

An Analysis of Investment (Other than Fixed Assets) Pattern For Selected Listed Indian IT Companies

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Abstract

A monetary transaction of acquiring any assets or goods which will enable to generate income in future course of time is considered as an Investment by the entity. Investments can be done for regular income, capital appreciation, dividend or any other monetary as well as non-monetary benefits. This research paper attempts to analyze the investment pattern followed by the selected listed IT Companies in India for over the period of 10 years. The researcher intends to study the investment pattern (other than Fixed Assets) followed by the IT companies. This research will be based on published and unpublished secondary data of the selected companies. Findings and conclusions will be given on the basis of the analysis of the data gathered for this purpose.

Keywords: *Investment Pattern, Finance Executives, Policies*

1. Introduction

A monetary transaction of purchasing any asset or goods which will generate income in future course of time is considered as an Investment. Assets purchased for the purpose of earning income through dividend, interest, capital appreciation or for any other advantages. Investments are commonly distinguished as current and non-current investment or short term and long term investments. For corporate, investment patterns will vary from company to company depending upon their own requirements, expectations, availability of funds, risk appetite and objectives.

Investment made through surplus funds available with the company to increase the returns after considering the risk appetite and safety of the investment avenue by the corporate. Surplus of funds can be generated through various alternatives. Internal sources can be utilized for investment. Few significant internal sources are Increase in liability, decrease in asset, Net Income after Tax, Revaluation of fixed assets and decrease in net working capital etc. Also, external sources of capital are also used for the purpose of investment like borrowed capital, fresh capital raised etc.

Investments can be made in various alternatives available now- a- days to maximize the returns and balancing the objectives of the company. Most commonly used investment avenues are equities, debentures, bonds, mutual funds etc. Corporate sector also invest large amount of the surplus in equities in subsidiaries, associate companies and joint ventures as well as preference shares, debentures along with bonds, mutual fund, CDs (Certificate of Deposits) and CPs (Commercial Papers).

Investment decisions of a company are mainly based on three aspects- Safety of funds invested, Returns or profitability expected out of the invested funds and Liquidity of funds. Making the right investment decision depending upon the strategy of the company and its requirement and need with respect to the basic aspects mentioned above. Investment decisions are always considered as crucial decisions as they have direct impact on the capital structure and the profitability of the company. Diversification helps to minimize if not complete elimination of risk involved in investments.

Global financial crisis made companies to introspect their investment strategies to remain buoyant in volatile situations. Well balanced, well managed investment policy chalked out considering the Risk, Return and Liquidity will help corporate to face any financial situation. Hence, researchers has selected five big conglomerates for the purpose of this study.

2. Review of Literature

- 2.1 Steven Fazzari et al (1987) analyzed the data on 421 manufacturing firms to compare investment behavior between rapidly growing firm that exhaust all of their internal finance with that of mature firms paying dividends. It has been observed by the researcher in this research that Cash flow is important factor affecting investment pattern of the company. Small and medium size firms are more dependent on internal sources; they have less exposure to external sources of finance for investments.
- 2.2 Takeo Hoshi et al (1991) explore empirical relationship between corporate financial structure and investment. It has been found out from the study that availability of internal funds is important determinant of investment. Also role of bank and other financial institutions is evident in channelizing funds into productive investments.
- 2.3 Toni M. Whited (1992) note that asymmetric information in debt market affects the ability to raise finance from outside sources which consequently affects the allocation of real investment expenditure over the period of time.
- 2.4 Sanjai Bhagat (1995) studied in this research paper, the determinants of investment in Research and Development for US, Canada, Europe and Japan situated companies. They have explored positive relationship between last year's tax payments and current R&D investment in Japanese firms, however negative relationship between two variables for medium and small size firms in US. Only R&D investments are studied for companies outside India.
- 2.5 PL Beena (2011) analysed pattern for Indian manufacturing sector, and it has been concluded that there is an increasing trend in internal financing since year 2000 and retained earnings contribute major share. 50 percent of the finance available is invested in fixed assets.

3. Objectives of the Study

- 3.1 To understand and analyze the trend of investment pattern (other than fixed assets) of the companies under study.
- 3.2 To study various other investment options used by the companies to invest their surplus funds.
- 3.3 To make appropriate recommendations to increase returns while keeping an eye on risk profile of the investment in other than fixed assets for the company.

4. Scope of the Study

Investment is a enormous area to study. It has direct impact on the profitability of the company.

Investment patterns need to be followed closely while understanding the risk and the return concepts involved. Information Technology is sector is the fastest growing sector in India. Indian IT sector accounts for more than 50% of the world's total IT market. IT sector has employed more than 10 million Indian and it has contributed to the accelerated growth and economic transformation of the country. For this study, top 5 (on the basis of revenue) listed Indian Information Technology companies are considered. The ten year time period is considered for the study i.e. from 2005 to 2014. This research aims at study of investment patterns followed by the companies.

