

A STUDY ON FINANCIAL STATEMENTS ANALYSIS OF TATA CONSULTANCY SERVICES (TCS) Ltd.

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ABSTRACT:

Financial statements are a formal record of the financial activities of business and provide an overview of a business outcome in both short term and long term. Financial statements analysis and their accompanying notes explain a company's past and current financial performance. The aim of the study is analyzing the financial statements of Tata Consultancy Services (TCS) and compare its current and past financial performance to upgrade the future returns. Therefore, proper analyzing of a financial statement of a company will be helpful to investors and creditors for investing their money in a proper place for generating higher returns.

Introduction:

The financial analytics is used to analyze the stability, solvency, liquidity, profitability of a business by analyzing its financial reports using finance technical software tools to evaluate the performance of a company. Financial statement analysis is a process of selection, relation and evaluation of a financial statement. It helps the company to control the cash flow of a business. The comparative analysis of three statements (i.e., Income statement, Balance sheet and cash flow) helps the company to make a decision on project research & investment planning process and it also gives the performance outcome of a company which made an investment on earlier. Financial statements are a primary source of information about a firm's financial health and its future prospects. Investors and creditors make their investing and credit decision after analyzing company's financial statements. It helps the investor to make a decision while investing in company to check its durable competitive advantages in the market. . Based on the financial statements analysis management take decision about financing, investing and future planning decision.

Objectives:

- To analyze data and extract actionable and commercially relevant information that you can use to increase results or performance.
- To measure the success of your strategies and make informed decisions to improve them to drive better results for your business in the future.

Financial statements:

Financial statements are written records that convey the business activities and the financial performance of a company. It summarizes a firm's performance over a period of time. A statement might cover a period as short as a week or as long as a year. An annual financial statement of companies includes financial information for a year. If a financial statement is preparing for a month or three months, it is called an interim financial statement. Management prepares this interim statement to see how their business operation is going on, if they face any difficulties or any trouble, they can adjust it quickly. It helps them to monitor business operation or activities closely to improve their annual benefits. There are three primary financial statements: Balance sheet, Income statements and statement of cash flows. Each contains important and different types of information. These statements are vital to management decision making and for the discharge of disclosure obligation to external parties.

1. Income statement:

An income statement shows a company's revenues, expenses and profitability over a period of time. It is also sometimes called a profit-and-loss (P&L) statement or an earnings statement. The financial statement summarizing the result of operation of a business by matching its revenue and related expenses for a particular accounting period. It simply compares revenues and expenses over a period of time to show the firm's net profit or loss. The income statement may be figured on a day, week, month, quarter, or yearly basis. This generally shows the accounting profits or losses of a business because it records the revenues minus the expenses.

2. Balance sheet:

The Balance sheet is a snap shot of a firm. It summarizes the reports on an organization's assets (what is owned) and liabilities (what is owed) as of the date of publication. Every organization prepares a balance sheet at end of the year. In addition, many companies prepare one and end of each month. The date in a balance sheet is important because the financial position of a business may change quickly. A balance sheet consists of three major sections such as assets, liabilities, and shareholder equity.

3. Cash flow Statement:

The statement of cash flows is a basic financial statement that summarizes information about the flow of cash into and out of a company. It provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period. A statement of cash flows classifies cash receipts and payments into three major categories: operating activities, investing activities, and financing activities. Grouping cash flows into these categories identifies the effects on cash of each of the major activities of a firm.

About TCS:

Tata Consultancy Services (TCS) is an Indian multinational information technology (IT) services and consulting company with its headquarters in Mumbai. It is a part of the Tata Group and operates in 150 locations across 46 countries. In July 2022, it was reported that TCS had over 600,000 employees worldwide. TCS is the second largest Indian company by market capitalization and is among the most valuable IT service brands worldwide. In 2015, TCS was ranked 64th overall in the Forbes "World's Most Innovative Companies" ranking, making it one of the highest-ranked IT services companies and a top Indian company. As of 15 September 2021, TCS has recorded a market capitalization of US\$200 billion, making it the first Indian IT firm and the second Indian company ever (Reliance Industries achieved it in 2007) after its market capitalization stood at ₹6.793 trillion (equivalent to ₹7.7 trillion or US\$97 billion in 2020) on the Bombay Stock Exchange.

