

Financial Performance and Growth of Indian Software Companies

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Abstract

The software industry of India has evolved on the basis of increasing its place in the value chain and providing tailor made solutions to the respective customers. Customer satisfaction can also be included in the list of reasons. The NASSCOM has announced in 2018 that the future of Indian software companies is very bright in the next decade if the industry keeps on growing at the rate 11% CAGR, which is exactly the current rate of growth. This present study will evaluate the financial results of the selected 20 companies for the period of 10 years i.e. 2010 to 2019 and try to find the dependency of operating profit and inconsistency (if any) in the financial performance of the selected companies.

Keywords: Financial Performance, Ratio analysis, Software Industry

Introduction

21st century is considered as the age of information technology. In present scenario most of the government agencies are incorporating IT and ITES related infrastructure in their routine work. Software companies working in India are having a world-wide reputation and almost all the developed countries are the respective customers of these companies. It can be said that the software companies have changed the image of the country at international economic fronts.

Here it is important to mention that at present India is a leader in outsourcing business and more than 58% of total business is dealt by Indian companies. All this growth was possible because of '*Indian Advantage*' i.e. the foreign customers are getting cost effective professionals and this reduces their expenditures up to 70% of the total development cost. Because of this special characteristics the Indian software companies are controlling more than 15% of the international software business. As far as IT related services are concerned, more than 55% of the exports are controlled by Indian companies. Then in case of business processing more than 30% of business is owned by Indian companies. As a matter of fact, in the last five financial years the IT, ITES and business processing services have achieved the highest CAGR as compare to final years of 20th century and India is one of the major beneficiary in the process. The average CAGR is around 10.2% for the software industry and 11% for the other related industries. As an estimate the total value of business for software industry is around USD 250 Billion and is expected to grow by 15% till 2025. The software industry of India has evolved on the basis of increasing its place in the value chain and providing tailor made solutions to the respective customers. Customer satisfaction can also be included in the list of reasons. On the other hand '*tax holiday*' by government, cost efficiency and high level of employee engagement has taken the industry to next level. As per the report of **ASSOCHAM, 2017** the Indian software industry is expected to grow by 11% CAGR in the next five years. The supporting peripherals of software industry i.e. hardware industry, electronic commerce, telecommunication industry, etc. are providing their helping hands for the growth of the industry. As a matter of fact these supporting industries are also growing at a faster rate as compared to software industry itself.

If we calculate the overall business of Indian software industry and divide it into different segments we can see that exports alone have contributed around USD 70 Billion in the last financial year, then business process segment has accumulated around USD 25 Billion and other related services have earned around USD 20 Billion. As of now i.e. in 2019 Indian software companies are catering around 75 countries across the globe and this number is expected to grow with a high rate in next 5 years. The software industry of India will maintain the growth rate of 10-10.5% in the next financial year i.e. 2020-21 and the average revenue of the industry will reach to USD 250 Billion. **NASSCOM, 2018**. It is not so that only the Indian software industry is

growing, rather the international scenario of software industry is changing but it is surprising that growth of Indian software industry is growing in double digits of growth rate and global rate is still in single digit. Then on the other hand there are a number of restrictions on movement for technical specialist i.e. immigration rules, visa, etc. that are barring the spread of professionals and even the respective IT policies of international companies are again playing the role of hurdle in the growth of IT business as a whole.

This research paper will study the overall growth of software industry in the country and try to evaluate the reasons behind this growth. The researcher has considered ratio analysis and regression analysis for analyzing the data.

Literature review

Manickamet et al (2014) conducted a study on the financial analysis of software industry and the findings of the study stated that the selected companies are showing appropriate liquidity position and ample working capital. This shows that the Indian software industry is growing at a steady rate and the same will continue for at least 10 years or so. They also found that internal financing is one of the USPs in the growth of Indian software industry and is helping in increasing the profitability of the selected software companies.

Sinha (2016) conducted a study on the evaluation of financial results of listed IT companies in the country and the findings of the study stated that during the study period i.e. 2005 to 2015 the growth rate of overall software industry has raised to a substantial level and is expected to grow by leaps and bound in near future. Then on the other hand exports are increasing the revenue in dollars and this is good sign for the growth of the industry. The researcher also stated that software industry is a self-sustained industry and is supporting a number of other industries as well.

Jakhu (2017) conducted a study on the top 5 IT companies of the country, which include HCL, TCS, Wipro, Mahindra, etc. and compared the financial results on the basis of ratio analysis. The findings of the study stated that as far as liquidity is concerned TCS is in a better condition as compared to other native companies but on the grounds of profitability and rate of growth Mahindra and Wipro are showing better results. The researcher also stated that revenue from exports is one of the reason for such type of exponential growth.

Objective

The objective of the study is to evaluate the financial performance of selected software companies and to analyze the reasons for their growth and increasing or decreasing profitability.

Hypothesis

H₀: The financial stature of the industry is not significantly affected by the overall liquidity and solvency.

H₁: The financial stature of the industry is significantly affected by the overall liquidity and solvency.

Research Methodology

Population and sample selection

This study is related to the software companies that are already listed in BSE or NSE. From the top 200 companies the researcher has randomly selected 20 companies for the purpose of research. The basic requirement of the study is that the financial records of the selected company should be available for the study period i.e. 2009 to 2018.

Selected MSMEs are as follows:

S.No.	Name of MSME
1	ACI Tech. Ltd.
2	ASM Tech. Ltd
3	Clio Infotech Ltd.
4	CRA Int. Ltd.
5	FinTech (In.) Ltd.
6	GSS Comp. Ltd.
7	GTL Tech. Ltd.
8	Hex. Tech. Ltd.
9	Infosys Tech. Ltd.
10	Magnum Ltd.
11	Mastek Tech. Ltd.
12	ODY Tech. Ltd.
13	LIB Tech. Ltd.
14	RSS (In.) Ltd.
15	TEL Tech. Ltd.
16	Tech Mahindra Ltd.
17	TRY Tech. Ltd.
18	Wipro Ltd.
19	WOM Tech. Ltd.
20	ZEN Tech. Ltd.

