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# A study on financial performance of care it solution private limited

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**Abstract**

The overall objective of a business is earning satisfactory returns on the funds invested in it. Consistent with maintaining a sound financial position, an evaluation of such performance is done in order to measure the efficiency of operations or the profitability of the organization and to assess the financial strength as compared with a similarly situated concern. Financial Appraisal is generally directed towards evaluating the liquidity, stability and profitability of a concern which put together symbolizes the financial efficiency of a concern. Financial performance of financial statements for balance sheet and profit and loss account aimed at diagnosing the liquidity, profitability and financial condition of a business concern. The study aims to identify the overall financial performance of the company and suggest to suitable measures improve the performance of the company.

**Keywords:** proprietary ratio, common size, liquidity

## Introduction

Financial statements are a formal record of the financial activities and position of a business, person or other entity. A balance sheet also referred to as a statement of financial position, reports on a company's assets, liabilities and owners equity at a given point in time.

This chapter also presents the basic objectives of the research study and explains elaborately the research methodology adopted relating to data collection, data analysis, to satisfy the objectives and to reach research conclusions. Further, this chapter lucidly explains the period of this study and its limitations, scope of the study. Financial Statement Analysis generally attempts to reveal the meaning and significance of the items composed in Profit and Loss Account and Balance Sheet. According to Kennedy and Macmillan "Financial Performance is scientific evaluation of profitability and financial strength of any business concern". Financial Performance is the snapshot of a concern's position and ability to survive the ever-changing environment. It is the blue print of the financial affairs of the concern and reveals how a business is prospered under the leadership of its management human resources. In fact, financial performance is the medium of evaluation of management performance. The analysis of both these statements gives a wide-ranging understanding of business operations and their impact on the financial health of the concern. Financial performance is also concerned with the business operations which contribute to increase the profits and also to enhance the total investments. Financial performance is also concerned with the prosperity of shareholders.

## Review of Literature

Owolabi and Obida (2012) [5] in their article titled "Liquidity Management and Corporate Profitability: Case Study of Selected Manufacturing Companies Listed on The Nigerian Stock Exchange" an attempt is made to measure the relationship between liquidity management and corporate profitability using data from selected manufacturing companies quoted on the floor of the Nigerian Stock Exchange. The result of the study was obtained using descriptive analysis and the finding shows that liquidity management measured in terms of the companies Credit Policies, Cash Flow Management and Cash Conversion Cycle has significant impact on corporate profitability. They found that managers can increase profitability by adopting good credit policy, short cash conversion cycle and effective cash flow management procedures.

Seyed Mohammad Alavinasab and EsmailDavoudi (2013) [2] in their study examined the relationship between working capital management and profitability for listed companies on Tehran stock exchange. Hundred and forty seven companies were selected for the period of 2005-2009. The effect of various variables of working capital management including cash conversion cycle, the current ratio, current asset to total asset ratio, current liabilities to total asset ratio and debt to total asset ratio on return on assets and return on equity are studied. Multivariate regression and Pearson correlation are used to test the hypothesis. The results of the statistical test of the hypothesis show that a negative significant relationship exists between cash conversion cycle and return on assets and cash conversion cycle and return on equity. However, the relationship between current ratio and return on equity is insignificant.

## Background of the Study

### Ratio Analysis

The most popular way to analyze the financial statements is computing ratios. It is an important and widely used tool of analysis of financial statements. While developing a meaningful relationship between the individual items or group of items of balance sheets and income statements, it highlights the key performance indicators, such as, *liquidity, solvency and profitability* of a business entity.

The tool of ratio analysis performs in a way that it makes the process of comprehension of financial statements simpler, at the same time, it reveals a lot about the changes in the financial condition of a business entity. The process of financial analysis provides the information about the ability of a business entity to earn income while sustaining both short term and long term growth. It is a form of Financial Statement Analysis that is used to obtain a quick indication of a firm's financial performance in several key areas.

**Common Size Statements**

The figures of financial statements are converted to percentages. It is performed by taking the total balance sheet as 100. The balance sheet items are expressed as the ratio of each asset to total assets and the ratio of each liability to total liabilities. Thus, it shows the relation of each component to the whole - hence, the name common size.

The Common-size statements, balance sheet and income statement are shown in analytical percentages. The figures are shown as percentages of total assets, total liabilities and total sales. The total assets are taken as 100 and different assets are expressed as a percentage of the total. Similarly, various liabilities are taken as a part of total liabilities.

**Objectives of the Study**

- To analyze and identify the impact of financial performance on profitability of the company.
- To suggest suitable measures for the improvement of Care IT Solution Pvt. Ltd.

**Research Methodology**

**Research design**

The methodology used in the study is analytical and descriptive in nature where the researcher has to use facts or information already and study the characteristics of a particular group respectively and there by analyze to make a critical evaluation of the study.

**Data Collection Method**

**Secondary data**

The secondary data has been collected from the Annual Reports of THE CARE IT SOLUTION PVT. LTD., Internet, Websites, Journals, and Articles.

