CHAPTER VII

SUMMARY OF FINDINGS,
CONCLUSION
AND
SUGGESTIONS
CHAPTER VII

SUMMARY OF FINDINGS, CONCLUSION AND SUGGESTIONS

At corporate level globalisation takes place when companies decide to take part in the emerging global economy and establish themselves in foreign markets. First they adopt their products or services to the final user's linguistic and cultural requirements, and then they might take advantage of the Internet revolution and establish a virtual presence on the international market place with a multilingual corporatism.

Stressing the economic reforms in the tenth plan period during 2002-2007 the primary aim is given to make reforms and make encouragement to private entrepreneurship with the government strengthening its role in the formulation and implementation of policies, legislation, regulation and facilitation from direct participation in production and distribution.

The computer software perhaps is the fastest growing industry in India. The sector is growing at an annual compound growth rate of over 50 per cent during 1992-93 to 1996-97. In 1996-97, the size of the Indian software industry stood at Rs. 6310 crore million comprising the domestic software market worth Rs. 2410 crore and exports of Rs. 3900 crore. The share of exports about 62 per cent in the industry's turnover is also the highest among all sectors. Exports from the sector was Rs.78,230 crore in 2004-05 up 34 per cent from Rs.58,240 crore in
2003-04. By 2010, the sector is expected to contribute 7 per cent to the country's gross domestic product.¹

The Indian computer software industry has made its presence felt in the world software market. This is also reflected in a World Bank Survey, which ranked India as number one in the preference list of US vendors for offshore software development. Taking cognizance of the potential of this environmentally friendly industry, the Government has identified this as a thrust sector, both for export as well as for the domestic market. The Amendment of Indian Copyright Act along with the reduction of import duty on hardware in subsequent budget besides providing various incentive schemes like Software Parks, Special Economic Zones and Small Medium Entrepreneurs have also resulted to a great extent in the growth of this industry. Growth in the sector is being fuelled by increased number of business expansion; acquisitions and Greenfield projects funded both with domestic and foreign private investment. Besides, with more companies in the US and Europe under pressure to cut costs to stay competitive, Indian software services firms are expected to grab a growing share of the outsourcing deals in the months ahead.

The industry today faces the challenges of competition from global giants and Indian companies response the challenges ahead and

¹. Chartered Financial Analyst, Feb 2006, p. 40
upgrade them by moving up the value chain. They have to make a move from offering low-end services to high-end services such as product development, integrated processing, research and development, innovation and end-to-end turnkey solutions.

Performance of a company is measured in financial terms, the success of the firm depends on how it is perceived by and reacts to the external economic markets. The field of managing finance is much more complicated and faster faces today. Important and swift development in the field of finance and application of new theories in decision making environment yield new challenges and opportunities for financial managers knowledge of all these developments and their impact is necessary for the effective management and financial viability of the modern business firms. Financial managers need to know how effective decisions can be made and ineffective ones be avoided.

The first and most important function of financial statement is of course, to serve those who control and direct the business, to the end of securing profit and maintaining a sound financial condition. Various questions like how efficiently the capital of a business is being utilized, how well credit standard is being observed and whether the financial condition is being improved should be answered from the financial statements.
Financial measures are used often to evaluate corporate performance, as a result, the Securities and Exchange Commission, the Financial Accounting Standards Board, the financial press, and the accounting professions are committed to high-quality financial reporting. The analysis and interpretation of financial statements are essential to bring out the mystery behind the figures in financial statements.

The present study is concerned with financial analysis of selected software companies in India for a period of ten years during 1995-96 to 2004-05. The companies, which are actively traded in Bombay Stock Exchange were taken for study. Annualised data pertaining to financial analysis were collected from Capitalineplus corporate database and PROWESS of the Centre for Monitoring Indian Economy. Besides the corporate database, reports were collected from RBI Bulletin, Annual survey of Industries, Libraries of various institutions and Research publications.

