OPEN ACCESS

Manuscript ID:
MGT-2024-11047373

Volume: 11

Issue: 4

Month: April

Year: 2024

P-ISSN: 2321-4643

E-ISSN: 2581-9402

Received: 20.02.2024

Accepted: 27.03.2024

Published: 01.04.2024

Citation:
Silambarasan, D., and D. Jayanthan. "Analysis of Leverages and Profitability of Top 10 IT Companies in India." *Shanlax International Journal of Management,* vol. 11, no. 4, 2024, pp. 42–46.

DOI:
https://doi.org/10.34293/management.v11i4.7373

Analysis of Leverages and Profitability of Top 10 IT Companies in India

D. Silambarasan
Assistant Professor, Department of Commerce
Saradha Gangadharan College, Puducherry, Tamil Nadu, India
https://orcid.org/0000-0002-8764-9253

D. Jayanthan
Assistant Professor, Department of Management Studies
Manakula Vinayagar Institute of Technology, Puducherry, Tamil Nadu, India

Abstract
Firms utilize leverage to expand assets, cash flows, and revenue, which can lead to increased more losses. To raise financial leverage, a firm can borrow money by issuing fixed-income securities or honestly from lenders. The researcher focused on secondary data and used correlation and regression analysis for this study. The correlation result shows that the relationship between return on equity and operating leverage is positive at the 5% level, and relationship between combined leverage, and financial leverage is highly significant at the 1% level. Further, the multiple regression result showed that H_0^1 *and* H_0^2 *are rejected at the 5% level, and combined leverage has an insignificant return on equity. Therefore, H03 is accepted. However, the researchers revealed that the financial and operating leverage of India's top 10 IT companies are satisfactory.*

Keywords: Leverage, Profitability, IT Companies

Introduction

It is used to obtain greater financial benefits compared to the fixed costs to be paid, i.e., greater benefits using less energy. The word 'leverage' refers to a firm's ability to use permanent cost assets, and finances to increase the return to equity owners. It is the make use of of fixed resources or cash for which a corporation must face fixed overheads or a fixed interest charge, regardless of the number of actions completed or the degree of working profit generated.

It denotes the use of fixed-cost instruments in a company's resource structure. The hotel and restaurant business is vital to the Indian economy. Financial management is concerned with raising financial resources and allocating them properly in order to increase shareholder wealth. Fixed and current assets are vital to the proper operation of a business because the company typically invests in these options.

Capital gearing reveals the suitability or otherwise of a firm's capitalization. Capital gears up the effect on earnings of any change at the trading profit level. Larger leverage equals greater profit, and vice versa. However, increased leverage plainly indicates high exterior borrowings, and is thus riskier if the firm's business movement suddenly drops.

Definition

"Leverage is the ratio of net returns on shareholders equity and the net rate of return on capitalization" - According to Ezra Solomon

This Study Focused on the Following Leverages

- Operating Leverage
- Financial Leverage
- Combined Leverage

Review of Literature

(Bhaskar et al.) The study used secondary data spanning five years from 2013-14 to 2017-18. The study's objectives were met using leverage, and profitability ratios, as well as correlation analysis and ANOVA. The study discovered that the scale of leverage, financial leverage, and total leverage all have a favorable association with the overall asset return.

(Mochi and Dani) the effect of debt on the profitability of selected Indian cement companies was investigated. The researchers discovered a positive association with financial leverage. The study's dependent variables incorporated return on assets, equity, sales growth, net profit margin, and earnings per share, and independent variable was financial leverage. The study's findings revealed that Ultratech cement's debt equity ratio had a favorable link with return on assets, net profit, and equity, but a negative association with earnings per share and sales growth.

(Paswan) the study examined the leverage and profitability of Indian cement sector data acquired over a ten-year period from 2008-09 to 2017-18, focusing on 21 cement businesses in India. The effect of leverage on profitability is studied with return on equity is the dependent variable, and FL, OL, and CL is the independent variable. The study found that leverage had no meaningful influence on the profitability of the chosen cement business.

DFL and EPS correlate positively, but DOL and EPS correlate negatively (Tayyaba). The association between financial, operating, combined leverage, and return on investment for Dr. Reddy's Laboratory Services, the pharmaceutical corporations with the major sales return in the fiscal year 2013 to 2014. (Khedkar). It was discovered that financial leverage had no effect on the firm's financial performance measures of ROA and Tobin's Q. However, it is inversely and highly connected to ROE (Chadha and Sharma).

The research ratio study reveals that the selected pharmaceutical businesses are in a good position. Although corporations have seen strong profit growth, there is a substantial variance in growth pace (Kalaiyarasi and Poornima). The study showed that when it comes to financing long-term projects, financial leverage is a greater source of financial support to equity for businesses (Vegad and Chakrawal). It was hypothesized that more profitable hotel businesses are more profitable. However, the study's findings did not confirm the previously hypothesized positive involvement among the financial leverage, and profitability indicators (Goyal and Gupta).

