

COMMERCE

Impact of Financial Structure on Profitability: Evidence from Selected Information Technology Companies in India

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Abstract

Financial structure determines how firms finance their assets and operations through equity, retained earnings and debt. This study examines the impact of financial structure on the profitability of selected IT companies in India, focusing on Tech Mahindra Ltd. and Wipro Ltd. The study uses secondary financial data from the Profit & Loss Account and Balance Sheet for the period from March 2017 to March 2026. Financial structure is measured using Debt–Equity Ratio, Debt-to-Total Assets Ratio and Interest Coverage Ratio. Profitability is evaluated through Return on Assets, Return on Equity and Net Profit Margin using ratio, trend, correlation and regression analysis. The findings show that Tech Mahindra maintained lower financial leverage and stronger interest coverage, while Wipro recorded a higher average net profit margin. Regression results indicate that the selected financial-structure variables significantly explain variations in Return on Assets. The study recommends maintaining an optimal debt–equity balance, controlling financing costs and strengthening internal sources of finance to improve profitability.

Keywords: financial structure; capital structure; profitability; debt–equity ratio; leverage; return on assets; return on equity; net profit margin; interest coverage; information technology companies

1 Introduction

The information technology industry is a major contributor to India's economic development, employment, exports and technological transformation. Indian IT companies operate in a competitive environment requiring continuous technological innovation, human-capital investment and sound financial management. Financial structure represents the composition of equity, retained earnings and borrowed funds used to finance business operations and assets. An appropriate financing structure influences interest obligations, financial risk, cost of capital, shareholder returns and overall corporate performance. Profitability reflects a company's ability to generate earnings and is commonly measured through Return on Assets, Return on Equity and Net Profit Margin. This study focuses on Tech Mahindra Ltd. and Wipro Ltd. using ten years of financial data from March 2017 to March 2026. Financial structure and profitability are evaluated using selected financial ratios, comparative analysis, trend analysis, correlation and multiple regression techniques. The study seeks to examine the association between financing patterns and profitability and provide useful insights for managers, investors, analysts and researchers.

2 Review of literature

Booth et al. (2001) examined the determinants of capital structure across firms in developing countries. Their study demonstrated that several firm-specific factors influencing capital structure in developed economies were also relevant in developing economies. The findings emphasized the importance of profitability, asset structure, business risk and firm size in determining financing decisions.

Abor (2005) investigated the relationship between capital structure and profitability among firms in Ghana. The study reported that short-term debt could have a positive relationship with profitability, whereas long-term debt could impose financial pressures on firms. The findings indicate that the effect of leverage on profitability depends on the nature and maturity of debt.

Zeitun and Tian (2007) examined the influence of capital structure on corporate performance using firms from Jordan. Their findings suggested that leverage could negatively influence several measures of corporate performance. The study highlighted the importance of controlling financial risk and selecting an appropriate capital structure.

Ebaid (2009) examined the impact of capital structure decisions on corporate performance and found that the relationship between financing choices and profitability could vary according to the leverage measure and performance indicator employed. The findings suggested that no single capital structure decision could universally maximize performance.

Gill et al. (2011) investigated the relationship between capital structure and firm performance and found that capital structure could influence profitability, although the nature and magnitude of the relationship varied across firms. Their study reinforced the importance of examining debt-equity decisions in relation to accounting-based profitability indicators.

3 Statement of the problem

The financial structure adopted by an IT company influences its financial risk, financing cost and capacity for future expansion. Excessive dependence on borrowed funds may increase interest obligations and adversely affect profitability. Very low debt utilisation may also restrict the benefits of financial leverage and efficient capital deployment. Indian IT companies operate in a competitive environment where sustainable profitability is essential for long-term growth. Differences in debt utilisation may produce different outcomes in Return on Assets, Return on Equity and Net Profit Margin. Therefore, it is necessary to examine the relationship between financing structure and profitability using reliable financial statement information. A comparative study of selected IT companies can provide useful evidence regarding their leverage patterns and financial performance. Hence, the present study analyses the impact of financial structure on profitability using ten years of financial data of Tech Mahindra Ltd. and Wipro Ltd.

3.1 Research questions

1. What is the relationship between financial structure and profitability of the selected IT companies in India?
2. To what extent do debt utilisation and interest-servicing capacity influence the profitability of the selected IT companies?

4 Scope of the study

The study is confined to two selected Indian information technology companies, namely Tech Mahindra Ltd. and Wipro Ltd. It examines their financial structure and profitability using selected accounting ratios. Financial structure is assessed through Debt–Equity Ratio, Debt-to-Total Assets Ratio and Interest Coverage Ratio. Profitability is measured through Return on Assets, Return on Equity and Net Profit Margin. The study covers a ten-year period and provides a comparative assessment of the financing and profitability patterns of the selected companies.

5 Period of the study

The study covers a period of ten financial years from March 2017 to March 2026. The financial information for each company is analysed annually to identify changes and trends in financial structure and profitability.

