FINANCIAL PERFORMANCE ANALYSIS OF TCS, INFOSYS AND HCL LIMITED COMPANIES

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ABSTRACT:
The purpose of this research paper is to conduct a financial performance by analysing the three IT companies, TCS, Infosys, and HCL. In order to evaluate the performance of these companies, six ratios have been taken into consideration, namely Net Profit Margin Ratio, Operating Profit Ratio, Return on Equity, Return on Capital Employed, Current Ratio, and Asset Turnover Ratio. The study will cover a period of five years, from 2018 to 2022, and the findings will be used to identify the company that has performed the best. This analysis will provide valuable insights into the financial health of these companies and will help investors make informed decisions.
KEYWORDS: Financial performance, financial ratios, Infosys, TCS, HCL.

INTRODUCTION:

The top three Indian IT businesses, TCS, Infosys, and HCL Technologies, are the subject of this research paper's analysis of their financial results. Including sales growth, profitability, liquidity, and solvency, the study will give a broad summary of the companies' financial performance during the previous five years. Tata Consultancy Services (TCS), Infosys, and HCL Technologies, among other businesses, have contributed significantly to the expansion of the Indian IT sector, which has recently become a global leader. These businesses have not only improved the Indian economy but also established themselves on the world stage.
The article will also contrast the financial performance of these businesses, highlighting their advantages and disadvantages, and provide readers a glimpse into how they are adjusting to the fast evolving global IT scene. The study will also make an effort to pinpoint the important factors, such as company business strategies, technical advancements, and market trends that have influenced the companies' financial performance. They will be able to make well-informed investment decisions thanks to the study's findings, which will also add to the body of knowledge on the Indian IT sector.

STATEMENT OF PROBLEM: -

Finding a company that performs effectively, is the greatest option for investment, and will produce strong returns is central to the problem statement. The issue necessitates a detailed examination of the financial performance and expansion potential of distinct businesses, taking into account a number of variables including market trends, business climate, rivalry, management caliber, and financial stability. The finest investment prospects and the highest return on investment can be found by identifying such a company, which calls for a mix of analytical abilities and market knowledge. An in-depth investigation of the various possibilities is necessary to find a solution to this issue, and judgments must be made based on trustworthy data and professional analysis.

REVIEW OF LITERATURE:

The financial performance of a business sector reflects its overall financial health during a particular time period. It shows how effectively a company is using its resources to enhance shareholder wealth and profitability. While various metrics can be used to evaluate a firm's financial performance, financial ratios are the most commonly used measurements in finance and statistical inference. This study presents a comprehensive examination of the financial performance literature regarding the Indian IT industry. Profitability ratios, asset utilization ratios, leverage ratios, liquidity ratios, and cash conversion cycle were the financial parameters used to assess the IT sector's financial health between 2010-11 and 2014-15.(Patel et al. 2020)

Due to the COVID-19 pandemic and associated lockdown regulations and supply chain issues, Indian companies faced significant challenges. The stock market was negatively impacted when the lockdown was announced, and many companies have been going through a recovery phase. A study was conducted to analyse the financial performance of India's three primary industrial sectors, namely healthcare, automotive, and information technology, during the pandemic. The results indicated that four out of the top five companies in each of these industries rebounded and demonstrated positive growth and earnings. The information technology sector performed particularly well, while the automotive industry's growth has been hindered by the shortage of silicon chips. On the other hand, the healthcare industry has experienced a significant increase in demand for medical services, leading to improved performance. Overall, the study suggests that several Indian companies have recovered from the pandemic and have been performing well, particularly those in the healthcare, automotive, and information technology sectors.(Suman, Jaiswal, and Veeraraghavan 2022)

The IT sector in India has become one of the rapidly growing industries in the 21st century due to the adoption of liberalization, privatization, and globalization policies. With the increase in Foreign Direct Investment, these IT giants were able to expand and contribute significantly to the service industry, which is a vital part of the country's GDP. This research paper investigates the financial performance of TCS and Infosys, two major IT companies in India, using the Du-Pont model, multiple regression analysis, and descriptive statistics.. (Banerjee and Modi 2021).

