

## **Analyzing Financial Performance of Indian IT Sector**

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**ABSTRACT:** *IT sector was performing a very crucial role in the development of the country. In India, the IT sector was emerging as a major source of growth and employment. Given the increasing pressure of competition mainly due to globalization, the IT sector companies were forced to reorient their financial strategies. In fact, different financial aspects like liquidity, profitability and efficiency need to be managed more efficiently in order to survive in the modern complex environment of the business. Some of the IT companies were able to cope up with the new complicated financial strategies, while others failed to do so. Besides this, the advent of new regulations and technologies were forcing the sector to reorient its financial strategies keeping in mind the need of the modern age. In this backdrop, the present paper makes a serious attempt to analyze the overall financial performance of the Indian IT sector during the period 2001-2002 to 2015-2016. The study was based on ten companies from the Indian IT sector. These ten IT companies were selected following purposive sampling procedure. The issues analyzed in this study were tackled using relevant statistical tools and techniques.*

**Key words:** *Indian IT Sector, Liquidity, Profitability, Efficiency, Financial Performance*

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### **I. INTRODUCTION:**

IT sector was performing an important role in Indian economy. Information technology (IT) is now become one of the most sturdy industry in the world. It is a key driver of global economic growth. Today IT sectors leads the economic growth in terms of employment, export promotion, revenue generation and standards of living. As per NASSCOM, IT sector is expected to generate revenues of USD 130 billion by 2015 and to generate employment opportunities more than 14 million (direct and indirect) by 2015 which will create a transformational impact on the overall economy. All the Indian industries are facing ferocious challenges due to heavy competition in the market place due to liberalization, privatization and globalization (LPG). In the modern industrial world, efficient financial management is the prime Problem of every business organization. The efficiency of an organization is measured in terms of certain parameters such as profit/ earnings, liquidity management, payments made to investors in the form of dividend etc. . In fact, different financial aspects like liquidity, profitability and efficiency need to be managed more efficiently in order to survive in the modern complex environment of the business. Some of the IT companies were able to cope up with the new complicated financial strategies, while others failed to do so. Besides this, the advent of new regulations and technologies were forcing the sector to reorient its financial strategies keeping in mind the need of the modern age. In this backdrop, the present paper makes a serious attempt to analyze the overall financial performance of the Indian IT sector during the period 2001-2002 to 2015-2016.

### **II. OBJECTIVES OF THE STUDY:**

The main objective of the study is to make a comprehensive study of overall financial performance of the selected companies in Indian Information Technology (IT) sector during the study period. Specifically, this study has the following objectives:

- To analyze the overall liquidity position of the selected companies.
- To study the efficiency of assets management of the selected companies.
- To evaluate the profitability status of the companies under study.
- To measure the overall financial performance of the companies.
- To assess the influences of liquidity on profitability and also efficiency of asset management on profitability of the selected companies and to test the significance of such associations.
- To determine the relative liquidity-profitability status of the selected companies.
- To assess the relative relationship between efficiency of assets management and profitability.

### **III. RESEARCH METHODOLOGY:**

#### **a. Sample design:**

Ten companies in Indian IT Sector were selected by following purposive sampling procedure. The list of the companies was displayed in Appendix.

#### **b. Collection of data:**

The data of the ten selected companies for fifteen years (i.e. from 2001 – 02 to 2015-16) used in this study were collected from secondary source i.e. Capitaline Corporate Database of Capital Market Publishers (I) Ltd. Mumbai.

#### **c. Analysis of data:**

Simple mathematical tools such as summation, percentage, average, ratio etc. were used for analyzing the data used in this study. The ratios relating to the measurement of liquidity aspect of the companies which were used in this study are Current ratio (CR) and Quick ratio (QR). For assessing the efficiency of assets management of the selected companies, ratios like Fixed Assets Turnover ratio (FATR) and Debtors Turnover ratio (DTR) were used. In order to determine profitability position of the selected companies, some profitability indicators like Return on Capital Employed (ROCE) and Return on Net worth (RONW) were used. A comprehensive rank test considering average value of different financial aspects like liquidity, efficiency and profitability was applied for computing and analyzing the overall financial performance of the companies under study. While determining such overall financial performance, a composite score for each of the selected companies was ascertained by considering the final liquidity rank, final efficiency rank and final profitability rank. The degrees of relationship between liquidity and profitability and that of between efficiency and profitability were assessed through simple Spearman's rank correlation. The computed values of simple correlation coefficients were tested by "t" test to examine whether the computed values are statistically significant or not.

