AN ANALYSIS OF COMPANY'S INVESTMENT PATTERN (OTHER THAN FIXED ASSETS) WITH REFERENCE TO THE SELECTED SECTORS

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Abstract :-

An Analysis of Company's Investment Pattern (Other than Fixed Assets) with reference to IT and Pharmaceutical Sectors

A transaction that generates future income can be termed as 'Investment' in layman's language. Investment can be done by the companies as well as individuals for future income in terms of capital appreciation, dividend and interest or even in non-monetary terms. Companies utilize their internal or external sources of funds for investment in various alternatives in the capital market, money market instruments. Investment pattern will be decided on the basis of expectations, risk appetite, requirements and company objectives. This research paper attempts to analyse the investment pattern adopted by companies in IT and Pharmaceutical sector for the extensive time span of 14 years from 2004 to 2017. This research will be based published and unpublished secondary data for the selected companies. Findings and conclusions will be given on the basis of the analysis of the data collected for the same.

Key Words : Corporate Investment, Investment Pattern, IT sector, Pharmaceutical Sector, Indian Capital Market

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 ten companies from IT sector and Pharmaceutical sector for the purpose of this study.

2. Review of Literature

2.1 Myers, S. C. (1974) presented approach for analysis of interactions of corporate financing and investment decisions. Researcher has attempted to formulate capital investment decisions for the companies. The research paper is also focusing on studying and understanding the formulas derived by Modigliani and Miller's compared to more general rule of Adjusted Present Value.

2.2 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.

2.3 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.

2.4 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

IT industry has been identified as one of the major industries contributing to the growth of the economy. IT sector is growing with the rate of approximately 35% per year during last 10 years. IT sector contributes to nearly 7.7% to the GDP (Gross Domestic Product) in Indian economy in year 2016.

Pharmaceutical Industry accounts for approximately 3.5% of global pharmaceutical industry. India has second largest number of USFDA (U.S. Food and Drugs Administration) approved manufacturing plants outside U.S. Pharmaceutical industry is one of the largest industry in the world.

Considering the pivotal importance of IT and Pharmaceutical sector in Indian economy, researcher has selected 10 companies from each sector on the basis of market capitalization for this study. Researcher has collected the data of selected companies for extensive period of 14 years from 2004 to 2017. This research aims to study the investment pattern followed by the companies selected for the research.

5. Limitations

5.1 Only Ten listed Indian companies from IT sector and Pharmaceutical sector are considered for the research.

5.2 Research is limited to specific time period of 17 years i.e. from 2004 to 2017.

5.3 Investment pattern (other than fixed assets) of selected companies will be studied

6. Hypotheses

6.1 Significant portion of total Investments is made in Subsidiary Companies, Joint Venture, Associate companies and other companies belonging to the same group.

6.2 Investment in mutual funds is positively significant in many companies.

7. Research Methodology

Research is based on the secondary data available. The required information is collected through the official websites of the companies through audited financial statements of the companies considered for the study. Collected data is analysed using various relevant statistical tools. Findings and conclusion is represented with the help of graphs and tables.

8. Findings

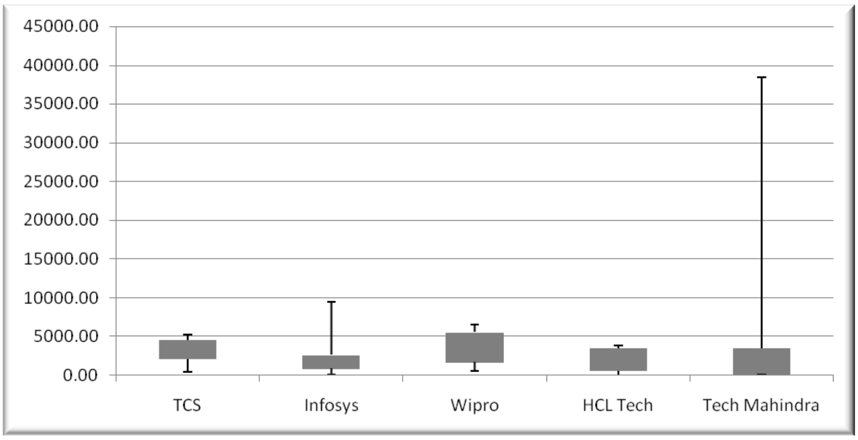

Figure 8.1

1. From the above Box Plot for the five companies out of the ten considered for the study from IT sector, we can conclude that :

