

## **Comparative Study Showing Financial Performance Evaluation of Selected IT Services and Consulting Companies in India Through Value Added Statements**

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**Abstract:** *This research paper is prepared with objective to analyze the net value created by the different selected IT services and consulting companies through value added statement and value-added ratios. This research is based on secondary data collected from the annual reports of selected companies. The analysis of the statement shows that all the companies are contributing well amount to the different stakeholders and performing well. The result of the ANOVA test shows that in capital providers to net value added ratio there is no significant difference in the performance of selected five companies for 2015-16 to 2019-20. While all other ratios show difference in the performance.*

**Key Words:** *Gross value added, net value-added, value-added statement.*

### **1. Introduction**

In today's developing economy of country value added statement approach is additionally used to measure the success of organization. Only profitability analysis is not enough to measure the growth of investment. The value-added statement is defined as a statement representing the value created by any organization during the accounting period. (Sharma, 2009) Value added is calculated by subtracting the cost of goods and services bought from outsiders from sales value. The profit and loss statement gives an awareness about the performance of a company regarding to their shareholders, whereas the value-added statement demonstrates the performance of a company regarding employees, capital providers and government. (Lewis, 1981)

There are two categories of value added; Gross Value Added (GVA) and Net Value Added (NVA). Gross Value Added (GVA) can be found by following manner.

$$GVA = S + IS - CBMS$$

Where, S = Sales

IS = Income from Services

CBGS = Cost of Bought-in-materials and services

Net Value Added (NVA) is calculated by two ways. One is subtraction method and second is addition method. In subtraction method depreciation is deducted from gross value added. In addition, method value added to employees, government, capital providers and owners are totalled. (Parmar, 2018)

$$NVA = GVA - D$$

Where, GVA = Gross Value Added

D = Depreciation

$$NVA = VAE + VAG + VAC + VAO$$

Where, VAE = Value added to Employees

VAG = Value added to Government

VAC = Value Added to Capital Provider

VAO = Value Added to Owners

In this paper value added statement of IT services and consulting companies in India are compared. The information technology industry in India is the fastest growing industry. In GDP of India the share of this sector is 7.4% in year 2022. This industry provides over 450000 employments in country and contributed 51% in overall exports of services.

## 2.Literature Review

(Rao, 2001) has written a book titled “Value added reporting: in theory, practice and research.” This book represents value added concepts, concepts of gross value added and net value added. Format of value-added statement, different value-added ratios their analysis and reporting are included in this book.

(Mandal & Goswami, 2008) have do a study on topic “Value added statement (VAS) - a critical analysis: a case study of Bharat heavy electricals limited.” The case study of Bharat heavy electricals limited was done in this paper with the help of gross value added, net value added and different value-added ratios. Regression analysis, time series analysis, correlation analysis and fisher’s t-test are used to evaluate the performance.

(Hossain, 2017) has done a study on “Value added statement: a part of social responsibility reporting.” This paper is descriptive in nature. In this paper the importance and theoretical issues related with value

added statement is discussed. In this paper value added analysis is called alternative accounting to replace the traditional accounting.

(Raju & Rao, 2020) have done “Financial analysis of selected IT companies in India.” In this paper profitability analysis and solvency analysis of different 10 selected IT companies listed in BSE and NSE was done. The analysis was about 10 years period 2009 to 2019.

### **3. Research Gap:**

Above literature reviews and other studied materials by the researcher shows that research done in the area of analysis on value-added statement have considered different research methodology, statistical techniques, data, samples, time period etc. Thus, to do something extra to these studies researcher have decided to do comparative performance analysis of IT services and consulting companies through value added statements for study period of 2015-16 to 2019-20.

### **4. Research Methodology:**

#### **4.1 Objectives of the Study:**

- To study gross value added (GVA) and net value added (NVA) of the selected IT services and consulting companies.
- To analyze the application of value-added statement through performance and social responsibility towards employees, government, capital provider and shareholders (owners).
- To examine and compare value added ratios of the selected IT services and consulting companies.

#### **4.2 Nature of the Study:**

In this research work facts and information used is already available in various sources to make critical evaluation. So, from this point of view the nature of this research work become analytical.