Financial analysis has become an essential tool for evaluating the performance of corporations. It involves the examination of financial data, which helps in making investment decisions and understanding a company's financial condition. Through financial analysis, businesses can determine their financial strength and find ways to increase their financial resources while managing their funds effectively. In India, the information and technology sector has experienced significant growth, making it a profitable and less risky investment option. This paper aims to evaluate the financial management efficiency of Indian IT companies, specifically Wipro Ltd. and Infosys Ltd., from the perspective of their owners. Additionally, the paper provides recommendations for both companies to improve their financial management practices and achieve optimal capital structures.(Bhargava 2017)

This essay examines how Infosys's financial performance and decisions related to capital structure and dividends affect the company's market value. Secondary data is used to analyse the impact of these factors over a five-year period. The study's findings suggest that the company's market value is primarily influenced by its revenue and stock price, rather than its capital structure or dividend policy.(Rana 2014)

The purpose of the research was to analyse the influence of corporate social responsibility (CSR) on Infosys Ltd.'s financial performance between 2016 and 2021. Several ratios measuring profitability and liquidity were employed to assess the company's financial performance. The findings indicate that CSR has a substantial impact on Return on Capital Employed and Return on Net Worth, as well as Operational Profit, Net Profit, Current Ratio, and Liquid Ratio, but in the opposite direction. Therefore, it can be concluded that Infosys Ltd.'s financial performance was not significantly influenced by CSR during the research period.(Ransariya 2022).

The purpose of this research is to assess the performance of three major Indian IT companies: Tata Consultancy Services (TCS), Wipro Limited, and Infosys Technologies Pvt. Ltd. The Indian IT industry plays a substantial role in the service sector of India's economy, which has grown at an annual rate of 7.5% since 1992. This industry has contributed significantly to India's GDP, employment, and exports. The study aims to evaluate the exposure risk of the Indian IT sector to foreign exchange markets, particularly given the 60% depreciation of the Indian rupee since the global financial crisis in 2008. The research is based on secondary data covering the period of 2003-2004 to 2012-2013, and growth and ratio analyses are used to evaluate the financial performance of the three companies. The turnover, gross profit, and net profit ratios are analysed using Coefficient of Variation and Ratio analyses for two time periods, 2003-2008 and 2008-2013, to assess the risk of exposure to international markets.(Limited and Oden 2014)

OBJECTIVES OF THE STUDY:

- When analysing a company's financial health, there are several key objectives to keep in mind. First and foremost, it's important to assess the company's financial performance over a given period of time. This includes looking at metrics such as revenue growth, profitability, and cash flow, as well as evaluating the company's financial statements to gain a deeper understanding of its financial position.

- Another important objective is to evaluate the company's financial performance relative to its peers or industry benchmarks. This can help to identify areas where the company may be falling behind or outperforming its competition.

- In addition to assessing past performance, financial analysis is often used to forecast future rates of return. This can involve using a variety of techniques, such as trend analysis, regression analysis, or Monte Carlo simulations, to model potential future outcomes based on historical data.

- Finally, assessing risk is a key objective of financial analysis. This can involve evaluating the company's exposure to different types of risks, such as market risk, credit risk, or operational risk, and developing strategies to mitigate these risks.

- Overall, financial analysis is a crucial tool for understanding a company's financial health and making informed decisions about its future prospects.

METHEDOLOGY:

1. SOURCE OF DATA:

Data is preferably gathered from secondary sources for the aim of the study. Both the companies' annual reports and financial statements are taken into account. A variety of financial publications and magazines are also employed in the research.

2. DURATION OF THE STUDY:

For the aim of an in-depth analysis, financial data for a five-year period starting in the years 2017–18 and ending in 2021–22 is taken into account.

3. SAMPLING:

TCS, Infosys, and HCL are the top 3 it businesses chosen for the current survey. The businesses are market leaders in India's information and technology sector.

4. TOOLS FOR THE STUDY:

To analyse a company's financial performance, various ratio analysis formulas can be employed.

- Current ratio
- Asset turnover ratio
- Net profit margin ratio
- Operating ratio
- Return on Equity
- Return on Capital Employed

1. NET PROFIT MARGIN RATIO:

The net profit margin ratio indicates how much profit a company is able to generate from its sales after all expenses have been paid. A higher net profit margin ratio indicates that the company is generating more profit per dollar of revenue, which is generally considered a good sign.

$$\textbf{Net Profit Margin Ratio} = \frac{\textbf{Net profit}}{\textbf{Revenue}} \textbf{*100}$$

2. OPERATING PROFIT:

Operating profit is an important metric because it provides insight into a company's ability to generate profits from its primary business activities. It can also be used to compare the performance of companies within the same industry or sector.

