

## **A study on performance analysis of selected it companies**

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### **Abstract**

Information Technology (IT) is the application of computers and telecommunication equipments to store, retrieve, transmit and manipulate data, often in the context of a business or other enterprise. The present study is made to find out the performance and profitability position of selected IT Sectors namely IBM, Microsoft, Oracle, SAP SE and Symantec. The study is based on secondary data collected from published financial reports from official website of selected IT companies for five years from 2010-2011 to 2014-2015. The data have been analyzed using the ratios and statistical tools mean and correlation. On the basis of the analysis of financial performance of selected IT companies it has been found that the Oracle and Microsoft shows outstanding financial performance when compared to other companies.

**Keywords:** Financial analysis, IT companies and Performance analysis.

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### **Introduction**

Information technology is playing an important role in India today and has transformed India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs. The IT sector in India is generating 2.5 million direct employments. India is now one of the biggest IT capitals of the modern world and all the major players in the world IT sector are present in the country. The term is commonly used as a synonym for computers and computer networks, but it also encompasses other information distribution technologies such as television, telephones, computer hardware, software, electronics, semiconductors, internet, telecom equipment, engineering, healthcare, e-commerce and computer services. Information technology in India is an industry consisting of two major components: IT services and Business Process Outsourcing (BPO). The sector has increased its contribution to India's GDP from 1.2% in 1998 to 7.5% in 2012. India's Prime Minister Narendra Modi has started 'Digital India' project to give IT a secured position inside & outside India. Information Technology (IT) Sector is becoming a sector which is not driving its own growth but it helps other sectors grow too. Most of the sectors and businesses depend on IT to get their processes automated and streamlined. With advent of smart phones computing has gone to next level, the IT companies now are working on computing, mobility, applications for B2B as well as B2C sectors.

### **Review of Literature**

Hamsalakshmi and Manickam (2004) <sup>[1]</sup> has made "A study on financial performance analysis of selected software companies" The study has been focused on examining the structure of liquidity position, leverage and profitability. The study has revealed a favorable liquidity position and working capital position. The study has also pointed out that the companies rely more on internal financing and the overall profitability has been increasing at a moderate rate.

Shurveer S. Bhanawat (2011) <sup>[2]</sup> in this study "Impact of Financial Crisis on the Financial Performance of "Indian Automobile Industry". In this study the impact of financial crisis on Indian Automobile Industries with the help of statistical significant techniques is analysed. On the analyses of the t-Test and Analysis of Variance, it is found that the impact is not significant which proves that though the global economies are impacted by recession, the Indian Automobile Sector showed resilience and was not affected significantly by the recession. It goes to show that the Indian automobile market, though impacted by export income, did not crumble under recession, as the volumes were significantly met by local demand, thereby proving that the Indian economy is a self-sustaining economy, not significantly impacted by the financial crisis.

### **Statement of the Problem**

Performance Analysis refers to the process of determining financial strength and the weakness of the firm by properly establishing strategic relationship between the items of the balance sheet and profit and loss account. The regulatory and reform processes of government also affect the IT Sectors. It is expected that the information technology and the finance system are globally competitive. Capital would be the key factor in building a successful organization. Performance Analysis is done to identify the financial standards of the IT sectors. It helps in understanding financial position and evaluating the relationship between various elements of financial statements.

### **Objectives of the Study**

The following have been the major objectives of the study:

- To examine the profitability and liquidity position of the selected IT companies.
- To study the impact of profitability on liquidity and solvency of the companies.

## Research Methodology

The study aims to assess the profit position of IT companies. To satisfy the purpose, the previous five year's (from 2010-2011 to 2014-2015) financial statement of the selected IT companies have been collected. The ratios which have been used for this study are liquidity ratios, profitability ratios and solvency ratios.

## Results and Discussions

The data collected have been analysed and the results of the same have been shown below:

**Table 1:** Liquidity Ratios

IT Sectors	Current Ratio	Quick Ratio	Absolute Liquid Ratio
IBM	1.12	1.01	0.72
Microsoft	2.58	2.38	0.19
Oracle	3.21	2.98	1.18
Sap Se	1.21	1.11	0.52
Symantec	1.12	0.68	0.25

Source: Secondary data, computed

Table 1 has shown that Oracle (3.21) has the highest current ratio. Microsoft (mean 2.58) has moderate current ratio. IBM (1.16), SAP (1.12), Symantec (1.20) has inadequate current assets to meet current liabilities. Oracle (2.98) and Microsoft (2.37) has the highest quick ratio. SAP (1.10) and IBM (1.006) has moderate quick ratio. Symantec (0.68) has inadequate liquid assets to meet current liabilities. Oracle (1.18) has highest absolute liquid ratio. IBM (0.72) and SAP (0.52) has moderate absolute liquid ratio. Microsoft (0.19) has inadequate absolute liquid assets to meet current liabilities.

**Table 2:** Profitability Ratios

It Sectors	Gross Profit Ratio	Net Profit Ratio	Operating Profit Ratio
IBM	83.02	19.82	19.69
Microsoft	72.32	32.50	31.94
Oracle	79.50	43.29	41.02
Sap Se	69.44	26.85	28.35
Symantec	47.94	19.82	19.70

Source: Secondary data, computed

It has been found from table 2 IBM (83.02) and Symantec (83.01) has highest gross profit ratio. Oracle (mean 79.50) and Microsoft (72.32) has moderate gross profit ratio. SAP (mean 69.44) has inadequate gross profit to meet sales. Oracle (43.29) has highest net profit ratio. Microsoft (32.50) and SAP (26.85) has moderate gross profit ratio. IBM (19.82) and Symantec (19.82) have inadequate net profit to meet their sales. Oracle (41.02) has highest operating profit ratio. Microsoft (31.94) and SAP (28.35) has moderate operating profit ratio. Symantec (19.70) and IBM (19.69) have inadequate operating profit to meet sales.

