



Analysis of financial performance of infosys limited

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Abstract

Financial analysis is the process of evaluating the businesses, budgets, and other finance-related transactions to determine the performance of the organization. Financial analysis is used to analyze whether an entity is stable, solvent, liquid, and is earning a reasonable profit through its operations. Financial analysis is used to evaluate economic trends, set financial policy, build long-term plans for business activity, and identify projects or companies for investment. This is done through the analysis of financial data and numbers. It helps in determining the liquidity position, long term solvency, profitability and soundness of a firm. It is done through examination of a company's financial statements- the income statement, balance sheet, and cash flow statement. This project mainly focuses on the financial analysis of Infosys Limited.

Keywords: financial statement, ratio analysis, trend analysis, comparative statement

Introduction

The information technology (IT) sector is comprised of companies mainly which produce hardware, software, semiconductor equipment, or companies that provide internet or related services. The three major industry groups within the IT sector are software and services, technology hardware and equipment, semiconductors and semiconductor equipment. In the past decade, the Information Technology (IT) industry has become one of the fastest growing industries in India and so has caught world attention. Indian IT industry grew at a rate of 33 % in FY2008. India is now being identified as powerhouse for incremental development of computer software. It has grown from USD 4 billion industry to USD 58.8 billion industry in FY2008-09 which is employing over 2 million people.

Infosys Limited is an Indian Information Technology company that provides global business consulting and information technology services which was established in the year 1981 by N. R. Narayana Murthy with the help of six other engineers in Pune, India with an initial capital investment of just US \$250. Infosys in 45 countries helps the clients to create and execute different strategies for their digital transformation. Infosys helps many businesses to improve and renew existing conditions so that their business can achieve higher efficiencies and stay relevant according to current times.

Objectives

- To analyze the financial position of the company in terms of stability, profitability and liquidity of the company.
- To interpret the overall financial performance of the company by using Ratio analysis, Trend analysis and Comparative statement.

Statement of the Problem

Financial performance analysis is used to judge the profitability and soundness of the company. It enables the

investors and creditors to evaluate past and current performance and financial position of the company and to predict its future performance. Financial analysis also helps to find out the strength of the company and can get the best out of it to solve the major issues and problems of the company. The financial performance of the company has reduced during the years. The analysis done to find a solution to the reduction in the performance.

Scope of the Study

Ratio analysis is used in this study to compare the insight regarding profitability, solvency, liquidity and operational efficiency to reveal line-item data. It can be used for analyzing trends of one company or to compare companies within a sector or an industry. Even though ratios offer several types of insights, usually other types of analysis and information are also needed to prepare a complete study of the financial position of the company. Trend Analysis is used in this study to focus on the evaluation of what has happened in the past and provides an idea of what will happen in the future. Comparative analysis is mostly used to conduct the financial comparison analysis of the company.

Research Methodology

1. Period of Study

The study period of Infosys consists of 5 years from 2015-16 to 2019-20.

2. Source of Study

This study is based on secondary data which have been obtained from annual reports of the company, journals, books and websites.

3. Tools and Techniques Used

- Ratio analysis
- Trend analysis
- Comparative statement

Limitation of the Study

- The study period is restricted to 5 years. The conclusions are arrived at using the analysis derived from those five years particularly.
- The secondary data was collected from audited financial reports and websites. Therefore, the inherent limitations of the secondary data apply to the study.
- Time is taken as a constraint for in-depth analysis.

Review of Literature

1. Tiwari and parry (2012) explained in detailed about the analysis of financial statements of Ranbaxy ltd. They provided insights into two widely used financial tools, ratio analysis and common size statement analysis. The objective of the paper was to help the reader understand how these tools should be used to analyze the financial position of a company. To demonstrate the process of financial analysis, Ranbaxy ltd.’s balance sheet and income statement were analyzed.
2. Manish Roy Tirkey and Mustafa Osamah (2013) carried out “A Study on Ratio Analysis to compare the performance of Tata steel and Jindal Steel”. It was a comparative study of both the companies using their secondary data. The objective of the study was to compare the financial performance of Tata steel and

Jindal steel using ratio analysis as a tool. The study had a comparative graphical representation of the ratios of both the companies for better comparison of the ratios. The study concluded that the financial position of TATA steels was better in comparison to Jindal steel and also stated that the return on capital employed was better in Jindal steels when compared to that of TATA steels.