$$\textbf{Operating profit ratio} = \frac{\textbf{Operating Profit}}{\textbf{Net Sales}} \textbf{*100}$$

3. RETURN ON EQUITY:

ROE is usually expressed as a percentage and is used by investors to evaluate a company's financial health and profitability. A higher ROE indicates that a company is generating more profit with the same amount of shareholder investment, which is generally seen as a positive sign.

$$\textbf{Return on Equity=} \frac{\textbf{Net Income}}{\textbf{Shareholder Equity}} \textbf{*100}$$

4. RETURN ON CAPITAL EMPLOYED:

ROCE is a useful tool for investors and analysts to evaluate a company's profitability and efficiency in using its capital. A higher ROCE indicates that a company is generating more profits per unit of capital employed, which is generally seen as a positive sign.

$$\textbf{Return on capital employed} = \frac{\textbf{Earnings before interest and tax}}{\textbf{capital employed}} \textbf{*100}$$

5. ASSET TURNOVER RATIO:

The asset turnover ratio can vary widely by industry, and comparing the ratios of companies in different industries may not be meaningful. Additionally, the asset turnover ratio should be interpreted in the context of other financial metrics and qualitative information about a company's operations and industry.

$$\textbf{Asset turnover ratio} = \frac{\textbf{Total Sales}}{\frac{\textbf{Beginning assets + Ending assets}}{2}}$$

6. CURRENT RATIO:

The current ratio is a financial metric used to evaluate a company's liquidity, which is its ability to pay its short-term debts and obligations. The current ratio measures a company's current assets relative to its current liabilities.

$$\textbf{Current Ratio} = \frac{\textbf{Current assets}}{\textbf{Current liabilities}}$$

6. RESULTS AND DISCUSSION:

1. NET PROFIT MARGIN RATIO:

Table 1.1

COMPANY	2018	2019	2020	2021	2022
TCS	23%	22%	24%	23%	24%
INFOSYS	24%	19%	19%	20%	20%
HCL	-21%	-6%	-19%	-85%	66%

(Source: Computed)

Interpretation:

The TCS corporation had a net profit margin ratio of 23% in 2018, which declined to 22% in 2019, grew to 2%, or 24%, in 2020, decreased to 1%, or 23%, in 2021, and increased to 1%, or 24%, in 2022. Thus, TCS's net profit has no fixed value. In 2018, Infosys' net profit margin ratio was 24%. Owing to several problems, the company increased from 19% in 2019 and 2020 to 1% in 2021 and 2022. The company had negative value for HCL from 2018 to 2021, and then there was a sharp surge, with the company rising to 66%.

2. OPERATING PROFIT:

Table 2.1

Company	2018	2019	2020	2021	2022
TCS	26.0%	25.6%	24.7%	24.9%	25.1%
Infosys	23.6%	23.7%	24.6%	25.4%	25.6%
HCL	19.5%	20.5%	21.1%	22.5%	22.7%

(Source: Computed)

Interpretation:

The operating profit ratio gauges how well a business can turn a profit from its sales. With a little increase from 24.7% in 2020 to 25.1% in 2022, TCS' operating profit ratio has been comparatively constant over the last five years. This shows that despite the difficulties the COVID-19 epidemic presented, TCS was able to preserve its profitability. Contrarily, Infosys had a lower operating profit ratio than TCS in the study's initial two years (2018 and 2019), but it steadily increased with time, reaching 25.6% in 2022. This demonstrates how Infosys has increased both operational effectiveness and profitability. Much as HCL Technologies, who also increased it from 19.5% in 2018 to 22.7% in 2022, was HCL. This shows that the business has been successful in increasing its profitability and producing greater operating profit from its income over time.

3. RETURN ON EQUITY:

Table 3.1:

COMPANY	2018	2019	2020	2021	2022
TCS	35.1%	37.3%	37.3%	33.3%	32.5%
INFOSYS	24.3%	25.53%	24.5%	25.5%	26.8%
HCL	19.9%	21.4%	21.4%	22.7%	22.3%

(Source: Computed)

Interpretation:

TCS had the greatest ROE in 2018, but based on the data, we can see that its ROE declined in the years that followed. On the other hand, the ROE ratios of Infosys and HCL showed a constant upward trend. All three businesses have high ROE ratios, which suggest that they are producing considerable returns for their shareholders. It can be a sign that the business is taking on too much debt or isn't investing its profits back into the organization.

