 to an estimated 7.5% in 2011-12.

2. OBJECTIVES

- (i) To estimate the performance of the firms according to their profitability.
- (ii) To estimate the performance of the firms according to their consistency.
- (iii) To provide ranks to the sample firms as per their overall performance.

3. HYPOTHESIS AND RESEARCH METHODOLOGY

3.1 Hypothesis 1

- H₀: There is no significant difference between Gross Profit Margin Ratios of the firms.
 H₁: There is a significant difference between Gross Profit Margin Ratio of the firms.

3.2 Hypothesis 2

- H₀: There is no significant difference between Net Profit Margin Ratios of the firms.
 H₁: There is a significant difference between Net Profit Margin Ratios of the firms.

3.3 Hypothesis 3

- H₀: There is no significant difference between Operating Expenses Ratio of Firms.
 H₁: There is a significant difference between operating ratio of firms.

4. RESEARCH METHODOLOGY

4.1 Type of Research

Type of research used here is an Analytical Research, the researcher have used the facts already available and have analyze them to make a critical evaluation of the material.

4.2 Sample Design

Sampling design: The sampling used here is convenient sampling.

4.3 Sample Size

In the study, data collected from five information technology firms consisting five years period from 2008 to 2012.

4.4 Variables of Study

Dependent variables: Profitability and Consistency. Independent variables: Gross Profit Margin, Net Profit Margin, Operating Expenses Ratio.

4.5 Method of Data Collection

The data used to calculate the ratios are derived from Balance Sheet and Profit and Loss Account of sample firms from the reputed web sites with the help of internet.

4.6 Method of Analysis of Data

Here data is preliminarily analyzed using a test called one-way ANOVA. ANOVA means analysis of variance. On the basis of ANOVA performed on each of the ratios some points are allocated to firms and on the basis of that conclusion is derived.

5. ANALYSIS AND INTERPRETATION

5.1 Gross Profit Margin Ratio

Table (1) represents the Gross Profit Margin of sample firms. Further ANOVA output form excel spreadsheet is represented in table (2) & (3) from this results following interpretation had been drawn.

TABLE 1: GROSS PROFIT MARGIN RATIO OF SAMPLE FIRMS

Year	TCS Ltd	Infosys Ltd	Wipro Ltd	HCL-Tech Ltd	Tech-Mahindra Ltd
2008	24.64	28.23	18.63	21.86	21.24
2009	25.01	30.66	19.64	24.33	26.22
2010	26.89	31.00	21.47	22.43	21.49
2011	28.12	30.23	19.62	19.13	16.36
2012	27.52	29.65	17.29	24.21	13.65

Sources: Collected and Calculated by Author

TABLE 2: SUMMARY OUTPUT OF ANOVAS RESULTS GROSS PROFIT MARGIN RATIO

Groups	Count	Sum	Average	Variance
TCS Ltd	5	132.18	26.436	2.36903
Infosys Ltd	5	149.77	29.954	1.18333
Wipro Ltd	5	96.65	19.33	2.35285
HCL-Tech Ltd	5	111.96	22.392	4.49652
Tech-Mahindra Ltd	5	98.96	19.792	23.95047

Sources: Collected and Calculated by Author

TABLE 3: ANOVAS RESULTS GROSS PROFIT MARGIN RATIO

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	413.037	4	103.2592	15.0295	7.99E-06	2.866081
Within Groups	137.4088	20	6.87044			
Total	550.4458	24				

Sources: Collected and Calculated by Author

TABLE 4: RANKING OF COMPANIES BASED ON GROSS PROFIT MARGIN ANALYSIS

Groups	Profitability	Consistency
TCS Ltd	2	3
Infosys Ltd	1	1
Wipro Ltd	5	2
HCL-Tech Ltd	3	4
Tech-Mahindra Ltd	4	5

Sources: Collected and Calculated by Author

5.1.1 Interpretation

The test gives F-ratio value which is greater than the critical value for given degree of freedom as per table (3). So the difference between Gross Profit Margin of sample firms is not because of sampling error or any other reason. This difference can be considered as a significant difference. So we can rank the firms for its profitability and consistency. We can allocate points to it ranging from 1-4 as per the performance indicated by Average and Variance, given in the Summary section. They are shown in the table (4).

5.2 Net Profit Margin

Table (5) represents the Net Profit Margin of sample firms. Further ANOVA output form excel spreadsheet is represented in table (6) & (7) from this results following interpretation had been drawn.

