Financial analysis assignment

| Assignment on Financial Management| | | Topic: Financial analysis of Infosys Technologies Ltd. Prepared By: Hiren Kodiyatar (10)Mehul Makwana (11) Submitted To Prof (Dr.) Surendra Sundararajan FACULTY OF MANAGEMENT STUDIESTHE M. S. UNIVERSITY, BARODA. | | | CAPITAL STRUCTURE OF INFOSYS TECHNOLOGIES LIMITED: * Capital structure describes how a company has organized its capital—how it obtains the financial resources with which it operates its business. * Here in Infosys its capital structure consist of 100% equity. It means no debt component. Infosys don’t have to pay fixed interest so its cash flow position is also good. But it can’t take advantage of leverage and tax shield. * Company can’t have the benefit of leveraging as it is playing safe with low debt but this decision is rational on the part of the sector of company, because the company is operating in IT sector where the technologies changes very fast. ADVANTAGES OF LONG TERM DEBT FINANCING: * It is less expensive and interest expenses are tax deductible. * If company’s profit increases, it will not have to share it because investors’ yield is fixed. No dilution of voting rights is good for shareholders. DISADVANTAGES OF LONG TERM DEBT FINANCING: * Non –payment of debt obligation can damage company’s image. * Debt securities are not inflation hedge hence investors’ response may be inadequate. * For company with unstable earning stream, obligation to pay fixed charges periodically is a burden. * At maturity repayment of debt will result in major cash outflow. * Restrictive covenants in trust deed can affect company’s financial flexibility. Here, Infosys has reserves and surplus almost four times more than fixed assets and share capital of Infosys is only 1. 3% of its reserves and surplus. This shows that Infosys have very huge reserves and surplus which can be utilized for new development

projects which can raise the profit and growth rate of company in future. 1 Dividend Policy of Infosys Technologies Limited: * Infosys has paid a dividend of about 22. 88% of its net profit. * This would increase the shareholder's confidence in the company. * The current dividend policy of Infosys is to distribute not more than 30% of PAT as dividend. * An increase of 10 percent over the current financial policy to pay dividend up to 20 percent of net profit.

This can influence company's stock price and it is giving signal to investors about future profitability of the company. * Infosys stability in payment of dividends is similar to the constant payout form. * The ratio of dividend to earnings is known as payout ratio. Under this method company pays a fixed percentage of net earnings every year. With this policy the amount of dividend will fluctuate in direct proportion to earnings. Here, Infosys has not straight away fixed the payout ratio but it has fixed the maximum payout ratio i. e. 30% of PAT (from fiscal 2009). So its dividend may not fluctuate in direct proportion to earnings. Internal financing with retained earnings is automatic, when this policy is followed. At any given payout ratio, the amount of dividends and the addition to retained earnings increase with increasing earnings and decrease with decrease earnings. * This policy does not put pressure on a company's liquidity, so dividends are distributed only when the company has profits. 2 VARIOUS RATIOS OF INFOSYS TECHNOLOGIES:- particulars| 2009-10| 2008-09| 2007-08| Current ratio| 4. 09| 4. 29| 3. 10| Fixed asset ratio (%)| 21. 24| 25. 62| 25. 03| Gross profit margin (%)| 46. 95| 45. 76| 44. 84| Net profit margin (%)| 27. 34| 27. 60| 27. 91|

Rate of return on equity (ROE) (%)| 21. 74| 20. 93| 16. 29| Rate of return investment (ROI) (%)| 26. 35| 27. 21| 26. 18| Earnings per share| 108. 99| 104. 59| 81. 53| Price-earnings ratio| 24. 27| 12. 48| 18. 47| Dividend per share| 25. 13| 23. 49| 33. 28| Dividend yield (%)| 0. 9| 1. 79| 1. 22| Total asset turnover ratio(times)| . 96| . 98| . 93| *The ratios are calculated on the basis of consolidated balance sheet and profit and loss account of 2007-08, 2008-09 ; 2009-10 of Infosys Technologies Ltd and subsidiaries. Financial interpretation of ratios of Infosys: * . The firm liquidity position is very good as the current ratio is 4. 9 It means Infosys's ability to meet its short term requirement is four times of its current liability * Net profit margin of Infosys is stable around 27%, indicates advantageous position to survive in the case of declining demand of the product in recession. 3 * Expectations from the investors about the growth of the Infosys are high, as the P/E ratio is almost doubled from last year's 12. 48% to 24. 27% in 2009-10. The main reason behind this sharp increase is the market price of the share which was Rs. 1306 in 31st march 2009 was Rs. 2646 in 31st march 2010, an extraordinary increase 102. 0% in market price of shares. * The wonderful thing is that the income from sales in 2008-09 was increased by 29. 96% while in 2009-10 it increased only 4. 83% * Infosys distributed Rs. 25. 13 per share as dividend out of Rs. 108. 99 earnings per share in 2009-10. * There is 1% increase in the gross profit margin during last three years. It means management of Infosys is increasing its efficiency each year. * The EPS has increasing trend during last three years. It is 108. 99 in 2009-10 which was 81. 53 in 2007-08. * The rate of return on equity is increasing during last three years.

It is 21. 74% in 209-10 which was 20. 93 in 2008-09 and 16. 24 in 2007-08. This shows that company has used the resources of owner very well and shareholder’s wealth is increasing which is the main objective of any firm. CAPITAL ASSET PRICING MODEL (CAPM):- CAPM= Rf + (Rm – Rf) ? = 4. 1743 + 0. 74(18. 3142 – 4. 1743) = 4. 1743 + 0. 74(14. 1399) = 4. 1743 + 10. 4635 = 14. 6378 % ? = 0. 69 (Annual report 2008-09 of Infosys) Rf = 4. 1743% (http://www. rbi. org. in/home. aspx 91days t-bill rate) Rm = 18. 3142 (Arithmetic mean growth rate of income of last three years of Infosys) 4