Financial Management (ECON F315)

Assignment-1

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Q-2) Assess Significance of Financial Management Decision.

To achieve the appropriate objective function like Shareholder's Wealth Maximization/ Share Price Maximization/ Business Value Maximization, the Company need to take certain crucial decisions.

Investment Decisions: These are the decisions made by the investors through the top level Management regarding the amount of funds that should be utilized in the Investment opportunities. Company invest in those assets whose Return on Investment (ROI) is greater than the Risk Adjusted Cost of Capital.

Financing Decisions: These decisions are made to explore the optimum kind of Capital Structure for funding the investments. Various factors like Risk associated, Cost involved in raising funds, Level of Control, Floatation Costs are taken into careful consideration while taking the Financial Decisions.

Dividend Decisions: These decisions are made to decide how much of the profits should be distributed to the Shareholders. The decision to allocate profits into dividends and Retained Earnings are judiciously made by the Top-level Management while carefully considering the Investor's mood and liquidity position for the future operations and expansion of the Company.

The success of an organization relies not only on how efficiently every process is being carried out but also on the goal recognition and timely decision-making capability of the management. The decisions taken today decide tomorrow's returns. They basically result in deciding the future course of the firm in terms of its financial-composition-mix in essence, the magnitude of capital to be invested in purchasing assets or investing in securities, or deciding the nature of sources of these funds (where do these funds come from). There are several environmental factors based on which the financial decisions are taken like the economic state of the country, government policies, stakeholders' requirements, policies of financial institutions, taxes and tariffs and many internal factors too, like nature and size of the business and more importantly the age of the business.

Financial Balance Sheet of Persistent Systems Limited				
	Assets		Liabilities	
	Assets in Place	Growth Assets	Debt	Equity
As on 31st March 2019	₹2322.363 Crores (81.32%)	₹533.236 Crores (18.67%)	₹510.919 Crores (17.89%)	₹2344.68 Crores (82.1%)
			Debt/Equity Ratio: 0.21	
As on 31st March 2018	₹2291.335 Crores (85%)	₹379.478 Crores (14.2%)	₹543.614 Crores (20.35%)	₹2127.199 Crores (79.64%)
			Debt/Equity Ratio: 0.25	
As on 31st March 2017	₹1968.798 Crores (83.9%)	₹377.575 Crores (16.09%)	₹447.11 Crores (19.05%)	₹1899.263 Crores (80.94%)
			Debt/Equity Ratio: 0.23	

Financial Balance Sheet of Infosys Limited				
	Assets		Liabilities	
	Assets in Place	Growth Assets	Debt	Equity
As on 31st March 2019	₹66656 Crores (84.44%)	₹12274 Crores (15.55%)	₹16219 Crores (20.54%)	₹62711 Crores (79.45%)
			Debt/Equity Ratio: 0.25	
As on 31st March 2018	₹66688 Crores (85.54%)	₹12189 Crores (15.45%)	₹15375 Crores (19.49%)	₹63502 Crores (80.50%)
			Debt/Equity Ratio: 0.24	
As on 31st March 2017	₹64330 Crores (80.52%)	₹15555 Crores (19.47%)	₹11868 Crores (14.85%)	₹68017 Crores (85.14%)
			Debt/Equity Ratio: 0.17	

Both **Infosys Limited** and **Persistent Systems Limited** are well established Companies
Infosys Limited was established in 1981 in Pune Maharashtra and was listed in the National Stock Exchange in June 1993.
Persistent Systems Limited was established relatively later in 1990 and got listed in National Stock Exchange in March 2010.

Both Infosys Limited and Persistent Systems have been in profits on a whole, since last quite a few years.
As a leading and a well-established company in their sector, most of Infosys' initial long term(fixed) investments which are required to establish the company for its long run have been already invested into in order to make revenue from the assets like buildings, equipment, real estate, furniture.
Similarly, Persistent systems, being an emerging market player, has also invested adequately in establishing Fixed Assets and is aggressively investing in Sales and Marketing.

Being an IT services companies, they don't require major further investments over the existing initial plant and machinery unlike the capital-intensive manufacturing companies. Any recent or ongoing a investments according to the annual reports were done for acquisition of additional property, expansion of the business, redeeming marketable securities, buy a considerable amount of stocks in companies to acquire voting rights.

Major percentage of their recent investments consist of investments in equity market.
All these activities come under investment decisions also referred to as capital budgeting or capital expenditure as they quantify and represent the budgeting plan of the company such that return on investment is greater than risk adjusted cost of capital and also there is a pre-planned balance between timing of the project returns(distant payoff projects and instant returns) in order to meet liquidity requirements of the business.

To finance all these investments fruitfully and without default, the company relies on the financing decisions. The main objective of financing decisions is in regards to the capital structure (where and how to finance the funds) to strike a balance between debt and equity.

Apart from being among the global leaders in technological Services and Consulting, one of the very striking characteristics features of Infosys is that it is a debt free Company. According to the Annual Reports of the Company, it does not have any outstanding debt from the Financial Creditors. The only Financial liabilities of the company are due to unpaid dividends, Accrued Compensation to employees, liabilities due to Buyback Policies, Withheld Taxes etc.
The company has been operating its activities with nil debt and finances all its current and non-current investments only using equity capital (given that the soaring share price of its stocks are perceived profitable in the market) and the profits from its services and operations. It has lots of headroom to raise any debt in the future if needed.

On the other hand, the Promoters of the Persistent System Limited have maintained a near constant Debt Equity Ratio of 20%. Some of the primary Financial Creditors of the Company are ABSA Capital Bank, Axis Bank, Deutsche Bank and Bank of Baroda.

All the 3 Financial Decisions discussed initially are significant but their magnitude and strategic importance depend upon the business life cycle of the Companies.
In case of both Infosys Limited and Persistent Systems Limited, Dividend Decisions are most significant.
This is because there is not much scope left to be addressed by the other Financial decisions. Now that Majority of investments are already realized and financed appropriately, it is now the duty of the Management to adequately reward the Shareholders of the Company by distributing a certain proportion of the Earnings as a reward for their investment.

Effective from 2018 Infosys has made a policy of paying out of up to 70% of the free cash flow of that corresponding financial year by way of dividend or share buyback. The company has been giving out frequent dividends of impressively increasing value year by year. It has also been proposing to buy back shares from time to time which was approved by the shareholders. On January 11th, 2019 it has announced buyback of shares worth up to Rs 8260 crore at Rs.800 per share which accounts to 2.36 percent of the paid-up capital. Even after these massive dividends payments and buybacks the company's retained earnings and at a rising streak quarter by quarter.
Persistent System limited has been comparatively more conservative in giving out dividends to its shareholders. For the last few financial years, the management has decided to distribute approximately 29% of the Profit after Tax (PAT). Thus, it had given dividends of ₹9 per share in the FY 2016-17, ₹10 per share in FY 2017-18 and ultimately ₹11 in FY 2018-19.
Since it is a relatively newer company than Infosys, it is still emerging to be the market leader the Investment decisions and thus financing decisions are also important and need careful considerations.