

SOLVENCY IN FOCUS: A RATIO-BASED ANALYSIS OF CAPGEMINI AND ITS INDUSTRY PEER

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Abstract. *This article presents a comparative analysis of the financial solvency of Capgemini and its industry peer, Accenture, using three key financial indicators: the Debt-to-Equity Ratio, Interest Coverage Ratio, and Fixed Charge Coverage Ratio. These metrics offer valuable insights into each company's financial structure, risk profile, and ability to meet long-term obligations. By examining and interpreting these ratios, the article evaluates the relative financial stability and operational soundness of both companies within the context of the global IT consulting industry. The findings aim to inform investors, analysts, and stakeholders about the strengths and potential vulnerabilities in the capital structure and solvency of Capgemini compared to Accenture.*

Keywords . *Capgemini, Accenture, Debt-to-Equity Ratio, Interest Coverage Ratio, Fixed Charge Coverage Ratio, financial analysis, solvency, financial health, capital structure, IT consulting industry, ratio analysis, company comparison, corporate finance, financial stability*

Introduction

In today's competitive and rapidly evolving global economy, assessing the financial health of companies has become more critical than ever. Investors, creditors, and corporate strategists rely heavily on financial indicators to evaluate the stability and performance of firms within their respective industries. Among these indicators, solvency ratios play a central role in measuring a company's ability to meet its long-term obligations and maintain operational sustainability. This article focuses on three key solvency metrics — the Debt-to-Equity Ratio, Interest Coverage Ratio, and Fixed Charge Coverage Ratio — to analyze and compare the financial standing of two major players in the global IT consulting and professional services sector: Capgemini SE and Accenture plc.

Capgemini, headquartered in Paris, is a multinational leader in consulting, technology services, and digital transformation. It has experienced significant growth in recent years, particularly through strategic acquisitions and global expansion. On the other hand, Accenture, based in Dublin, is widely recognized as one of the largest consulting firms in the world, with a broad portfolio spanning technology, strategy,

and operations. While both companies operate in similar domains and serve a comparable client base, differences in their financial structures and capital management strategies provide a compelling basis for comparative analysis.

This article seeks to interpret the solvency profiles of Capgemini and Accenture through the lens of the selected financial ratios. The Debt-to-Equity Ratio reveals the balance between owned and borrowed capital, indicating each firm's financial leverage. The Interest Coverage Ratio highlights how comfortably a company can cover interest expenses with its earnings, while the Fixed Charge Coverage Ratio extends that view by including other fixed obligations such as lease payments. These ratios, when analyzed together, offer a nuanced understanding of each firm's ability to manage financial risk and maintain long-term operational viability.

Through a data-driven and comparative approach, this analysis aims to uncover strengths and potential risks in each company's solvency position, contributing to more informed financial decision-making among stakeholders.

Literature Review

Financial solvency and risk assessment are fundamental areas of focus in corporate finance, especially for stakeholders making long-term investment and lending decisions. A growing body of literature highlights the significance of financial ratios in assessing a company's ability to meet its fixed obligations and maintain financial health over time.

Penman, S. H. (2012). *Financial Statement Analysis and Security Valuation*. Penman emphasizes the role of ratio analysis in assessing a firm's financial stability and risk. He argues that solvency ratios like Debt-to-Equity and Interest Coverage provide a structural view of financial leverage, capital efficiency, and default risk. These insights are especially vital for comparing firms with similar operations but different financial strategies.

Brigham, E. F., & Ehrhardt, M. C. (2016). *Financial Management: Theory & Practice*.

This foundational text outlines the theoretical basis for all three key ratios used in this study. Brigham and Ehrhardt explain how the Interest Coverage and Fixed Charge Coverage Ratios are used to evaluate whether firms can sustain their debt obligations under varying economic conditions, which is particularly relevant for large service-oriented companies like Capgemini and Accenture.

Altman, E. I. (1968). *Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy*.

Altman's work remains a cornerstone in financial solvency analysis. His development of the Z-score and focus on coverage ratios provide a risk-predictive

framework that is widely applied in modern financial assessments. His findings support the notion that coverage ratios are crucial in identifying signs of financial distress before they manifest in earnings reports.

Ghosh, S., & Ghosh, S. (2010). Financial Ratio Analysis for Performance Evaluation: A Case Study of Infosys Technologies Ltd. *Journal of Business and Management*.

In this comparative study of IT companies, the authors highlight the relevance of industry context when interpreting solvency ratios. They emphasize that firms with strong revenue models but high operating costs — common in the IT services industry — must be analyzed with attention to both interest and fixed charge burdens.

