

## ASSIGNMENT ON FINANCIAL ANALYSIS OF INFOSYS TECHNOLOGIES LTD.

Subject: Financial Management

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### **Purpose to prepare assignment:**

To examine the financial condition and financial performance of the Infosys technologies limited on the basis of ratio calculations and using its financial statements for the concerning years.

### **➤ Ratio Analysis:**

(Calculated from consolidated statements)

<b>Indicators of company's financial condition &amp; performance(Ratios)</b>	<b>Formulae</b>	<b>March 2010</b>	<b>March 2009</b>	<b>March 2008</b>
<b>Net Profit Margin</b>	$(NP/Sales)*100$	27.552%	27.603%	27.911%
<b>Debt to equity</b>	Debt/Equity	-	-	-
<b>Fixed asset turnover</b>	Sales/ Fixed assets	2.901	3.058	3.068
<b>Current Ratio</b>	CA/CL	4.094	4.299	3.106
<b>Quick Ratio</b>	CA-Inventory/CL	4.094	4.299	3.106
<b>EPS</b>	PAT/No. of Shares	109.833	104.594	81.587
<b>DPS</b>	Dividend/No. of Shares	25.135	23.493	33.287
<b>Dividend Payout Ratio</b>	DPS/EPS	22.884%	22.461%	40.824%
<b>ROE</b>	PAT/Net Worth	27.185%	32.80%	33.77%

### Comparison of Infosys with other IT Giants:

Attribute	Infosys Technologies		Tata Consultancy		Wipro	
	Value	Date	Value	Date	Value	Date
<b>PE ratio</b>	26.95	20/04/10	27.51	20/04/10	34.22	20/04/10
<b>EPS (Rs)</b>	109.833	Mar, 10	28.71	Mar, 10	20.30	Mar, 09
<b>Sales (Rs Crore)</b>	5500.00	Mar, 10	5807.06	Mar, 10	5892.90	Dec, 09
<b>Face Value (Rs)</b>	5		1		2	
<b>Net profit margin (%)</b>	27.552	Mar, 09	20.74	Mar, 09	14.14	Mar, 09
<b>Last bonus</b>	1:1	14/04/06	1:1	20/04/06	1:1	22/04/05
<b>Last dividend (%)</b>	300	13/04/06	1400	19/04/06	200	22/04/09
<b>Return on average equity</b>	32.67	Mar, 09	35.13	Mar, 09	23.76	Mar, 09

.....From above figures of comparison of Infosys Technologies with TCS & Wipro, we can simply conclude that, how Infosys is financially stronger in terms of NPM and EPS which are leading factors to determine the condition and performance of the company.

➤ **Dividend Policy:**

(Figures in Rs. Crores)

<b>Dividend</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Interim dividend (per share)</b>	573(10.05)	572(9.99)	343(6.00)
<b>Final dividend (per share)</b>	861(15.09)	773(13.50)	415(7.26)
<b>Special Dividend (per share)</b>	-	-	1144(20.02)
<b>Total Dividend (Per share)</b>	1434(25.14)	1345(23.49)	1902(33.28)
<b>No. of shares</b>	57.04	57.25	57.14
<b>Par value of share</b>	5	5	5
<b>Aggregate DPS (% of par value)</b>	25.14 (503% of par value)	23.49 (470% of par value)	33.28 (666% of par value)

**Key Findings:**

1. As data shows the variability in year by year paid dividend, we conclude that, Infosys Technologies follows a **Residual Dividend Policy**.
2. Total dividend paid decreases first in 2009 & then increases in 2010; it shows increase in Retained Earning in 2009 and then slight decrease in 2010. Thus, growth rate decreases in 2008 and increases in 2009.
3. As more dividend paid today shows that in future company has to issue more shares and thus results in decline in share price.
4. As more dividend paid today will increase in Equity and thus D/E Ratio decreases. It also affects market value of share price. But it's not in the case of Infosys as they are not having any long term debts.
5. Infosys's policy is to pay dividend upto 30% as mentioned in the director's report.
6. They offers constant dividend of around 23% every year.
7. Dividend payout ratio is also around 22%-23%.

➤ **CAPITAL ASSET PRICING MODEL (CAPM):-**

Expected Investor's required rate of return:

$$\begin{aligned}\text{CAPM [E(ri)]} &= R_f + [(E(R_m) - R_f) \beta] \\ &= 5.0891 + (7.68) * 0.68 \\ &= 10.315\%\end{aligned}$$

Where,

$$\begin{aligned}R_f &= \text{Risk Free Rate} \\ &= \text{Treasury Bills for 364 Days} \\ &= 5.0891\% \text{ (364 days T-Bills) (source: } \langle a href="http://www.rbi.org.in/home.aspx" \rangle \langle /a \rangle \text{)}$$

$$\begin{aligned}\text{Risk Premium} &= (E(R_m) - R_f) \\ &= 1/P.E.Ratio \text{ (accor. to Annual Report 2008-09)} \\ &= 1/13.02 \\ &= 7.68\%\end{aligned}$$

$$\begin{aligned}E(R_m) &= \text{Expected Market Rate of Return} \\ &= 12.7691\% \text{ (Calculated on the basis of 5 years NSE Index Rate of} \\ &\quad \text{Return by using the present value Interest factor(PVIF),} \\ &\quad \text{For Calculating annual compound rate of interest for} \\ &\quad \text{5 years)}\end{aligned}$$

$$\begin{aligned}\beta &= \text{Index of Systematic Risk} \\ &= 0.68 \text{ (} \langle a href="http://www.bseindia.com/about/abindices/betavalues.asp" \rangle \langle /a \rangle \text{)}$$

## ➤ **Capital Structure:**

Capital structure describes how a corporation has organized its capital—how it obtains the financial resources with which it operates its business. In arranging a Company's financial structure, management normally aims for the lowest feasible Cost of capital; whereas an investor seeks the greatest possible return.

- § Long-term debt.
- § Common stockholders' equity.

In simple we can say that Infosys is having "**clean balance sheet.**"

### **Advantages for such structure:**

- No Interest burden.
- No question of pressure from money lenders.
- Can pay more dividends and thereby can attract investors and thus can have stronger share price and consequently increasing shareholders wealth.
- Reducing cost of financial distress.
- At maturity of Bonds/Debentures, the company has to face heavy cash outflows.

### **Disadvantages for such structure:**

- Interest is tax-deductible, dividend is not.
- Sometimes debt gives lower COC than any other source so substitution is not anticipated.
- EPS remains lower compare to having mixture of debt in capital structure
- Long term debt provides stability of revenues and profits.
- Long term debt provides Financial Leverage which magnifies the gains of Shareholders using fixed income securities.
- Fear of voting right
- If dividends are not paid, it definitely hurts the image of Company.
- Restrictive covenants may affect financial stability of Company.

### **Key Findings:**

1. Infosys is debt free Company.
2. It is efficient in utilizing its resources.
3. It has high ability to cover all interest changes.
4. It has very high efficiency in operations.
5. It has very high ability to meet short term obligations.