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Financial Analysis of Tata Consultancy Services Limited

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Abstract: Financial statement analysis is also known as financial statement analysis and interpretation. It creates a meaningful relationship between many items in the two financial statements, particularly the income and position statements. It identifies the company's financial strengths and shortcomings. Financial statement analysis is useful for determining an enterprise's profitability, liquidity, efficiency, and solvency. The review of financial accounts is of importance to all stakeholders. This article discusses financial statement analysis tools and procedures. This study paper will help you comprehend the concepts of analysis and interpretation by analyzing financial accounts.

Keywords: Financial analysis, profitability, liquidity, solvency, activity

1. Introduction

"Financial analysis is the conversion of financial data into useful information for decision making". Financial analysis is the process of assessing the performance and suitability of firms, projects, budgets, and other financial organizations. Financial analysis is commonly used to determine whether an entity is stable, liquid, or profitable enough to merit monetary investment. Tata Consultancy Services, a branch of Tata Sons Ltd, was established in 1968. TCS was later formed as a division to service its Electronic Data Processing (EDP) needs and provide management consulting services.

Objectives of the Study

- To know the financial position in terms of profitability position using ratio analysis.
- To know the liquidity position by using ratio analysis.
- To find out the long term and short-term solvency position.

Scope of the study: The study covers the entire area of financial operations covered by "Tata Consultancy services". The study has been conducted with the help of data obtained from audited financial records.

2. Research Methodology

In this study Descriptive design method is used. Secondary data is used to do financial operations on the company. The audited annual report from 2015-16 to 2019-2020 provides the financial information of the company. Balance sheet and Profit and loss account and many articles are used to do study. Analysis is done by using Ratio analysis and Trend analysis.

3. Review Of Literature

Slavica Andelic and Tamara Vesic (2018) "The Importance of Financial Analysis for Business Decision Making" in this study they have done analysis on financial reports and their aim of the research is to analyze the financial statement prevent potential problems that may occur enterprise deviation for prescribed relationship and assume further work guidance of observed companies.

Gayatri Guha Roy and Bhagaban Das (2019) "Segment Reporting Practices in India on TCS" In his study he examined the segmental reporting practices of TCS to find out whether the segment reporting is useful for stakeholders, especially from the investors point of view for their decision-making regarding investment.

Raju M and VenkateshwararaoPodile (2020) "Financial Analysis of selected IT companies in India", in this Study it was found that there have targeted to determine the general productiveness of IT business through

vertical examination and they done analysis by keeping Ten IT companies where the TCS is also one among them.

4. Data Analysis And Interpretation

Data analysis have been classified into analysis of ratios relating to Profitability, Liquidity, Solvency and Activity Turnover.

Profitability Ratio: Gross profit ratio and Net profit ratio has been used to analyze profitability of the company.

- **Gross Profit Ratio:** Gross profit ratio is also known as Gross Margin ratio. It shows the relationship between the gross profits to net sales. Gross profit margin is frequently expressed as a percentage.

Gross Profit Ratio= Gross Profit / Net Sales x100

Table 1. showing Gross Profit Ratio of TCS

YEAR	GROSS PROFIT	NET SALES	GROSS PROFIT RATIO	TREND
2015-16	30798	85864	35.68	100
2016-17	31641	92693	34.14	95.17
2017-18	33578	97356	34.49	96.16
2018-19	42421	123170	34.49	96.02
2019-20	44692	131306	34.04	94.89

Table 1 shows the Trend of Gross profit of the company. The Gross profit shows a fluctuating trend. The ratio was 35.37 in the year 2015-16 which decreased to 34.14 in the next year and increased to 34.49 in the year 2017-18. But thereafter, it shows a decreasing trend. With the base year as 100 during 2015-16, it is decreased to 94.89 at the end of the study period 2019-20.

- **Net profit ratio:** Net profit ratio is also known as Net profit margin. It is used to measure the financial performance or profitability of a business. It measures the rate of net profit per unit of sales.

Net Profit Ratio= Net Profit / Net sales X 100

Table 2. Showing Net Profit Ratio of TCS

YEAR	NET PROFIT	NET SALES	NET PROFIT RATIO	TREND
2015-16	23075	85864	26.87	100
2016-17	23653	92693	25.52	94.95
2017-18	25241	97356	25.93	96.47
2018-19	30065	123170	24.41	90.83
2019-20	33260	131306	25.33	94.26

Table 3.1.2 shows the trend of Net Profit ratio of the company. The net profit ratio shows a fluctuating trend. The ratio was 26.87 in the year 2015-16 and which was decreased to 25.52 in the year 2016-17 and increased to 25.93 in the year 2017-18 which was decreased to 24.41 in the year 2018-19 and thereafter it shows the decreasing trend. With the base year as 100 during 2015-16 it is decreased to 94.26 at the end of the period 2019-20

Liquidity Ratios

- **Current ratio:** The Current Ratio is a liquidity ratio that measures whether a firm has enough resources to meet its short-term obligations. It tells the inventor about the analysis how a company can maximize the current asset on its balance sheet to satisfy its current debts and other payables.