5. Limitations of the Study

- 5.1 Only five listed Indian IT companies are considered for the research.
- 5.2 Research is limited to specific time period i.e. from 2005 to 2014.
- 5.3 Investment pattern (other than fixed assets) of selected companies will be studied.

6. Hypotheses

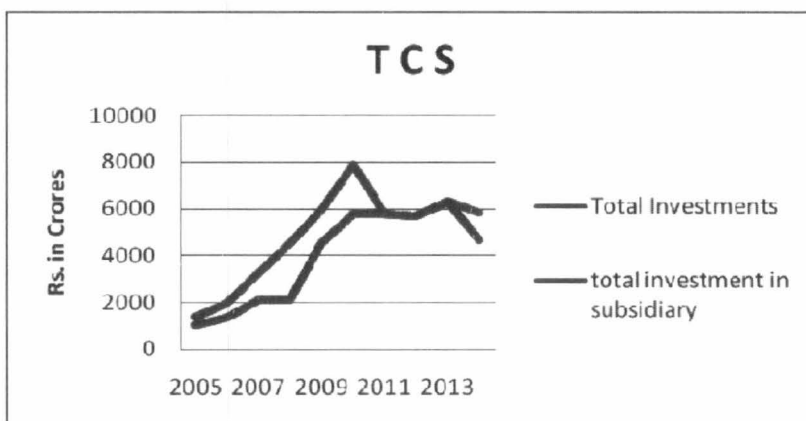
- 6.1 Investment in mutual funds is positively significant in many companies.
- 6.2 Significant portion of big conglomerate's investments is in subsidiary, associate and joint venture companies.

7. Research Methodology

This research is based on totally a secondary data. The required secondary data is collected from authorized websites of the companies and is analyzed using various statistical tools. The findings are presented with the help of tables and graphs.

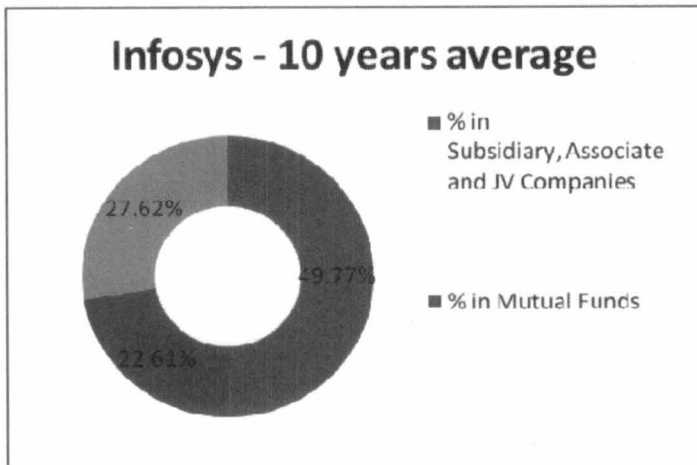
8. Findings

- 8.1 TCS Limited (Tata Consultancy Services) is the largest Indian company by market capitalization. TCS Ltd is also largest IT Company in India by revenue. It is been observed that, the company is investing more than 50% of its total available resources for investment in its Subsidiaries, Associate and Joint Venture Companies. It makes clear that the investment pattern of the above company is traditional which means not to invest in stock market, mutual funds etc.

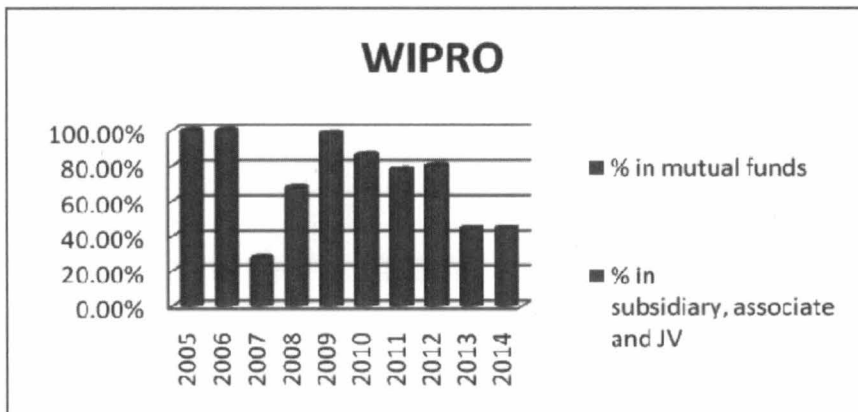


- 8.2 Infosys Ltd is the second largest IT service company and India's sixth largest publicly traded company. From the data for past 10 years, investment in subsidiaries is the most favored

option while making investment strategies to invest excess funds available. On an average for last 10 years, almost 50% of the funds available are invested in growth of the subsidiaries and associate companies.