Study Objectives

To evaluate the impact of financial, operating, and combined leverage on profitability of India's top ten IT industries.

Hypotheses Developed for the Study

H_0^1: There is no significant impact of Financial Leverage on return on equity.

H_0^2: There is no significant impact of Operating Leverage on return on equity.

H_0^3: There is no significant impact of Combined Leverage on return on equity.

Study Methodology

- This analysis used secondary data gathered from 2014–2023.
- The researcher focused top 10 IT firms in India.
- The present study collected for the period of 10 years from 2014 to 2023.
- This study used dependent variable is *financial leverage, operating leverage and combined leverage* and independent variable is *return on equity*.
- The researcher used a mixture of statistical tools like descriptive, correlation analysis and multiple regressions.

Research Methods

Operating Leverage

It is an accounting metric that allows analysts to assess how a company's performance connects with its sales. This ratio indicates how much the company's operating profit will increase at a certain rate of increase in sales. It is a firm activity, and the relationship between the income from the activities and the company's profit.

OL = EBIT / Sales

Financial Leverage

It can be determined by dividing the changes in production income per capita by earnings before taxes. The primary purpose of determining this degree is to determine the sensitivity of a company's earnings per share. A business with a higher DFL has a higher degree of leverage.

FL = EPS / EBIT

Combined Leverage

It is an influence relation that summarizes the mutual outcome of both financial and operating leverages on earnings per share in response to a particular adjusts in sales. It can be used to help find out the most excellent level of both leverages for every organization.

DCL = DOL x DFL

Return on Equity

It is an economic performance statistic calculated by separating net income by shareholders' equity. It's unique to return on net assets because shareholders' equity generation a firm's assets less its debt.

ROE = Net Income / Shareholders Equity

Regression

It is distinct as a statistical approach that allows us to investigate and understand the relationship along with two or more variables of interest. The modified way of completing regression result helps to identify which factors are essential, which can be disregarded, and how they interact with one another.

Correlation

It is useful for quantifying the relationship between two constant variables, such as a dependent and an independent variable, or two independent variables together.

According to A.M. Tuttle, "Correlation is an analysis of co-variation between two or more variables."

Analysis and Discussion

Table 1 List of the Top 10 IT Companies in India 2024

S. No.	Firms Name
1	Hyperlink Info System
2	HData Systems
3	iMOBDEV Technologies
4	Hexaware Technologies
5	HCLTech
6	Wipro
7	Zensar Technologies
8	IBM
9	Nityo Infotech
10	LTIMindtree

Source: The Hindu

Table 2 Descriptive Statistics

Variables	Num.	Mini.	Max.	Mean	SD
ROE	10	20.19	160.23	1.10	5.20
OL	10	0.10	0.70	0.15	0.10
FL	10	11.22	20.10	2.80	5.55
CL	10	7.22	4.24	0.11	1.99

Source: Secondary data

Descriptive Statistics Results: The return on equity ranges from 20.19 to 160.23, with a mean of 1.10 and a SD of 5.20. Operating Leverage is considered to have a minimum of 0.10, a maximum of 0.70, a mean of 0.15, and an SD of 0.10. Financial leverage ranges from a low of 11.22 to a high of 20.10, with a mean of 2.80 and SD of 5.55. The combined leverage minimum value is 7.22 and maximum value is 4.24, respectively, with a mean of 0.11 and a SD of 1.99.

Correlation analysis

Correlation results show that the relationship between return on equity, and operating leverage (0.280) is positively significant at the 5% level, while the relationship between combined leverage and financial leverage (0.822) is highly significant at the 1% level.

Table 3 Correlation Analysis

Variables		ROE	FL
OL	Correlation	.280*	
	Sig. (2-tailed)	.028	
	N	10	
CL	Correlation		.822**
	Sig. (2-tailed)		.000
	N		10

Source: secondary data

Table 4 Multiple Regressions

Variables	Unstandardized Coeffi.		Standardized Coeffi.	t	Sig. Value
	β	Std. Error	β		
ROE	31.55**	139.29		6.100	.000
OL	0.04*	112.10	.320	2.020	.039
FL	0.22*	4.992	.512	1.323	.042
CL	39.89	10.943	.399	1.434	.121
R					0.38
R^2					0.26
F					2.125

Source: secondary data

The multiple regression results showed that operating leverage have a positively significant (.039) affect on return on equity in the top 10 IT firms in India. Therefore, H_0^1: "There is no significant impact of operating leverage on return on equity" is rejected at the 5% level; the financial leverage has a positively significant (.042) impact on return on equity. Therefore, H_0^2: "There is no significant impact of financial leverage on return on equity" is rejected at the 5% level. Further, the combined leverage has an insignificant (.121) return on equity. Therefore, H_0^3 is accepted. The F statistic value is 2.125, which shows an excellent fit of regression, and is significant at the 5% level with an R2 of 0.26.