### **IV. FINDINGS OF THE STUDY:**

In this section of the paper, first of all, liquidity aspect of the selected companies in Indian IT sector was considered during the study period. For analyzing overall liquidity status of the selected companies more appropriately and effectively, a comprehensive rank test considering average value of the selected liquidity measures was used. High mean value of all the selected liquidity measures (CR & QR) indicates the high liquidity position and thus ranking was made in that order. Table 1 reveals that Oracle Financial Services Software Ltd. ranked first according to the mean value of every selected liquidity indicators named CR and QR. Based on average value of CR, Infosys Ltd. taken the second position and it was followed by Hexaware Technologies Ltd, Mindtree, HCL Technology, Larsen & TurboInfotech Ltd., Mphasis, Tech Mahindra Ltd., Wipro Ltd. and TCS respectively in that order. Infosys Ltd. captured the second position based on the average value of QR and it was followed by Hexaware Technologies Ltd, Mindtree, Larsen & TurboInfotech Ltd., HCL Technology, Tech Mahindra Ltd., Mphasis, Wipro Ltd. and TCS respectively in that order.

Ranks assigned to each of the selected companies based on average value of liquidity parameters were combined in order to get final liquidity rank. Final liquidity ranking was made on the principle that lower the aggregate of individual rank of selected liquidity measures, the more favourable is the liquidity position and vice versa. Table 1 state that Oracle Financial Services Software Ltd. which was ranked first according to CR and also first according to QR, had a combined score of 2 in the composite liquidity ranking. Similarly, Infosys Ltd. had a combined score of 4, Hexaware Technologies Ltd. 6, Mindtree 8, HCL Technology and Larsen & TurboInfotech Ltd. 11, Mphasis and Tech Mahindra Ltd. 15, Wipro Ltd. 18 and TCS 20. According to the combined liquidity score based on the mean value of the selected liquidity measures, Oracle Financial Services Software Ltd. captured the highest rank and it was followed by Infosys Ltd., Hexaware Technologies Ltd., Mindtree, HCL Technology and Larsen & TurboInfotech Ltd., Mphasis and Tech Mahindra Ltd., Wipro Ltd. and TCS respectively in that order.

In the same way, final efficiency of asset management ranking and final profitability ranking of the selected companies in Indian IT sector was made.

Table -2 states that TCS ranked first according to the aggregate efficiency score based on the average value of the selected efficiency parameters and it was followed by Wipro Ltd., Infosys Ltd., Larsen & TurboInfotech Ltd., Mphasis, Oracle Financial Services Software Ltd. and Tech Mahindra Ltd., Mindtree, HCL Technology and Hexaware Technologies Ltd.

Similarly, Table - 3 indicates that TCS captured the first position according to the combined profitability score based on the mean value of the selected profitability indicators during the study period and it was followed by Tech Mahindra Ltd., Infosys Ltd., Larsen & TurboInfotech Ltd., Wipro Ltd., HCL Technology and Oracle Financial Services Software Ltd., Mindtree, Mphasis and Hexaware Technologies Ltd.

