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Capital Structure in IT Sector: Interrelation and its Impact on Financial Performance

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ABSTRACT

The IT sector has emerged as one of the fastest-growing industries globally, driven by digital transformation, artificial intelligence, and cloud computing. In India, the industry is projected to cross $315 billion by 2026, reflecting its pivotal role in employment generation and innovation. Alongside technological advances, the financial architecture of IT firms is evolving, with capital structure decisions becoming increasingly strategic. NASSCOM projects that enterprise Artificial intelligence industrialisation and datacentre expansion will significantly redefine capital requirements in the Indian IT sector. The report stresses that capital structure decisions are becoming central to long-term sustainability, as firms must align financial strategies with innovation-led growth and global market demands. This chapter examines the latest developments in IT industry growth and their different components of capital structure.

Keywords: *Capital Structure, IT Sector, Financial Performance, Digital Transformation, Artificial Intelligence.*

Introduction

. Capital structure, which represents the proportion of debt and equity financing employed by a firm, plays a decisive role in shaping its financial performance. A balanced mix of debt and equity can enhance profitability by optimizing the cost of capital, while excessive reliance on debt increases financial risk and reduces shareholder value. Recent empirical studies on Indian manufacturing firms (2024–2025) highlight that profitability, liquidity, and firm size significantly influence leverage decisions, with debt-to-equity ratios showing a negative correlation with performance indicators such as ROA and ROE. Industry-specific determinants such as liquidity, tax rates, and business risk further shape financing choices, underscoring the need for a detailed approach to capital structure management in emerging economies (Ghayas, Khan, 2025). These findings highlight that capital structure is not static but evolves with macroeconomic conditions, institutional frameworks, and firm-specific financial realities.

Review of Literature

Ghayas & Akhtar (2018) explored the impact of financing mix on profitability of Indian companies. Regression analysis of 35 pharmaceutical firms listed on BSE between 2012–2016 showed that short-term debt positively influenced ROE, while long-term debt had negligible impact. This highlights the importance of financing mix in capital-intensive industries.

Gupta & Sharma (2019) investigated the effect of capital structure on three Indian automobile firms' profitability over a multi-year period; the study found a positive relationship between profitability and capital structure. However, firms failed to maintain an optimum debt-equity balance, limiting profit maximization.

***Mondal and Roy (2020*)** Mondal and Roy argue that capital structure in IT firms is strongly influenced by sector-specific dynamics such as R&D expenditure and digital infrastructure investments. Their findings suggest that IT companies require differentiated leverage strategies compared to traditional industries, as innovation intensity and technology-driven projects demand unique financing approaches.

***Pal (2022*)** Pal highlights that Indian IT companies are increasingly adopting long-term debt as part of their capital structure strategy. This shift reflects a conscious effort to balance rapid growth with financial stability, moving away from equity-heavy financing models. The study emphasizes that debt financing provides flexibility for expansion while maintaining shareholder confidence in a highly competitive sector.

Harwani & Divya (2023) studied on capital structure and profitability in Indian telecommunication sector collected data from 393 Gujarat-based investors in the telecom sector, the study revealed that short-term financial goals influenced investment decisions. The period of study covered recent years leading up to 2023.

***Kumar & Mehta (2025*)** Kumar and Mehta examined the capital structure strategies of leading Indian IT firms in the post-pandemic era. Their study found that profitability and strong cash reserves encouraged firms to adopt conservative leverage, relying more on internal financing than external debt. They argue that this trend supports the pecking order theory, showing that IT companies prefer retained earnings to sustain innovation-driven growth while minimizing financial risk.

Talwar & Rashmi (2025) conducted research on "Impact of capital structure on financial performance of Auto components Manufacturing SMEs in Haryana." Using data from 102 auto component SMEs in Haryana covering 918 observations between 2012–2020, the study found that firm size was negatively associated with ROA, while equity financing had little impact.

Research Gap

- The present study besides being sector-specific and it covers 4 top BSE listed IT sector companies.
- This study is covering recent period from 2022 to 2026 and contributes fresh insights to the Indian context.