Conclusion

The study investigates the types of leverage and profitability of the top 10 IT firms in India. The researcher focused on secondary data and used correlation and regression analysis for this study. The correlation result showed that the relationship between return on equity and operating leverage is positively significant at the 5% level, and the relationship between combined leverage and financial leverage is highly significant at the 1% level. Further, the multiple regression result showed that H01 and H02 are rejected at the 5% level, and combined leverage has an insignificant return on equity. Therefore, H03 is accepted. However, the study exposed that the financial and operational leverage of the top 10 IT companies in India is satisfactory.

Limitations

1. A limitation of the study is that it is secondary data collected over a 10-year period (2014–2023).
2. The study used dependent variable is *financial leverage, operating leverage and combined leverage* and independent variable is *return on equity*.
3. The researcher used different statistical tools like descriptive, correlation analysis and multiple regressions.

References

Amsaveni, R. "Impact of Leverage on Profitability of Primary Aluminum Industry in India." *Indian Journal of Finance*, vol. 3, no. 11, 2009.

Bhaskar, K., et al. "Leverage Analysis and Profitability: A Study of Ultra Tech Cement Company." *Global Journal of Engineering Science and Researches,* vol. 5, no. 11, 2018, pp. 109-15.

Chadha, Saurabh, and A. K. Sharma. "Capital Structure and Firm Performance: Empirical Evidence from India." *Vision: The Journal of Business Perspective*, vol. 19, no. 4, 2015, pp. 295-302.

Gill, Amarjit, et al. "The Effect of Capital Structure on Profitability: Evidence from the United States." *International Journal of Management,* vol. 28, no. 4, 2011.

Gowd, Narayana. "Impact of Leverage, Capital Structure and Dividend Policy Practices on Share Holders Wealth in Larsen and Toubro Limited, India." *International Journal of*

Advance Research in Computer Science and Management Studies, vol. 2, no. 6, 2014, pp. 8-17.

Goyal, Anil Kumar, and Barkha Gupta. *The Impact of Financial Leverage on Profitability: An Analysis of Indian Hotel Industry*.

Hasanzadeh, Rasoul Baradaran, et al. "Evaluating Effects of Financial Leverage on Future Stock Value at Stock Exchange." *Research Journal of Recent Sciences*, vol. 2, no. 2, 2012, pp. 81-84.

Kalaiyarasi, S., and P. Poornima. "Impact of Leverages on Profitability of Selected Pharma Companies in India." *International Journal of Creative Research Thoughts,* vol. 10, no. 6, 2022, pp. 94-101.

Khedkar, E. B. "A Study of Leverage Analysis and Profitability for Dr Reddy's Laboratories." *International Journal of Research in Engineering and Social Sciences,* vol. 5, no. 5, 2015, pp. 17-31.

Kothari, Haresh. "Impact of Financial Leverage on Financial Performance of Selected Steel Companies of India." *International Journal of Education, Modern Management, Applied Science,* vol. 4, 2022, pp. 35-43.

Kulkarni, P. V., and B. G. Satyaprasad. *Financial Management*. Himalaya Publishing House, 2007.

Mochi, Rekha, and Mala Dani. "A Study on Impact of Leverage on Profitability of Selected Cement Companies of India." *Rabindra Bharati Journal of Philosophy*, vol. 225, no. 2, 2023, pp. 100-107.

Paswan, Ranjit Kumar. "Analysis of Leverage and Profitability of Indian Cement Industry." *Pacific Business Review*, vol. 14, no. 6, 2021, pp. 25-30.

Ramana Kumar, M. "An Empirical Study on Relationship between Leverage and Profitability in Bata India Limited." *International Journal of Advance Research in Computer Science and Management Studies,* vol. 2, no. 5, 2014.

Tayyaba, Khushbakht. "Leverage – An Analysis and Its Impact on Profitability with Reference to selected Oil and Gas Companies." *International Journal of Business and Management Invention,* vol. 2, no. 7, 2013, pp. 50-59.

The Hindu. "Top 10 IT Consulting Companies in India 2024." *The Hindu*, 2024.

Varsha, Virani. "Impact of Leverage on Profitability of Pantaloon Retail India Ltd." *Advances in Management*, vol. 3, no. 8, 2010, pp. 52-59.

Vegad, Amitkumar B., and Alok Kumar Chakrawal. "Assessing the Influence of Financial Leverage on Firm Valuations of Selected Indian FMCG Firms." *International Journal of Creative Research Thoughts,* vol. 11, no. 2, 2023, pp. 536-42.

Author Details

Dr. D. Silambarasan, *Assistant Professor, Department of Commerce, Saradha Gangadharan College, Puducherry, Tamil Nadu, India,* ***Email ID*****:** *dsarasansss@gmail.com.*

D. Jayanthan, *Assistant Professor, Department of Management Studies, Manakula Vinayagar Institute of Technology, Puducherry, Tamil Nadu, India.*