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A STUDY ON FINANCIAL PERFORMANCE ANALYSIS OF HCL TECHNOLOGIES LIMITED

Mr. K. Mahendran
Assistant Professor in Corporate Secretaryship
Dr.N.G.P. Arts and Science College, Coimbatore

Mr. Kishor Kumar S
M.com. Corporate Secretaryship
Dr.N.G.P. Arts and Science College, Coimbatore

Abstract: The process of identifying a company's strengths and weaknesses is referred to as financial analysis. By determining the relationship between the items on the balance sheet and profit and loss account of the business, the study is completed. The investigation was conducted by examining HCL Technologies' five-year financial statements. The study's primary goals are to determine the company's financial analysis and to assist in determining the company's growth. Secondary data is used in this study. The current ratio, quick ratio, cash ratio, dividend payout ratio, debt to equity ratio, debt to asset ratio, asset turnover ratio, basic earnings per share, and other metrics were employed in the study.

Key words: Financial performance analysis, Ratio analysis.

I. INTRODUCTION

Financial performance analysis is a thorough assessment of a business's position across various areas, including assets, liabilities, equity, costs, revenue, and overall profitability of the company. Financial performance analysis is the process of deciding a company's financial strengths and weaknesses by correctly defining the relationship between the balance sheet and profit and loss account components. The smooth operation of the firm depends on finances. The act of identifying the firm's financial assets and liabilities by correctly establishing a link between the items on the balance sheet and the profit and loss account. Various procedures or methods are employed when analyzing a company's financial performance.

II. STATEMENT OF THE PROBLEM

Financial analysis reveals the strength and weaknesses of the company by properly establishing the relationship between the items of the balance sheet and the profit and loss account. The efficient performance of the firm depends on the sound planning of the capital structure, investment, and distribution. Only firms that apply sound cost control principles and adopt the scientific tool of investment and distribution in managing funds will last in the long run. Since finance is an enterprise's lifeline and essential driving force, the importance of timely appraisal of the firm's performance cannot be ignored. This study is conducted to evaluate the financial performance of HCL Technologies and to know the company’s position and performance.

III. OBJECTIVES

- To analyse the profitability, liquidity, and solvency position of HCL Technologies Limited using ratio analysis for past five years.
- To provide findings and suggestions to enhance the performance of HCL.

II. SCOPE OF THE STUDY

This study analyzes the overall financial position of HCL Technologies by using accounting ratios and other tools. The analysis covers the years 2018, 2019, 2020, 2021, and 2022 for examining financial statements such as income statements and balance sheets. The study's scope includes the numerous variables influencing the company's financial position. The research takes into account data from the previous five years.

III. RESEARCH METHODOLOGY

NATURE OF DATA

Secondary data has been used to collect the data for this research, like annual reports of companies, previous research papers, magazines, journals, and the internet.

DATA ANALYSIS

The collected data are analyzed using:

- ❖ Ratio Analysis.

PERIOD OF STUDY

Five years of financial statements have been analysed under this study. That is 2018 to 2022.

IV. LIMITATIONS OF THE STUDY

- ❖ This study only analyzed the last five years' financial statements, which do not represent the whole profitability of the company.
- ❖ The data used in the analysis is based on the company's published past results. As a result, analysis metrics are not always indicative of future company performance

V. REVIEW OF LITERATURE

Endri Endri, Adi Sumarno, and Herbin Sarangi (2020), this study concentrates on "Analysis of Financial Performance: Evidence from Food & Beverage Companies in Indonesia." The Primary motive of this analysis is to find out the company's financial condition in a certain period, assets, liabilities, capital, and business results that have been achieved in several periods. This study concludes that the company is expected to be able to manage its assets more optimally so that efficiency and better utilization of company resources are achieved.

Partha Ghosh and Assistant Professor(2019), in this study Comparative Financial performance of selected oil refineries in India: A study during the period 2005 - 2018. here the objective is to find the differences between the financial position and performances of firms. The data used are secondary data. Mean, variance, and f tests were done on the data to find the significant conclusion.

