



Comparative Study on the Financial Performance of Tata Consultancy Services Ltd and Wipro Ltd.

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ABSTRACT

The financial analysis portrays the financial health of the company and helps the companies to improve their financial resources and manage generated funds efficiently. By using a number of techniques, such as horizontal, vertical, or ratio analysis, investors may develop a more clear picture of a company's financial profile. TCS is the second largest Indian company by market capitalisation and is among the most valuable IT service brands worldwide. In 2015, TCS was ranked 64th overall in the Forbes "World's Most Innovative Companies" ranking, making it one of the highest-ranked IT services companies and a top Indian company. As of 2018, it is ranked eleventh on the Fortune India 500 list. Wipro's world-class technologies division provides a range of high-tech services such as global IT consulting, e-business integration, and legacy systems maintenance to clients such as Cisco Systems, Thomas Cooke, and NEC. Turnover ratio is a measurement of efficiency, indicating the length of time it takes a business to sell the goods that it has spent money up front to acquire. In a company or industry, turnover ratio is the percentage of employees who leave within a year.

KEY WORDS: Financial Analysis, IT services, ratio analysis

I. INTRODUCTION

Financial analysis now a days is an important instrument for the critical review of the performance of a business. It helps the concern to analyse the financial data and provides information which is required to take decisions regarding investments and also help to understand financial position better.

The financial analysis portrays the financial health of the company and helps the companies to improve their financial resources and manage generated funds efficiently. Financial statement analysis evaluates a company's performance or value through a company's balance

sheet, income statement, or statement of cash flows. By using a number of techniques, such as horizontal, vertical, or ratio analysis, investors may develop a more clear picture of a company's financial profile.

OBJECTIVES

- To analyze the financial performance of the companies.
- To know the operations of the selected companies.

SCOPE OF THE STUDY

The aim of this study is to compare and evaluate the financial performance of TCS and Wipro ltd over the five years using the ratio analysis. It would also assist in determining the causes or factors that lead to the good or bad for the financial performance of both the companies.

II. RESEARCH METHODOLOGY

Research Design

The research design used for the study is descriptive research design using ratios.

Sources of data

Secondary data has been used for this study, collected from published annual reports of the selected companies.

The financial performance of Indian IT companies like TCS and Wipro ltd using the comparative financial ratios. The financial information necessary for financial ratios was derived from the annual reports. The information was then summarized and processed to come up with the comparative financial ratios that were used in the analysis.

The annual reports of these companies for five years have been collected from previous research papers, magazines, journals and from internet.

Research tools

To analyze the collected data ratio analysis is used. The ratios used for the study are as follows:



Current ratio, Quick ratio, Gross profit ratio, Net profit ratio, Return on capital employed, Return on equity capital, Return on long term funds, Debt to equity ratio, Inventory turnover ratio and Debtors turnover ratio

LIMITATIONS

The study is based on secondary data and that data was taken from the annual reports of the companies and the financial data websites. There may be possible that the data shown in the annual reports or on the websites may be window dressed which does not show the actual position of the companies.

III. REVIEW OF LITERATURE

According to (Dusan Baran, 2016), their study is to give the knowledge about financial analysis and business process in the area of activity like liquidity, profitability and indebtedness and to know the strength and opportunities of the companies. (Adedeji, 2014) This study is done to analyze the ratios of the organization. This study confirms that there is a relationship between ratio analyze and organizational performance. It states that ratio highlights the effective management of the organization. (Kumbhaj, 2014) Analyzed and compared the financial position of TCS and WIPRO Ltd and found WIPRO is performing better than TCS. (Singh, 2016) Concluded in his study that Return on Equity of TCS is better than return on equity of WIPRO and return on investment of TCS is better than the return on investment of WIPRO. He also analyzed that there is significant difference between ROE and ROI of TCS and ROE and ROI of WIPRO. (A.S, 2014) Analyzed that financial position of TCS and concluded that the both short term and long term liquidity position of TCS is good. The company has managed efficiently its net worth and total assets was satisfactory.