3. Syed Sarimusheer and Dr. L.Ganesamoorthy (2017) made “a study on financial performance of select information technology companies in India – with special reference to profitability”. The ratio analysis, mean, Standard deviation and co-efficient of variation were used as tools for analysis of the performance. The profitability was found in the terms of operating profit ratio and net profit ratio. The study noted that the profitability performance is not good in Tech Mahindra, it concludes that the overall profitability performance in all aspects in good in TCS, HCL and Infosys.

Analysis and Interpretation

A. Ratio Analysis

Current ratio

Current ratio = current assest/ current liabilities

Table A.1: Showing current ratio

| Year | Current asset (Rs in crores) | Current liabilities (Rs in crores) | Current ratio (in times) |
|------|------------------------------|------------------------------------|--------------------------|
| 2016 | 46097.00 | 11588.00 | 3.97 |
| 2017 | 47682.00 | 11786.00 | 4.04 |
| 2018 | 44090.00 | 11662.00 | 3.78 |
| 2019 | 46223.00 | 15430.00 | 2.99 |
| 2020 | 43820.00 | 15220.00 | 2.87 |

Interpretation

The above table A.1 shows the relationship between the current assets and current liabilities of the concern. The ideal current ratio is 2:1. From the above table it is seen that the current ratio of the company has increased during the period 2017 with 4.04 which indicates that the firm is liquid

and has the ability to pay its current obligations in time. The current ratio is decreased during 2018 which indicates that the liquidity position of the firm is not good compared to previous year but the firm still shall be able to pay its current liabilities as it’s above the ideal ratio.

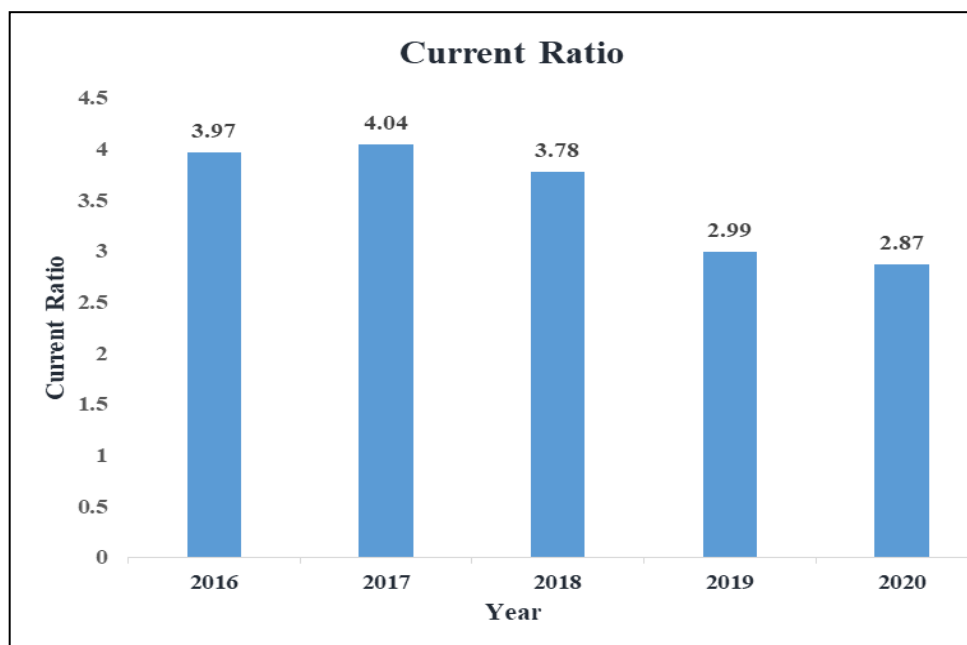


Chart 1: Showing current ratio

Net profit ratio

Net profit ratio = net profit/ net sales X 100

Table A.2: Showing Net Profit Ratio

| Year | Net Profit (Rs in crores) | Net Sales (Rs in crores) | Net Profit Ratio (%) |
|------|---------------------------|--------------------------|----------------------|
| 2016 | 12693.00 | 53983.00 | 23.51% |
| 2017 | 13818.00 | 59289.00 | 23.30% |
| 2018 | 16155.00 | 61941.00 | 26.08% |
| 2019 | 14702.00 | 73107.00 | 20.11% |
| 2020 | 15543.00 | 79047.00 | 19.66% |

Interpretation

The above table shows the relationship between Net Profit and Net Sales and the computation of Net Profit ratio. The net profit of the company is highest during the year 2018 with 26.08% indicating that the profitability of the concern is better. This ratio shows decreasing trend due to increase in net sales not in proportion of net profit of the company. The net profit ratio was lowest in the year 2020 at 19.66%.