VI. RATIO ANALYSIS

TABLE – 1 LIQUIDITY RATIOS

Financial Years	Current Ratio	Quick Ratio	Cash Ratio	Dividend Payout Ratio
2017-2018	3.29	3.28	0.50	22.98
2018-2019	2.93	2.93	0.98	13.43
2019-2020	1.69	1.69	0.09	15.13
2020-2021	2.77	2.76	0.50	37.25
2021-2022	2.97	2.97	0.54	104.75
Average	2.73	2.73	0.52	38.71

The current ratio improved in the subsequent two years, with the ratio being 2.77 in 2020-2021 and 2.97 in 2021-2022, indicating that the company's financial health has improved. The average current ratio for the company over the five-year period was 2.73. Overall, the data suggests that the company's financial health was relatively stable over the five-year period, with a dip in the current ratio in 2019-2020, which was subsequently recovered in the following years.

The Quick Ratio for the company in 2017-2018 was 3.28, indicating a healthy financial position. However, the ratio decreased in the following year to 2.93, suggesting a slight deterioration in the company's financial health. The ratio decreased further in 2019-2020 to 1.69, which is a cause for concern as it indicates that the company may have difficulties in meeting its short-term obligations using its most liquid assets. The Quick Ratio improved in the subsequent two years, with the ratio being 2.76 in 2020-2021 and 2.97 in 2021-2022, indicating that the company's financial health has improved.

The cash ratio values for the five financial years range from 0.09 to 0.98, indicating significant fluctuations in the company's ability to meet its short-term obligations using only cash and cash equivalents. The average cash ratio for the given period is 0.52, which suggests that the company generally has enough cash on hand to meet its short-term obligations, but this may not be consistent across all years.

The dividend payout ratio varies significantly from year to year, with a average of 38.71%. The payout ratio was relatively low in 2018-2019 and 2019-2020, with values of 13.43% and 15.13% respectively. However, it increased substantially in 2020-2021 and 2021-2022, with values of 37.25% and 104.75% respectively. The high dividend payout ratio in 2021-2022 may be an indication that the company is distributing a significant portion of its profits to shareholders, which may result in less retained earnings for future growth and expansion.

TABLE – 2 SOLVENCY RATIOS

Financial Years	**Debt to Equity Ratio**	**Debt to Asset Ratio**	**Interest Coverage Ratio**
2017-2018	0.19	0.16	396.74
2018-2019	0.23	0.19	620.69
2019-2020	0.43	0.30	46.96
2020-2021	0.27	0.21	70.11
2021-2022	0.25	0.20	121.72
Average	0.28	0.21	251.25

The average Debt to Equity ratio over the period is 0.28.The Debt to Equity ratio has been relatively stable over the past five years, with the ratio staying between 0.19 and 0.43. Overall, the Debt to Equity ratio of the company is moderate and has remained relatively stable, suggesting a balanced approach to financing its operations.

The company's debt to asset ratio has remained stable over the past five years, with an average of 0.21, indicating that the company has been maintaining a moderate level of debt in relation to its assets. Overall, the data suggests that the company has been maintaining a moderate level of debt in relation to its assets over the past five years.

The interest coverage ratio has been quite variable over the years, with a high of 620.69 in 2018-2019 and a low of 46.96 in 2019-2020. The average interest coverage ratio over the five years is 251.25. Overall, the data suggests that the company's ability to pay its interest obligations has been quite variable, with some years being much stronger than others

TABLE – 3 PROFITABILITY RATIOS

Financial Years	Return on Asset Ratio	Return on Equity Ratio	Asset Turnover Ratio	Basic Earnings Per share	Net Profit Margin
2017-2018	22.43	26.71	67.26	52.54	33.35
2018-2019	21.85	26.89	69.45	59.69	31.47
2019-2020	16.76	24.05	60.93	33.06	27.51
2020-2021	15.79	20.07	64.44	32.22	24.51
2021-2022	20.35	25.53	76.07	40.10	26.76
Average	19.44	24.65	67.63	43.52	28.72

In 2017-2018, the ROA was 22.43%, which increased to 21.85% in 2018-2019. However, in 2019-2020, there was a decrease in ROA to 16.76%. The ROA continued to decrease in 2020-2021 to 15.79% but increased in 2021-2022 to 20.35%. The average ROA for the given period is 19.44%. Overall, the ROA data shows that the company has been reasonably efficient in generating profits from its assets, although there have been some fluctuations in performance over the years.

The ROE ratio for the company over the period of five years was 24.65. This indicates that the company is generating a relatively high return on the shareholder's investment. Overall, the company has been generating a stable and high return on equity over the period of five years, with relatively low variability in the data. However, the negative skewness indicates that there are some years where the company's return on equity was lower than the average.