(Ganesamoorthy, 2017) Conducted to study the profitability of Information Technology (IT) companies in India. They applied ratios analysis, mean, standard deviation and co-efficient of variation as the tools for analysis. Their study found that profitability in terms of net profit ratio and operating profit ratio is good in case of three companies and low in case of two companies. (S. Sabarinathan) The study includes profitability, cost of goods sold and other overall financial performance of the company. The study has major concentration on ratio analysis from the 5-year balance sheets and profit and loss A/C. Based on the findings, the study says that it will help the

management to interpret its weaknesses and problems and certainly help the management in taking financial decisions. (Sarangi, 2010) "Financial Performance Analysis of Selected Software Companies", examined liquidity, profitability and leverage position of thirty four software companies during the period 1999-1998 to 2001-2002 by using ratios, correlation and multiple regression analysis. The study revealed favourable liquidity and working capital position. They concluded that the companies rely on the internal financing and overall profitability position of the software companies showed a moderately increasing trend. (Sarangi, 2010) Study analyzed the financial performance of leading software companies like TCS, Infosys, Wipro and Satyam. The study being an external analyst, had to depend mainly upon secondary data for the purpose of studying the financing performance of software Industries in India from the top 10 software companies in India which is enlisted by NASSCOM, the four selected companies for the study are Tata Consultancy, Wipro Ltd, Infosys Ltd, and Satyam.

PROFILE OF SELECTED COMPANIES

TATA CONSULTANCY SERVICE

Tata Consultancy Services (TCS) is an Indian multinational information technology (IT) services and consulting company with its headquarters in Mumbai.

It is a part of the Tata Group and operates in 150 locations across 46 countries. In July 2022, it was reported that TCS had over 600,000 employees worldwide.

TCS is the second largest Indian company by market capitalisation and is among the most valuable IT service brands worldwide. In 2015, TCS was ranked 64th overall in the Forbes "World's Most Innovative Companies" ranking, making it one of the highest-ranked IT services companies and a top Indian company. As of 2018, it is ranked eleventh on the Fortune India 500 list.

In September 2021, TCS recorded a market capitalisation of US\$200 billion, making it the first Indian IT tech company to do so. In December 2022, the market cap was Rs. 11,71,481.89 crore. In 2016-2017, parent company Tata Sons owned 72.05% of TCS and more than 70% of Tata Sons' dividends were generated by TCS.

Tata Consultancy Services is a multinational technology company which has its specialty in IT services and consulting its



headquarters in Mumbai Maharashtra India.

TCS is the largest IT sector company in the world by its market capitalization of \$169.2 billion. It is established in 1968, it was founded by Jamsethji Tata 1848 and it is the India's most reverence institutions today.

TCS is one of the largest employers of women with 35.3% of women employees. TCS became the first Indian IT company to reach \$100 billion market capitalization with a value of

\$102.6 billion in Bombay Stock Exchange and a second Indian company ever after the Reliance industries that achieved the same in 2007.

TCS is ranked 10th on the Fortune India 500 list in 2018. It is the world's 9th largest IT service provider by revenue. TCS is ranked 64th overall in Forbes World's most innovative company ranking, making it the highest-ranked IT services company ever. In the latest, TCS, the biggest software services company, has added 12,000 jobs in the first quarter of 2019 and sent offer letters to 30,000 fresh graduates building the employment level in the country.

Their mission is to help customer achieve their business objectives by providing innovative, best in-class consulting, IT solutions and services.

WIPRO LIMITED

Wipro is an integrated corporation that offers a diverse range of products, solutions and services in systems, software, consumer care, healthcare, lighting and infrastructure technology. We are driven by our passion for quality and our commitment to customers.

This drive has catapulted us among the ten most admired companies in India. Through constant innovation and a people-first attitude, we strive to assume leadership positions in the new millennium.

