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AN ANALYTICAL STUDY OF FINANCIAL PERFORMANCE OF TECH MAHINDRA LIMITED

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ABSTRACT

The purpose of this research is to learn about Tech Mahindra Limited's financial difficulties. The economic distress will lead to firm insolvency. It is a difficult task to know the economic distress. This paper contributes an attempt to understand the tangibility of using Altman-Z score taking as scientific approach which assists in predicting the financial distress in future. If Altman-Z score is less than 1.8 in general company is certainly leading for bankruptcy. The study establishes that according to Altman-Z score of Tech Mahindra limited for the year 2011-2020 is 2.12 which indicate that there is the moderate chance of bankruptcy for the company with the next 2 to 5 years of its operations. After the application of Z-score Company in the grey zone which is the sign of financial unsoundness. This is the evidence which shows that the company may be bankrupt in the near future.

Key words: Financial distress, Altman-Z score, Bankruptcy

INTRODUCTION

Tech Mahindra Limited is a multinational technology corporation based in India which provides a wide range of services in the modern era. As we know that this is the era of globalization, and globalization create the tough competition in the economy, through globalization the country's economy are link together this means if there is a downfall in the other country's economy, this will also influence our economy. So, the companies want to grow and not lose their value and compete in the economy. Every company wants to know the solvency of its business because only that company can survive in the future which is financially sound and healthy.

As a result, the Altman Z score model assists businesses in determining their financial hardship and soundness. Companies have the ability to make the required decisions to reduce the danger of bankruptcy.

REVIEW OF LITERATURE

Muntari Mahama, (2015) Use the Z-score to determine the financial health of the 10 companies listed on the Ganah Stock Exchange. The data is collected from the secondary source and the 10 companies data, are collected. As per the study, the author found that 6 companies are financially sound, 2 are in the financial distress and the remaining 2 are in the moderate zone. The companies which are in the distress and moderate zone should take the necessary steps for the financial soundness and make financial methods that are both effective and efficient.

Regina M. Lizares Carlos C. Bautista,(2021) Using the mixed Logit model and Industry relative ratios for knowing the financial distress of 263 firm listed in Philippine stock exchange from the year 1995 to 2018. The date was collected from Thomson return and world scope database, data set and explanatory variables are collected, the study tells us that the financial distress of companies help the financial institutions for funding and policy making.

N. C. Shilpa and M. Amulya,(2017) The study's goal is to determine the financial health of India's automobile industry, which includes makers of passenger cars, commercial vehicles, motorcycles, mopeds/scooters, and three-wheelers. In the last ten years, data was collected using the Altman z-score. The study reveals that commercial vehicle manufacturers are in the grey zone, which is the intermediate stage of financial difficulties. As a result, the Z score can assist management in anticipating corporate problems and averting bankruptcy.

T.G. Saji,(2018) Assessing the potential financial distress and stock market failure of Indian with the help of Z- score model, 10 years firm specific data is collected from the secondary source. The result of

the study is Z-score of reality firm have the sufficient information that aware their stock market failure within 2 to 5 years in advance. This provides a valuable guide for the investor in investment decision.

Sonal and Gogri, (2018) Understanding the possibility of using financial ratios, capital structure and Altman Z score for predicting financial distress of the Asian paints Limited. Data is collected from the already published sources and relevant Websites. The 10 years data is collected for the study. The study reveals that Z score is below than 1.8 this means that Asian paints limited are in the distress zone and high range of financial risk which may bankrupt in the near future.

Rohit Bansal and Hari Babu Singu,(2017) Using a model which include financial ratios , market and macroeconomic variable for knowing the Financial distress of companies .therefore there is a need of creating a model which gives dynamic prediction with the use of dynamic variables . This model leads to creativity and predict financial distress of companies. It is also help the bankers for lending money to the companies, customers for invest money or not, suppliers for supply material of not and also helpful for the government for taking the necessary decisions.