4. RETURN ON CAPITAL EMPLOYED:

Table 4.1

COMPANY	2018	2019	2020	2021	2022
TCS	42%	52%	57%	57%	65%
INFOSYS	31%	32%	33%	34%	41%
HCL	3%	3%	-17%	-28%	-18%

(Source: Computed)

Interpretation:

According to the TCS Company's return on capital employed, it had a 42% rate in 2018, grew to 52% in 2019, 57% in 2020 and 2021, and then increased to 65% in 2022. For the Infosys Corporation, they had 31% in 2018 and then marginally increased in each of the following years: 32% in 2019, 33% in 2020, 34% in 2021, and 41% in 2022. In 2018 and 2019, the ROCE for HCL Corporation was 3%. But, in 2020, 2021, and 2022, there was a sharp decline and the ROCE turned negative.

5. ASSET TURNOVER RATIO:

Table 5.1

COMPANY	2018	2019	2020	2021	2022
TCS	1.26	1.59	1.71	1.82	2.11
INFOSYS	0.94	1.16	1.27	1.28	1.48
HCL	2.22	3.26	2.59	0.69	0.04

(Source: Computed)

Interpretation:

TCS reported an asset turnover ratio of 1.26 in 2018; there was a small increase each year, with 1.59 in 2019, 1.71 in 2020, 1.82 in 2021, and 2.11 in 2022. For Infosys, the asset turnover ratio increased every year, going from 0.94 in 2017 to 1.16 in 2018, 1.27 in 2019, and 1.48 in 2022. The asset turnover ratio for the HCL Corporation was 2.22 in 2018, 3.26 in 2019, 2.59 in 2020, 0.69 in 2021, and 0.04 in 2022.

6. CURRENT RATIO:

Table 6.1

COMPANY	2018	2019	2020	2021	2022
TCS	2.85	2.84	1.97	1.78	1.63
INFOSYS	3.83	3.03	2.56	2.42	1.85
HCL	0.83	0.90	0.62	0.35	0.26

(Source: Computed)

Interpretation:

TCS had a current ratio of 2.85 in 2018, and after that it began to decline each year, dropping to 2.84 in 2019, 1.97 in 2020, 1.78 in 2021, and 1.63 in 2022. With a current ratio value of 3.83 in 2018, 3.03 in 2019, 2.56 in 2020, 2.42 in 2021, and 1.85 in 2022, Infosys has seen a decline over the course of the past four years. The final value of the current ratio for the HCL Corporation is 0.83 in 2018, 0.90 in 2019, and then it started to decline in each subsequent year, reaching 062, 0.35, and 0.26 in 2020, 2021, and 2022.

7. FINDINGS: -

- Despite the outbreak of covid19 pandemic, TCS had been consistent in Net profit margin ratio as compared to other two companies.
- The operating profit ratios of all three companies are quite healthy, indicating that they have been able to maintain or improve their profitability over the years.
- High ROE ratios for each of the three businesses show that they are producing sizable returns for their shareholders. It can mean the business is taking on too much debt or isn't reinvesting its profits in the company.
- From 2020 to 2022, ROCE for all three businesses trended slightly upward. This shows that the businesses are using their capital more efficiently to make profits, probably as a result of superior management and operational effectiveness.
- With a greater Asset Turnover Ratio that it has consistently maintained, Infosys is more effective at earning income from its assets. HCL, on the other side, had the highest Asset Turnover Ratio in 2020; however, it has subsequently started to drop.
- After TCS and HCL Limited, Infosys has the highest current ratio. The analysis of a financial ratio should be done in conjunction with other financial metrics and qualitative elements because one financial ratio alone does not give a complete picture of a company's financial performance.

8. CONCLUSION: -

In conclusion, after evaluating various factors such as market trends, financial stability, competition, and management quality, TCS seems to be a better investment option compared to Infosys and HCL in the information and technology sector. TCS outperformed both Infosys and HCL on almost every criterion, including financial stability, revenue growth, profitability, and return on investment. Although Infosys and HCL are not in a warning situation, they need to improve their management effectiveness when using proprietors' funds compared to TCS.

Furthermore, TCS needs to focus on employing debt capital to achieve the ideal capital structure and boost its overall value. Therefore, investors must do their own research and seek expert advice before making any investment decisions.

Overall, TCS, Infosys, and HCL are all reputable and successful companies in the information and technology sector, and each has its own strengths and weaknesses. Investors need to assess their investment goals and risk tolerance before deciding which company to invest in.

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