6 Source of data

The study is based entirely on secondary data. Financial information relating to sales, operating profit, interest, net profit, equity share capital, reserves, borrowings and total assets has been obtained from the Profit & Loss Account and Balance Sheet compiled from the Screener database.

7 Research methodology

7.1 Research design

The study adopts a descriptive and analytical research design to evaluate the financial structure and profitability of the selected IT companies.

7.2 Sample selection

Two major Indian IT companies were selected: Tech Mahindra Ltd. and Wipro Ltd.

7.3 Data period

The study covers 2017–2026, representing ten annual observations for each company.

7.4 Variables used

- *Financial structure variables:* debt–equity ratio, debt-to-total assets ratio and interest coverage ratio.
- *Profitability variables:* return on assets (ROA), return on equity (ROE) and net profit margin (NPM).

7.5 Statistical and analytical tools

Financial ratio analysis, comparative analysis, trend analysis, Pearson correlation analysis and multiple regression analysis were used.

8 Limitations of the study

- The study is limited to two selected IT companies and therefore the findings may not be generalisable to the entire Indian IT sector.
- The analysis is based on secondary financial statement data and depends on the accuracy and consistency of reported accounting information.
- The study covers ten financial years and may not fully capture sudden structural changes in the IT industry or broader macroeconomic conditions.

9 Analysis and interpretation

9.1 Debt–equity ratio

The debt–equity ratios of the two companies are given in Table 1.

Table 1. Debt–equity ratio of the selected IT companies.

Year	Tech Mahindra	Wipro
2017	0.083	0.276
2018	0.127	0.290
2019	0.098	0.176
2020	0.168	0.176
2021	0.117	0.190
2022	0.097	0.269
2023	0.098	0.225
2024	0.095	0.221
2025	0.074	0.233
2026	0.074	0.231

Source: Screener database.

Tech Mahindra consistently maintained a lower Debt–Equity Ratio than Wipro throughout the study period. Tech Mahindra's average ratio was approximately 0.103, compared with 0.229 for Wipro. This indicates that Wipro had a relatively greater dependence on borrowed funds. The declining ratio of Tech Mahindra after 2020 indicates strengthening reliance on shareholders' funds and retained earnings.

9.2 Debt-to-total assets ratio

The debt-to-total assets ratios are given in Table 2.

Table 2. Debt-to-total assets ratio (%) of the selected IT companies.

Year	Tech Mahindra	Wipro
2017	5.24	18.10
2018	7.88	18.44

Year	Tech Mahindra	Wipro
2019	5.97	12.04
2020	9.84	12.00
2021	7.32	12.66
2022	5.90	16.40
2023	5.98	14.94
2024	5.88	14.37
2025	4.58	15.01
2026	4.45	14.40

Source: Screener database.

Borrowings represented a substantially smaller proportion of total assets at Tech Mahindra than at Wipro. Tech Mahindra's average debt-to-assets ratio was approximately 6.30%, whereas Wipro's was 14.84%. The relatively lower leverage of Tech Mahindra indicates a more conservative financing structure. Wipro's higher ratio suggests greater utilisation of debt in financing its asset base.

9.3 Interest coverage ratio

The interest coverage ratios are given in Table 3.

Table 3. Interest coverage ratio (times) of the selected IT companies.

Year	Tech Mahindra	Wipro
2017	32.54	19.05
2018	29.00	17.82
2019	47.08	15.75
2020	28.68	16.84
2021	39.06	29.03
2022	49.32	31.33
2023	23.84	16.71
2024	11.49	13.35
2025	21.65	12.20
2026	26.77	12.22

Source: Screener database.

Tech Mahindra demonstrated substantially stronger interest-servicing capacity during most years. Its average Interest Coverage Ratio was about 30.94 times compared with 18.43 times for Wipro. Both companies experienced a decline in coverage around 2023–2024, reflecting higher finance costs and/or lower operating earnings. The recovery by 2026 indicates improvement in the ability of both companies to meet interest obligations from operating earnings.

9.4 Return on assets

The returns on assets are given in Table 4.

Table 4. Return on assets (%) of the selected IT companies.

Year	Tech Mahindra	Wipro
2017	10.80	10.80
2018	12.49	10.62
2019	12.85	10.90
2020	10.81	12.00
2021	11.18	13.08
2022	12.53	11.40
2023	10.54	9.71
2024	5.46	9.64
2025	9.60	10.27
2026	9.78	9.37

Source: Screener database.

The two companies recorded broadly comparable average ROA over the study period. Tech Mahindra's average ROA was approximately 10.60%, while Wipro recorded about 10.78%. Tech Mahindra experienced a sharp reduction in ROA in 2024, followed by recovery in 2025 and 2026. Wipro maintained comparatively stable asset profitability, although its ROA declined during the later years.

9.5 Return on equity

The returns on equity are given in Table 5.

Table 5. Return on equity (%) of the selected IT companies.