RESEARCH GAP

Most of the study focuses on the profitability, liquidity and solvency ratio of the company but few study focus on the bankruptcy prediction. No study was done on the bankruptcy of Tech-Mahindra limited which is one of the biggest multinational Companies in India.

RELEVANCE OF THE STUDY

As in the contemporary era, most of the companies want to survive for a long duration of time with the expectation of huge turnover, but as it is quite vivid that it's not an easy task or we can say that it is one of the biggest challenges for the companies . The present study helps the management for managing finance before any bankruptcy, and on the other hand it helps the investors, suppliers, customers, and government also.

TECH MAHINDRA LIMITED PROFILE

Tech Mahindra Limited is a multinational Indian company that specialises in information technology, networking technology, and business process outsourcing (BPO). The company's headquarters are in Pune, and the company's registered office is in Mumbai. Mahindra's chairman is Anand Mahindra. It began as a joint venture between Mahindra and Mahindra and British telecom in 1986.It announced merger with Mahindra Satyam in 21 march 2012. It recorded a revenue of 4.77 billion US $ in 2018 with

employee strength 113550. Tech Mahindra limited has 926 active clients in March, 2018. The offices are in more than 60 countries. The tech Mahindra limited have three pillars of success:

(1). Accepting no limit.

(2).Alternative thinking.

(3). Driving positive change.

Tech Mahindra grew over 14% in the second quarter of 2014.

OBJECTIVE OF THE STUDY

Objective of this study is to emphasize on Altman-Z as a method in the direction of forecasting financial distress.

RESEARCH METHODOLOGY

Data is gathered from secondary sources in order to achieve the study goal. Published articles, journals, newspapers, reports, books, company profiles, and relevant websites are examples of secondary data sources. For the last 10 years, from 2011 to 2020, the profit and loss account and the balance sheet were examined to give a comprehensive image of capital structure. By researching the capital structure of Tech Mahindra Limited, the available data was clearly examined, understood, and presented. It corresponds to the study's goal. The Altman-Z score approach was used to arrive at a definite result on the analysis of Tech Mahindra's bankruptcy.

LIMITATION OF THE STUDY

Every research has its own advantages and limitations, the limitation of this study is as under:-

1.   Under the present research, only one multinational company has been taken for the study.

2.   The result of the data depends upon the accuracy of the Data available on the website.

3.   This study considers only 10 years data and may be someone can take more than 10 years which will give the efficient result.

4.   Use of only Z-score model has been undertaken, other models like ZETA for bankruptcy prediction may also be used.

ALTMAN Z SCORE METHOD

The Altman Z score is the primary method used in the study to predict financial difficulties and bankruptcy at Tech Mahindra Limited. Edward Altman is an Emeritus Professor of Finance at the Stern School of Business at New York University. He is primarily known for developing the Altman Z score,

which he released in 1968, to predict bankruptcy. Professor Altman is a key figure in the high yield and distressed debt markets, as well as a pioneer in the development of credit risk management and bankruptcy prediction models. It is a numerical statistic used to predict the likelihood of a company going bankrupt .It is thought to be a useful tool for anticipating the condition of financial trouble within a company. The company is basically falling into one of three levels:

(1). The Distress zone

(2). The Grey zone and

(3). The Safe zone.

The Distress Zone:

The Z score ranges from 0 to 1.8, indicating that the company is in difficulty, which is highlighted by the use of the orange hue. This indicates that the company is in a high-risk, high-financial-distress situation.

The Grey Zone consists of:

The Z score ranges from 1.8 to 3, indicating that the company is likely to go bankrupt within the following two to five years of operations.

The Zone of Safety:

The Z score ranges from 3 to 4, indicating that the company is financially sound and healthy.   The colour green is used to highlight this zone.

The construction of Z-score is as under:-

"Z= $1.2X1+1.4X2+3.3X3+0.6X4+1.0X5$

Here is

$X1$= Working capital as per Total Assets.

$X2$= Retained earnings as per Total Assets.

$X3$= Profit before interest and tax as per Total Assets.