**Table 3:** Solvency Ratios

Year	Proprietary Ratio	Debt Equity Ratio
IBM	0.40	0.37
Microsoft	0.52	0.22
Oracle	0.52	0.48
Sap Se	0.53	0.33
Symantec	0.40	1.53

Source: Secondary data, computed

Table 3 shows that SAP (0.53) and oracle (0.53) has highest proprietary ratio. Microsoft (0.52) has moderate proprietary ratio. IBM (0.40) and Symantec (mean 0.40) have inadequate shareholders funds to meet total assets. Oracle (0.48) has highest debt equity ratio. IBM (0.37), Symantec (0.37) and SAP (0.33) has moderate debt equity ratio. Microsoft (0.22) has inadequate total liability to meet their total equity.

**Table 4:** Impact of Current Ratio on Profitability Ratio

	Current ratio				
	IBM	Microsoft	Oracle	Sap	Symantec
Gross profit	0.987	0.342	0.543	0.232	0.433
Net profit	0.843	0.287	0.322	0.212	0.387
Operating profit	0.899	0.453	0.444	0.325	0.332

Source: Secondary data, computed

Table 4 indicates the impact of current ratio on profitability ratio. It has been seen that current ratio has high positive correlation with the gross profit ratio, net profit ratio and operating profit of IBM (0.987, 0.843, and 0.899). Current ratio has been positively correlated with profitability ratios for other companies.

**Table 5:** Impact of Quick Ratio on Profitability Ratio

	Quick Ratio				
	IBM	Microsoft	Oracle	Sap	Symantec
Gross profit	0.113	0.221	0.515	0.378	0.877
Net profit	0.225	0.243	0.095	0.123	0.234
Operating profit	0.312	0.366	0.824	0.321	0.333

Table 5 indicates the impact of quick ratio on profitability ratio. It has been seen that quick ratio has low positive correlation with the gross profit ratio of IBM (0.113), Microsoft (0.221) whereas for other companies it is positively correlated. Quick ratio has positively correlated with net profit ratio for all the companies. Quick ratio has high positive correlation with operating profit in case of Oracle (0.824) whereas for other companies it is positively correlated.

**Table 6:** Impact of Absolute Quick Ratio on Profitability Ratio

	Absolute Quick Ratio				
	IBM	Microsoft	Oracle	Sap	Symantec
Gross profit	0.545	0.444	0.268	0.01	0.907
Net profit	0.843	0.512	0.345	0.102	0.604
Operating profit	0.598	0.485	0.082	0.221	0.521

Source: Secondary data, computed

Table 6 indicates the impact of absolute quick ratio on profitability ratio. It has been seen that absolute quick ratio has low positive correlation with the gross profit ratio of SAP (0.01) and Oracle (0.268) and it has high positive correlation for symantec (0.907) and for other companies it is positively correlated. Absolute Quick ratio has high positive correlation with net profit in case of IBM (0.843) and Symantec (0.604) whereas for other companies it is positively correlated. Absolute Quick ratio has positively correlated with operating profit.

**Table 7:** Impact of Proprietary Ratio on Profitability Ratio

	Proprietary Ratio				
	IBM	Microsoft	Oracle	Sap	Symantec
<b>Gross profit</b>	0.433	0.554	0.989	0.521	0.398
<b>Net profit</b>	0.232	0.414	0.544	0.432	0.541
<b>Operating profit</b>	0.121	0.312	0.866	0.079	0.321

Source: Secondary data, computed

Table 7 indicates the impact of proprietary ratio on profitability ratio. It has been seen that proprietary has high positive correlation with the gross profit ratio of oracle (0.98) whereas for other companies it is positively correlated. Proprietary ratio has positively correlated with net profit ratio for all the companies. Proprietary ratio has high positive correlation with operating profit in case of Oracle (0.866) whereas for other companies it is positively correlated.

**Table 8:** Impact of Debt-Equity Ratio on Profitability Ratio

	Debt-Equity Ratio				
	IBM	Microsoft	Oracle	Sap	Symantec
<b>Gross profit</b>	-0.344	0.120	0.212	0.332	-0.054
<b>Net profit</b>	0.012	0.09	0.185	0.067	0.032
<b>Operating profit</b>	0.230	0.432	0.873	0.073	0.443

Source: Secondary data, computed

Table 8 indicates the impact of Debt-Equity ratio on profitability ratio. It has been seen that Debt-equity has negative correlation with the gross profit of IBM (-0.344) and Symantec (-0.054) whereas the other three companies have been positively correlated with Debt-Equity ratio. Debt-equity ratio has positively correlated with net profit ratio for all the companies. Debt-Equity ratio has high positive correlation with operating profit in case of Oracle (0.873) whereas for other companies it is positively correlated.

### Conclusion

Information technology is playing an important role in India today and has transformed India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs. Financial analysis is done to identify the financial strength and weakness of the IT sector by properly establishing relationship between the items of balance sheet and profit and loss account. It helps in better understanding of IT company's financial position and performance by analyzing the financial statement with various tools and evaluating the relationship between various elements of financial statement. On the basis of the analysis of financial performance of selected IT companies reveals that the companies have shown a remarkable progress in its performance. The result shows that the Oracle and Microsoft shows outstanding financial performance when compared to other companies.

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