The third-largest company in India, Bangalore-based Wipro Limited is an ever-growing and ever-diversifying global company that manufactures and sells products and services ranging from cooking oil and soaps to healthcare instruments and information technology (IT) consulting.

Although Wipro's chairman and managing director Azim Hasham Premji is committed to the company's diversified business model, its future clearly lies in its continued successes in software and IT services, which make up nearly half of the company's sales and has consistently outpaced the growth of Wipro's other businesses.

Wipro's world-class technologies division provides a range of high-tech services such as global IT consulting, e-business integration, and legacy systems maintenance to clients such as Cisco Systems, Thomas Cooke, and NEC. Wipro's IT efforts are so reliable that in 1998 the company became the first in the world to have been awarded the Software Engineering Institute's (SEI) coveted Level 5 Certification for quality.

To help keep its competitive edge, the company replicated the development labs of some of its major clients, including AT&T, IBM, and Intel Corporation. And while Wipro continued to offer a range of programming services, including hardware design, networking, and communications and operating system support it continued to diversify into other lines of business.

In 1992 the company established a new lighting business, offering a range of lighting solutions for domestic, commercial, industrial, and pharmaceutical lab environments.

ANALYSIS AND INTERPRETATION

I. LIQUIDITY RATIOS:

Liquidity Ratio is a financial ratio which is used to determine the company's abilities to pay its short-term debt. When it comes to financing, liquidity is a necessary thing to consider about and liquidity ratio is an essential accounting tool that is used to decide the current debt repaying ability of a borrower this ratio shows. Whether and individual or enterprise can pay off its short-term dues besides any exterior financial help. The following is the following formula to compute current ratio and quick ratio.

Current ratio = Current asset / Current liabilities

Quick ratio = Quick asset / Current liabilities



Table 1
Table showing the Liquidity Ratios

YEAR	CURRENT RATIO		QUICK RATIO	
	TCS	WIPRO	TCS	WIPRO
2016	3.3	2.7	3.3	2.8
2017	4.2	2.9	4.2	2.9
2018	4.8	2.8	4.8	2.8
2019	6.4	3.5	6.4	3.5
2020	4.7	2.9	4.7	2.9
MEAN	1.30044	0.31305	4.68	2.96

Current Ratio

From the above table, it is concluded that the current ratio of TCS is highest in comparison with Wipro ltd. High current ratio indicates that the firm will be able to pay their short term dues without any exterior financial help. The idle current ratio is 2:1 and Wipro ltd is also in a good position to pay its short term dues without any exterior financial help. In 2019 both the companies TCS and Wipro has the highest current ratio with 6.4 and 3.5.

Quick Ratio

The ideal quick ratio is 1, if the quick ratio is 1:1 then it indicates that the company can pay its current debts by without selling its long term assets. If a company has a quick ratio higher than the 1:1 this means company owns more quick assets than current liabilities. From the above table

it can be concluded that by comparing between the two companies TCS has more quick assets than WIPRO and TCS can pay its currents debts without selling its long term assets.

IV. PROFITABILITY RATIOS

The profitability ratio is used to evaluate the company's ability to generate income as compared to its expenses and other cost associated with the generation of income during a particular period. This ratio represents the final result of the company. Following is the formula.

Gross profit ratio= $\frac{\text{Gross profit}}{\text{Net sales}} * 100$

Net profit ratio= $\frac{\text{Net profit}}{\text{Net sales}} * 100$

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

ROEC= $\frac{\text{Net profit after interest, tax and preference dividend}}{\text{Paid-up equity capital}} * 100$