#### **4.3 Period of the Study**

This research paper covers a period of the 5 accounting years from 2015-16 to 2019-20.

#### **4.4 Sampling Design**

All the IT services and consulting companies listed in BSE and NSE are considered as target population of the research work. From the population, five IT services and consulting companies are selected on the basis of simple random sampling method of probability sampling technique.

#### **4.5 Scope of the Study**

Functional scope of this research work is to analyse the value-added performance through value added statements and value-added ratios of selected IT services and consulting companies in India

#### 4.6 Data Collection and Tools & Techniques of Data Analysis:

This research work is based on secondary data sources. Financial data is collected from the published annual reports of selected IT services and consulting companies. The accounting tool used for this research work are value added statements and ratio analysis in which six value added ratios are used viz. net value added to capital employed ratio (NVA to CE), net value added to total revenue ratio (NVA to TR), employee benefits to net value-added ratio (EB to NVA), government shares to net value added ratio (GS to NVA), capital providers to net value added ratio (CP to NVA) and retain earnings to net value-added ratio (RE to NVA). The statistical tool used to compare the performance is analysis of variance (ANOVA).

### 5. Result and Discussion:

#### 5.1 Value Added Statement:

**Table No 1**  
**Value Added Statement of Tata Consultancy Services Ltd.**  
**For Year 2015-16 to 2019-20**

(₹ in crore)

Particulars	15-16	16-17	17-18	18-19	19-20
Generation of Value Added:					
Income	89,604	97,261	1,03,159	1,30,797	1,39,388
Less:					
COGS					
Cost of equipment & software license	NA	1,758	2,006	2,003	1,596
Other expenses	28,846	15,730	16,046	26,826	27,451
<b>Gross Value Added</b>	<b>60,758</b>	<b>79,773</b>	<b>85,107</b>	<b>1,01,968</b>	<b>1,10,341</b>
Less:					
Depreciation & Amortization	1,559	1,575	1,647	1,716	2,701
<b>Net Value Added</b>	<b>59,199</b>	<b>78,198</b>	<b>83,460</b>	<b>1,00,252</b>	<b>1,07,640</b>
Application of Value Added:					
Employees Benefit	30,068	48,116	51,499	59,377	64,906
Government Share	6,233	6,413	6,690	10,640	8,731

Capital Providers	13	16	30	170	743
Retained Earnings	22,885	23,653	25,241	30,065	33,260
<b>Net Value Added</b>	<b>59,199</b>	<b>78,198</b>	<b>83,460</b>	<b>1,00,252</b>	<b>1,07,640</b>

Above table shows value added statement of Tata Consultancy Services Ltd. From the calculated data it is found that net value added for this five years period of 2015-16 to 2019-20 shows increasing trend. In 2015-16, capital providers were low compared to last year of analysis. Which shows that company has started using debt funds in their capital structure.

**Table No 2**  
**Value Added Statement of HCL Technologies Ltd.**  
**For Year 2015-16 to 2019-20**

(₹ in crore)

Particulars	15-16	16-17	17-18	18-19	19-20
Generation of Value Added:					
Income	14,403	20,273	22,775	26,817	33,279
Less:					
COGS					
Purchase of stock in trade	162	123	138	142	151
Change in inventories	(46)	38	50	22	3
Outsourcing cost	1,644	2,218	2,918	4,901	7,215
Other expenses	1,671	2,238	2,263	2,450	2,578
<b>Gross Value Added</b>	<b>10,972</b>	<b>15,656</b>	<b>17,406</b>	<b>19,302</b>	<b>23,332</b>
Less:					
Depreciation & Amortization	276	478	893	1,276	1,959
<b>Net Value Added</b>	<b>10,696</b>	<b>15,178</b>	<b>16,513</b>	<b>18,026</b>	<b>21,373</b>
Application of Value Added:					
Employees Benefit	4,866	6,843	7,365	8,079	9,955
Government Share	1,062	1,403	1,763	1,746	2,209
Capital Providers	45	56	23	16	240
Retained Earnings	4,723	6,876	7,362	8,185	8,969
<b>Net Value Added</b>	<b>10,696</b>	<b>15,178</b>	<b>16,513</b>	<b>18,026</b>	<b>21,373</b>

The statement above shows the computation of value added for HCL Technologies Ltd. The net value added of year 2015-16 was ₹ 10,696 crore and increased to ₹ 21,373 crore. Company used more

borrowed fund in starting period than it decreased to ₹ 16 crore in year 2018-19 after that it reached to ₹ 240 crore.