Sources of Data

The data which is used in this present study is of secondary nature. As the researcher is analyzing the financial results of the selected software companies and the financial records comes under the head of secondary data. 20 such companies are selected for the purpose of study. Some of the sources of secondary data are as follows:

Reports

- Annual reports of selected software companies
- Selected national and international journal
- Article from Business Today and Business India
- Banks Today, 2017-19

Other sources

- Articles from Research journals of national and international repute
- Reports from ministry of finance (for study period)
- www.moneycontrol.com
- www.financialexpress.com

Tools of study

- Percentages, Averages, trends, etc.
- Ratio Analysis

Software used

- MS Excel

Data Analysis and Interpretation

At the first state of analysis Ratio Analysis is conducted and following ratios are worked out:

S.N.	Name of Ratio
1	Current Ratio
2	Liquidity Ratio
3	Debt-Equity Ratio
4	Total Asset Turnover Ratio
5	Interest Coverage Ratio
6	Debtors Turnover Ratio
7	Total Asset Turn Over Ratio
8	Earnings Per Share
9	Dividend Payout Ratio
	Return on Investment

Data Analysis and Interpretation

Ratio	2010-11	2011-- 12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Current Ratio	5.24	7.832	7.9	7.88	8.02	8.33	9.127	8.93	8.887
Liquidity Ratio	6.17	6.93	7.82	6.83	8.03	8.31	8.64	8.791	8.80
Debt-Equity Ratio	0.891	0.642	0.221	0.193	0.149	0.062	0.195	0.188	0.179
Total Asset Turnover Ratio	1.05	1.04	1.24	0.779	0.702	0.705	0.788	0.832	0.851
Interest Coverage Ratio	19.31	33.50	21.78	87.22	311.54	17.95	48.47	23.52	1.8.05
Debtors Turnover Ratio	2.970	3.022	3.001	2.502	3.147	3.01	3.105	3.221	3.417
Total Asset Turn Over Ratio	1.002	1.103	1.120	0.887	0.710	0.684	0.793	0.820	0.769
Earnings Per Share	5.92	7.53	9.008	10.53	7.74	6.92	6.41	11.52	12.62
Dividend Payout Ratio	0.193	0.197	0.290	0.181	0.145	0.082	0.128	0.107	0.136
Return on Investment	0.130	0.152	0.164	0.152	0.067	0.072	0.052	0.381	0.159

Source: Self Calculation of the Researcher

Interpretation

- From the above given table it can be seen that there is a random variation in values and this stands true for all the selected companies. the minimum and maximum range of variation is 5.24 and 9.127 respectively. As a matter of fact the results of current ratio show that the liquidity position of the selected companies is high. In some of the cases the value of current ratio is even higher and this shows that such companies are having underutilized capital for some of the years during study period. Most of the companies are showing favorable results and the values are moderate enough.
- At the next level the debt equity ratio states that maximum value is around 0.891 and this indicates that during the study period are relying more on their own funds and not considering the other type of funds for the given study period. As a matter of fact the variation level in the results is also an indication for lower level of consistency of the firm.
- The values of TAR show that the selected companies are able to manage their fixed assets in an efficient manner and even the level of consistency is maintained during the study period.
- The results of interest coverage ratio states that companies are earning enough cash to meet the liabilities in terms of interests, here the importance of interest can be stated in the form of external contracts. At the second level of the quotient of consistency in respect of payments is low and this is not good for the companies in software industry.
- Then comes the debtors turnover ratio, in the cases where the value is high, it can be said that selected companies are able to meet the requirements of receivables and in the years where the values are minimum is an indication that the debtors are paid more than 2 times in a given time period.
- The lower values of total asset turnover ratio stated that the respective companies are not utilizing their current asset as compared to standard procedure and they are under-utilized. This process may not be beneficial for the financial health of the company.

- In case of earnings per share the calculated variation is around 24% on annual basis and this is an indication that the selected companies lie in the bracket of consistent performance for the study period.

Results of Regression analysis

R	R²	Adjusted R²	S.E. of Estimate
0.792	0.703	0.869	0.28004

Source: Analysis of SPSS Ver. 22.0

The above table provides R and R Square values. The R value represents the simple correlation and is 0.792, which indicates high degree of correlation. The R Square value indicates how much of the total variation in the dependent variable (*Earnings Before Interest and Tax*), can be explained by the independent variable. The value of R square is 0.703, which mean this about 95% variations in liquidity and consistency in payouts, this is showing a linear model for year on year model.

From this table we can get necessary information to predict operating profit for the given period i.e. 2010 to 2019.

The least square trend line becomes $y = 0.071 + 0.682x$.

Result of Hypothesis Testing

On the basis of above given analysis and interpretation, the null hypothesis i.e. *The financial stature of the industry is not significantly affected by the overall liquidity and solvency* can be rejected and the alternate hypothesis can be accepted.

Conclusion

The researcher has conducted a ratio analysis on the selected software companies, all the companies are listed on BSE and NSE. The study period was 2010 to 2019. The results of ratio analysis stated that the overall performance of the software industry is good but there are certain variations in case of utilizing capital and making consistence use of fixed assets. As a matter of fact there are certain variations in case of Debt Equity Ratio and return on total assets. The reasons of certain random variations can be stated in the form of policy framework of the company i.e. same policy is good for one company but not so good for another company. It has also been proved that operating profit of the company is not much affected by the level of current liabilities and fixed assets.

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