The company's Asset Turnover Ratio has been relatively stable over the past five years, with the average of 67.63. Overall, this data suggests that the company is effectively using its assets to generate sales, and that there has been relatively consistent performance in this area over the past five years.

The average basic earnings per share over the five years is 43.52. The data shows that the company had a relatively high basic earnings per share in the financial years 2017-2018 and 2018-2019, which were 52.54 and 59.69, respectively. The earnings per share decreased significantly in the financial year 2019-2020, which was only 33.06. However, the earnings per share increased again in the financial years 2020-2021 and 2021-2022, which were 32.22 and 40.10, respectively.

The data given for Financial Years shows that the Net Profit Margin of the company has been decreasing over the years. The average Net Profit Margin over the given years is 28.72%. Overall, the data suggests that while the company is still profitable, it may be becoming less efficient in converting revenue to net income over time.

VII. FINDINGS

- ❖ The average current ratio for the company was 2.73, indicating a healthy financial position.
- ❖ The average quick ratio for the company was 2.73, indicating a healthy financial position.
- ❖ The average cash ratio for the company was 0.52, suggesting that the company generally has enough cash on hand to meet its short-term obligations.
- ❖ The payout ratio varied significantly from year to year, with the average of 38.71% and a high degree of variability.
- ❖ The data suggests a balanced approach to financing operations, with a moderate ratio that remained relatively stable over the past five years.
- ❖ The data indicates that the company has been maintaining a moderate level of debt in relation to its assets over the past five years.
- ❖ The data suggests that the company's ability to pay its interest obligations has been quite variable, with some years being much stronger than others.
- ❖ The average ROA for the given period is 19.44%, indicating that the company has been efficient in generating profits from its assets.
- ❖ The average ROE ratio for the company over the period of five years was 24.65, indicating that the company is generating a relatively high return on the shareholder's investment.

- The average Asset Turnover Ratio for the given period is 67.63, indicating that the company is consistently generating sales from its assets.
- The average basic earnings per share over the five years is 43.52, with a high degree of variability.
- The average Net Profit Margin over the given years is 28.72%, indicating that the company is still profitable.

VIII. SUGGESTIONS

- It would be useful to investigate the causes of the fluctuations in the dividend payout ratio and consider whether a more stable payout policy would be beneficial for the company.
- While the debt to equity ratio and debt to asset ratio have been relatively stable over the past five years, it would be useful to consider the impact of potential changes in interest rates or market conditions on the company's debt position.
- Given the variability in the interest coverage ratio data, it may be beneficial to explore ways to increase the company's financial stability and reduce its reliance on debt financing.
- It would be useful to conduct further analysis on the factors that influence the ROA and ROE ratios, as these are key indicators of a company's profitability and financial performance.
- Consider conducting a benchmarking analysis to compare the company's financial ratios with those of its competitors and industry standards.
- Investigate the causes of the decrease in net profit margin over the years and consider strategies to improve profitability.
- Given the high variability in the basic earnings per share data, it may be useful to explore ways to stabilize the company's earnings and reduce the impact of external factors on its financial performance.
- Consider conducting a scenario analysis to assess the potential impact of different market conditions on the company's financial position.
- It would be useful to explore ways to diversify the company's revenue streams to reduce its reliance on a single product or market.
- Investigate potential cost-saving measures to improve the company's financial performance and profitability.
- Consider conducting a risk analysis to evaluate potential risks to the company's financial position and develop strategies to mitigate them.
- Conduct a financial forecasting analysis to assess the company's financial position in the short-term and long-term.
- Consider exploring potential opportunities for mergers and acquisitions to improve the company's financial performance and position.
- Investigate potential ways to improve the company's cash flow management, such as reducing payment terms or increasing cash reserves.
- Conduct a sensitivity analysis to evaluate the impact of changes in exchange rates or international trade conditions on the company's financial position.
- Consider exploring potential opportunities for expansion into new markets or product lines to increase the company's revenue streams and profitability.

IX. CONCLUSION

The financial ratios suggest that the company is generally in a healthy financial position, there are some areas where caution should be exercised. Additionally, the variability in the Interest Coverage Ratio data indicates that the company's ability to pay its interest obligations can be unpredictable. Therefore, further analysis and examination of the company's financial statements and other relevant data is necessary to fully understand its financial position and make informed decisions.

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