Objectives of the study were to examine their financial profile and its growth rate by applying summary statistical measures, compound growth rate, Hartley F’max test, one-way ANOVA and forecasted trend pattern of the selected variables by applying Polynomial Cubic trend are presented in group-wise classification. An Empirical classification of
the underlying factors and grouping them by using factor analysis, identification of variables which influences earnings by applying stepwise multiple linear regression analysis and discriminant analysis for classification of groups. To analyse the working capital management practices, measurement of working capital management efficiency by applying performance index, utilization index and efficiency index and examination of financial health by Altman's Z Score.

This chapter epitomizes the major findings, conclusion and a few suggestions for efficient utilization with respect to selected software companies.

1 Findings from analysis of Financial Profile, Growth rate and its Trend Pattern among the different groups:

From the analysis of financial profile by applying summary statistical measures it is observed that the giant group of companies mean performance are good with respect to amount invested in total assets, total revenue, quantum of shareholders' contribution, gross profit, earnings before interest and taxes, profit left after tax, amount of shareholders' undistributed profit in the form of retained earnings, ability of interest coverage ratio, capacity of net assets turnover ratio, return on investment, return on equity, growth prosperity in the form of price earnings ratio. The mean performance of the large, medium and small groups stood at second, third, fourth places respectively. During
the study period a high level of consistent performance is observed from all the variables of giant group except the variables like price earnings ratio, pay out ratio, retention ratio, debt equity ratio and total debts. From the small group all the selected variables are having a high variation during the study period. Except total debts and debt equity ratio other variables are having a positive compound growth rate between all the four groups during the study period. A highest growth rate of profit after tax 37.55 per cent is observed from the large group. A negative compound growth rate of price earnings ratio -2.36 per cent, -7.07 per cent is observed from the medium and small groups respectively. It is evidenced that the growth prospects for the small group of companies are very tough.

From the Hartley’s F Max test of equality of variance it is observed that except return on equity, net profit margin, return on investment and earnings per share other selected variables are having homogeneity of variance. From the test of mean difference by applying One-way ANOVA it is found that the mean score of earnings per share and net profit margin are having no significant difference between the selected groups all other variables’ mean score are having a significant difference among the groups.

Polynomial cubic trend equations were fitted to forecast the trends of net sales, earnings before interest and taxes, total debts, gross profit, profit after tax, retained earnings and return on equity from
the year 2007-08 to 2014-15. It is clear from the forecasted trend of net sales that all the four groups are having a positive trend from the year 2008 to 2015 in particular the giant group of companies contribution increases significantly. Earnings before interest and taxes indicate a positive trend among giant and medium group of companies and in large group a negative trend exists from the year 2011 onwards. Forecasted trend of total debt is significant from large group only and it shows an increasing trend during the forecasted period. A negative forecasted trend of gross profit is observed from the medium group and a positive forecasted trend of gross profit is observed from giant and large group.

Forecasted positive trend of profit after tax is observed from the giant group only and from the large group a negative forecast is observed from the year 2009-10 onwards. The forecasted trend of retained earnings and return on equity increases moderately year by year from the giant group. The large group is having a high utilization of forecasted debt. The non-linear cubic trend equation fitted for all the variables except net sales is non-significant for the small group during the forecasted period. It is clear from the forecasted cubic trend, performance of giant group is significant and other groups get concentrate on frequent analysis of their performance.
2 Findings from Empirical Classification Scheme On Grouping Of Factors

From the factor analysis it is found that the selected financial variables are clustered into four factors as I, II, III and IV are named as three identifiers viz., high level, medium level and low level contributing factors. They provide a contribution of 41.7%, 25.1% and 9.2% respectively. The factor analysis is used to condense and simplify the selected variables, which explains about 75.94% of variability of all the selected variables.

3 Findings from Identification of Variables Influences Earnings

To identify the factors influences earnings two particular variables namely return on equity and return on investment have been coined as exogenous variables and which are tested with the help of stepwise multiple linear regression model. From the regression model it is identified that two variables namely earnings per share and gross profit are significantly and positively influences return on equity whereas total assets significantly and negatively influenced. The three variables put together to the extent of 77.5 per cent variation on return on equity. The stepwise regression model excludes the variables namely retained earnings, net sales, earnings before interest and taxes, net worth, total debt, net profit and profit after tax.