Objectives of Study

- To examine the components of Capital Structure and its proportion of Selected IT Companies from the year 2022 to 2026.
- To study the relationship between Capital Structure and Financial Performance of Selected IT Companies.

Period of Study

The duration of the study is five years, ranging from the year 2022 to 2026.

Research Methodology

This study applies a quantitative, secondary data-based methodology for analysing the financial performance and interrelationship of capital structure in IT sector over a Five-year period from year 2022 to 2026.

- Universe of the study: All IT Sector Companies listed at Bombay stock exchange (BSE) is Universe of study.
- Sample size: The data has collected from 4 top BSE listed companies TCS, INFOSYS, HCL tech, WIPRO.
- Sources of Data: Secondary data related to selected IT companies is collected from:
  - Published Financial Statements
  - Corporate Governance Reports
  - Disclosure On Stock Exchanges at BSE & NSE

Research Tools

This study makes use of financial and statistical tools in order to examine the gained data.

- **Financial Tools**
  - Debt-Equity Ratio
  - Return on Capital Employed (ROCE)
  - Return on Assets (ROA)
  - Return on Long-term funds
- **Statistical Tools**
  - Mean
  - Standard deviation
  - Coefficient of Variation
  - Correlation

Table 1: Capital structure components and its proportion of selected IT companies

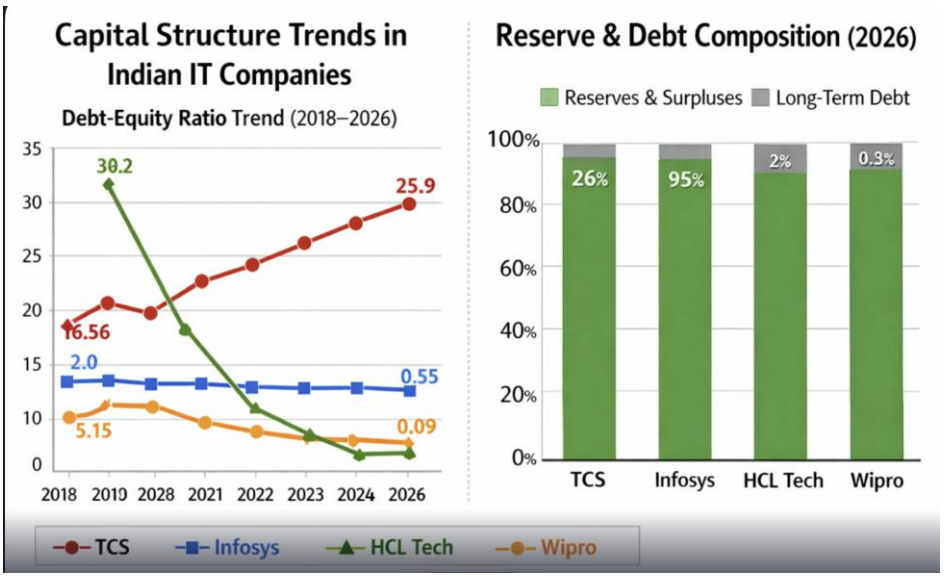
Companies	Years Components	2022	2023	2024	2025	2026
TCS	Equity Share capital	0.44%	0.46%	0.46%	0.43%	0.38%
	Preference share capital	NIL	NIL	NIL	NIL	NIL
	Long term borrowing	7.28%	7.19%	7.46%	9.34%	9.97%
	Reserve & surpluses	92.28%	92.35%	92.08%	90.23%	89.65%
	Total	**100%**	**100%**	**100%**	**100%**	**100%**
HCL	Equity Share capital	1.27%	1.32%	1.37%	1.55%	2.10%
	Preference share capital	NIL	NIL	NIL	NIL	NIL
	Long term borrowing	0.38%	0.12%	0.06%	0.03%	0.01%
	Reserve & surpluses	98.35%	98.56%	98.56%	98.41%	97.89%
	Total	**100%**	**100%**	**100%**	**100%**	**100%**
WIPRO	Equity Share capital	1.54%	1.31%	1.29%	2.36%	2.38%
	Preference share capital	NIL	NIL	NIL	NIL	NIL
	Long term borrowing	7.95%	7.31%	7.71%	7.21%	0.22%
	Reserve & surpluses	90.51%	91.38%	90.99%	90.44%	97.40%
	Total	**100%**	**100%**	**100%**	**100%**	**100%**
INFOSYS	Equity Share capital	2.89%	2.88%	2.41%	2.25%	2.36%
	Preference share capital	NIL	NIL	NIL	NIL	NIL
	Long term borrowing	5.84%	7.32%	5.99%	5.19%	6.03%
	Reserve & surpluses	91.27%	89.80%	91.60%	92.56%	91.61%
	Total	**100%**	**100%**	**100%**	**100%**	**100%**