An attempt was made in Table-4 to compute the overall financial performance of the selected companies by using a comprehensive rank test considering three selected performance indicators i.e., final liquidity rank, final efficiency rank and final profitability rank during the study period. A composite score was made by summing these three performance indicators. Overall financial performance ranking was done on the principle that the lower the aggregate of final liquidity rank, final efficiency rank and final profitability rank, better is the overall financial performance. Table 4 discloses that Infosys Ltd. which ranked second according to the FLR, third according to the FER and also to the FPR has a composite score 8. In the same way, TCS has a composite score 12, Larsen & TurboInfotech Ltd. and Oracle Financial Services Software Ltd. 13.5, Tech Mahindra Ltd. 15.5, Wipro Ltd. 16, Mindtree 20, HCL Technology 21, Mphasis 22.5 and Hexaware Technologies Ltd. 23. On the basis of such composite score Infosys Ltd. took first position and was followed by TCS, Larsen & TurboInfotech Ltd. and Oracle Financial Services Software Ltd., Tech Mahindra Ltd., Wipro Ltd., Mindtree, HCL Technology, Mphasis and Hexaware Technologies Ltd. respectively in that order.

In Table-5, the degree of correlation between liquidity and profitability and also between efficiency of assets management and profitability of the selected companies were assessed through Spearman's Rank Correlation Coefficient. To examine whether the computed values of such coefficients were significant or not "t" test was used. In this regards, FLR was used as liquidity indicator, FER was taken as efficiency measure and FPR was chosen for profitability parameter. Table 5 reveals that Rank Correlation Coefficient between liquidity and profitability was -0.401. That means, there was a negative, as well as, statistically insignificant correlation between liquidity and profitability of the companies under study. Table- 5 also indicates that Rank Correlation Coefficient between efficiency and profitability was 0.751 which was found to be statistically significant.

In Table- 6.1 liquidity- profitability status of the companies under study was analyzed based on the combination of current ratio (CR) and Return on Capital Employed (ROCE). Table- 6.1 shows that two companies namely HCL Technology and Mphasis were maintained a positive correlation between short term debt paying capacity (CR) and profitability (ROCE) during the study period. Out of the two companies, only HCL Technology was recorded 'moderate liquidity- moderate profitability' combination and Mphasis was displayed 'low liquidity- low profitability' combination. On the other way, only two companies i.e. TCS and Tech Mahindra Ltd. was showed a negative correlation in between CR and ROCE during the period under study as they registered 'low liquidity- high profitability' combination. Infosys Ltd. was the only company out of the ten companies placed in 'moderate liquidity- high profitability' cell and Oracle Financial Services Software Ltd. was registered 'high liquidity- moderate profitability' combination under study. Table- 6.1 also implies that Larsen & TurboInfotech Ltd. and Wipro Ltd. were hold 'low liquidity- moderate profitability' position during the study period whereas Hexaware Technologies Ltd. and Mindtree were displayed in 'moderate liquidity- low profitability' cell.

In Table- 6.2 liquidity-profitability profile of selected companies during the study period was measured on the basis of quick ratio (QR) and Return on Capital Employed (ROCE). Table-6.2 indicates that HCL Technology and Larsen & TurboInfotech Ltd. (recorded 'moderate liquidity- moderate profitability' combination) and also Mphasis (registered 'low liquidity- low profitability' combination) were showed a positive correlation between QR and ROCE. Infosys Ltd. was placed in 'moderate liquidity- high profitability' cell whereas Wipro Ltd. was displayed 'low liquidity- moderate profitability' combination under study. Only two companies namely TCS and Tech Mahindra Ltd. were maintained a negative correlation between QR and ROCE as they hold 'low liquidity- high profitability' combination. Oracle Financial Services Software Ltd. was recorded 'high liquidity- moderate profitability combination'. Hexaware Technologies Ltd. and Mindtree were registered 'moderate liquidity- low profitability' combination during the period under study on the basis of QR and ROCE.

In Table-7.1 efficiency-profitability status of the chosen companies was measured on the basis of efficiency of debtors' management (DTR) and profitability (ROCE). Table- 7.1 implies that six companies such as Infosys Ltd., TCS, HCL Technology, Larsen & TurboInfotech Ltd., Wipro Ltd. and Hexaware Technologies Ltd. maintained a positive correlation between efficiency of debtors' management and profitability under study. Out of these six companies, only Infosys Ltd. and TCS registered 'high efficiency- high profitability' position, HCL Technology, Larsen & TurboInfotech Ltd. and Wipro Ltd. maintained 'moderate efficiency- moderate profitability combination' and Hexaware Technologies Ltd. hold 'low efficiency- low profitability' position during the study period. Tech Mahindra Ltd. witnessed 'moderate efficiency- high profitability' combination and Oracle Financial Services Software Ltd. placed in 'low efficiency- moderate profitability' cell on the basis of efficiency of debtors' management and profitability. Moreover, Mindtree and Mphasis recorded 'moderate efficiency- low profitability' combination under study.