   TCS is one of the big companies in IT sector, maximum investments it has made in the Subsidiary companies, Associate Companies, Joint Ventures and other companies from the same group is approximately 5000 Crores. TCS, Wipro and HCL Technologies are following relatively same pattern and investing near about same amount for Investment in the subsidiary, associate, joint venture and other group companies for over the period of 17 year (period considered for research – 2004 to 2017) shown in the figure above. Length of upper and lower whiskers and the box indicates that companies invest relatively same amount every year in Subsidiary companies, Associate Companies, Joint Ventures and other companies from the same group.

   However, for Infosys and Tech Mahindra, higher length of the upper whisker shows they have comparatively fluctuating investment amounts to be invested in Subsidiary, Associate, Joint Venture and other companies from the same group.

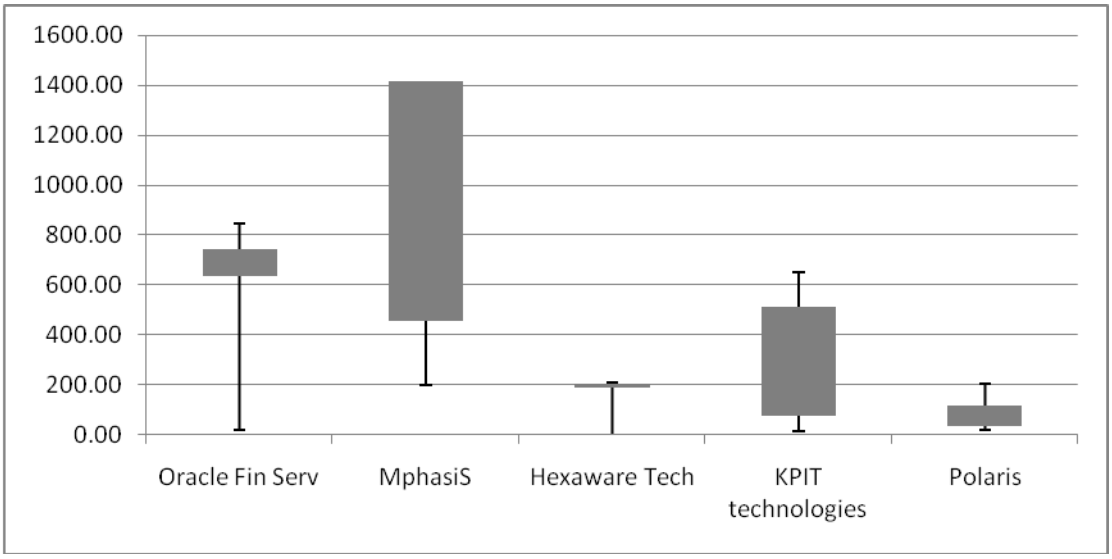

Figure 8.2

2. From the Figure 8.2, it can be seen that box plot for Oracle Financial Services, Hexaware and Polaris Software is of small size, we can conclude that amounts invested in Subsidiary, Associate, Joint Venture and other companies from the same group are within the same range and are not fluctuating much for the extensive period of 17 years (i.e. from 2004 to 2017).
3. For all the companies in fig 8.2, minimum values are near to zero, which shows that these companies have even opted to near to nil investments in Subsidiary, Associate, Joint Venture and other companies from the same group are within the same range for the extensive period of 17 years (i.e. from 2004 to 2017).
4. Considerable size of box for Mphasis represents, company's investment in Subsidiary, Associate, Joint Venture and other companies from the same group vary substantially over the period of 17 years (i.e. from 2004 to 2017).