**Table No 3**  
**Value Added Statement of Tech Mahindra Ltd.**  
**For Year 2015-16 to 2019-20**

(₹ in crore)

Particulars	15-16	16-17	17-18	18-19	19-20
Generation of Value Added:					
Income	22,078	24,058	25,391	28,187	31,591
Less:					
COGS					
Sub-contracting expenses	7,802	8,756	9,012	10,123	11,607
Other expenses	2,343	2,992	2,639	3,386	4,079
Impairment of non-current investment	NA	NA	NA	102	555
<b>Gross Value Added</b>	<b>11,933</b>	<b>12,310</b>	<b>13,740</b>	<b>14,576</b>	<b>15,350</b>
Less:					
Depreciation & Amortization	545	622	656	659	667
<b>Net Value Added</b>	<b>11,388</b>	<b>11,688</b>	<b>13,084</b>	<b>13,917</b>	<b>14,683</b>
Application of Value Added:					
Employees Benefit	7,410	7,744	8,106	8,447	9,282
Government Share	703	831	907	1,046	797
Capital Providers	53	63	70	43	66
Retained Earnings	3,222	3,050	4,001	4,381	4,538
<b>Net Value Added</b>	<b>11,388</b>	<b>11,688</b>	<b>13,084</b>	<b>13,917</b>	<b>14,683</b>

From the above statement of value added of Tech Mahindra Ltd. it is found that rise in the net value added was very near to each other. There was very slight increase in the amount of value added. The reason behind this small increase is that company is having more cost of goods services from outsiders.

**Table No 4**  
**Value Added Statement of Oracle Financial Services Software Ltd.**  
**For Year 2015-16 to 2019-20**

(₹ in crore)

Particulars	15-16	16-17	17-18	18-19	19-20
Generation of Value Added:					
Income	3,741	3,899	3,950	3,719	3,694
Less:					
COGS					
Travel related expenses	184	204	209	174	159
Professional fees	163	185	173	136	131
Other operating expenses	183	166	164	182	113
Gross Value Added	3,211	3,344	3,404	3,227	3,291
Less:					
Depreciation & Amortization	49	66	57	50	83
<b>Net Value Added</b>	<b>3,162</b>	<b>3,278</b>	<b>3,347</b>	<b>3,177</b>	<b>3,208</b>
Application of Value Added:					
Employees Benefit	1,690	1,810	1,858	1,189	1,190
Government Share	570	394	480	703	425
Capital Providers	NA	NA	NA	NA	8
Retained Earnings	902	1,074	1,009	1,285	1,585
<b>Net Value Added</b>	<b>3,162</b>	<b>3,278</b>	<b>3,347</b>	<b>3,177</b>	<b>3,208</b>

The table no 4 shows the value-added statement of Oracle Financial Services Software Ltd. for period of 2015-16 to 2019-20. There was mix trend of net value added in this time period. This company was not using any borrowed funds to finance their assets till 2018-19. In 2019-20, the amount of capital providers was ₹ 8 crore which is also very small.

**Table No 5**  
**Value Added Statement of Coforge Ltd.**  
**For Year 2015-16 to 2019-20**

(₹ in crore)

Particulars	15-16	16-17	17-18	18-19	19-20
Generation of Value Added:					

Income	1,508	1,628	1,761	2,153	2,515
Less:					
COGS					
Purchase of stock in trade	22	4	21	5	53
Other expenses	319	374	380	479	459
Changes in inventories	8	NA	NA	NA	NA
Gross Value Added	1,159	1,250	1,360	1,669	2,003
Less:					
Depreciation & Amortization	82	90	82	78	90
<b>Net Value Added</b>	<b>1,077</b>	<b>1,160</b>	<b>1,278</b>	<b>1,591</b>	<b>1,913</b>
Application of Value Added:					
Employees Benefit	846	936	994	1,214	1,417
Government Share	30	31	49	71	64
Capital Providers	4	3	7	5	7
Retained Earnings	197	190	228	301	425
<b>Net Value Added</b>	<b>1,077</b>	<b>1,160</b>	<b>1,278</b>	<b>1,591</b>	<b>1,913</b>

The table represented above shows value added statement of Coforge Ltd. The trend of net value added was upward but the cost of goods and services from outsiders was higher in comparison to net value added generated. Capital providers were low in the company while government share was also low.