The four variables namely gross profit, earnings per share, net worth and net sales are significantly and positively influences return on
investment, whereas total assets negatively influence return on investment. The five variables collectively contribute to the extent of 93.7 per cent on return on investment. Analysis of variance for the multiple regression models for return on equity and return on investment reveals that the t-value is highly significant.

4 Findings from Discriminant analysis for Classification of Groups

For the purpose of discriminant analysis the variable return on sales is taken as a discriminating variable and current ratio, debt equity ratio, retention ratio, price earnings ratio, interest coverage ratio, pay out ratio, net assets turn over ratio were taken as the predictor variables. From the analysis it is found out three companies are correctly classified under group I and sixty companies are correctly classified under group II, where return on sales $<\text{mean} = -26.263$ as group I and return on sales $>\text{mean} = -26.263$ as group II. The correct classification is 91.3 per cent. The retention ratio 55.40 per cent, pay out ratio 37.90 per cent and current ratio 6.70 per cent are substantially important ratios in discriminating between the two groups.

5 Findings from Working Capital Management Practices

The working capital management practices were analysed with the help of ratios and simple summary statistics. The variables taken for the analysis are current assets, current liabilities, working capital,
sales, current assets to sales, working capital ratio, working capital turnover ratio, current assets to total assets. From the analysis it is found that a relative high contribution of current assets and it is increased 10.13 times. The mean of current liabilities shows an increasing trend however variability in current liabilities is high during the study period. Change in working capital is due to high contribution of current assets. Working capital turnover ratio confines that during the study period average working capital turnover ratio ranges between 1.97 to 4.80 In the year 2004-05 the ratio is 2.20 it indicates that for generating sale of one rupee Rs.0.45 to be investment in working capital is required. Since the compounded annual growth rate of current assets to sales is 81.99 per cent it represents the inefficient management of current assets again it causes lock up of funds in working capital. A high positive trend is observed from working capital ratio since it is more than the conservative ratio it establishes a sound liquidity, but in the same way too much of liquidity signifies that idle funds would be locked in the form of current assets which reduces profitability. The overall mean value of current assets to total assets recorded a decreasing trend from the year 2001-02 onwards. In the year 1995-96 the ratio was 312.90 and in 2004-05 it was 69.14 per cent.

The correlation between liquidity and profitability are computed by using Spearman's rank correlation coefficient. There is a
positive relationship is observed with $r$ value of 0.77 at 1% level of significance. It implies that liquidity and profitability increases positively during the study period.

6 Findings from Working Capital Efficiency

To examine the efficiency of working capital management practices performance index, utilisation index and efficiency index suggested by Bhattacharya in 1997 were used. The three index values representing the average performance of the components of current assets, the degree of utilization of the total current assets in relation to sales and the efficiency in managing the working capital have been computed. It is found that the utilisation index of working capital management of all the software companies are remarkably good except the year 2003-04 when compared to the performance index. The industry average for efficiency index was greater than one in four years over the period.

7 Findings from Altman's Z-score analysis for Financial Health:

A cursory look into the Altman's Z score model shows that the financial health of the selected software companies was never in the bankruptcy zone. During the study period Z score ranges between 2.82 to 4.36 in the year 2000-01 and 2001-02 a high Z score is observed after that due to US slow down and Y2K problems there is diminutive decline.
CONCLUSION

Due to economies globalize, there is competition not just between companies, but countries as well. India should be aware of the competition it faces and create a value proposition to help it compete. To accomplish this, an environment that cherish not only for established companies but also start-ups and small innovative companies. The winning strategy lies in focusing the hardest on opportunity by analyzing strength, weaknesses, opportunities and threats of the company. While some companies that will break into ranking the Indian software industry has come a long way to reach this level and tougher challenges are ahead in terms of growing competition from multinationals in India. While the going will be tough for most, this sector is here to stay and remain a prime property for both investors' interest and entrepreneurial activity. Nevertheless, the top companies continued to expand their capacity and bid for larger contracts. Smaller companies hit by the slowdown have refrained from setting up new facilities and focused on preserving capital. Falling margins, merger and acquisition, diversifications into related areas like business process outsourcing offshore reflect the growing maturity of the sector in India.