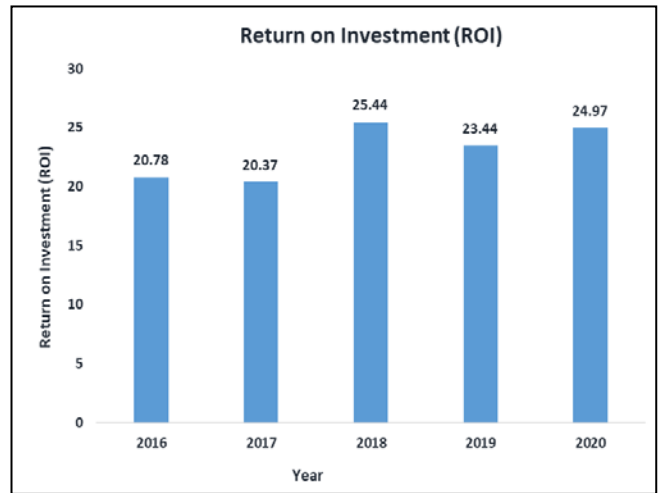


Chart 1.3: Showing return on investment

Proprietary ratio

Proprietary ratio = Proprietary fund/ Total assets

Table A.4: Showing Proprietary Ratio

| Year | Proprietary fund (Rs in crores) | Total assets (Rs in crores) | Proprietary ratio |
|------|---------------------------------|-----------------------------|-------------------|
| 2016 | 61082.00 | 72732.00 | 0.83 |
| 2017 | 68017.00 | 79885.00 | 0.85 |
| 2018 | 63502.00 | 75877.00 | 0.83 |
| 2019 | 62711.00 | 78930.00 | 0.79 |
| 2020 | 62234.00 | 81041.00 | 0.76 |

Source: Secondary Data

Interpretation

Above table shows the calculation of Proprietary ratio. The ratio is low during the year 2020 and shows an increasing trend in the year 2017 compared to 2016. As Proprietary ratio represents the relationship of owners funds to total assets, higher the ratio or the share of the shareholders in the total capital of the company, better is the long-term solvency position of the company. In the year 2020 the proprietary ratio was 0.76.



Chart 1.2: Showing net profit ratio

Return on investment

Return on investment = net profit after tax/ shareholders fund X 100

Table A.3: Showing return on investment

| Year | Net profit after tax and interest (Rs in crores) | Shareholder's fund (Rs in crores) | return on investment (%) |
|------|--|-----------------------------------|--------------------------|
| 2016 | 12693.00 | 61082.00 | 20.78% |
| 2017 | 13818.00 | 68017.00 | 20.37% |
| 2018 | 16155.00 | 63502.00 | 25.44% |
| 2019 | 14702.00 | 62711.00 | 23.44% |
| 2020 | 15543.00 | 62234.00 | 24.97% |

Source: Secondary Data

Interpretation

The Above Table depicts the computation of Return on Investment. From the above table, the net profit after tax and interest and shareholder's fund was high during the year 2018, that ultimately resulted in increased Return on Investment to 25.44%. The return on investment in the year of 2017 was the least which was 20.37%.

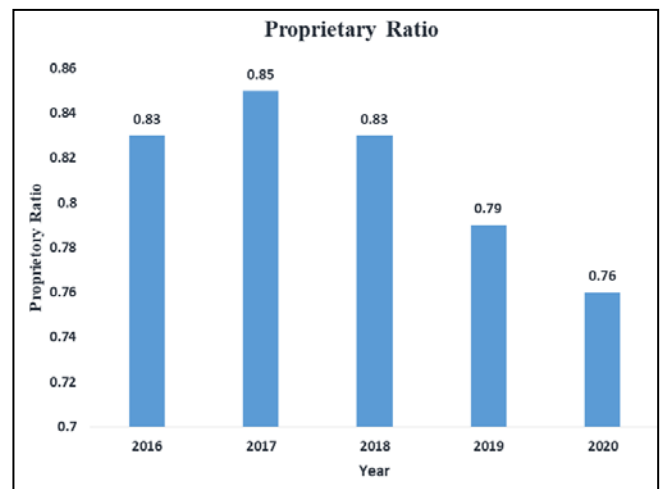


Chart 1.4: Showing proprietary ratio

B. Trend analysis

Table B.1: Shows the data of sales and profit (RS. in crores)

| Year | Sales Amount (rs.) | Profit Amount (rs.) |
|------|-----------------------|------------------------|
| 2016 | 62441.00 | 13492.00 |
| 2017 | 68484.00 | 14383.00 |
| 2018 | 70522.00 | 16100.00 |
| 2019 | 82675.00 | 15410.00 |
| 2020 | 90791.00 | 16639.00 |

