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Financial Statement Analysis of Infosys and Wipro through DUPONT Analysis

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Abstract: Uniformity, Timeliness, Understandability, Relevance, Reliability and Comparability are some of the qualitative characteristics of financial statements. Every company aims at providing the financial information to its users about the operations of a company through formal reports in the form of financial statements. It summarizes the operations of a business and transactions conducted in a particular accounting period. Financial statements are the true indicators of the financial health of the company at a particular point of time. The study deployed secondary data published in the form of annual reports of the selected companies. In this context, the present paper aims at analyzing the financial statements of the year 2020- 21 and 2021- 22 prepared as per new accounting standards i.e., Indian Accounting Standards (IND-AS) of two different companies that is Infosys and Wipro through DUPONT analysis. The study highlights there is an increase in Return on Equity (ROE) of both the companies which is the one of the important measures used to find out the direction of the company.

Keywords: Financial Statements, IND-AS, Dupont Analysis, ROE and Earnings Management.

I. INTRODUCTION

Financial statements are written records that convey the business activities and the financial performance of a company. Financial statements are often audited by government agencies, accountants, firms, etc. to ensure accuracy and for tax, financing, or investing purposes. As per new accounting standards i.e., converged International Financial Reporting Standards (IND-AS/IFRS) the financial statements include: a) Balancesheet, b) Statement of Profit and Loss Account, c) Statement of Cashflows, d) Statement of Changes in Equity and e) Notes to Accounts. Financial statements are very much essentials as every stakeholders like shareholders, foreign institutional investors, professionals, financial institutions etc., are depending on these statements to make investment decisions and to evaluate liquidity of the company for their redemption of capital. Financial statements are providing significant information about the financial health of the company. Financial statements represents the formal record of financial transactions taking place in an organization and helps the user of financial information in determining the financial position, liquidity and performance of the organization.

Financial statement analysis is a component of accounting and key to understanding an organisation's financial condition. External stakeholders use it to understand the overall performance and business value of an organisation, while internal constituents use it as a monitoring tool for managing finances. Acting as a company's financial health 'report card', Using a proper techniques in analysis of financial statement provides a comprehensive and unbiased overview of a company's profitability, value, creditworthiness and financial security. There are different techniques are used in analysing financial statements say a) Horizontal analysis, b) Vertical analysis, c) Ratio analysis, d) Trend analysis and e) Cost volume profit analysis. It helps in knowing companies financial strengths and weaknesses, and to deal with future business activities. Although there are different models are used in analysing financial statements, the present study used simple formulas of Dupont model by taking Return of Equity as the key ratio.

II. DUPONT ANALYSIS

The DuPont analysis is a framework for analyzing fundamental performance originally popularized by the DuPont Corporation. The formula was developed in 1914 by F. Donaldson Brown, an employee of the DuPont Corporation. DuPont analysis is a useful technique used to decompose the different drivers of return on equity.

The most important aspects of a firm's operations is the rate of return the firm is able to generate on the equity investment made by the shareholders. Equity shareholders are the real owners of the firm and take all the risk. Hence, the ROE needs to be analysed in greater path. This is achieved by the DuPont Analysis, which breaks down the ROE ration into its three important components. These three components of performance measurements are profit margin, Assets turnover and Equity multiplier.

A. Model of Dupont Analysis

$$\begin{aligned}
 \text{DuPont Method ROE} &= \text{Net Profit Margin} \times \text{Asset Turnover} \times \text{Financial Leverage} \\
 &= \frac{\text{Net Income}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Average Total Assets}} \times \frac{\text{Average Total Assets}}{\text{Average Shareholders' Equity}} \\
 &\quad \text{Can "reduce" like terms in numerator and denominator} \\
 &= \frac{\text{Net Income}}{\text{Revenue}} \times \frac{\cancel{\text{Revenue}}}{\cancel{\text{Average Total Assets}}} \times \frac{\cancel{\text{Average Total Assets}}}{\text{Average Shareholders' Equity}} \\
 &= \frac{\text{Net Income}}{\text{Average Shareholders' Equity}} \quad \text{This is the ROE equation!}
 \end{aligned}$$

(Source: Internet)

III. REVIEW OF LITERATURES

Kapoor (2019) attempted to analyze the financial statements and measured the performance in terms of assets utilization and profitability. The study has used exploratory research to study past and present performance of Heavy Electrical Equipment Plant (HEEP), Ranipur (Haridwar). The author has used annual reports for a period of seven years (2007-2013). Financial ratios like Profitability ratios, leverage ratios, Profit margin ratios, Return on Investment, Return on equity were calculated. From the study it is revealed that there is weak relationship between profitability and liquidity.

Hasanaj and Kuqi (2019) analysed financial statements of a manufacturing company for the period of 2016 – 2015. Ratio analysis has been used as a tool to evaluate the performance of the company. Profitability ratios and Turnover assets ratio have been witnessed high in the year 2016 compared to 2015.

Buvaneshwari (2015) Studied the financial performance of SRI RAM PERFUMES, TRICHY for a period of five years from 2010 to 2014. The annual reports of the company were used to analyse the performance of the company. Comparative income statement analysis technique has been used for the period 2010-2014. The debtor's turnover ratio, Return on capital employed and Net worth Turnover ratios have been calculated. From the study it is revealed that the sales level has increased 2010 to 2011 in 18.78%. The study also found that the relationship between sales to total assets are normal in all the periods. The study also observed that the firm has used capital efficiently through out the period of the study computed through Return on Capital Employed ratio.

