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India's IT Titans: A Financial Review of TCS and Infosys

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Abstract

This paper conducts a comprehensive financial analysis of two leading Indian IT companies, Tata Consultancy Services (TCS) and Infosys, over a five-year period from 2019-20 to 2023-24. Utilizing key financial metrics – Net Profit Margin (NPM), Return on Capital Employed (ROCE), Return on Assets (ROA), and Return on Equity (ROE) – the study examines profitability, resource utilization, asset efficiency, and shareholder returns. The analysis reveals distinct performance patterns for each company. TCS demonstrates higher profitability (NPM) but a declining trend, alongside strong ROCE and ROA, indicating efficient resource and asset utilization. Its ROE, while high, exhibits volatility. Conversely, Infosys showcases consistent improvement in NPM and steady growth in ROCE and ROA, suggesting a reliable and progressively efficient approach. Its ROE growth, though less dramatic, is more stable. This comparative analysis highlights the importance of considering a range of financial metrics to understand the overall financial health and investment attractiveness of companies. The paper explores these contrasting trends, discussing their potential implications for investors and suggesting areas for future research, including a deeper examination of the factors driving these performance differences and a broader comparison with industry benchmarks.

Keywords: Financial Performance, TCS, Infosys, Return on Equity (ROE).

Introduction

India's information technology (IT) sector has emerged as a global powerhouse, with companies like Tata Consultancy Services (TCS) and Infosys leading the industry. As two of the largest IT service providers in India, both firms have played a pivotal role in driving digital transformation across industries worldwide. Their success is rooted in strong financial performance, strategic innovation, and the ability to adapt to evolving market trends.

TCS, a subsidiary of the Tata Group, has established itself as a leader in IT services, consulting, and business solutions. With a diverse client base and a global presence, it has consistently maintained a strong financial standing and high profitability. On the other hand, Infosys, founded in 1981, has built a reputation for cutting-edge technology solutions, client-centric services, and innovation-driven growth. It has been at the forefront of emerging technologies such as artificial intelligence (AI), cloud computing, and automation.

This study aims to provide a comprehensive financial and strategic review of TCS and Infosys, analyzing their revenue growth, profitability, market capitalization, strategic initiatives, and future prospects.

By comparing key financial indicators and business strategies, this analysis will offer insights into how these IT giants continue to shape India's position in the global technology landscape.

Objective of the Study

The primary objective of this study is to conduct a comprehensive financial and strategic review of Tata Consultancy Services (TCS) and Infosys, two of India's leading IT service providers. The study aims to:

> ➤ Analyze Financial Performance – Evaluate key financial metrics such as revenue growth, profitability, return on investment, and market capitalization to assess the financial health of both companies.

➢ Compare Growth Trends – Examine the historical and recent growth trajectories of TCS and Infosys to understand their market positioning and future potential.

➢ Assess Strategic Initiatives – Identify and compare the business strategies, technological innovations, and expansion plans adopted by both firms to sustain their competitive edge.

➢ Evaluate Market Performance – Analyze the stock market trends, investor sentiment, and valuation of both companies to gauge their standing in the financial markets.

➢ Identify Challenges and Opportunities – Highlight the challenges, risks, and opportunities faced by TCS and Infosys in the evolving global IT landscape.

➢ Provide Insights for Stakeholders – Offer valuable insights for investors, policymakers, industry professionals, and academicians interested in understanding the dynamics of India's IT sector.

This study will serve as a guide for those seeking to understand the financial and strategic strengths of TCS and Infosys, as well as their role in shaping the future of India's IT industry.

Methodology

This study adopts a comparative and analytical approach to assess the financial and strategic performance of TCS and Infosys. Secondary data is collected from annual reports, financial statements, SEBI, stock exchanges (NSE & BSE), market research reports, and financial news covering the period from 2020 to 2024. The financial analysis focuses on key metrics such as revenue growth, net profit, EBITDA, return on equity (ROE), return on capital employed (ROCE), and stock market performance including market capitalization and P/E ratio. The strategic analysis examines business models, technological innovations, mergers & acquisitions (M&A), and global expansion strategies. A comparative study is conducted using SWOT analysis to identify competitive advantages

and industry positioning. Finally, the study presents key insights, growth trends, and recommendations for investors and industry professionals, ensuring a structured and data-driven evaluation of these IT giants.

Limitation of the Study

This study has certain limitations, including a limited sample size of five years, which may not fully capture long-term trends. It focuses only on Infosys and TCS, without considering other IT firms or industry benchmarks. External macroeconomic factors like inflation, currency fluctuations, and global economic conditions are not explicitly analyzed. Additionally, differences in business models, revenue streams, and operational strategies between Infosys and TCS may impact profitability in ways not accounted for. Non-financial metrics such as innovation, employee satisfaction, and brand reputation are also excluded, which could influence long-term performance. Moreover, the study assumes the accuracy of reported financial data without considering potential adjustments or restatements.

