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A Comparative Study On Tata Consultancy Services Ltd And Infosys Ltd In The Information Technology Industry

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ABSTRACT:

The study aims at analyzing and comparing the Tata Consultancy Services Ltd (TCS) and Infosys Ltd of the Information Technology industry which is an important and increasingly growing industry providing nearly 8 percent of the total GDP of the Indian economy and the industry is expected to contribute 10% to India's GDP by 2025. The IT sector is one of the promising and growth potential sector which provides insights to investors about these companies. As India is an emerging economy the Information Technology is a major contributor from the service sector and a never ending industry providing growth, profitability including technological advancements. Investors choose the Information Technology sector to diversify their portfolio as it is safe and contributes continuous growth and profitability. To study the performance of the company, fundamental analysis such as EPS, DPS, P/E ratio, ROI, Debt-equity ratio, Dividend Yield Ratio, PEG ratio etc. The data source for the study was secondary data obtained from the National Stock Exchange(NSE). The study provides comparison and fundamental analysis to the investors for investing in either of the companies selected..

Keywords: investors, growth, profitability, TCS, Infosys, comparison, fundamental analysis .

Introduction:

Information technology (IT) is the use of computers to create, process, store, retrieve, and exchange all kinds of electronic data and information.Information Technology in India is a vast industry which comprises information technology services, consulting, and outsourcing. India's IT Services industry was born in Mumbai in 1967 with the establishment of Tata Consultancy Services.

The IT industry accounted for 8% of India's GDP in 2021. The IT and BPM industry's revenue isestimated at US$194 billion in FY 2021, an increase of 2.3% YoY. The domestic revenue of the IT industry is estimated at US$45 billion and export revenue is estimated at US$150 billion in FY 2021. The IT–BPM sector overall employs 4.5 million people as of March 2021.

In the contemporary world economy, India is the largest exporter of IT. Exports dominate the Indian IT industry and constitute about 79% of the industry's total revenue. However, the domestic market is also significant, with robust revenue growth. The tech sector is expected to grow at almost twice the rate of the Indian economy this financial year.

Indian IT's core competencies and strengths have attracted significant investment from major countries. Leading Indian IT firms like Infosys, Wipro, TCS and Tech Mahindra are diversifyingtheir offerings and showcasing leading ideas in blockchain and artificial intelligence to clients using innovation hubs and research and development centres to create differentiated offerings.

TATA CONSULTANCY SERVICES

Tata Consultancy Services Limited (TCS), initially started as Tata Computer Systems was founded in 1968 as a division of Tata Sons Limited. Tata Consultancy Services is an Indian multinational information technology (IT) services and consulting company headquartered in Mumbai. It is a part of the Tata Group and operates in 149 locations in 46 countries all across theglobe.

Tata Consultancy Services became a publicly listed company on August 2004. Tata Consultancy Services became the first India based IT services company to enter the bioinformatics market. It designed an ERP system for the Indian Railway Catering and Tourism Corporation. Tata Consultancy Services entered the small and medium enterprises market for the first time in 2011,with cloud-based offerings.

Tata Consultancy Services surpassed Accenture briefly, in market capitalisation to become the world's most-valuable IT company with a market cap of $170 billion. Tata Consultancy Servicesbecame India's most valuable company, surpassing Reliance Industries with a market cap of ₹12.55 trillion. Tata Consultancy Services is also one of the largest job provider in India hiring 43,000 individuals in the 2021. TCS had a total of 50 subsidiary companies and operated in 46 countries. It has operations across India, Asia, Europe, North America, South America. TCS is one of the largest private-sector employers in India and the fourth-largest employer among listed Indian companies after Indian Railways, Indian Army, and India Post. TCS has crossed more than 500,000 employees as of 2021.

INFOSYS

Infosys was founded by seven engineers in Pune, Maharashtra, India with an initial capital of $250, registered as Infosys Consultants Private Limited on 1981. Infosys Limited is an Indian multinational information technology company that provides business consulting, information technology and outsourcing services. The company was founded in Pune and is headquartered in Bangalore. Infosys became a publicly listed in June 1992. Infosys shares were listed on the Nasdaq stock exchange in 1999 as American depositary receipts becoming the first Indian company to be listed on Nasdaq.
Infosys provides software development, maintenance and independent validation services to companies in finance, insurance, manufacturing and other domains. One of its known products ofInfosys is Finacle which is a universal banking solution with various modules for retail and corporate banking.
Infosys is the second-largest Indian IT company after Tata Consultancy Services by 2021 revenue figures and the 602nd largest public company in the world according to Forbes Global 2000 ranking. Infosys has 82 sales and marketing offices and 123 development centres across the world with major presence in India, United States, China, Australia, Japan, Middle East and Europe.
Deriving 60%, 24%, and 3% of its revenues from projects in North America, Europe, and India, respectively and remaining 13% of revenues were derived from the rest of the world. The credit rating of the company is CRISIL AAA / Stable / CRISIL A1+ rating by CRISIL.