TABLE 5: NET PROFIT MARGIN RATIO OF SAMPLE FIRMS

Year	TCS Ltd	Infosys Ltd	Wipro Ltd	HCL-Tech Ltd	Tech-Mahindra Ltd
2008	24.11	27.37	17.19	16.68	9.01
2009	20.74	27.52	13.53	20.63	22.54
2010	24.13	26.36	20.97	20.18	16.43
2011	25.44	24.31	17.96	17.22	13.95
2012	26.15	25.66	14.39	21.18	8.75

Sources: Collected and Calculated by Author

TABLE 6: SUMMARY OUTPUT OF ANOVAS RESULTS NET PROFIT MARGIN RATIO

Groups	Count	Sum	Average	Variance
TCS Ltd	5	120.57	24.114	4.32193
Infosys Ltd	5	131.22	26.244	1.74773
Wipro Ltd	5	84.04	16.808	8.84682
HCL-Tech Ltd	5	95.89	19.178	4.29852
Tech-Mahindra Ltd	5	70.68	14.136	32.80228

Sources: Collected and Calculated by Author

TABLE 7: ANOVAS RESULTS NET PROFIT MARGIN RATIO

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	505.5875	4	126.3969	12.14951	3.59E-05	2.866081
Within Groups	208.0691	20	10.40346			
Total	713.6566	24				

Sources: Collected and Calculated by Author

TABLE 8: RANKING OF COMPANIES BASED ON NET PROFIT MARGIN ANALYSIS

Groups	Profitability	Consistency
TCS Ltd	2	3
Infosys Ltd	1	1
Wipro Ltd	4	4
HCL-Tech Ltd	3	2
Tech-Mahindra Ltd	5	5

Sources: Collected and Calculated by Author

5.2.1 Interpretation

The test gives F-ratio value which is greater than the critical value for given degree of freedom as per table (7). So the difference between Net Profit Margin of sample firms is not because of sampling error or any other reason. This difference can be considered as a significant difference. So we can rank the firms for its profitability and consistency. We can allocate points to it ranging from 1-4 as per the performance indicated by Average and Variance, given in the Summary section. They are shown in table (8).

5.3 Operating Expenses Ratio

Table (9) represents the Operating Expenses Ratio of sample firms. Further ANOVA output form excel spreadsheet is represented in table (10) & (11) from this results following interpretation drawn.

TABLE 9: OPERATING EXPENSE RATIO OF SAMPLE FIRMS

Year	TCS Ltd	Infosys Ltd	Wipro Ltd	HCL-Tech Ltd	Tech-Mahindra Ltd
2008	27.11	31.72	21.24	26.58	23.28
2009	26.87	34.09	22.12	29.72	28.69
2010	28.93	34.82	24	27.83	24.38
2011	29.96	33.14	21.9	23.42	19.14
2012	29.3	32.19	19.63	28.18	16.52

Sources: Collected and Calculated by Author

TABLE 10: SUMMARY OUTPUT OF ANOVAS RESULTS OPERATING EXPENSE RATIO

Groups	Count	Sum	Average	Variance
TCS Ltd	5	142.17	28.434	1.88093
Infosys Ltd	5	165.96	33.192	1.65757
Wipro Ltd	5	108.89	21.778	2.49312
HCL-Tech Ltd	5	135.73	27.146	5.59148
Tech-Mahindra Ltd	5	112.01	22.402	22.36522

Sources: Collected and Calculated by Author

TABLE 11: ANOVAS RESULTS OPERATING EXPENSE RATIO

Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	439.9528	4	109.9882	16.18029	4.64E-06	2.866081
Within Groups	135.9533	20	6.797664			
Total	575.9061	24				

Sources: Collected and Calculated by Author

TABLE 12: RANKING OF COMPANIES BASED ON OPERATING EXPENSE RATIO ANALYSIS

Groups	Profitability	Consistency
TCS Ltd	2	2
Infosys Ltd	1	1
Wipro Ltd	5	3
HCL-Tech Ltd	3	4
Tech-Mahindra Ltd	4	5

Sources: Collected and Calculated by Author

5.3.1 Interpretation

The test gives F-ratio value which is greater than the critical value for given degree of freedom as per table (11). So the difference between Operating Expenses Ratio of sample firms is not because of sampling error or any other reason. This difference can be considered as a significant difference. So we can rank the firms for its profitability and consistency. We can allocate points to it ranging from 1-4 as per the performance indicated by Average and Variance, given in the Summary section. They are shown in table (12).

6. FINAL ANALYSIS

In detailed analysis of each ratio, we have seen interpretation of the test performed on the ratio values of different firms. On the basis of that we can conclude which ratios can help ranking the firms on the basis of their performance. The ratios which are considered for ranking are: Gross profit margin, Net profit margin and Operating expenses ratio.

On the basis of overall performance on ratios which are considered for ranking the following result and interpretation can be seen. We can decide the profitability and consistency of the firms and rank them for that.