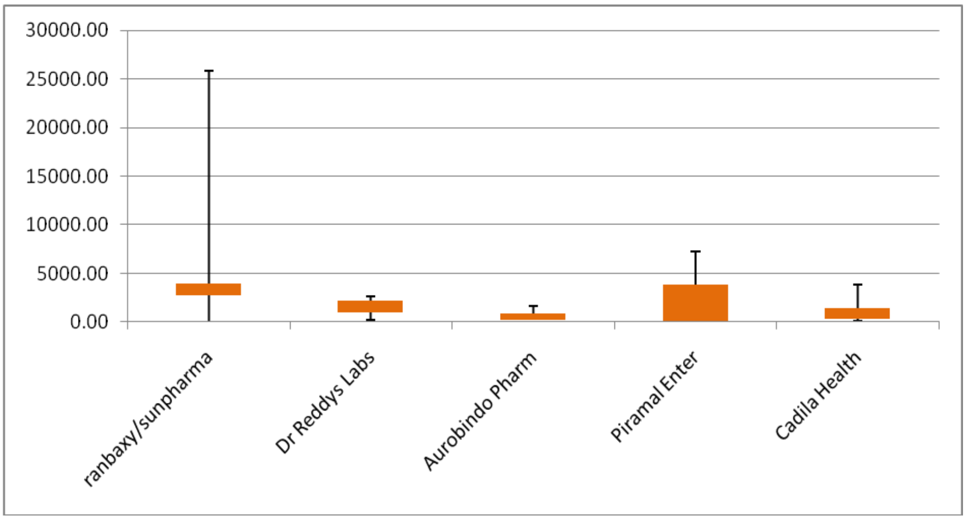

Figure 8.3

5. From fig 8.3, smaller box sizes for the companies in Pharmaceutical sector signifies that amount invested in Subsidiary, Associate, Joint Venture and other companies from the same group is mostly constant over the period of 17 years (i.e. from 2004 to 2017) . however, high whiskers for Sun Pharma shows that company has invested in high amounts during the period of research upto 25000 Crores whereas usual investments are in the range of 2000 to 3000 crores.

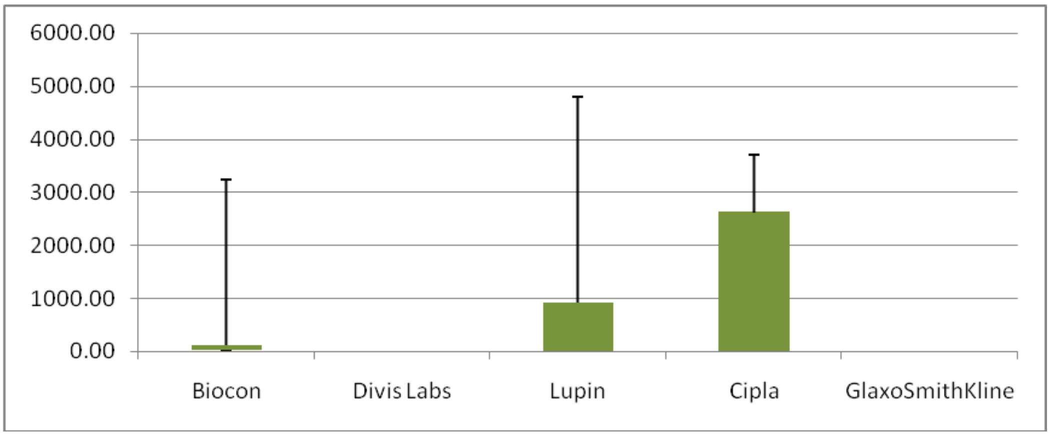

Figure 8.4

6. From fig 8.4, very tiny boxes representing Divis Labs and GlaxoSmithKline indicates very insignificant amount invested in Subsidiary, Associate, Joint Venture and other companies from the same group.
7. Longer whiskers and small box plot indicates highly variable amount invested in Subsidiary, Associate, Joint Venture and other companies from the same group during the period of 17 years (i.e. from 2004 to 2017).