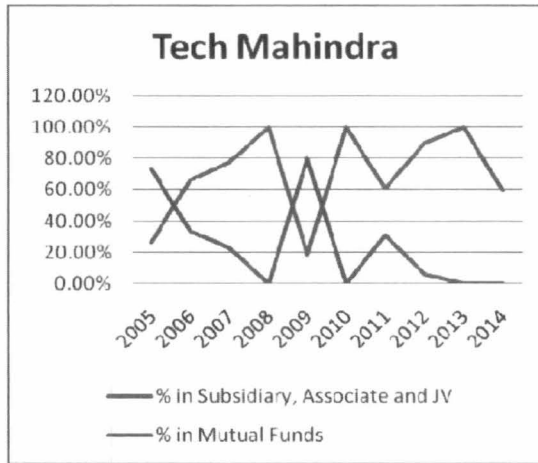


8.3 Wipro (Western India Products) Ltd is largest publicly traded company on the stock exchange. From the analysis of the data of ten years from standalone balance sheet of the company it has been observed that major chunk is diverted towards the subsidiary, associate and joint venture companies. Also, mutual funds are preferred option for the company to put its surplus funds available.

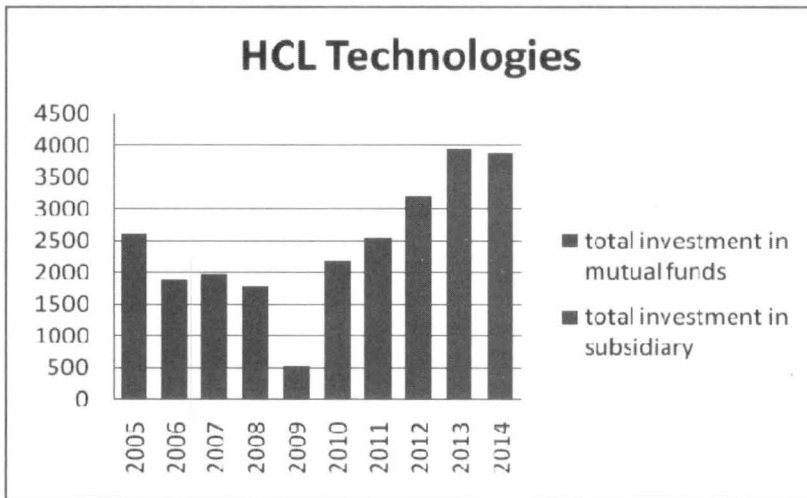


8.4 Tech Mahindra is formed as a joint venture between Mahindra & Mahindra and British Telecom, and was known as MBT Mahindra British Telecom in that period. Over the period of time, it has acquired Satyam Computers, changed names with acquisitions and mergers to Tech Mahindra, what it has been called today. This company also shows the same trend in its investment pattern over the period of last ten years. Investment pattern is mostly influenced by investment in subsidiary, associate and Joint venture companies, to promote overall growth. As the investment in Subsidiary, Associate and Joint Venture companies is increasing, funds invested in mutual funds are started declining. The percentage of

investments in its subsidiaries, associate and joint venture companies and Mutual Funds is shown with the help of graph below.



8.5 HCL Technologies (Hindustan Computers Limited) is among the top 5 IT companies in India. From the below graph, it can be said that while chalking out investment strategies two options are of much significance. Substantial investment is made in subsidiary companies, associate companies and Joint Venture companies for last 10 years under study.



9. Conclusion

It is observed by the researchers that the investment pattern of all selected companies is near about one and same. Most of the companies have invested their most of the funds in Subsidiaries, Associate and Joint Venture companies, and comparatively very small amount was invested by selected listed companies in mutual funds. Majority of the funds parked in Related companies, which helps those companies to become financially strong and their growth will boost the economy overall. However, investing companies also consider the risk and return of parking

most of the funds available in these subsidiary, associate and joint venture companies. Because of this strategy, the company is losing on to the benefits of diversification. Apart from these investments, very negligible funds were invested in other investment avenues. It was also further observed that the investment in mutual funds shows declining trend till recently.

10. Recommendations

- 10.1 Companies investing in subsidiaries, associate and Joint Venture companies need to very cautious and careful as returns on these investments depends on the positive performance of subsidiaries, associate and Joint Venture companies.
- 10.2 Investment in mutual funds fetches good returns hence more funds need to be invested in mutual funds.
- 10.3 Now days, many new investment avenues are available, hence companies should try to invest their more funds in such avenues, confirming the safety, security and liquidity of funds along with good returns.

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