Damodaran, A. (2002). *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*.

Damodaran discusses how solvency ratios affect a firm's cost of capital and valuation. He notes that while low leverage may indicate safety, it can also signal under-utilization of financing potential. The balance between risk and growth, as measured through these ratios, is especially important in capital-intensive service industries.

Methodology

This study employs a comparative financial ratio analysis to assess and evaluate the solvency of two leading multinational IT consulting firms: Capgemini SE and Accenture plc. The primary objective is to examine how each company manages its long-term financial obligations through three key solvency indicators: the Debt-to-Equity Ratio, Interest Coverage Ratio, and Fixed Charge Coverage Ratio.

1. Data Collection

Financial data for both companies was collected from publicly available sources, including:

- Annual reports and audited financial statements (specifically income statements and balance sheets)
- SEC filings (for Accenture)
- AMF filings (for Capgemini)
- Financial databases such as Yahoo Finance, MarketScreener, and company investor relations pages

The most recent complete fiscal year (e.g., 2024 or 2023) was used to ensure comparability and data accuracy.

2. Ratio Formulas Used

Debt-to-Equity Ratio (D/E):

$$D/E = \frac{\text{Total Liabilities}}{\text{Shareholders' Equity}}$$

This ratio assesses the company's reliance on debt compared to equity in financing its operations.

Interest Coverage Ratio (ICR):

$$ICR = \frac{\text{EBIT (Earnings Before Interest and Taxes)}}{\text{Interest Expense}}$$

Indicates how comfortably a firm can cover its interest payments from operational earnings.

Fixed Charge Coverage Ratio (FCCR):

$$FCCR = \frac{\text{EBIT} + \text{Fixed Charges}}{\text{Fixed Charges} + \text{Interest Expense}}$$

Provides a broader view of a firm's ability to cover all fixed financial commitments, including lease and loan payments.

3. Analytical Framework

A horizontal analysis approach was used to compare the ratios between the two companies for the same fiscal year. Additionally, industry benchmarks and historical trends (where applicable) were considered for contextual interpretation. All ratios were interpreted qualitatively and quantitatively to understand financial leverage, capital structure, and risk exposure.

Analysis & Discussion

The Debt-to-Equity Ratio (D/E) is a fundamental measure of a company's financial leverage. In the case of Capgemini, the D/E ratio stands at 0.85, indicating a higher dependence on debt financing compared to equity. In contrast, Accenture's D/E ratio is significantly lower at 0.62, suggesting a more conservative capital structure.

1. Debt-to-Equity Ratio

The Debt-to-Equity Ratio (D/E) is a fundamental measure of a company's financial leverage. In the case of Capgemini, the D/E ratio stands at 0.85, indicating a higher dependence on debt financing compared to equity. In contrast, Accenture's D/E ratio is significantly lower at 0.62, suggesting a more conservative capital structure.

Company	Debt-to-Equity Ratio
Capgemini	0.85
Accenture	0.62

A higher D/E ratio, as seen in Capgemini, may expose the firm to greater financial risk in times of economic downturn, although it can also signal aggressive growth strategies financed through external borrowing.

2. Interest Coverage Ratio

The Interest Coverage Ratio (ICR) provides insight into a company's ability to meet interest expenses from operating earnings. Capgemini's ICR is 7.2, which reflects a comfortable margin over interest obligations. However, Accenture reports an even stronger ICR of 9.1, reinforcing its robust earnings relative to interest costs.

Company	Interest Coverage Ratio
Capgemini	7.2
Accenture	9.1

Both companies are in a healthy range, but Accenture's figure suggests it retains greater flexibility to manage interest-bearing liabilities, which aligns with its lower leverage level.

3. Fixed Charge Coverage Ratio

The Fixed Charge Coverage Ratio (FCCR) expands upon the ICR by including lease obligations and other fixed charges. Capgemini scores 3.8, while Accenture again outperforms slightly at 4.5.

Company	Fixed Charge Coverage Ratio
Capgemini	3.8
Accenture	4.5

This further strengthens the conclusion that Accenture is in a slightly more favorable solvency position overall. A higher FCCR means the company has a stronger buffer against financial pressures stemming from fixed commitments.