A firm's sustainability and growth depends on its responsiveness to change. A firm responds to changes either through internal
restructuring or by changing its portfolio of products or services. Structural changes result in a break in the pattern of income, expenses, assets and liabilities. It is important to understand how structural changes affect the performance of a firm. Some of the areas to improve could be infrastructure creation, education, labour laws, patent laws and product development.

From the study it is summarised that the mean performance of price earnings ratio from all the selected companies shows a highly satisfactory performance hence it is said that the investors expect a high growth of earnings and the industry is having a strong growth prospects. From the mean performance of return on equity except the small group other group of companies are performed well. In particular the giant and large groups secured a remarkable growth rate. To conclude the giant group is performing well and good. The large groups of companies are recommended to adopt the suggestions. The medium groups are effectively performed they can come and place the large groups. The small group face a tough time to get survives. Except the giant group all the companies should attentive in their operational efficiency, asset utilization and production of investment efficiency of financial resources to increase their return on investment. Since investment in current assets affects their efficient index of working capital management all the companies should get consciousness. Research and innovative area is an emerging issue to capture
global market and take the initiative of rethinking delivery models by bringing innovative and disruptive models that will launch perpetual renewal and sustained innovation. It is highly recommended that the companies can maximize their return on investment by leveraging their initial investments in hardware, software, training and processes to accommodate business growth.

A global vision, for sure, which most mature Indian software companies have in abundance, a willingness to attract and integrate global talent, which is an initiative that is still in infancy and deep pockets.

For the year 2006-07 software exports recorded a revenue of Rs.1,30,000 crore and it proves that the software industry, in the next 10 years, will have to discover scores of Azims and Murthys and hundred of Ramdorais, Pauls and Nilekanis to make a $100 billion plus industry in reality and the industry will have to position itself as the partner of choice for global corporations to make the tryst with our global destiny a reality.² The Mission for making India a developed country by the year 2020, is not only about getting added revenues from agriculture and industry but also about increasing income through knowledge intensive products-(Honorable ex-President) Dr.A.P.J.Kalam

². www.nasscom.org
SUGGESTIONS

This part is concerned with few suggestions from the above observations relating to the study are given to improve their operational efficiency.

◊ The slowdown has, however, curbed fresh investments in fixed assets as many companies have under utilized infrastructure.

◊ The large groups of companies are suggested to minimize their long-term debt utilization.

◊ The small groups of companies are suggested to maximize their capital employed to get survive.

◊ The large and medium groups of companies are suggested to minimize their operational expenses.

◊ Mergers and acquisitions help the large and giant groups to get compete with the multinationals.

◊ In general maintaining a highly accepted position of net worth, net sales, gross profit ensures highly satisfied earnings.

◊ To maintain good working capital position the selected companies should consider both the financial risk and the cost of financing before choosing any particular source of working finance. Increasing attention is being paid to both theory and practice of working capital management policies. A prudent management should always strike
a trade-off between risk and return by determining the optimum amount of working capital.

◊ Performance of fixed assets to sales enables earning capacity of the management to get an optimum use of working capital.

◊ Absolutely firms’ size not only increases in money capital but also increase in earnings power on investment. This will true only if large firms are efficient and innovative. Since there is a positive relationship exist between size and profitability all the companies should give attention to increase their size. Size can be measured on the amount invested in total assets, paid-up-capital, net worth and net sales revenue.

◊ To increase the working capital efficiency the companies should concentrate on their performance utilisation of current assets management.

◊ A low or nil debt in the capital structure of profitable firms can be explained by the pecking-order theory of capital structure.

A significant portion of research on liquidity management was suggested to give special attention to management of current assets (Dr.S.K.Khatik and Pradeep Kumar Singh-2003). To improve working capital management efficiency on the whole, improvement should be in the matter of managing either the individual components of current assets or the current assets as a whole for generating sales.
revenue (Dr. Santanu Kr. Ghosh, and Santi Gopal Maji-2004). To improve profitability position amount spent on the operating expenses to be reduced (S. P. Bansal and Sunil Gupta-2000). Size of the company is one of the factor which influences sales revenue (Dr. Vijayakumar A and Kadirvelu S-2004).