Current ratio= Current Assets / Current liabilities

Table 3. Showing Current Ratio of TCS

YEAR	CURRENT ASSETS	CURRENT LIABILITIES	CURRENT RATIO	TREND
2015-16	53377	11309	4.72	100
2016-17	68442	10701	6.40	135.51
2017-18	68222	14058	4.85	102.82
2018-19	79032	18896	4.18	88.61
2019-20	79194	24026	3.30	69.84

Table 3.2.1 shows the trend of current ratio of the company. The current ratio shows a fluctuating trend. The ratio was 4.72 in the year 2015-16 which was increased to 6.40 in the year 2016-17 and decreased to 4.85 in the year 2017-18 thereafter it shows a decreasing trend. With the base year as 100 during 2015-16 it has been showing decreasing trend even though the company’s current ratio is showed decreased trend 69.84 at the end of the study period and it has met the thumb rule of 2:1 in all the years.

- **Quick ratio:** The Quick ratio is also known as Acid test ratio. It helps to measures the ability of a company to use it near-cash. The quick ratio compares total amount of cash and cash equivalent+ Marketable securities+ Accounts receivable to the amount current liabilities.

Quick ratio= Quick Assets / Current liabilities

Table 4. showing Quick Ratio of TCS

YEAR	quick assets	quick liabilities	quick ratio	trend
2015-16	53368	11309	4.72	100
2016-17	68421	10701	6.39	135.49
2017-18	68197	14058	4.85	102.82
2018-19	79022	18896	4.18	88.62
2019-20	79189	24026	3.30	69.84

Table 3.2.2 shows the trend of the Quick ratio of the company. The quick ratio shows a fluctuating trend. The ratio was 4.72 in the year of 2015-16 which increased to 6.39 in the year 2016-17 and decreased to 4.85 in the year 2017-18. Which decreased to 4.18 in the year 2018-19 and thereafter it shows a decreasing trend. With the base year as 100 during 2015-16 it showed decreasing trend 69.84 at the end of the study period 2019-20..

Solvency Ratio:

- **Debt Equity Ratio:** The Debt equity ratio is a financial ratio indicating the relationship proportion of shareholder’s equity and debt used to finance a company’s assets. Closely related to leveraging. It is calculated by dividing a company’s total liabilities by its shareholder’s equities. Financial average of a company can be evaluated by this ratio.

Debt Equity ratio= Total Liabilities / Shareholder’s equity

Table 5. showing Debt Equity Ratio of TCS

YEAR	TOTAL LIABILITIES	SHAREHOLDER’S EQUITY	DEBT EQUITY RATIO	TREND
2015-16	12404	65013	0.19	100
2016-17	11736	78022	0.15	78.84
2017-18	15190	75866	0.20	104.94
2018-19	20602	78898	0.26	136.86
2019-20	30607	74368	0.41	215.71

Table 3.3.1 shows the trend of Debt equity ratio of the company. The debt equity ratio shows a fluctuating trend. The ratio was 0.19 in the year 2015-16, which decreased to 0.15 in the year 2016-17 and increased to 0.20 in the year 2017-18 and thereafter it shows an increasing trend till the end of the study period. With the base year as 100 during 2015-16 and it showed increasing trend 215.71 at the end of the study period 2019-20.

- **Proprietary ratio:** Proprietary ratio is also known as Net-worth ratio. It establishes relationship between the proprietor’s fund or Shareholder’s fund and the total assets.

$$\text{Proprietary Ratio} = \frac{\text{Proprietary funds}}{\text{Total assets}}$$

Table 6. Showing Proprietary Ratio of TCS

YEAR	Proprietary funds	Total assets	Proprietary ratio	Trend
2015-16	65013	77417	0.84	100
2016-17	78022	89758	0.87	103.51
2017-18	75866	91056	0.83	99.21
2018-19	78898	99500	0.79	94.42
2019-20	74368	104975	0.71	84.36

Table 6 shows the trend of Proprietary ratio of the company. The cash ratio shows a fluctuating trend. The ratio was 0.84 in the year 2015-16, which was increased into 0.87 in the year 2016-17 and decreased to 0.83 in the year 2017-18 and it showed a decreasing ratio till the study period and sharply at the end of the period it showed 0.71. With the base year as 100 during 2015-16 it shows decreased trend as 84.36 at the end of the study period 2019-20.

Activity Turnover Ratios:

- **Stock Turnover Ratio:** Stock turnover is also known as Stock Turnover Ratio. It has the relationship between the Stocks or the Inventory of a company and its cost of goods sold and calculate how many times an average stock is being converted into sales.