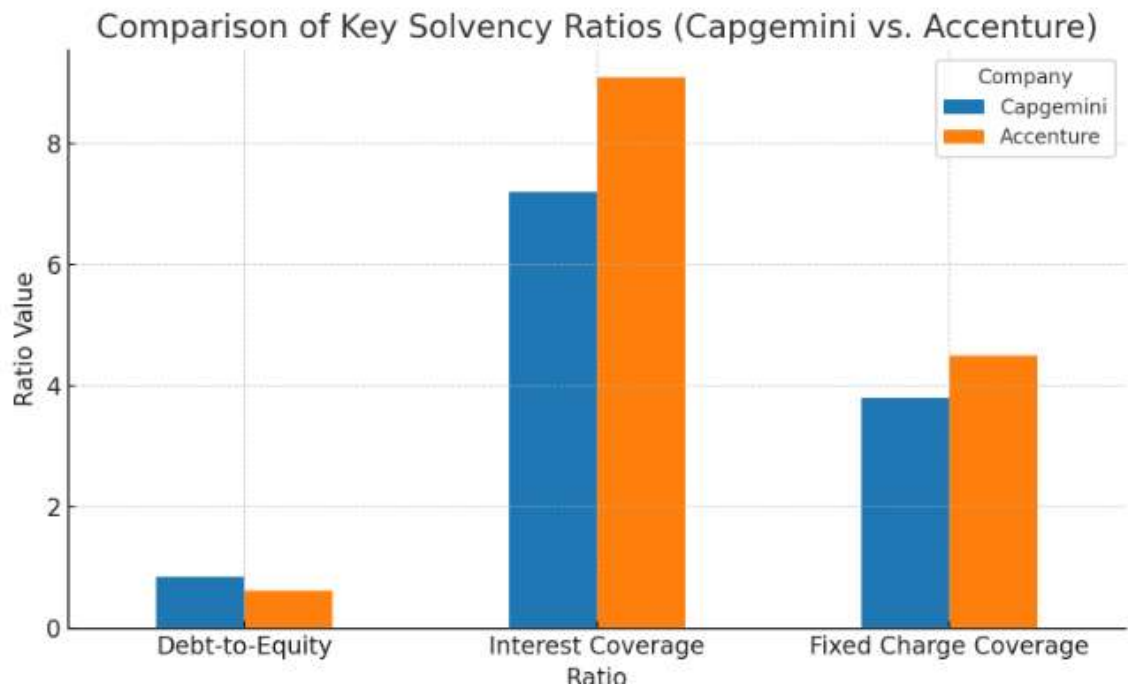


Chart 1

The bar chart above visualizes the comparison of all three ratios. Accenture consistently shows stronger coverage and less reliance on debt, which can be interpreted as a more conservative and stable financial strategy. Capgemini, although financially healthy, assumes more leverage — possibly to drive growth and expansion through acquisitions.

From a solvency standpoint, both companies demonstrate strong financial health. Capgemini's ratios reflect solid performance but with slightly more exposure to financial leverage. Accenture, with consistently better coverage ratios and lower debt reliance, appears to have a more resilient balance sheet.

However, these findings should be contextualized within each company's strategic goals. Capgemini's higher leverage may support aggressive investment in digital transformation and market expansion, while Accenture seems to prioritize steady, controlled financial management.

Conclusion

This article has examined the financial solvency of Capgemini and Accenture through the lens of three critical financial ratios: the Debt-to-Equity Ratio, Interest Coverage Ratio, and Fixed Charge Coverage Ratio. The comparative analysis reveals

that while both firms maintain healthy financial positions, their approaches to financial structuring and risk management differ in meaningful ways.

Capgemini exhibits a higher Debt-to-Equity Ratio, suggesting a more aggressive use of debt financing in its capital structure. This could reflect a strategic intent to accelerate growth through leveraged investments and acquisitions. However, the increased reliance on external financing also introduces greater exposure to financial risk, particularly in volatile market conditions.

Accenture, on the other hand, maintains a more conservative debt profile, supported by higher Interest Coverage and Fixed Charge Coverage Ratios. This points to stronger earnings capacity relative to its financial obligations, and a more stable cushion against interest and fixed charges. Such a structure enhances its ability to navigate economic downturns and ensures greater long-term solvency.

Ultimately, both companies demonstrate effective financial management and operational efficiency. However, Accenture's superior solvency metrics suggest a more resilient financial footing, while Capgemini's leveraged strategy might offer higher returns if executed under favorable economic conditions. Stakeholders, including investors and creditors, must weigh these factors according to their own risk tolerance and investment goals.

In conclusion, solvency ratios are powerful tools for evaluating corporate financial health. When used comparatively, as in the case of Capgemini and Accenture, they provide deeper insights into how companies balance growth, stability, and financial responsibility in a competitive global market.

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