The study focuses on comparing and analyzing the financial performance of TCS and Infosys to interpret the result in a manner which helps the investors to choose the best company based on financial and the fundamental analysis. For this purpose Financial statements for the past 5 years of these companies are used for preparing financial ratio analysis to find out some of the key financial indicators necessary for fundamental analysis.
The main objective of the present study is to make a comparative and fundamental analysis of TCS and Infosys of the Information Technology sector with following specific objectives:

- To comparatively analyze the Balance sheet and Income statement of the SelectedCompanies with respect to important ratios for investment.
- To compare the share price of the selected companies over the past 5 years in NSE.

LITERATURE REVIEW

1. Under the study, Infosys is the incredible story of success and successful execution of business model, the company has entered red ocean market with insignificant stake and power in market, but because of successful market re-definition company managed to achieve to be the first and be remarkable example for rivals through incredible growth in sales, performance, service, profitability and factors affecting the growth of the company. As per financial and the fundamental analysis, Infosys is incredible company to invest in due the factors under the study. - Shwet kashyap

2. On the basis of analysis of capital structure ratios, the solvency position of these companies as a whole is not sound. Moreover the policy of employing more borrowed funds as compared to own funds could not be justified as financial expenses reduced the profits. Thus the overall profitability of TCS measured with the help of different ratios can be said to be satisfactory, they had financial opportunity to earn maximum or optimum profits for economic prosperity. The average growth rate of TCS indicated financial opportunity of better debt equity mix and dividend payout and therby advisableto invest in TCS for future. - Pratibha Jain and Megha Mehta.

RESEARCH METHODOLOGY

Ratio analysis is a quantitative method of gaining insight into a company's liquidity, operational efficiency, and profitability by studying its financial statements such as the balance sheet and income statement. Ratio analysis is a cornerstone of fundamental equity analysis.
Ratio analysis compares line-item data from a company's financial statements to reveal insights regarding profitability, liquidity, operational efficiency, and solvency. Ratio analysis can mark how a company is performing over time, while comparing a company to another within the same industry or sector.
The study analyses the financial statements of the selected companies to arrive at the conclusion regarding the financially strong company via EPS, DPS, P/E ratio, ROI, Debt-equity ratio, Dividend Yield Ratio, PEG ratio. The study compares the financial statements of the selected companies.

A line chart is a graphical representation of an asset's historical price action that connects a series of data points with a continuous line. This is the most basic type of chart used in finance, and it typically only depicts a security's closing prices over time. Line charts can be used for any timeframe, but they most often make use of day-to-day price changes.
This is the most basic type of chart used in finance, and only reflects the closing prices of protection over time. The data for the study was obtained from the website of National stockexchange (NSE) www.nseindia.com and financial statements of the companies are collected from the website of the respective companies.

RESEARCH FINDINGS

EARNINGS PER SHARE

Earnings per share (EPS) is a financial measure which indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. It is calculated by dividingthe company's net income with its total number of outstanding shares.

$$\text{EPS} = \frac{\text{Earnings available for equity shareholders}}{\text{No. of outstanding equity sharesg}}$$

The result of EPS analysis shows that EPS of TCS is 87.65 for the FY 2021 is higher than the EPS of Infosys which is for the 45.55 FY 2021. For the past 5 years Infosys is the leader in thegrowth of EPS having growth rate of 42.20 percent than TCS having EPS growth rate of 31.40percent.

DIVIDEND PER SHARE

Dividend per share (DPS) is a financial which indicates the sum of declared dividends issued by a company for every ordinary share outstanding. DPS is an important metric to investors becausethe amount a firm pays out in dividends directly translates to income for the shareholder.
A higher DPS over time is a sign that a company's management believes that its earnings growthcan be sustained. DPS is calculated by dividing the total dividends paid out by a business, including interim dividends, over a period of time, usually a year, by the number of outstanding ordinary shares issued.

$$\text{DPS} = \frac{\text{Dividend for equity shareholders}}{\text{No.of outstanding equity shares}}$$

The result of DPS shown in the table depicts that DPS of TCS is higher in FY 2021 than that ofInfosys. When it is comes to growth, TCS has a negative DPS with (19.14) percent where Infosys has a positive DPS with 4.85 percent growth.