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods sold}}{\text{Average Inventory}}$$

Table 7. showing Stock turnover Ratio of TCS

YEAR	COST OF GOODS SOLD	AVERAGE INVENTORY	STOCK TURNOVER RATIO	TREND
2015-16	42420	12.00	3535.00	100
2016-17	49874	15.00	3324.93	94.06
2017-18	53505	23.00	2326.30	65.81
2018-19	61380	17.50	3507.43	99.22
2019-20	66502	7.50	8866.93	250.83

Table 3.4.1 shows the trend of Stock turnover ratio of the company. The stock turnover ratio shows a fluctuating trend. The ratio was 3535.00 in the year 2015-16, and increased to 3507.43 in the year 2018-19. The ratio shows the increasing up to the end of the study period. With the base year as 100 during 2015-16 and it increased to 250.83 at the study period 2019-20.

- **Receivable Turnover Ratio:** Receivable turnover ratio is also known as Debtors turnover ratio, it is the ratio used to find numbers of times business is able to convert its credit sales to cash.

$$\text{Receivable turnover ratio} = \frac{\text{Net credit sales}}{\text{Average account receivable}}$$

Table 8. Showing Receivable turnover Ratio of TCS

Year	Net credit sales	Average account receivable	Receivable turnover ratio	Trend
2015-16	85864	19058	4.51	100
2016-17	92693	16582	5.59	124.07
2017-18	97356	18882	5.16	114.44
2018-19	123170	24029	5.13	113.77
2019-20	131306	28660	4.58	101.69

Table 8 shows the trend of Receivable turnover ratio of the company. The receivable turnover ratio shows a fluctuating trend. The ratio was 4.51 in the year 2015-16, and increased to 5.59 in the year 2016-17 and decreased to 5.16 in the year 2017-18, thereafter its shows the decreasing trend throughout of the study period. With the base year as 100 during 2015-16 it has been showing an increasing trend 101.69 at the end of the study period 2019-20.

Findings:

- Gross profit ratio of the company increased to 35.87 in the year 2015-16 and decreased to 34.04 at the end of the period 2019-2020.
- Net profit ratio of the company increased to 26.87 in the year 2015-16 and decreased to 25.33 at the end 2019-2020.
- Current ratio of the company was increased to 6.40 in the year 2016-17 and thereafter it was decreased to 3.30 at the end of t the study period 2019-2020.
- Quick ratio of the company increased as 6.39 in the year 2016-17 and decreased to 3.30 at the end of the study period 2019-20.
- Debt equity ratio of the company shows decreasing to 0.19 in the year 2015-2016 and increased to 0.41 at the end of the study period 2019-2020.
- Proprietary ratio of the company is comparatively high 0.84 in the year 2015-2016 and decreased to 0.71 at the end of the period 2019-2020.
- Stock turnover ratio of the company shows 3535.00 in the year 2015-2016 and increased to 8866.93 at the end of the study period 2019-2020.
- Receivable turnover ratio of the company shows 4.51 in the year 2015-2016 and increased to 4.58 at the end of the study period 2019-2020.

Suggestions:

Few steps to improve the Liquidity position of the company:

1. **Refinancing:** If the company finds itself with extra short-term liabilities and a stable relationship with their creditors, they may consider someone or long-term debt that can be paid down over time.
2. **Account receivable:** The organization should efficiently ensure account receivables by charging customers and receiving quick payments.
3. **Get rid of worthless assets:** If the company is storing unproductive assets, it is time to let them go and spend the money on building equipment, etc., to generate revenue.
4. **Reduce Overhead Expenses:** The less money you spend, the more money you make. This has a direct impact on profitability. Overhead costs include marketing, professional fees, and so on.

Few steps to improve the Solvency position of the company: Increase in sales:

1. **Additional stock issue:** To enhance cash flow, the corporation can issue new or additional shares. This cash can be utilized to repay outstanding liabilities, reducing the debt burden. The debt to total asset ratio will be reduced as debt is reduced.
2. **Lease asset:** If the company sells its assets and then leases them back, it will generate cash flow that can be used to pay down debts.

Few steps to improve the Turnover position of the company

1. **Increase in Inventory and Demand:** If the company spreads the word about their company and their products, they will be able to sell more things and move more products.
2. **Cut costs:** If the company distributes items at a lower cost while maintaining quality, a more affordable distribution will most likely show with a little searching and comparing.

Few steps to improve the Profitability position of the company:

1. Seek input from outside the organization: Professionals or consultants who can assist in identifying issues in the business that firms are too blind to see. It is difficult to separate the company vision for their business when the company is within the business.

2. Implement and monitor the budget: The corporate budget must be clearly and thoroughly followed in order for the company to remain in order. Following the budget closely in the company helps the corporate budget stay aligned with the business's growth.

5. Conclusion

To know the financial performance of the company "TATA CONSULTANCY SERVICES". The data was collected for five years from 2015-2016 to 2019-2020. Analyzing the financial position of any company is only means to know the soundness of the company. Financial Analysis plays a very important role in providing the facts and figures for the decision makers. In the same way ratios will act as analysis kit in the hands of financial analyst, these ratios will help in answering the basic questions.

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