Table 2
Table showing Profitability Ratios

YEAR	GROSS PROFIT RATIO		NET PROFIT RATIO		RETURN ON CAPITAL EMPLOYED		RETURN ON EQUITY CAPITAL	
	TCS	WIPRO	TCS	WIPRO	TCS	WIPRO	TCS	WIPRO
2016	29.80%	18.14%	26.87%	17.22%	51.31	21.20	22.33	17.38
2017	27.52%	16.25%	25.51%	15.82%	46.66	18.59	22.28	15.31
2018	26.86%	15.18%	25.92%	17.27%	39.99	17.91	20.97	14.68
2019	26.99%	16.38%	24.4%	17.72%	44.72	17.81	21.48	15.25
2020	26.39%	16.77%	25.33%	18.35%	44.524	20.72	20.60	15.90
MEAN	27.51	16.544	25.606	17.276	44.524	19.246	21.532	15.704

GROSS PROFIT RATIO

From the above table it can be concluded that the two companies TCS and Wipro ltd., TCS has the higher the gross profit margin and it is performing well. In the year 2016 TCS has the highest gross profit ratio. In the year 2016 Wipro

ltd also had the highest gross profit margin and it drop down in 2018 but after 2019 it starts increasing.



NET PROFIT RATIO

From above table by comparing NP ratios between the companies TCS ltd and WIPRO ltd, it can be concluded that TCS ltd has the highest Net Profit ratio. In the year 2016 TCS ltd has the highest Net Profit ratio by 26.87% it means that the company's financial health and the overall profit after deducting the taxes is good. Wipro ltd also have a convincing profit after the deduction of tax. After 2017 the profit of Wipro ltd starts increasing.

RETURN ON CAPITAL EMPLOYED

Higher the return on capital employed is always more favorable as it indicates that more profits are generated of capital employed. From the above table it can be concluded that comparing the two companies TCS has the higher return on its capital employed which indicates that more profits are generated from the capital employed. Wipro ltd had the highest return on capital employees is in the year 2016 it drop down in the year 2017 and 2018 after 2018 it starts get increasing

RETURN EQUITY CAPITAL

If the ratio is higher the return will be more and it is good for the company and it indicates that the return to the shareholders are getting are satisfactory. From the above table it can be concluded that from both the companies TCS has the higher return on equity capital in the year 2016 with 22.33 and its growth all over the year is decreasing.

V. SOLVENCY RATIOS

This ratio examines whether the total realizable amount from all assets of a firm is enough to pay all of its external liability or not.

Solvency is tested on the basis of the ability of the concern to pay its long term liability at due time. The ratios to be used for this purpose are called as 'ratio of financial position' or stability ratio. Following is the formula for ratios.

Debt to equity ratio = Debt / Equity

Return on long term funds = Earnings before interest and tax / Net capital employed

Table 3
Table showing Solvency Ratios

YEAR	DEBT TO EQUITY RATIO		RETURN ON LONG TERM FUNDS	
	TCS	WIPRO	TCS	WIPRO
2016	0.994	0.26	44.79	25.17
2017	1.37	0.26	40.03	21.69
2018	1.230	0.26	40.08	20.63
2019	0.117	0.17	46.66	20.72
2020	0.00	0.11	44.57	23.26
MEAN	0.742	0.212	44.57	22.29

DEBT-EQUITY RATIO

From the above table it can be concluded that TCS is getting finance more from borrowing debts and from the last five years the ratio starts decreasing and this is satisfactory, and Wipro ltd debt to equity ratio is low which means the company is getting financing from shareholders and over the last five year the ratio starts decreasing which is satisfactory.

RETURN ON LONG TERM FUNDS

Higher the rate of return the more will it will good to invest in a company. From the above table it is depicted that TCS has the more rate of return in the year 2020 and it indicates that the

lenders and creditors are in safe margin and the returns can be used for future.

VI. TURNOVER RATIO / EFFICIENCY RATIO

Turnover ratio is a measurement of efficiency, indicating the length of time it takes a business to sell the goods that it has spent money up front to acquire. In a company or industry, turnover ratio is the percentage of employees who leave within a year. The turnover ratio is calculated by dividing the cost of goods by average inventory for same period. A higher ratio tends to point to strong sales and lower one to weak sales.