**Period of the Study**

The study covers the time period of 5 years from the financial year 2012-2016.

**Tools Used For Analysis of Data**

The tools used for analyzing the financial position of the company are

1. Ratio Analysis
2. Common Size Balance Sheet Statement

**Data Analysis and Interpretation**

**Current Ratio**

The current ratio considers the current total assets of a company (both liquid and illiquid) relative to that company's current total liabilities.

**C**urrent Ratio = Current Asset / Current Liabilities

**Table 1:** Table Shows that the Current Ratio

| Years | Current Asset | Current Liabilities | Current Ratio |
|---|---|---|---|
| | **Rs.** | **Rs.** | |
| 2011-2012 | 160445699 | 122148284 | 1.31 |
| 2012-2013 | 199629079 | 148767499 | 1.34 |
| 2013-2014 | 259176811 | 197126213 | 1.31 |
| 2014-2015 | 388907869 | 302546151 | 1.28 |
| 2015-2016 | 476730958 | 376370258 | 1.27 |

***Sources*****:** Annual Report of the company from 2012 to 2016

From the above table it is evident that the current ratio is 1.31 for the year 2012, there is a rise in the current ratio by 1.34 for the year 2013, there is decline in current ratio is 1.31 for the year 2014, there is decline in current ratio is 1.28 for the year 2015, there is decline in current ratio is 1.27 for the year 2016.

**Liquidity Ratio**

The term liquidity is defined as the ability of a company to meet its financial obligations as they come due. The liquidity ratio, then, is a computation that is used to measure a company's ability to pay its short-term debts.

Liquid Ratio = Liquid Asset/ Current Liabilities

**Table 2:** Table Shows that the Liquidity Ratio

| Years | Liquid Asset | Current Liabilities | Ratio |
|---|---|---|---|
| | **Rs.** | **Rs.** | |
| 2011-2012 | 141073199 | 122148284 | 1.15 |
| 2012-2013 | 175450908 | 148767499 | 1.18 |
| 2013-2014 | 227202963 | 197126213 | 1.15 |
| 2014-2015 | 324919002 | 302546151 | 1.07 |
| 2015-2016 | 360644163 | 376370258 | 0.96 |

***Sources*****:** Annual Report of the company from 2012 to 2016

From the above table it is reveals that the liquid ratio is 1.15 for the year 2012, there is a rise in the liquid ratio by 1.18 for the year 2013, there is decline in liquid ratio is 1.15 for the year 2014, there is decline in liquid ratio is 1.07 for the year 2015, there is decline in liquid ratio is 0.96 for the year 2016.

**Proprietary Ratio**

The proprietary ratio (also known as the equity ratio) is the proportion of shareholders' equity to total assets, and as such provides a rough estimate of the amount of capitalization currently used to support a business.

Proprietary Ratio = Shareholder Fund / Total Tangible Asset

**Table 3**: Table Shows that the Proprietary Ratio

| Years | Shareholder's Funds | Total Tangible Asset | Ratio |
|---|---|---|---|
| | Rs. | Rs. | |
| 2011-2012 | 68824113 | 184354320 | 0.37 |
| 2012-2013 | 80536940 | 222794531 | 0.36 |
| 2013-2014 | 92249767 | 281983351 | 0.33 |
| 2014-2015 | 107407646 | 411216653 | 0.26 |
| 2015-2016 | 118928316 | 496637820 | 0.24 |

***Sources***: Annual Report of the company from 2012 to 2016

From the above table it is exhibited that the Proprietary ratio is 0.37 for the year 2012, there is a decline in the Proprietary ratio by 0.36 for the year 2013, there is decline in Proprietary ratio is 0.33 for the year 2014, there is decline in Proprietary ratio is 0.26 for the year 2015, there is decline in Proprietary ratio is 0.24 for the year 2016.

**Net Profit Ratio**

Net profit ratio (NP ratio) is a popular profitability ratio that shows relationship between net profit after tax and net sales. It is computed by dividing the net profit (after tax) by net sales.

Net Profit Ratio = Net Profit/ Sales

**Table 4:** Table Shows that the Net Profit Ratio

| Years | Net Profit | Sales | Ratio |
|---|---|---|---|
| | Rs. | Rs. | |
| 2011-2012 | 9264822 | 381359508 | 2.43 |
| 2012-2013 | 10447355 | 422984505 | 2.47 |
| 2013-2014 | 11712827 | 535553345 | 2.19 |
| 2014-2015 | 10157928 | 630851478 | 1.61 |
| 2015-2016 | 11520669 | 613507355 | 1.88 |

***Sources***: Annual Report of the company from 2012 to 2016

From the above table it is exhibited that the Net profit ratio is 2.43 for the year 2012, there is a rise in the Net profit ratio by 2.47 for the year 2013, there is decline in Net profit ratio is 2.19 for the year 2014, there is decline in Net profit ratio is 1.61 for the year 2015, there is rise in Net profit ratio is 1.88 for the year 2016