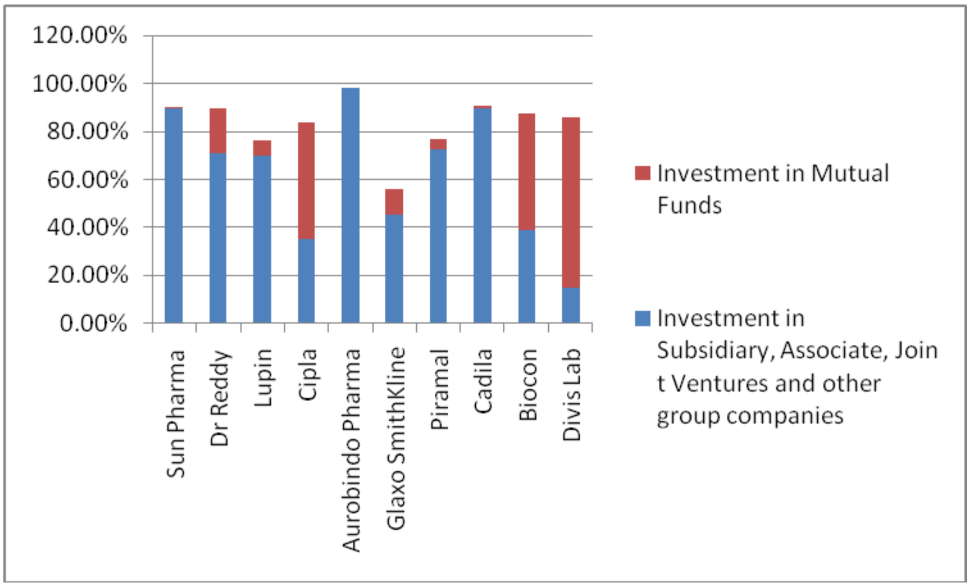

Figure 8.5

8. From the figure 8.5, it can be seen for the Pharmaceutical sector for the selected 10 companies for the broad period of 17 years (i.e. from 2004 to 2017), companies are investing all the money available for investment through internal and external sources of investment in Subsidiary, Associate, Joint Venture, companies from the same group and in to mutual funds. Very negligible percentage of investment is done in other sources like CD's, CP's or in equities in open capital market.

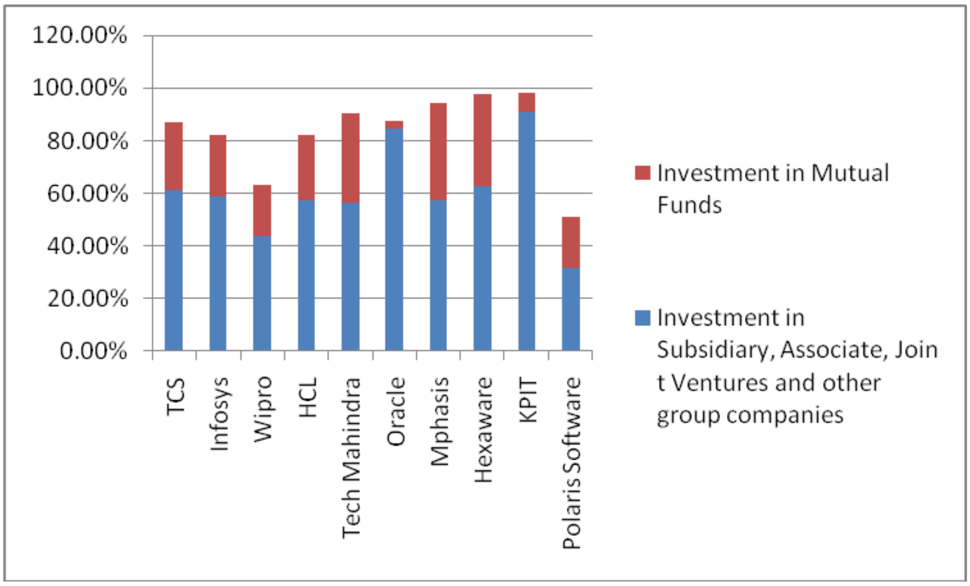

Figure 8.6

9. From the figure 8.6, for IT companies in the Indian Capital market also majorly investing in Subsidiary, Associate, Joint venture and companies from the same group and in mutual funds as their premium investment avenues over the period of 17 years, from 2004 to 2015, period considered for research.
10. From the above scrutiny of the available data, we can conclude that companies are focusing Subsidiary, associate and joint venture companies to invest the available funds. Also, Mutual funds is considered as favored investment alternative for the companies for investment.

9. Recommendation

9.1 Companies should also try for other investment alternatives along with opting for conventional options like Debentures, Equity investment in other companies in the capital market. This will overall help the economy to grow as more money will get invested in all the companies in the industry.

9.2 Out of the total investments made by the companies, some specified amount should be kept aside for companies with higher potential for growth but find difficult to raise capital.

9.3 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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