Inventory turnover ratio = Cost of goods sold /
Average inventory

Debtors turnover ratio= Net credit sales / Average
accounts receivables

Table 4
Table showing turnover ratios

YEAR	INVENTORY TURNOVER RATIO		DEBTORS TURNOVER RATIO	
	TCS	WIPRO	TCS	WIPRO
2016	6790.38	95.07	4.88	5.36
2017	5617.43	141.38	5.05	5.70
2018	4734.77	161.68	5.18	5.56
2019	14646.3	149.38	5.60	5.86
2020	31389.8	327.82	5.42	5.97
MEAN	12635.7	175.066	5.226	5.69

Inventory turnover ratio

A low turnover ratio implies that weak sales and possibly excess inventory, also known as overstocking. A high ratio on the other hand implies either strong sales or insufficient inventory. From the above table it can be concluded that TCS has the highest inventory ratio with 31389.3 times it implies that TCS has the highest sales in comparison to Wipro Ltd.

Debtors turn over ratio

The higher the ratio, the better it is, since it indicates that to the firm but also reduces the amount of bad debt. From the above table it can be concluded that comparing both of the companies clearly Wipro Ltd has the highest debt turnover ratio in the year 2022 with 5.97 times which indicates that it reduces the amount of bad debts.

VII. FINDINGS

- From the above data both the companies it has been concluded that the ratios of both the companies is higher than the ideal ratio 2:1 and it indicates that the companies are in the position to pay off its short term dues.
- For both the companies it has been concluded that the ratios of both the companies is higher than the ideal ratio 1:1 which shows that the company has quick assets more than the current liabilities and its assets are easily convertible into cash.
- It has been concluded that the ratios of both the companies TCS and Wipro Ltd the gross profit is lower than the ideal ratio which means companies need to increase their profits.
- TCS net profit ratio is higher than the ideal percentage, it shows that TCS is in good position

and the net profit of Wipro Ltd is less than 20%.

- The ideal percentage for return on capital employed is 10%. TCS and WIPRO have much more higher percentage than the ideal percentage which indicates their sales are more.
- TCS has the higher percentage of ROEC which is good. Wipro Ltd ROEC percentage is less than the ideal percentage.
- TCS and Wipro Ltd has less percentage of long term funds than the ideal percentage. Thus both the companies need improvement in asset saving.
- The debt ratio of both the companies is lower than the ideal ratio which is good. It indicates that both the company does not totally depend on debt.
- From the above data both the companies have a higher percentage which is good.
- The ideal percentage for debtor's turnover ratio is upto 50%. both the companies have higher percentage than the ideal percentage which means it has good creditable clients.

VIII. SUGGESTIONS

- Wipro Ltd need to improve their quick assets for more liquidity. Thus it will maintain the regular payment of debt.
- Both the companies TCS and Wipro Ltd need to increase their gross profit ratio by reducing the cost of goods sold without changing your selling price. A decrease in cost of goods sold will cause an increase in gross profit margin.
- Wipro Ltd has less profit margin than the ideal percentage. It can get better by increasing the revenue through selling more goods and services or by increasing the prices.
- The return on equity ratio must to be



improved for Wipro ltd. It will improved by increasing the market value of shares.

- In comparison to TCS inventory turnover ratio, Wipro ltd need to improve proper forecasting and effective marketing by negotiating price rates regularly.
- TCS should improve credit sales to increase their debtor's turnover ratio.

IX. CONCLUSION

TCS and Wipro ltd are leading companies in the information and technology industry. Both the companies have an important role to play for the economy as well as investors. With the reference to the above analysis the financial position of TCS can be said as better than that of Wipro ltd. As seen in the above analysis, almost on every parameter the performance of TCS is surpassing the Wipro ltd. Although it is not a warning situation for Wipro ltd but in comparison to TCS, it should improve its management efficiency in utilizing the shareholders fund and it should work on its marketing skills.

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