Source: secondary data

Interpretation

The above table depicts the trend analysis on sales and profit of the company for the period of five years. The above table shows that there is an increasing trend with respect to sales of the company. It is that in the year 2020 the company makes sales amounting to Rs.90791 crores which is higher as compared to the previous years. From the above table it is understood that there is an increasing trend with respect to profit of the company. The increase in profit is due to decreasing operating expenses of the company.

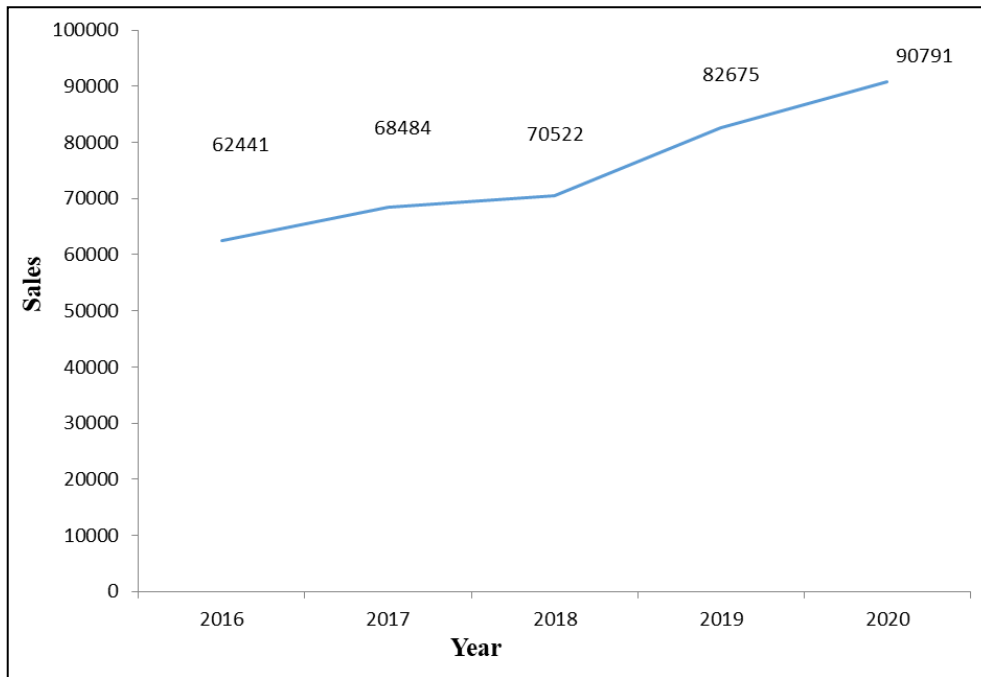


Chart 2.1: Showing trend analysis on sales

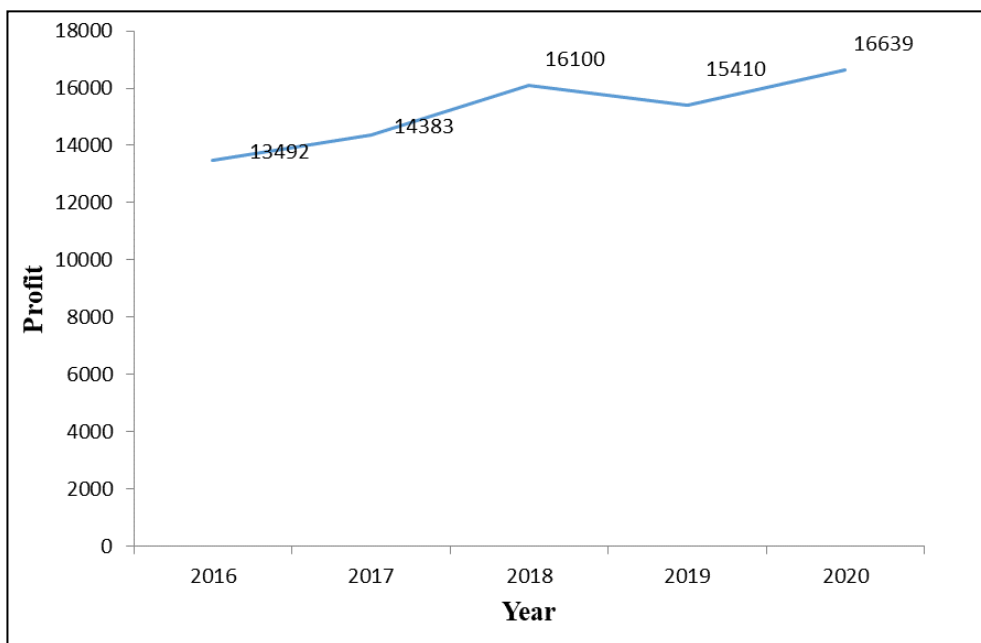


Chart 2.2: showing Trend analysis on profit

C. Comparative Analysis

A comparative statement provides an overall comparative analysis about the firm’s assets, liabilities and shareholders’

equity over a period of time.

It compares the current year balances with those of the previous years.

Table C.1: Shows the comparative balance sheet for the year ended 2016-2017 (rs.in crores)

| Particulars | 2016 Amount (Rs.) | 2017 Amount (Rs.) | Absolute Change (Rs.) | Percentage Change (%) |
|-------------------------------|-------------------|-------------------|-----------------------|-----------------------|
| Equities and liabilities | | | | |
| Shareholders fund | | | | |
| Share capital | 1148.00 | 1148.00 | 0 | 0 |
| Reserves and surplus | 59934.00 | 66869.00 | 6935.00 | 11.57 |
| Non current liabilities | | | | |
| Other long term liabilities | 62.00 | 82.00 | 20.00 | 32.26 |