Year	Tech Mahindra	Wipro
2017	17.11	16.44
2018	20.17	16.70
2019	21.19	15.96
2020	18.49	17.57
2021	17.81	19.67
2022	20.70	18.70
2023	17.30	14.61
2024	8.84	14.82
2025	15.54	15.95
2026	16.24	14.99

Source: Screener database.

Tech Mahindra generated a higher average ROE than Wipro during the study period. Tech Mahindra's average ROE was approximately 17.34%, compared with 16.54% for Wipro. The sharp decline in Tech Mahindra's ROE in 2024 corresponds with the reduction in its net profitability. Both companies showed recovery in shareholder returns after 2024, although the levels remained below some earlier peak years.

9.6 Net profit margin

The net profit margins are given in Table 6.

Table 6. Net profit margin (%) of the selected IT companies.

Year	Tech Mahindra	Wipro
2017	9.65	15.32
2018	12.35	14.69
2019	12.37	15.26
2020	10.94	15.90
2021	11.70	17.43
2022	12.47	15.42
2023	9.07	12.54
2024	4.53	12.31
2025	8.02	14.74
2026	8.47	14.25

Source: Screener database.

Wipro consistently maintained a higher Net Profit Margin than Tech Mahindra throughout the study period. The average NPM was approximately 9.96% for Tech Mahindra and 14.79% for Wipro. Tech Mahindra recorded a considerable margin decline in 2024, followed by partial recovery in subsequent years. The higher margin of Wipro indicates stronger conversion of sales into net earnings during the study period.

9.7 Multiple regression analysis

To examine the combined influence of financial-structure indicators on profitability, Return on Assets is taken as the dependent variable. Debt–Equity Ratio and Interest Coverage Ratio are used as explanatory variables.

$$ROA = \beta_0 + \beta_1 (\text{Debt–Equity Ratio}) + \beta_2 (\text{Interest Coverage Ratio}) + e \quad (1)$$

The results of the regression are given in Table 7.

Table 7. Multiple regression results.

Variable	Coefficient	t-value	p-value
Constant	0.0596	4.934	0.000
Debt–Equity Ratio	0.1001	2.373	0.030

Variable	Coefficient	t-value	p-value
Interest Coverage Ratio	0.0012	4.544	0.000
R^2	0.549		
Adjusted R^2	0.496		
F-value	10.370		
F-significance	0.001		

Dependent variable: return on assets (expressed as a proportion). Pooled sample of 20 company-year observations. Source: computed.

The regression model explains approximately 54.9% of the variation in Return on Assets. Debt–Equity Ratio has a positive and statistically significant coefficient at the 5% level ($p = 0.030$). Interest Coverage Ratio also has a positive and statistically significant relationship with ROA ($p < 0.001$). The overall model is statistically significant ($F = 10.370$; $p = 0.001$), indicating that the selected financial variables jointly influence profitability. The results should be interpreted as an association rather than definitive causality because the analysis uses a relatively small pooled sample of 20 company-year observations.

10 Findings

- Tech Mahindra maintained a substantially lower leverage position than Wipro, indicating a more conservative financial structure.
- Wipro recorded a higher average Net Profit Margin, while Tech Mahindra achieved a slightly higher average Return on Equity.
- Tech Mahindra demonstrated stronger Interest Coverage, reflecting greater capacity to meet finance costs from operating earnings.
- The regression model indicates that Debt–Equity Ratio and Interest Coverage jointly have a significant relationship with Return on Assets.
- Both companies experienced profitability pressure around 2023–2024, followed by a partial recovery in 2025–2026.

11 Suggestions

- The selected IT companies should maintain an optimal balance between debt and equity rather than relying excessively on either source of finance.
- Companies with relatively higher leverage should continuously monitor interest costs and ensure that additional borrowing generates adequate operating returns.
- Management should strengthen internal sources of finance through retained earnings to improve financial flexibility and reduce excessive dependence on external debt.
- Declines in profitability should be identified at an early stage through continuous monitoring of ROA, ROE, NPM and Interest Coverage Ratio.
- Financing decisions should be linked with long-term investment productivity so that borrowed funds contribute positively to operating earnings and shareholder value.

12 Conclusion

The study examined the impact of financial structure on the profitability of selected Indian IT companies using ten years of financial data. The analysis shows that Tech Mahindra adopted a comparatively more conservative financing structure than Wipro. Wipro, despite its higher leverage, generated a consistently stronger Net Profit Margin during the study period. Tech Mahindra demonstrated stronger interest-servicing capacity and a slightly higher average Return on Equity.

The profitability indicators of both companies experienced fluctuations, particularly during 2023–2024. Regression analysis indicates that financial-structure indicators have a significant association with Return on Assets. The findings emphasize the importance of maintaining an appropriate balance between debt, equity and financing costs. Overall, effective financial-structure management is essential for sustaining profitability, financial stability and long-term value creation in the Indian IT sector.

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