PRICE EARNINGS RATIO

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its currentshare price relative to its earnings per share (EPS). A high P/E ratio could mean that a company's stock is overvalued, or else that investors are expecting high growth rates in the future. P/E ratio is calculated by dividing the current stock price by the earnings per share (EPS).

$$\text{P/E Ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

From the table, it is understood that P/E ratio of both companies are at a ideal rate but investorsprefer TCS share over Infosys share as the P/E ratio is higher. Both the P/E ratio of TCS and Infosys are above the industry P/E ratio of 22.

RETURN ON INVESTMENT

Return on Investment (ROI) is an important profitability measure used to evaluate how well an investment has performed. ROI is expressed as a percentage. ROI evaluates the efficiency or profitability of an investment or compare the efficiency of a number of different investments.ROI is calculated by dividing an investment's net profit or loss by its initial cost oroutlay.

$$\text{Return On Investment}\left(\text{ROI}\right) = \frac{\text{EBIT/Operating profits}}{\text{Capital employed in the business}} \times 100$$

As per table, it is understood that Return on Capital Employed of both the companies havegrown during the period. There is a constant increase in the earnings of the company which indicates that the entire industry has grown during the period and comparably TCS has more ROIthan Infosys therby it is preferred by the investors.

DIVIDEND YIELD RATIO

The dividend yield is a financial indicator which evaluates the amount a company pays to its investors as dividends in comparison with the current market price of the stock. It is calculatedby dividing dividend per share (DPS) by Market price per share (MPS).

$$\text{DPS} = \frac{\text{Dividend per share}(\text{DPS})}{\text{Market price per share}(\text{MPS})} \times 100$$

From the table, the Dividend Yield Ratio of both the companies have been gradually decreased as the DPS of TCS and Infosys have been decreased during the period as result of decrease in dividend payout.

DEBT EQUITY RATIO

The debt-to-equity (D/E) ratio is an important measure which compares a company's total liabilities to its shareholder equity and can be used to evaluate how much leverage a company isusing. The D/E ratio is an important metric used in corporate finance. It is a measure of the degree to which a company is financing its operations through debt versus wholly owned funds. The D/E ratio is difficult to compare across industry groups where ideal amounts of debt will vary. It is calculated by dividing long term debt by shareholders funds.

$$\text{Debt Equity ratio} = \frac{\text{Long term debt}}{\text{Share holders equity}}$$

As per the table, the debt equity ratio of bot TCS and Infosys are 0.00 times which implies thecompany doesn't rely on borrowing which indicates that both companies do not finance their operations through borrowing at all, which limits the total return that can be realized and passedon to shareholders.

PRICE EARNINGS TO GROWTH RATIO

The PRICE EARNINGS TO GROWTH RATIO (PEG) ratio is a financial measure which is usedto determine a stock's value while also factoring in the company's expected earnings growth.
PEG ratio is considered to be an indicator of a stock's true value, and similar to the P/E ratio, alower PEG may indicate that a stock is undervalued. It is calculated by dividing P/E ratio by earnings growth ratio.

$$\text{Price/Earnings to Growth ratio}(\text{PEG}) = \frac{\text{P/E ratio}}{\text{Earnings growth rate}}$$

$$\text{Earnings growth rate} = \frac{\text{EPS of thecurrent year- EPSof the previousyear}}{\text{EPS of the previous year}} \times 100$$

PEG of TCS for the past 5 years is 3.24 PEG of Infosys for the past 5 years is 3.75
Generally, PEG ratio higher than 1.0 indicates overvaluation of share price and below 1.0 indicates undervation. This indicates both the share have been overvalued which is unfavorableTCS is lower than Infosys under this study.

Table representing the financial information of TCS:

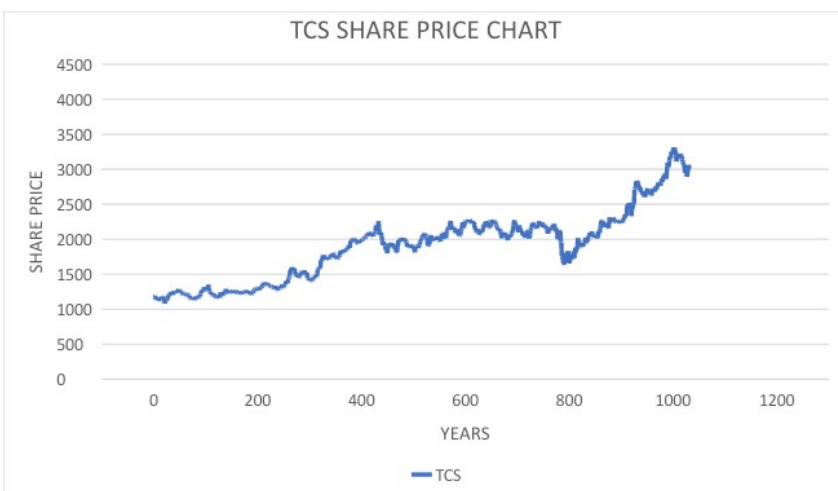
Particulars	2017	2018	2019	2020	2021	Difference	Growth
EPS	66.72	67.61	83.93	86.24	87.65	20.95	31.40
DPS	47.00	50.00	30.00	73.00	38.0	(9.00)	(19.14)
P/E Ratio	9.11	10.54	23.84	21.14	36.25	27.14	297.91
ROI	43.94	39.84	47.80	50.02	52.56	-	-
Debt EquityRatio	0.00 times	00.00 times	0.00 times	00.00 times	0.00 times	-	-

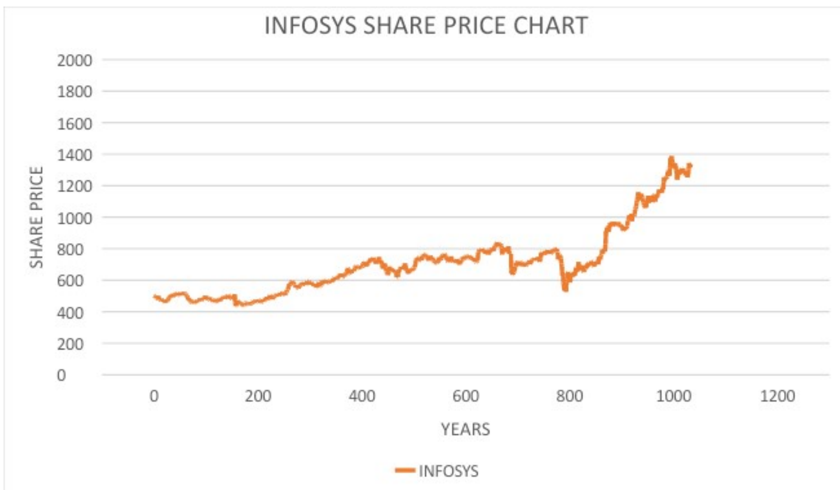
Dividend Yield Ratio	1.93	1.75	1.50	4.00	1.20	-	-

Table representing the financial information of Infosys:

Particulars	2017	2018	2019	2020	2021	Difference	Growth
EPS	31.37	36.38	35.53	39.14	45.55	14.18	42.20
DPS	25.75	43.50	21.50	17.50	27	1.25	4.85
P/E Ratio	8.14	7.70	20.89	16.36	30.03	21.89	268.91
ROI	30.57	30.38	32.40	34.01	37.83	-	-
Debt EquityRatio	0.00 times	0.00 times	0.00 times	0.00 times	0.00 times	-	-
Dividend Yield Ratio	2.52	3.83	2.90	2.73	1.97	-	-

Line Chart





The Line chart of TCS and Infosys depicts that the share price of both these companies ranging from Rs.1180.68 and Rs.500.55 in 2017 to Rs.3738.85 and Rs.1889.65 indicating increase in a growing trend due to its sales, profitability, investments, projects, clients, growth and such other factors. The growth rate ofInfosys is 243.22 percent and that TCS is 216.66 percent which is lower than Infosys.

CONCLUSION

As per the study in FY21, TCS had earned a revenue of Rs.1,64,177 Cr whereas Infosys was able to earn Rs 1,00,472 Cr. In the last five years, from 2017 to 2021, revenue for Infosys and TCS grew of 8% and 7%, respectively; The net profit margins are in the same range with TCS of 12.17% and Infosys having 9.84%; Infosys has a higher payout ratio compared to TCS. Apart from that, the total dividend paid by TCS in FY21 was Rs 38 per share whereas Infosys paid a total dividend of Rs 27 per share in the year. TCS has a good average ROE for the last 3Years of 37.44% and Infosys has an average of 25.65%. The stocks have given an average return over the last year. The share price of Infosys surged by 30.87% andthat of TCS was by 17.66%. As per the study I conclude that both the companies gave a neck-to-neck competition with each other in terms of revenue, growth and profitability, and investing partially in both these companies is viable to diversify the investment in this sector or TCS could be advantageous over Infosys.

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