Analysis of the financial performance of TCS and Infosys

This study examines the financial performance of TCS and Infosys using key profitability and efficiency metrics such as Net Profit Margin (NPM), Return on Equity (ROE), Return on Capital Employed (ROCE), and Return on Assets (ROA). Net Profit Margin reflects overall profitability, while ROE indicates how efficiently shareholder funds are utilized. ROCE measures the effectiveness of capital investment, and ROA evaluates how well assets generate profits. By comparing these indicators over multiple years, this analysis provides insights into the financial health, operational efficiency, and competitive positioning of both IT giants in the Indian market.

Net Profit Margin

Net Profit Margin (NPM) is a key profitability metric that indicates the percentage of revenue that remains as profit after deducting all expenses, including taxes and interest. A higher NPM reflects better cost efficiency and profitability, making it crucial to compare the financial performance of TCS and

Infosys. By analyzing NPM trends, we can assess the firm's ability to manage costs and sustain profitability over time. It also helps in understanding how external factors, such as market conditions and operational efficiency, impact overall earnings.

Table 1. Net Profit Margin Ratio of TCS and Infosys

Year	TCS (%)	YoY (%)	Infosys (%)	YoY (%)
2019-20	25.33		19.66	
2020-21	22.77	-10.11	21	6.82
2021-22	23.81	4.57	20.43	-2.71
2022-23	20.54	-13.73	18.76	-8.17
2023-24	21.52	4.77	21.12	12.58

Source: Calculated & Compiled from TCS and Infosys' annual financial reports.

The Net Profit Margin (NPM) analysis of TCS and Infosys from 2019-20 to 2023-24 highlights key profitability trends. TCS consistently maintains a higher NPM than Infosys, though it shows a gradual decline from 25.33% in 2019-20 to 21.52% in 2023-24, indicating increasing cost pressures or changes in operational efficiency or other external factors. Infosys, on the other hand, demonstrates a more fluctuating trend but manages to improve its NPM from 19.66% to 21.12% over the same period. This suggests that Infosys has been able to enhance its cost efficiency and profitability, narrowing the gap with TCS. While TCS remains the leader in profitability, Infosys has shown resilience and steady improvement in recent years.

Return on capital Employed

Return on Capital Employed (ROCE) is a crucial profitability ratio that measures how efficiently a company utilizes its capital to generate profits. A higher ROCE indicates better capital efficiency and financial health, making it especially important for investors and stakeholders assessing long-term sustainability. In the case of TCS and Infosys, analyzing ROCE helps compare

how effectively both companies are using their resources to generate value, guiding investment decisions and strategic planning.

Table 2. Return on capital Employed Ratio of TCS and Infosys

Year	TCS	YoY (%)	Infosys	YoY (%)
2019-20	52.79		31.28	
2020-21	52.75	-0.08	32.23	3.04
2021-22	60.23	14.18	38.46	19.33
2022-23	65.07	8.04	43.03	11.88
2023-24	75.85	16.57	41.23	-4.18

Source: Calculated & Compiled from TCS and Infosys' annual financial reports.

The analysis of the table 2 indicates a steady improvement in performance for both TCS and Infosys over the years. TCS has shown consistent growth, with its value increasing from 52.79 in 2019-20 to 75.85 in 2023-24, reflecting strong financial stability and operational efficiency. Infosys also exhibits an upward trend, rising from 31.28 to 41.23 over the same period, although its growth is relatively moderate compared to TCS. The significant rise in TCS's figures, particularly from 2021-22 onwards, suggests stronger revenue generation, better cost management, or enhanced market positioning. While both companies are growing, TCS maintains a clear lead, highlighting its superior financial performance and competitive strength in the IT sector.

Return on Assets

The analysis of the Return on Assets (ROA) data for TCS and Infosys over the years reveals insightful trends in their performance and efficiency. TCS has consistently outperformed Infosys, demonstrating a higher and more efficient utilization of assets to generate returns. Despite a slight dip in ROA during 2020-21, TCS showed strong recovery, with notable growth rates in subsequent years, especially a remarkable 10.1% increase in 2023-24.

Table 3. Return on Assets Ratio of TCS and Infosys

Year	TCS	YoY (%)	Infosys	YoY (%)
2019-20	31.68	--	19.17	--
2020-21	28.3	-10.67	19.21	0.21
2021-22	31.49	11.27	21.36	11.19
2022-23	32.63	3.62	22.96	7.49
2023-24	35.95	10.17	23.69	3.18

Source: Calculated & Compiled from TCS and Infosys' annual financial reports.