| Current liabilities | | | | |
| Trade payable | 623.00 | 269.00 | -354.00 | -56.82 |
| Other current liabilities | 10529.00 | 11167.00 | 638.00 | 6.06 |
| Short term provisions | 436.00 | 350.00 | -86.00 | -19.72 |
| Total | 72732.00 | 79885.00 | 7153.00 | 9.83 |
| Assets: | | | | |
| Non current asset: | | | | |
| Tangible assets | 8248.00 | 8605.00 | 357.00 | 4.33 |
| Intangible assets | 0 | 0 | 0 | 0 |
| Capital work in progress | 934.00 | 1247.00 | 313.00 | 33.51 |
| Non-current investment | 11076.00 | 15334.00 | 4258.00 | 38.44 |
| Deffered tax assets | 405.00 | 346.00 | -59.00 | -14.57 |
| Long term loans and advances | 5.00 | 5.00 | 0 | 0 |
| Other non-current assets | 5967.00 | 6666.00 | 699.00 | 11.71 |
| Current asset: | | | | |
| Current investment | 2.00 | 9643.00 | 9641.00 | 482050.00 |
| Trade receivables | 9798.00 | 10960.00 | 1162.00 | 11.86 |
| Cash and cash equivalents | 29176.00 | 19153.00 | -10023.00 | -34.35 |
| Short term loans and advances | 355.00 | 310.00 | -45.00 | -12.68 |
| Other current assets | 6766.00 | 7616.00 | 850.00 | 12.56 |
| Total | 72732.00 | 79885.00 | 7153.00 | 9.83 |

Interpretation

It has been observed from the comparative statements that there has been increase in the reserves and surplus in the year 2017 and also a substantial increase in the long term

borrowings of the company.

The company has also made investments in various assets so as to increase the financial performance of the company.

Table C.2 Shows the comparative balance sheet for the year ended 2019-2020 (rs. in crores)