IV. OBJECTIVES OF THE STUDY

The present study has intended to analyse the financial statements of Infosys and Wipro companies using DUPONT technique.

A. Research Methodology

Since the study is based on published annual reports of the Infosys and Wipro companies, the secondary data has been used to carry out the study. The study also used the website information and also text books.

V. DATA ANALYSIS AND INTERPRETATION

Table 1: Showing ROE of Infosys

Return on Equity (ROE)			(Rs. In Crores)		
Year	Profit AfterTax (PAT)	Equity	Net Sales	Total Assets	ROE
2020-21	18048	71531	85912	93939	25.23%
2021-22	21235	69306	103940	99387	30.64%

ROE= Profit After Tax (PAT)/Equity

(ROE is the product of Net Profit Margin, Assets Turnover and Equity Multiplier) Net Profit Margin= Profit After Taxes/Net Sales

Assets Turnover= Net Sales/Total Assets Equity Multiplier= Total Assets/Equity

(ROE= Net Profit Margin X Assets Turnover X Equity Multiplier)

For the year 2020-21

- a) Net Profit Margin= 12048/85912= 14.02%
- b) Assets Turnover= 85912/93939= 91.46%
- c) Equity Multiplier= 93939/71531=131.33%

$$\begin{aligned} \text{ROE} &= \text{Net Profit Margin} \times \text{Assets Turnover} \times \text{Equity Multiplier} \\ &= 14.02\% \times 91.46\% \times 131.33\% \\ &= 25.23\% \end{aligned}$$

For the year 2021-22

- d) Net Profit Margin= 21235 /103940= 20.43%
- e) Assets Turnover= 103940/99387= 104.58%
- f) Equity Multiplier= 99387/69306= 143.40%

$$\begin{aligned} \text{ROE} &= \text{Net Profit Margin} \times \text{Assets Turnover} \times \text{Equity Multiplier} \\ &= 20.43\% \times 104.58\% \times 143.40\% \\ &= 30.64\% \end{aligned}$$

It is observed from the above table that the ROE of the company is high in the year 2021-22 is 30.64% is more than the previous year ROE stood at 25.23% which indicates company have maintained a high net profit margin in the current year and also used assets in efficient way and optimum leverage in the current year.

Table 2: Showing ROE of Wipro

Return on Equity (ROE)			(Rs. In Crores)		
Year	Profit AfterTax (PAT)	Equity	Net Sales	Total Assets	ROE
2020-21	100609	452416	502994	657363	22.24%
2021-22	121353	543507	595744	803828	22.34%

For the year 2020-21

- g) Net Profit Margin= $100609 / 502994 = 20.00\%$
- h) Assets Turnover= $502994 / 657363 = 76.52\%$
- i) Equity Multiplier= $657363 / 452416 = 145.30\%$

$$\begin{aligned} \text{ROE} &= \text{Net Profit Margin} \times \text{Assets Turnover} \times \text{Equity Multiplier} \\ &= 20.00\% \times 76.52\% \times 145.30\% \\ &= 22.24\% \end{aligned}$$

For the year 2021-22

- j) Net Profit Margin= $121353 / 595744 = 20.37\%$
- k) Assets Turnover= $595744 / 803828 = 74.11\%$
- l) Equity Multiplier= $803828 / 543507 = 147.90\%$

$$\begin{aligned} \text{ROE} &= \text{Net Profit Margin} \times \text{Assets Turnover} \times \text{Equity Multiplier} \\ &= 20.37\% \times 74.11\% \times 147.90\% \\ &= 22.34\% \end{aligned}$$

It is interpreted that ROE of the company is 22.24% in the year 2020-21 and 22.34% in the year 2021-22. It shows that there is an improvement in ROE in the current year indicating good sign of growth of the company.

VI. FINDINGS OF THE STUDY

The study has the following findings which are as follows:

- 1) The ROE of the Infosys in the year 2021-22 is 30.64% which is more than previous year.
- 2) The Return on Equity of Wipro stood at 22.34% in the year 2021-22
- 3) Infosys and Wipro both the companies's Net Profit Margin, have revealed that there is more profits have earned in the year 2021-22.
- 4) More efficiency in the usage of the assets could be seen in both Infosys and Wipro companies in the year 2021-22 as compared to 2020-21.
- 5) Optimum leverage is high in 2021-22 in both the companies.
- 6) The Return on Equity is higher in case of Infosys as compared to Wipro.

VII. SUGGESTIONS

It is suggested to both the companies that to improve the same rate of Return on Equity in the upcoming year by utilizing the assets effectively.

VIII. CONCLUSION

It is the duty of Analysts of financial statements to analyse various financial statements say Balance Sheet, Statement of Profit and Loss Account, Statement of Cash Flows, Statement of Changes in Equity and Notes to Accounts. Financial statements of the company can be analysed through various technique. The current study analysed both Infosys and Wipro company's financial statements through Dupont analysis by taking ROE is the main ratio.

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