Financial Ratios

Table 2: Financial Ratios of given IT companies

Companies	Years	2022	2023	2024	2025	2026
TCS	Debt Equity Ratio	16.56	15.78	16.06	21.51	25.9
	ROCE	65.06	70.27	82.13	83.77	80.30
	ROA	210.91	203.71	199.33	209	233.91
	Return on Long Term Funds	65.06	70.27	82.13	83.77	80.30
HCL	Debt Equity Ratio	30.2	9.39	4.79	2.03	0.55
	ROCE	31.24	35.94	39.42	47.57	65.41
	ROA	156.95	151.47	145.45	128.76	95.39
	Return on Long Term Funds	31.28	36.06	39.44	47.58	65.43
WIPRO	Debt Equity Ratio	5.15	5.58	5.96	3.05	0.09
	ROCE	25.20	18.98	21.36	22.35	24.34
	ROA	99.14	113.34	110.58	60.07	60.71
	Return on Long Term Funds	28.75	20.73	22.90	24.50	26.69
INFOSYS	Debt Equity Ratio	2.03	2.55	2.50	2.30	2.56
	ROCE	41.29	46.94	44.63	40.83	49.59
	ROA	163.31	161.18	195.56	210.27	199.49
	Return on Long Term Funds	41.66	47.55	44.63	40.83	49.59

Companies	Years	2022	2023	2024	2025	2026	Mean	S. D	C..V
TCS	Equity Share capital	366	366	362	362	362	363.6	148.45	0.41
	Preference share capital	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
	Long term borrowing	6060	5775	5813	7787	9374	6961.8	1584.39	0.23
	Reserve & surpluses	76807	74172	71758	75255	84314	76461.2	4759.24	0.06
							Mean	**S. D**	**C..V**
HCL	Equity Share capital	543	543	543	543	543	543	0	0
	Preference share capital	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
	Long term borrowing	164	51	26	11	3	51	65.76	1.29
	Reserve & surpluses	42048	40561	38927	34397	25355	36257.6	6736.14	0.186
							Mean	**S. D**	**C.. V**
WIPRO	Equity Share capital	1096.4	1098	1045	2094.4	2097.7	1486.22	557.10	0.375
	Preference share capital	0	0	0	0	0	0	0	0
	Long term borrowing	5646.3	6127	6230	6395.4	196.2	4919.02	2654.80	0.54
	Reserve & surpluses	64306.6	76570	73488	80270	85921	76111	8061.61	0.106
							Mean	**S. D**	**C.. V**
INFOSYS	Equity Share capital	2103	2074	2075	2076	2027	2071	27.43	0.013
	Preference share capital	0	0	0	0	0	0	0	0
	Long term borrowing	4264	5284	5179	4780	5190	4939.4	424.42	0.085
	Reserve & surpluses	66597	64793	79101	85256	78847	74918.8	8825.5	0.118