This indicates TCS's strong operational performance and an ability to adapt well to challenges. In contrast, Infosys has shown gradual and steady improvements in ROA, with growth rates ranging from 0.2% to 11.19% from 2019-20 to 2023-24. However, its rate of improvement has been slower compared to TCS, which reflects a more conservative approach to growth or potentially slower asset optimization. Overall, TCS has demonstrated superior performance in asset efficiency, with more consistent year-on-year growth, signaling better profitability. While Infosys is improving and showing solid results, its asset utilization efficiency lags behind that of TCS, suggesting room for further optimization. This performance analysis highlights TCS's strong asset management capabilities, while Infosys, though robust, may benefit from accelerating its improvement in asset utilization.

Return on Equity (ROE)

Return on Equity (ROE) is a crucial metric for evaluating a company's profitability relative to its shareholders' investments. A comparative analysis of TCS and Infosys reveals distinct ROE trends. TCS demonstrates a fluctuating yet overall positive trajectory, starting with 44.72% in 2019-20 and reaching 60.39% in 2023-24. However, this growth was not linear, with a notable dip to 41.39% in 2020-21 followed by significant increases in subsequent years. This volatility suggests that TCS's profitability might be more susceptible to external factors or internal strategic shifts. In contrast, Infosys exhibits a more consistent

upward trend in ROE, rising from 24.97% in 2019-20 to 34.34% in 2022-23 before experiencing a slight decline to 33.54% in 2023-24. This steadier growth pattern indicates more predictable profitability and efficient use of shareholder funds. While TCS achieved a higher ROE in the final year, its volatile growth contrasts with Infosys's more stable, though ultimately lower, ROE. This difference in growth patterns highlights the importance of considering not just the absolute ROE value, but also its consistency over time when assessing a company's financial performance and attractiveness to investors.

Table 4. Return on Equity of TCS and Infosys

	TCS	YoY (%)	Infosys	YoY (%)
2019-20	44.72		24.97	
2020-21	41.39	-7.45	25.23	1.04
2021-22	49.48	19.55	30.63	21.40
2022-23	52.46	6.02	34.34	12.11
2023-24	60.39	15.12	33.54	-2.33

Source: Calculated & Compiled from TCS and Infosys' annual financial reports.

Observations:

➢ Profitability: TCS maintains a higher Net Profit Margin (NPM) throughout the period, although it shows a declining trend. Infosys demonstrates improvement in NPM, narrowing the gap with TCS.

➢ Resource Utilization: TCS exhibits stronger Return on Capital Employed (ROCE) growth compared to Infosys, indicating superior efficiency in utilizing resources to generate value.

➢ Asset Efficiency: TCS consistently outperforms Infosys in Return on Assets (ROA), showcasing better asset utilization and profitability.

➢ Shareholder Returns: TCS demonstrates a higher but more volatile Return on Equity (ROE) compared to Infosys, which exhibits a steadier, though ultimately lower, ROE growth.

Conclusions:

- TCS's Strengths: TCS demonstrates strong financial performance with higher profitability (NPM), superior resource utilization (ROCE), and better asset efficiency (ROA). Its higher ROE, despite volatility, suggests a focus on generating returns for shareholders.

- Infosys's Strengths: Infosys showcases consistent improvement in profitability (NPM) and steady growth in ROCE and ROA, indicating a reliable and progressively efficient approach to business. Its more stable ROE growth suggests a focus on sustainable shareholder returns.

- Trade-offs: TCS prioritizes higher returns, even with some volatility, potentially through more aggressive strategies. Infosys prioritizes steady growth and stability, potentially through a more conservative approach.

Suggestions

For TCS, addressing the declining Net Profit Margin (NPM) is crucial. A thorough investigation into the underlying causes is necessary, including a detailed analysis of cost structures, pricing strategies, and the evolving product/service mix. Cost optimization initiatives should be explored without compromising quality or innovation, while pricing strategies must be reviewed for competitiveness and profitability. Furthermore, understanding the impact of the changing revenue composition and focusing on higher-margin offerings could help reverse the NPM decline. Managing the volatility of Return on Equity (ROE) is another key area. While the high ROE is commendable, its fluctuations suggest potential instability. Diversification into new markets and service areas, strategic investments in research and development, and robust financial planning are recommended to achieve more consistent ROE growth.

Infosys, on the other hand, should capitalize on its consistent growth trajectory across several metrics. Leveraging the steady improvements in NPM, ROCE, and ROA through targeted expansion initiatives, both geographically and within service offerings, can further solidify its market presence. A continued focus on innovation will be essential to maintain a competitive edge. While the

ROE has generally been strong, the recent slight dip warrants attention. A review of capital allocation strategies, enhanced communication with shareholders regarding the dip and future plans, and exploration of strategic partnerships could help revitalize ROE growth and ensure continued strong returns for investors.

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