## 5.2 Value Added Ratios

### 5.2.1 Net Value Added to Capital Employed Ratio:

$$\text{Net Value Added to Capital Employed Ratio} = \frac{\text{Net Value Added}}{\text{Capital Employed}} \times 100$$

**Table No 6**  
**Net Value Added to Capital Employed Ratio**  
**For Year 2015-16 to 2019-20**

(in %)

Year	TCS	HCL	Tech Mahindra	Oracle	Coforge
15-16	98.73	48.45	74.43	78.29	88.79
16-17	98.91	57.36	61.39	118.51	81.35
17-18	108.39	58.71	60.09	85.56	81.66



18-19	124.37	58.00	61.86	79.64	90.04
19-20	132.97	53.66	59.67	56.77	93.18
Average	112.67	55.24	63.49	83.75	87.00

The net value added to capital employed ratio shows the efficient use of capital in creating the value added. The average of this five years was higher in Tata Consultancy Services Ltd. while lower in HCL Technologies Ltd.

### 5.2.2 Net Value Added to Total Revenue Ratio:

$$\text{Net Value Added to Total Revenue Ratio} = \frac{\text{Net Value Added}}{\text{Total Revenue}} \times 100$$

**Table No 7**

**Net Value Added to Total Revenue Ratio  
For Year 2015-16 to 2019-20**

(in %)

Year	TCS	HCL	Tech Mahindra	Oracle	Coforge
15-16	66.07	74.26	51.58	84.52	71.42
16-17	80.40	74.87	48.58	84.07	71.25
17-18	80.90	72.50	57.53	84.73	72.57
18-19	76.65	67.22	49.37	85.43	73.90
19-20	77.22	64.22	46.48	86.84	76.06
Average	76.25	70.61	50.71	85.12	73.04

Net value added to total revenue ratio represent the portion of value creation in total revenue of any organization. From above data it is shown that the average ratio of Oracle Financial Services Software Ltd. was higher. The average ratio was lower in Tech Mahindra Ltd.

### 5.2.3 Employee Benefit to Net Value Added Ratio:

$$\text{Employee Benefit to Net Value Added Ratio} = \frac{\text{Employee Benefit}}{\text{Net Value Added}} \times 100$$

**Table No 8**

**Employee Benefit to Net Value Added Ratio  
For Year 2015-16 to 2019-20**

(in %)

Year	TCS	HCL	Tech Mahindra	Oracle	Coforge
15-16	50.79	45.49	65.07	53.45	78.55
16-17	61.53	45.08	65.97	55.22	80.69
17-18	61.71	44.60	61.95	55.51	77.78
18-19	59.23	44.82	60.69	37.42	76.30
19-20	60.30	46.58	63.22	37.09	74.07
Average	58.71	45.31	63.38	47.74	77.48

The employee benefit to net value-added ratio shows the portion of employees benefit in net value added. It represents the salaries, bonus and other benefits provided by company from net value added. This ratio was higher in form of average in Coforge Ltd. HCL Technologies Ltd. having lowest average ratio.

#### 5.2.4 Government Share to Net Value Added Ratio:

$$\text{Government Share to Net Value Added Ratio} = \frac{\text{Government Share}}{\text{Net Value Added}} \times 100$$

**Table No 9**

**Government Share to Net Value Added Ratio  
For Year 2015-16 to 2019-20**

(in %)

Year	TCS	HCL	Tech Mahindra	Oracle	Coforge
15-16	10.53	9.93	6.17	18.03	2.79
16-17	8.20	9.24	7.11	12.02	2.67
17-18	8.02	10.68	6.93	14.34	3.83
18-19	10.61	9.69	7.52	22.13	4.46
19-20	8.11	10.34	5.43	13.25	3.35
Average	9.09	9.98	6.63	15.95	3.42

Government share to net value added ratio shows portion of government taxation in net value added. The Oracle Financial Services Software Ltd. was having highest average ratio. Coforge Ltd. was the lowest tax paying company in selected sample.