| Particulars | 2019 Amount (Rs.) | 2020 Amount (Rs.) | Absolute Change (Rs.) | Percentage Change (%) |
|-------------------------------|-------------------|-------------------|-----------------------|-----------------------|
| Equities and liabilities | | | | |
| Shareholders fund | | | | |
| Share capital | 2178.00 | 2129.00 | -49.00 | -2.25 |
| Reserves and surplus | 60533.00 | 60105.00 | -428.00 | -0.70 |
| Non current liabilities | | | | |
| Other long term liabilities | 248.00 | 3031.00 | 2783.00 | 1122.18 |
| Current liabilities | | | | |
| Trade payable | 1604.00 | 1529.00 | -75.00 | -4.68 |
| Other current liabilities | 13321.00 | 13185.00 | -136.00 | -1.02 |
| Short term provisions | 505.00 | 506.00 | 1.00 | 0.20 |
| Total | 78389.00 | 80485.00 | 2096.00 | 2.67 |
| Assets: | | | | |
| Non current asset: | | | | |
| Tangible assets | 10394.00 | 11092.00 | 698.00 | 6.72 |
| Intangible assets | 103.00 | 2882.00 | 2779.00 | 2698.06 |
| Capital work in progress | 1212.00 | 945.00 | -267.00 | -22.03 |
| Non-current investment | 12062.00 | 13916.00 | 1854.00 | 15.37 |
| Deffered tax assets | 1114.00 | 1429.00 | 315.00 | 28.28 |
| Long term loans and advances | 16.00 | 298.00 | 282.00 | 1762.50 |
| Other non-current assets | 7806.00 | 6659.00 | -1147.00 | -14.70 |
| Current asset: | | | | |
| Current investment | 6077.00 | 4006.00 | -2071.00 | -34.08 |
| Trade receivables | 13370.00 | 15459.00 | 2089.00 | 15.62 |
| Cash and cash equivalents | 15551.00 | 13562.00 | -1989.00 | -12.79 |
| Short term loans and advances | 1048.00 | 307.00 | -741.00 | -70.71 |
| Other current assets | 10177.00 | 10486.00 | 309.00 | 3.04 |
| Total | 78930.00 | 81041.00 | 2111.00 | 2.67 |

Interpretation

In the year 2020 the company has reduced its share capital to 49.00 crores. There has also been a decrease in the reserves and surplus of the company as compared to the previous years. There has been an investment of 698.00 crores in the Tangible assets in the year 2020. The financial statements shows the decrease in current assets which has an impact in the current ratio of the company.

Findings

- Overall performance of Infosys Limited was analysed and it has shown a slight positive growth comparing on a whole.
- Current ratio of Infosys is satisfactory and that is above the ideal ratio of 2:1. The current ratio of the company has increased during the period 2017 with 4.04 and maintained the ideal ratio in the next 3 years even when the ratio decreases.
- In the net profit ratio, the net sales and net profit have increased till 2018 but due to the misappropriate change in profit and sales of Infosys in the next 2 years, there are fluctuations in the net profit ratio.
- Return on investment is satisfactory even though the net profit and shareholders fund decreased in the past 2 years.
- Trend Analysis of sales and profit showed an increasing trend which indicates that there is more demand for the product in the market and also due to decreasing operating expenses of the company. The estimated sales for the year ending 2019-20 is Rs.90791.00 crores. The estimated profit for the year ending 2020 is Rs.16639.00 crores.
- In the year 2016-2017 Comparative balance sheet reveals that there has been an increasing trend of shareholder's fund i.e. the non-current investments have been increased by 38.44%. The loans and advances decreased by 12.68% The current liabilities such as trade payables have been decreased which indicates liabilities which is paid within stipulated period.
- In the year 2019-2020 there has been an increase in non-current assets which indicates that there is purchase of fixed asset and outflow of cash. Current assets have been decreased which indicates a little low working capital position of the company but some current assets like trade receivables and other current assets have increased by 15.62% and 3.04% in which operational department in the company is good.

Suggestions

- The company should perform many investing activities to increase the current investments.
- In order to increase the financial performance of the company, certain effective and efficient strategies have to be implemented.
- The Infosys Ltd. has to take measures to maintain its sales and profit position.
- The overall financial position of Infosys is satisfactory but it has its own faults in certain areas. The sales made is in adequate for the net assets or capital employed of the company. Also, the profit of the company is satisfactory over the period of study. Still certain measures have to be taken to have a stable profit level to satisfy the shareholders.

- They should concentrate more on their liquidity and profitability positions.

Conclusion

The study entitled "Analysis of financial performance of Infosys Limited" with an objective of analysing the liquidity, profitability, solvency and stability of the company for the period of 2016-2020. The period of this study has been limited to five years. Infosys Limited is chosen for this study, because it is India's second largest software exporter company with overall nine development centres and 50 offices.

In the study, it has been identified that the sales and profit have increased gradually. The overall financial performance of the company is increasing, but still they have to concentrate in their liquidity and profitability positions.

The suggestions made in this study should be taken into account for the development of the company. Thus it is determined that Infosys Limited has good financial health and the overall financial position is satisfactory.

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