$X4$= Market Value of equity as per Book Value of Debt.

$X5$= Sales as per Total Assets."

Table1 The calculation of Tech Mahindra Limited's Altman Z score technique from 2011 to 2020

Ratios description	Ratio value	Factors	Original value	Z Score value
"Working capital/Total Assets"	0.2675	X1	1.2	0.3210

"Retained earnings/Total Assets"	0.1327	X2	1.4	0.1857
"Earnings Before interest and tax/Total Assets"	0.1624	X3	3.3	0.5359
"Market value of Equity/ Book value of Debt"	0.1224	X4	0.6	0.0734
"Sales/ Total Assets"	1.0054	X5	1.0	1.0054
OVER ALL Z-SCORE VALUE				2.1214

Figure 1 ALTMAN Z SCORE value of Tech Mahindra limited from the year 2011-2020.
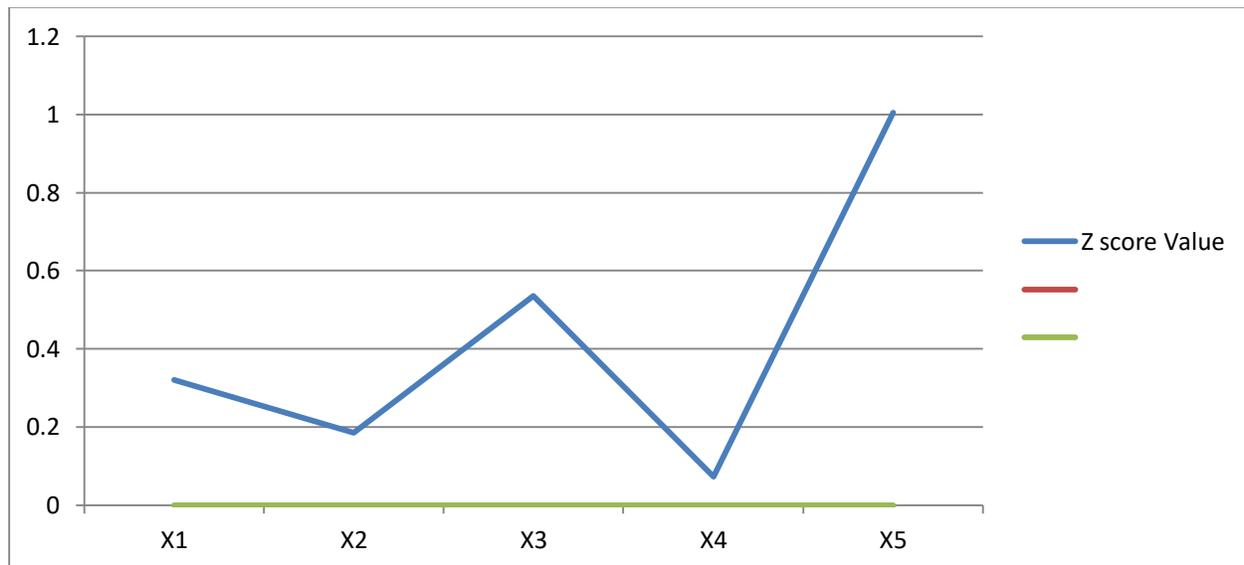
FINDINGS AND CONCLUSIONS

The analysis indicates that the company is in a state of crisis while also being in a safe zone, implying that the company is in the grey area with a moderate possibility of filing for bankruptcy. When deciding when to purchase and sell a stock, investors use the Altman Z score. If the firm is in the safe (green) zone, the investor should buy the stock. However, if the Z score is in the distress zone, the investor may want to sell the company's stock because it is financially unsound and will go bankrupt shortly. As a result of the results, the company is in the grey zone, indicating that it will go bankrupt within the next two years. The corporation can create smart financial plans and prepare for the future with the help of the Altman Z

score. According to the findings, the Z-score model can help management identify company difficulties early enough to avert bankruptcy, as well as financial institutions with funding and policy decisions.

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