RESEARCH METHODOLOGY

1. **Source of Data:** During the preparing of financial statement analysis of TCS an information has been collected from internet sources, company's website and financial websites like The Economic Times, Moneycontrol, Business Today, Investing.com, screener.in and so on.
2. **Tools of Analysis:** Vertical Analysis (Component Percentage or Common Size Statements), Horizontal Analysis (Trend Percentages Analysis) And Ratios Analysis.

Vertical Analysis (Component percentage or common size statements):

The relative size of various items in a financial statement will be shown as a percentage of totals. In income statement all item will be expressed as percentage of sales and in balance sheet all item will be expressed as percentage of total assets. It is known as component percentage or common size statement analysis. It shows the relative importance of each item in terms of sales or assets or liabilities.

Horizontal Analysis (Trend percentages analysis):

Analyzing two or more year's financial statements is called horizontal analysis. The trend percentages are used to show the extent and direction of change in financial statement items from a base year to following years. To observe percentage changes over time in selected data, trend analysis method is used. The computation consists of dividing an item such as net income in the years after the base year by the amount of net income in the base year.

Ratios Analysis:

Financial ratio compares each item of another item in financial statement. It is the mathematical relationship of one item to another. It helps to compare one financial statement item to another financial statement item. There are four groups of ratios will be use to evaluate a financial statement. These are Short-term solvency or liquidity measures ratio, Long-term solvency measure ratio or credit risk. Asset management or Turn over measures ratio, Profitability measure ratio and Market Value measures ratio.

Findings:

1. Component Percentages (Vertical Analysis):

An application of component percentages is to express the income statement items as a percentage of gross sales. During the calculation of component percentage; net sales, cost of goods sold, operating expenses and net income has been taken as a percentage of gross sales.

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Sales -	81,809	94,648	1,08,646	1,17,966	1,23,104	1,46,463	1,56,949	1,64,177	1,91,754
Sales Growth %	29.88%	15.69%	14.79%	8.58%	4.36%	18.98%	7.16%	4.61%	16.80%
Expenses +	56,657	70,167	77,969	85,655	90,588	1,06,957	1,14,840	1,17,631	1,38,697
Operating Profit	25,153	24,482	30,677	32,311	32,516	39,506	42,109	46,546	53,057
OPM %	31%	26%	28%	27%	26%	27%	27%	28%	28%
Other Income +	1,637	3,720	3,084	4,221	3,642	4,311	4,592	1,916	4,018
Interest	39	104	33	32	52	198	924	637	784
Depreciation	1,349	1,799	1,888	1,987	2,014	2,056	3,529	4,065	4,604
Profit before tax	25,402	26,298	31,840	34,513	34,092	41,563	42,248	43,760	51,687
Tax %	24%	24%	24%	24%	24%	24%	23%	26%	26%
Net Profit	19,332	20,060	24,338	26,357	25,880	31,562	32,447	32,562	38,449

According to vertical analysis, the net sales made by TCS in the year 2017 - 9% ,2018 - 5%, 2019 - 19%, 2020 – 7.2% ,2021 - 5%, 2022 - 17%. It shows the up and down sales volume in TCS.

Operating Profits are 27% in 2017, 26% in 2018, 27 % in 2019, 27 % in 2020, 28 % in 2021 and 28% in 2022. As compared to 2014 the gross profits declined in 2022.

Net earnings of TCS are 23.63% in 2014, 21% in 2015, 22.4% in 2016 & 2017, 21% in 2018 & 2019, 20.6% in 2020, 19.8% in 2021 and 20.1% in 2022. As compared to 2014 the net earnings decreased by 3% in 2022.