Analysis and Interpretation

- **Capital Structure Composition**
  - **Equity Share Capital**: Across all four IT firms (TCS, Infosys, HCL, Wipro), equity share capital remains a very small proportion of total financing (ranging between 0.4%–2.9%). This indicates that Indian IT firms rely minimally on fresh equity source, preferring internal reserves.
  - **Preference Share Capital**: Consistently **nil** across all years and companies, showing that preference shares are not a preferred instrument in IT financing.
  - **Long-Term Borrowings**
    - **TCS** shows a rising trend (7.28% in 2022 → 9.97% in 2026), reflecting growing reliance on debt for expansion.
    - **HCL** shows a sharp decline (0.38% in 2022 → 0.01% in 2026), indicating a shift toward internal financing.
    - **Wipro** fluctuates, with a steep fall in 2026 (7.95% in 2022 → 0.22% in 2026), suggesting deleveraging.
    - **Infosys** maintains moderate borrowings (5.84%–6.03%), reflecting balanced debt usage.
  - **Reserves & Surpluses**: Dominant across all firms (90%+), highlighting strong reliance on retained earnings and internal accruals, consistent with the **pecking order theory**.

Interpretation: IT firms prefer internal reserves over external debt/equity, aligning with Kumar & Mehta (2025), who found IT companies rely on retained earnings to sustain innovation-driven growth.

- **Financial Ratios**
  - **Debt-Equity Ratio**
    - **TCS**: Rising trend (16.56 → 25.9), showing increasing leverage.
    - **HCL**: Sharp decline (30.2 → 0.55), indicating deleveraging and reliance on reserves.
    - **Wipro**: Declining (5.15 → 0.09), suggesting debt minimization.
    - **Infosys**: Stable (2.03 → 2.56), reflecting conservative leverage.
  - **ROCE (Return on Capital Employed)**
    - **TCS**: Strong and stable (65–83%), showing efficient capital utilization.
    - **HCL**: Rising (31 → 65%), indicating improved efficiency post deleveraging.
    - **Wipro**: Moderate (25 → 24%), showing stagnation.
    - **Infosys**: Strong (41 → 49%), reflecting consistent performance.
  - **ROA (Return on Assets)**
    - **TCS**: High and rising (210 → 233), showing superior asset productivity.
    - **HCL**: Declining (156 → 95), possibly due to reduced debt but slower asset turnover.
    - **Wipro**: Declining sharply (99 → 60), indicating weaker asset efficiency.
    - **Infosys**: Strong (163 → 199), showing robust asset utilization.

Interpretation: Firms with higher reserves (Infosys, TCS) show stronger ROA and ROCE, while firms reducing debt aggressively (HCL, Wipro) face mixed outcomes—improved ROCE but weaker ROA.

- **Statistical Measures (Mean, SD, CV)**
  - **Equity Share Capital**: Very low variation (CV < 0.5), confirming stability in equity financing.
  - **Long-Term Borrowings**: High variation in HCL and Wipro (CV > 0.5), showing inconsistent debt strategies.
  - **Reserves & Surpluses**: Low variation (CV ~0.1), confirming reserves as the most stable financing source.

Interpretation: Stability in reserves indicates IT firms' preference for internal financing, while debt strategies vary widely across firms, reflecting different risk appetites.

- **Comparative Insights**
  - **TCS**: Increasing leverage but maintaining high ROA and ROCE → aggressive growth strategy supported by debt.
  - **HCL**: Deleveraging with improved ROCE but declining ROA → efficiency gains but weaker asset productivity.
  - **Wipro**: Sharp debt reduction with stagnant returns → conservative strategy limiting growth.
  - **Infosys**: Balanced leverage with strong ROA and ROCE → sustainable financing model.

Conclusion

The analysis reveals that **capital structure decisions in Indian IT firms are highly firm-specific**:

- **TCS** leverages debt for expansion while maintaining strong returns.
- **Infosys** balances debt and reserves, ensuring sustainable growth.
- **HCL and Wipro** adopt conservative strategies, reducing debt but facing mixed financial outcomes.

Overall, the **dominance of reserves and surpluses** highlights the IT sector's reliance on internal financing, consistent with the **pecking order theory**. This ensures financial stability while supporting innovation-driven growth, but excessive conservatism (as seen in Wipro and HCL) may limit profitability.

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