**5.2.5 Capital Providers to Net Value Added Ratio:**

$$\text{Capital Provider to Net Value Added Ratio} = \frac{\text{Capital Provider}}{\text{Net Value Added}} \times 100$$

**Table No 10**

**Capital Providers to Net Value Added Ratio  
For Year 2015-16 to 2019-20**

(in %)

Year	TCS	HCL	Tech Mahindra	Oracle	Coforge
15-16	0.02	0.42	0.47	-	0.37
16-17	0.02	0.37	0.54	-	0.26
17-18	0.03	0.14	0.54	-	0.55
18-19	0.17	0.09	0.31	-	0.31
19-20	0.69	1.12	0.45	0.25	0.37
Average	0.19	0.43	0.46	0.05	0.37

Capital providers to net value added ratio shows portion of net value added contributed to borrowed fund providers in form of interest. All the selected companies having less than one percent contribution of capital providers. The lowest average ratio was 0.05% in Oracle Financial Services Software Ltd. and highest ratio was 0.46% in Tech Mahindra Ltd.

**5.2.6 Retained Earnings to Net Value Added Ratio:**

$$\text{Retained Earnings to Net Value Added Ratio} = \frac{\text{Retained Earnings}}{\text{Net Value Added}} \times 100$$

**Table No 11**

**Retained Earnings to Net Value Added Ratio  
For Year 2015-16 to 2019-20**

(in %)

Year	TCS	HCL	Tech Mahindra	Oracle	Coforge
15-16	38.66	44.16	28.29	28.53	18.29
16-17	30.25	45.30	26.10	32.76	16.38
17-18	30.24	44.58	30.58	30.15	16.55

18-19	29.99	45.41	31.48	40.45	18.92
19-20	30.90	41.96	30.91	49.41	22.22
Average	32.00	44.28	29.47	36.26	18.47

The retained earnings to net value-added ratio shows contribution of owner in the net value added. This retained earnings shows undistributed dividends to owners. The lowest average ratio was shown in Coforge Ltd. and highest in HCL Technologies Ltd.

### 5.3 Hypotheses Testing for Value Added Ratios (ANOVA)

**Null Hypothesis [H<sub>0</sub>]:** There is no significant difference in the performance of various selected value-added ratios among selected IT services and consulting companies in India during the study period.

**Alternative Hypothesis [H<sub>1</sub>]:** There is a significant difference in the performance of various selected value-added ratios among selected IT services and consulting companies in India during the study period.

**Table No 12**  
**Findings of ANOVA for Value Added Ratios**

Sr no.	Value Added Ratios	Calculated Value	Table Value	Level of Significance	Result of ANOVA
1.	Net value added to capital employed	15.392	2.866	5%	Rejected
2.	Net value added to total revenue	49.751	2.866	5%	Rejected
3.	Employee benefit to net value added	33.875	2.866	5%	Rejected
4.	Government share to net value added	26.445	2.866	5%	Rejected
5.	Capital providers to net value added	2.688	2.866	5%	Accepted
6.	Retained earnings to net value added	22.074	2.866	5%	Rejected

Above table is the statistical result of ANOVA test for selected value-added ratios for selected IT services and consulting companies in India for the study period. From above table it is shown that null hypothesis is accepted in capital providers to net value added ratio. This represent that in this ratio there

is no significant difference in the performance of selected IT services and consulting companies. In other ratios null hypothesis is rejected. This represent that there is significant difference in the performance of these ratios.

## 6. Conclusion

The presented research study is done to evaluate the financial performance of selected IT services and consulting companies through value added statement. Value added statement is the alternate way to measure the efficiency of organization instead of profit and loss account. From the analysis of value-added statement of different selected companies, it is found that companies were contributing more to their employees from the value creation and the portion of debt capital providers were lowest. The Tata Consultancy services ltd. has highest efficiency of capital employed in creating value added. While in other ratios it can be seen that Oracle Financial Services Software ltd. is performing good.

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