In Table- 7.2 efficiency-profitability status of the selected companies was assessed in terms of efficiency of fixed assets management (FATR) and profitability (ROCE). Table- 7.2 exhibits six companies such as TCS, Larsen & TurboInfotech Ltd., Oracle Financial Services Software Ltd., Wipro Ltd., Hexaware

Technologies Ltd. and Mindtree registered a positive correlation between efficiency of fixed assets management and profitability during the study period. Among these six companies, only TCS company hold 'high efficiency- high profitability' position, Larsen & TurboInfotech Ltd., Oracle Financial Services Software Ltd. and Wipro Ltd. maintained 'moderate efficiency-moderate profitability' combination and Hexaware Technologies Ltd. and Mindtree placed in 'low efficiency- low profitability' cell. Table- 7.2 also indicates that Infosys Ltd. registered a negative correlation between efficiency of fixed assets management and profitability as it hold 'low efficiency- high profitability' position during the study period. Tech Mahindra Ltd. displayed in 'moderate efficiency- high profitability' cell and HCL Technology recorded 'low efficiency- moderate profitability combination. Besides this, Mphasis placed in 'moderate efficiency- low profitability' cell during the study period.

### **Concluding Remarks:**

- Considering both the selected liquidity measures, Oracle Financial Services Software Ltd. captured the top most position and it was followed by Infosys Ltd., Hexaware Technologies Ltd., Mindtree, HCL Technology and Larsen & TurboInfotech Ltd., Mphasis and Tech Mahindra Ltd., Wipro Ltd. and TCS respectively in that order.
- Based on the average values of the selected efficiency parameters, assets management of TCS was the most efficient and it was followed by Wipro Ltd., Infosys Ltd., Larsen & TurboInfotech Ltd., Mphasis, Oracle Financial Services Software Ltd. and Tech Mahindra Ltd., Mindtree, HCL Technology and Hexaware Technologies Ltd.
- TCS captured highest profitability position based on mean values of the selected profitability indicators and it was followed by Tech Mahindra Ltd., Infosys Ltd., Larsen & TurboInfotech Ltd., Wipro Ltd., HCL Technology and Oracle Financial Services Software Ltd., Mindtree, Mphasis and Hexaware Technologies Ltd. respectively in that order.
- According to the overall financial performance under study, Infosys Ltd. captured the top most position and it was followed by TCS, Larsen & TurboInfotech Ltd. and Oracle Financial Services Software Ltd., Tech Mahindra Ltd., Wipro Ltd., Mindtree, HCL Technology, Mphasis and Hexaware Technologies Ltd. respectively in that order.
- Computed values of Spearman's Rank Correlation Coefficient of the consolidated position of the companies under study shown that liquidity management of the companies made a negative as well as insignificant impact on their profitability, whereas, efficiency of assets management of the companies played a significant role in increasing their profitability.
- Liquidity management of HCL Technology and Mindtree made positive influence on their profitability whereas TCS and Tech Mahindra Ltd. registered a negative relationship between liquidity and profitability.
- Efficient assets management of TCS made a significant positive impact on its profitability during the study period. In case of Infosys Ltd. only the debtors management made a positive contribution towards maintaining its high profitability status whereas fixed assets management of that company made a negative impact on its profitability under the study period.