**Table 5:** Tables Shows That Common Size Statement for the Year 2015-2016

| Particular | 2015 | % | 2016 | % |
|---|---|---|---|---|
| Liabilities | Rs. | | Rs. | |
| Share capital | 1,31,77,500 | 3.03 | 13,177,500 | 2.53 |
| Reserves and surplus | 9,42,30,146 | 21.68 | 105,750,816 | 20.30 |
| Long-term borrowings | 2,47,28,627 | 5.69 | 25,646,754 | 4.92 |
| Short-term borrowings | 16,22,82,401 | 37.34 | 239,641,341 | 46 |
| Trade payables | 6,49,08,689 | 14.93 | 92,802,490 | 17.81 |
| Other current liabilities | 6,96,54,061 | 16.02 | 32,758,427 | 6.288 |
| Short-term provisions | 57,01,000 | 1.31 | 11,168,000 | 2.14 |
| Total | 43,46,82,424 | 100 | 520,945,327 | 100 |
| Assets | | | | |
| Fixed assets | 2,23,08,784 | 5.13 | 19,906,862 | 3.82 |
| Deferred tax Asset (Net) | 66,268 | 0.01 | 423,586 | 0.08 |
| Long term loans and advances | 2,33,99,503 | 5.38 | 23,883,920 | 4.58 |
| Inventories | 6,39,88,867 | 14.72 | 116,086,795 | 22.28 |
| Trade receivables | 26,77,32,368 | 61.59 | 269,037,042 | 51.64 |
| Cash and cash equivalents | 66,99,106 | 1.54 | 16,603,523 | 3.09 |
| Other current assets | 5,09,87,528 | 11.79 | 75,003,598 | 14.40 |
| TOTAL | 43,46,82,424 | 100 | 520,945,327 | 100 |

***Sources***: Annual Report of the company from 2012 to 2016

**Interpretation**

**Share Capital**

The Common size Balance Sheet shows the Share Capital for the year 2015 is 3.03 % and it decreased to2.53 % in the year 2016.

**Reserves and Surplus**

The Common size Balance Sheet shows the reserves and surplus for the year 2015 is21.68 % and it decreased to 20.30% in the year 2016.

**Long Term Borrowings**

The Common size Balance Sheet shows the long term borrowings for the year 2015 is 5.69% and it decreased to 4.92 % in the year 2016.

**Short Term Borrowings**

The Common size Balance Sheet shows the short term borrowings for the year 2015 is37.34 % and it increased to46 % in the year 2016.

**Trade payables**

The Common size Balance Sheet shows the trade payables for the year 2015 is 14.93% and it increased to17.81 % in the year 2016.

**Other Current liabilities**

The Common size Balance Sheet shows the other current liabilities for the year 2015 is16.02 % and it decreased to6.288 % in the year 2016.

**Short term provisions**

The Common size Balance Sheet shows the short term provisions for the year 2015 is1.31 % and it increased to 2.14% in the year 2016.

**Fixed Assets**

The Common size Balance Sheet shows the fixed assets for the year 2015 is 5.13 % and it decreased to3.82 % in the year 2016.

**Deferred Tax Asset**

The Common size Balance Sheet shows the deferred tax asset for the year 2015 is 0.01% and it increased to0.08 % in the year 2016.

**Long Term Loans and Advances**

The Common size Balance Sheet shows the long term loans and advances for the year 2015 is5.38 % and it decreased to4.58 % in the year 2016.

**Inventories**

The Common size Balance Sheet shows the inventories for the year 2015 is 14.72% and it increased to22.28 % in the year 2016.

**Trade receivables**

The Common size Balance Sheet shows the trade receivables for the year 2015 is61.59 % and it decreased to51.64 % in the year 2016.

**Cash and Cash Equivalents**

The Common size Balance Sheet shows the cash and cash equivalents for the year 2015 is 1.54% and it increased to3.09% in the year 2016.

**Other Current Assets**

The Common size Balance Sheet shows the other current assets for the year 2015 is 11.79% and it increased to 14.40% in the year 2016.

**Suggestions**

- The Net Profit Margin of the company is must lower than the Operating Profit Margin, which indicates that the Operating Cost of these companies is higher. So, these companies should try to control such expenses and improve the Net Profit Margin.
- The firms have low Current Ratio so it should increase its Current Ratio where it can meet its short-term obligation smoothly. To improve the cash management with proper planning to know inflow and outflows with more certainty for better decision making.
- To increase its liquidity, company should keep some more cash in its hand instead of giving more advances. Company should improve working capital by reducing current liabilities. This will also improve their liquidity position.
- The company can plan of investing more amounts on research and development. So that innovative and modern services can be developed and adopted in coming years.

**Conclusion**

The analysis of the company was undertaken with the help of ratios, which are important tools of financial analysis. In general the company has achieved tremendous progress over the recent years. The company's performance is satisfactory. The study gives a clear idea of the financial performance of the company over the last five years. If they improved their customer services and technology they will come up with the standard level. This study reveals the findings and recommendation which would be useful for the development and improvement to the company.

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