6.1 Profitability

Table (13) shows points that the sample firms have got for their performance on each of the ratios. The average of all values for each company shows the performance of the company for profitability. We can compare firms on the basis of their average values as per table (14). The higher the average value, the higher the profitability of that company. According to this we get following result for profitability as per table (15).

TABLE 13: SUMMARY OF RANKINGS BASED ON PROFITABILITY

Measures	TCS Ltd	Infosys Ltd	Wipro Ltd	HCL-Tech Ltd	Tech-Mahindra Ltd
Gross Profit Margin	2	1	5	3	4
Net Profit Margin	2	1	4	3	5
Operating Expenses Ratio	2	1	5	3	4

Sources: Collected and Calculated by Author

TABLE 14: SUMMARY OF RANKING BASED ON PROFITABILITY OF SAMPLE FIRMS

Groups	Count	Sum	Average	Variance
TCS Ltd	3	6	2	0
Infosys Ltd	3	3	1	0
Wipro Ltd	3	14	4.666667	0.333333
HCL-Tech Ltd	3	9	3	0
Tech-Mahindra Ltd	3	13	4.333333	0.333333

Sources: Collected and Calculated by Author

TABLE 15: RANKING OF SAMPLE COMPANIES BASED ON THEIR PROFITABILITY

S. No.	FIRMS	Rank
1	TCS Ltd	4
2	Infosys Ltd	5
3	Wipro Ltd	1
4	HCL-Tech Ltd	3
5	Tech-Mahindra Ltd	2

Sources: Collected and Calculated by Author

6.2 Consistency

The table (16) shows points that the sample firms have got for their performance on each of the ratios. The average of all values for each company shows the performance of the company for profitability. We can compare firms on the basis of their average values as per table (17). The higher the average value, the higher the consistency of that company. According to this we get result for consistency as per table (18).

TABLE 16: SUMMARY OF RANKINGS BASED ON CONSISTENCY

Measures	TCS Ltd	Infosys Ltd	Wipro Ltd	HCL-Tech Ltd	Tech-Mahindra Ltd
Gross Profit Margin	3	1	2	4	5
Net Profit Margin	3	1	4	2	5
Operating Expenses Ratio	2	1	3	4	5

Sources: Collected and Calculated by Author

TABLE 17: SUMMARY OF RANKING BASED ON CONSISTENCY OF SAMPLE FIRMS

Groups	Count	Sum	Average	Variance
TCS Ltd	3	8	2.666667	0.333333
Infosys Ltd	3	3	1	0
Wipro Ltd	3	9	3	1
HCL-Tech Ltd	3	10	3.333333	1.333333
Tech-Mahindra Ltd	3	15	5	0

Sources: Collected and Calculated by Author

TABLE 18: RANKING OF SAMPLE COMPANIES BASED ON THEIR CONSISTENCY

S. No.	FIRMS	Rank
1	TCS Ltd	4
2	Infosys Ltd	5
3	Wipro Ltd	3
4	HCL-Tech Ltd	2
5	Tech-Mahindra Ltd	1

Sources: Collected and Calculated by Author

7. LIMITATIONS, FINDINGS & CONCLUSION

7.1 Limitations

The study involves only five years of comparison. So it can only predict the profitable trend for these years, not more than that. The value of ratios depends on the definition of ratio and can vary slightly according to its definition in case of different firms. The study involves only major players of information Technology sector in India, not all the firms.

7.2 Findings

Average of Infosys Ltd was the highest among all the firms showing the highest profitability which was followed by Tata Consultancy Services Ltd, HCL-Technology Ltd and then Tech- Mahindra Ltd. The lowest average Gross Profit was of Wipro Ltd. The huge gap between average Net Profit & Gross Profit in case of Wipro Ltd can visible showing the big burden of operating expenses in the company. The lowest operating ratio is in Wipro Ltd showing good control of management over the cost. From the analysis and its interpretation we can find out which ratios are more important and which are less important in this particular case. Gross Profit Margin, Net profit margin and Operating expenses ratio are more useful in allocating points to the firms for their performance. Return on total assets, return on net assets, return on equity and Dividend pay-out ratio are less important in this case so we can't use them for allocating points to the firms as their performance is almost similar on these criteria.

7.3 Conclusion

The major players of information technology sector shows upwards trend in case of profitability. We can study the performance and rank the firms for its profitability; Wipro Ltd secured the first rank & Tech- Mahindra, HCL-Technology Ltd, Tata Consultancy Services Ltd and Infosys followed by rest of firms. We can study the performance and rank the firms for its consistency; Tech-Mahindra Ltd secured the first rank & HCL-Technology Ltd, Wipro Ltd, Tata Consultancy Ltd and then Infosys Ltd followed by rest of firms.

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