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Table- 1						
Computation of Final Liquidity Rank based on the average value of the selected liquidity measures of the selected companies in Indian IT sector during the study period						
Company	Average Current Ratio (CR)	Rank	Average Quick Ratio (QR)	Rank	Sum of all Liquidity Ranks	Final Liquidity Rank
HCL Technology	2.71	5	2.66	6	11	5.5
Hexaware Technologies Ltd.	3.60	3	3.73	3	6	3
Infosys Ltd.	3.86	2	3.88	2	4	2
Larsen & TurboInfotech Ltd.	2.25	6	2.69	5	11	5.5
Mindtree	2.95	4	2.78	4	8	4
Mphasis	2.13	7	2.14	8	15	7.5
Oracle Financial Services Software Ltd.	5.06	1	5.14	1	2	1
TCS	1.56	10	1.7	10	20	10
Tech Mahindra Ltd.	2.03	8	2.15	7	15	7.5
Wipro Ltd.	1.89	9	2.06	9	18	9
Source: Compiled and computed from 'Capitaline Corporate Database' of Capital Market Publishers(I) Ltd., Mumbai.						

Table- 2						
Computation of Final Efficiency Rank based on the average value of the selected efficiency measures of the selected companies in Indian IT sector during the study period						
Name of Company	Average Debtors Turnover Ratio (DTR)	Rank	Average Fixed Assets Turnover Ratio (FATR)	Rank	Sum of all Efficiency Ranks	Final Efficiency Rank
HCL Technology	4.68	6	3.38	9	15	9
Hexaware Technologies Ltd.	4.00	9	2.19	10	19	10
Infosys Ltd.	7.12	1	3.87	7	8	3
Larsen & TurboInfotech Ltd.	5.18	4	4.31	6	10	4
Mindtree	5.16	5	3.66	8	13	8
Mphasis	4.30	8	4.45	4	12	6
Oracle Financial Services Software Ltd.	2.55	10	5.02	2	12	6
TCS	6.33	2	6.91	1	3	1

Tech Mahindra Ltd.	4.63	7	4.43	5	12	6
Wipro Ltd.	5.50	3	4.76	3	6	2

Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers(I) Ltd., Mumbai.

**Table- 3**

**Computation of Final Profitability Rank based on the average value of the selected profitability measures of the selected companies in Indian IT sector during the study period**

Company	Average Return on Capital Employed (ROCE)	Rank	Average Return on Net Worth (RONW)	Rank	Sum of all Profitability Ranks	Final Profitability Rank
HCL Technology	26.09	7	24.87	7	14	6.5
Hexaware Technologies Ltd.	18.34	10	16.97	10	20	10
Infosys Ltd.	45.32	3	37.75	4	7	3
Larsen &TurbroInfotech Ltd.	34.73	5	40.97	3	8	4
Mindtree	20.72	9	26.25	6	15	8
Mphasis	22.29	8	20.95	9	17	9
Oracle Financial Services Software Ltd.	27.25	6	24.22	8	14	6.5
TCS	50.54	1	45.51	1	2	1
Tech Mahindra Ltd.	46.51	2	41.00	2	4	2
Wipro Ltd.	34.94	4	33.17	5	9	5

Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers(I) Ltd., Mumbai.

**Table - 4**

**Computation of Overall Financial Performance Rank based on all selected financial performance parameters of the selected companies in Indian IT sector during the study period**

Company	measures of overall financial performance			Sum of FLR, FER & FPR	Overall Financial Performance Rank
	Final Liquidity Rank (FLR)	Final Efficiency Rank (FER)	Final Profitability Rank (FPR)		
HCL Technology	5.5	9	6.5	21	8
Hexaware Technologies Ltd.	3	10	10	23	10
Infosys LTd.	2	3	3	8	1
Larsen &TurbroInfotech Ltd.	5.5	4	4	13.5	3.5
Mindtree	4	8	8	20	7
Mphasis	7.5	6	9	22.5	9
Oracle Financial Services Software Ltd.	1	6	6.5	13.5	3.5
TCS	10	1	1	12	2
Tech Mahindra Ltd.	7.5	6	2	15.5	5
Wipro Ltd.	9	2	5	16	6

Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

<b>Table - 5</b>			
<b>Analysis of Rank Correlation between FLR and FPR and also between FER and FPR of the selected Indian IT companies during study period</b> (Taking all the selected companies in a consolidated manner)			
Company	Final Liquidity Rank (FLR)	Final Efficiency Rank (FER)	Final Profitability Rank (FPR)
HCL Technology	5.5	9	6.5
Hexaware Technologies Ltd.	3	10	10
Infosys Ltd.	2	3	3
Larsen & TurboInfotech Ltd.	5.5	4	4
Mindtree	4	8	8
Mphasis	7.5	6	9
Oracle Financial Services Software Ltd.	1	6	6.5
TCS	10	1	1
Tech Mahindra Ltd.	7.5	6	2
Wipro Ltd.	9	2	5
	Rank Correlation between FLR and FPR is <b>-0.401</b>	Rank Correlation between FER and FPR is <b>0.751*</b>	
* Statistically significant at 0.05 level.			
Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers(I) Ltd. , Mumbai			

<b>Table - 6.1</b>			
<b>Analysis of Liquidity - Profitability status of the selected companies in Indian IT sector based on combination of current ratio (CR) and return on capital employed (ROCE) during the study period</b>			
ROCE CR	High (>=40%)	Moderate (>25% but <40%)	Low (<=25%)
High (>=4)		• Oracle Financial Services Software Ltd.	
Moderate (>2.5 but <4)	• Infosys Ltd.	• HCL Technology	• Hexaware Technologies Ltd. • Mindtree
Low (<=2.5)	• TCS • Tech Mahindra Ltd.	• Larsen & TurboInfotech Ltd. • Wipro Ltd.	• Mphasis
Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.			

<b>Table- 6.2</b>			
<b>Analysis of Liquidity - Profitability status of the selected companies in Indian IT sector based on combination of quick ratio (QR) and return on capital employed (ROCE) during the study period</b>			
ROCE \ QR	High (>=40%)	Moderate (>25% but <40%)	Low (<=25%)
High (>=4)		• Oracle Financial Services Software Ltd.	
Moderate (>2.5 but <4)	• Infosys Ltd.	• HCL Technology • Larsen & TurboInfotech Ltd.	• Hexaware Technologies Ltd. • Mindtree
Low (<=2.5)	• TCS • Tech • Mahindra Ltd.	• Wipro Ltd.	• Mphasis

Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

<b>Table- 7.1</b>			
<b>Analysis of Efficiency - Profitability status of the selected companies in Indian IT sector based on combination of debtors turnover ratio (DTR) and return on capital employed (ROCE) during the study period</b>			
DTR \ ROCE	High (>=40%)	Moderate (>25% but <40%)	Low (<=25%)
High (>=6)	• Infosys Ltd. • TCS		
Moderate (>4 but <6)	• Tech • Mahindra Ltd.	• HCL Technology • Larsen & TurboInfotech Ltd. • Wipro Ltd.	• Mindtree • Mphasis
Low (<=4)		• Oracle Financial Services Software Ltd.	• Hexaware Technologies Ltd.

Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.



**Table- 7.2**

**Analysis of Efficiency - Profitability status of the selected companies in Indian IT sector based on combination of fixed assets turnover ratio ( FATR) and return on capital employed (ROCE) during the study period**

ROCE \ FATR	ROCE		
	High ( $\geq 40\%$ )	Moderate ( $>25\%$ but $<40\%$ )	Low ( $\leq 25\%$ )
High ( $\geq 6$ )	• TCS		
Moderate ( $>4$ but $<6$ )	• Tech Mahindra Ltd.	• Larsen & TurboInfotech Ltd. • Oracle Financial Services Software Ltd. • Wipro Ltd.	• Mphasis
Low ( $\leq 4$ )	• Infosys Ltd.	• HCL Technology	• Hexaware Technologies Ltd. • Mindtree

Source: Compiled and computed from 'Capitalline Corporate Database' of Capital Market Publishers (I) Ltd., Mumbai.

Appendix	
Sl. No.	Name of the company
1	HCL Technology
2	Hexaware Technologies Ltd.
3	Infosys LTd.
4	Larsen & TurboInfotech Ltd.
5	Mindtree
6	Mphasis
7	Oracle Financial Services Software Ltd.
8	TCS
9	Tech Mahindra Ltd.
10	Wipro Ltd.

Note: Serial number has been made alphabetically on the name of the company.

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