2. Trend Percentages (Horizontal analysis):

The changes in financial statement items to following years are often express as trend percentages. It shows the direction financial statement items. During the calculation of trend percentages, net sales, gross profit and net earnings has been taken from the income statement of TCS.

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	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Sales -	100	116	133	144	150	179	192	201	234
Operating Profit	100	97	122	128	129	157	167	185	211
Net Profit	100	104	126	136	134	163	168	168	199

Here the basic value of net sales, operating profit and net profit are taken as 2014 fiscal year values.

- Trends in net sales are increasing.
- Operating profit trend is also increasing year by year.
- The value Net profit of trend is also increasing year by year after 2014.

3. Ratio Analysis:

A ratio is simple mathematical relationship of one item to another. By using ratio analysis, we can interpret the financial statement data easily. During ratio analysis we are going to calculate some types of ratios: These are short-term liquidity or solvency, Debt to Equity ratio and price to earnings ratio. The data used in ratio calculation has been taken from TCS financial statement, Balance sheet.

➤ Liquidity Ratio:

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Current Assets	50682.43	57251.6	52025	47111	55867	71318	71930	78672	87936
Current Liabilities	17337.35	22325.46	16974	15830	19751	24393	27820	35764	43967
Current Ratio	2.923309	2.564409	3.064982	2.976058117	2.828566	2.923708	2.58555	2.199754	2.000045

Company's current ratio position is good. In 2022 it is decreased compared to previous years. Current ratio 2 to 1 or more is better for company's short-term liquidity. TCS records more than 2 in liquidity ratio.

➤ Debt to Equity Ratio:

	Mar-22	Mar-21	Mar-20	Mar-19	Mar-18	Mar-17	Mar-16	Mar-15	Mar-14
Total Liabilities	1,37,806.00	1,26,828.00	1,18,071.00	1,12,287.00	1,02,847.00	1,00,424.00	89,913.47	82,352.41	74,791.35
Shareholder's Funds	89,139	86,433	84,126	89,446	85,128	86,214	85,425.67	85,047.95	84,670.24
Debt to Equity Ratio	1.5459675	1.4673562	1.40350189	1.255360776	1.2081454	1.16482242	1.052535	0.968306	0.883325

Company's Debt to Equity ratio is not good. In 2022 it is increased compared to previous years. Debt to Equity ratio should be less than 1, that is better for company's investor.

➤ Earnings Per Share:

	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Net Profit	19,332	20,060	24,338	26,357	25,880	31,562	32,447	32,562	38,449
EPS in Rs	48.92	50.68	61.58	66.71	67.46	83.87	86.19	87.67	104.75

Earnings per share can be calculated by dividing the net earnings by outstanding share. As per 2022, the total number of outstanding shares is 3,659,459,459. TCS has a growth rate in EPS.

Conclusion:

This study shows the financial statement analysis of TCS company which help us to know about the company's financial strength and its performance. The analysis of the financial statements is a very important process, even necessary for making right decisions. Information obtained from financial analysis, together with accounting, are the basis for making decisions, both internally and externally. From the analysis of financial statements, we can ascertain its financial condition and how it has operated during the periods for which the analysis is conducted and what are future trends in that enterprise. These reports are also used to give information to shareholders on how reasonable are investments made in the company because they are interested in making profit from investments they made. After calculating, analyzing and interpreting the various financial reports of the company, we have come to the conclusion that in terms of liquidity, the state of the company is better in 2022, because this year the company has more short-term assets to cover short-term liabilities which means that there is more working capital. Through analysis of financial ratios of Debt to Equity, we see that the company is little financed by debts in 2022. The shows a continuous growth rate in EPS (Earnings Per Share).

References:

Data sources:

- [Tata Consultancy Services Ltd financial results and price chart - Screener](#)
- <https://www.moneycontrol.com/financials/tataconsultancyservices/balance-sheetVI/TCS>

Videos:

- <https://youtu.be/8NeIYFn07jg>
- <https://youtu.be/Ge7iv6tY53s>
- https://youtu.be/_5ZscqYQiw