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05

A Study on Financial Statement Analysis on Eclerx Business Service Limited

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ABSTRACT

This study delves into the financial performance and position of Eclerx Business Service Limited, a prominent player in the business process outsourcing (BPO) industry. By meticulously analyzing the company's financial statements, including the balance sheet, income statement, and cash flow statement, this research aims to assess its profitability, liquidity, solvency, and overall financial health. Key financial ratios and metrics, such as return on investment, debt-to-equity ratio, and current ratio, will be employed to evaluate Eclerx's financial performance and identify trends over time. Additionally, the study will explore the impact of industry-specific factors and macroeconomic conditions on the company's financial health. The findings of this research are expected to provide valuable insights to investors, stakeholders, and industry analysts, aiding in informed decision-making regarding Eclerx's future prospects.

KEYWORDS: Financial statements analysis, Performance analysis.

INTRODUCTION

Financial analysis is a process of evaluating and analyzing financial statements to make better economic decisions for future profits. It includes a profit and loss statement, balance sheet, cash flow statement, explanation, statement of accounts, and changes in equity (if applicable). This method is used by various stakeholders, including credit and equity investors, governments, and governments. Decision makers in society and organizations employ various techniques to satisfy their needs, such as investing in stocks or holding debt securities. The development of accounting standards involves processes and the implementation of each process. The Accounting Standards Board (ASB) and Institute of Chartered Accountants of India (ICAD) have developed frameworks that provide a basic framework for developing new standards andevaluating existing ones. Key concepts for the preparation and presentation of financial statements include the Balance Sheet, Profit and Loss Statement, Statement of Cash Flows, Accounts Statement, and Equity Changes. Financial statements are valuation statements of past, present, or projected future results. The process of auditing financial statements can assist in making more informed financial decisions. Financial statements are a legal requirement for listed companies worldwide, and they are distributed to stakeholders each year. Users of financial statement analysis can be classified into internal and external users. Internal users include company executives who perform financial analysis, while external users include owners, investors, creditors, government, employees, customers, and the general public. Internal users use financial statement analysis to make smarter decisions about their achievements, while external users include investors, government, and employees. In conclusion, financial analysis is a crucial tool for businesses to make informed decisions about their financial health and future prospects. By utilizing financial statements, companies can make informed decisions about their operations, maintain profitability, and attract investors and customers.

Advantages of Financial Statement:

1. Evaluation of financial performance- Financial reporting enables companies to accurately assess their financial position and performance. By analyzing reports such as income statements balance sheets, and cash flow statements, companies can assess an organization's profitability, liquidity, solvency, and operational efficiency. Crunching the numbers will help you identify your strengths, weaknesses, and areas for improvement.
2. Decision support Stakeholders can make decisions based on important information in the annual report. This helps companies make informed choices regarding investment options, capital allocation, pricing strategies, cost management measures, and expansion plans.
3. Communication with interested parties - Financial reporting is used as a means of communicating with stakeholders such as investors, creditors, shareholders and regulators. This provides a comprehensive picture of the company's financial position and results and instills confidence in stakeholders. Transparent and accurate financial reporting increases credibility and promotes better relationships with stakeholders.
4. Compliance with legal and regulatory requirements- All companies must comply with the legal and regulatory framework for financial reporting. A well- prepared annual report ensures that these requirements are met. It also helps avoid fines or potential legal consequences for noncompliance. Accurate and timely financial reporting provides transparency and accountability that maintain a company's reputation and credibility.
5. Attracting and financing investments- Financial accounting is important in attracting

investment and fundraising. Potential investors and lenders use financial statements to assess a company's financial strength and growth potential. Positive and strong financial indicators increase your chances of receiving investments or loans on favorable terms.

6. Comparison of efficiency An important purpose of financial reporting is to enable companies to compare their performance with industry peers and benchmarks. This comparison can help you identify areas where your company outperforms or lags behind competitors and create targeted improvement strategies. This provides insight into industry standards, best practices, and areas where companies can work to increase efficiency and profitability

7. Financial planning and forecasting Good financial accounting practices always help in financial planning and forecasting. It provides historical data and trends that help companies predict future revenues, costs, and cash flows. Accurate financial forecasting enables effective budgeting, resource allocation, and strategic planning for future growth and sustainability. Financial reporting is essential for businesses to monitor, analyze, and improve their financial health and achieve long-term success.

Limitations of financial statements

1. Information from the past Generally, financial statements provide information based on past transactions and events. However, it may not reflect the current or future dynamics and changes in the business environment. For example, a company's financial statements may not reflect the impact of recent economic turmoil or changes in market conditions.

2. Evaluation is everything Financial reporting involves accounting principles and judgments that can be subjective. For example, asset valuations and credit lossestimates may vary from company to company, even within the same company, affecting the comparability and reliability of financial statements.

3. Only numbers matter focus on quantifiable financial data. Therefore, it may not take into account important non-financial factors that affect a company's performance. Factors such as brand reputation, customer satisfaction, employee morale, & technological advancements are important metrics to gauge the overall health and future of your business. However, they rarely appear in annual reports.

4. It is not a complete picture of the future Financial statements do not provide a complete picture of a company's future prospects or potential risks. It provides an understanding of past financial performance but does not account for uncertainties or potential events that could have a significant impact on future operations. For example, we must not disclose pending litigation, regulatory changes, or competitive threats that could affect the company's profitability or market position.

5. Comparing apples and pears Comparing financial data from multiple organizations is difficult because of differences in accounting methods, industry practices, or geography. Meaningful comparisons between companies can be difficult because each company has different accounting policies or different interpretations of accounting standards.

6. Removal of intangibles Accounts generally do not include intangible assets, such as intellectual property, brand equity or customer loyalty, unless acquired through a business combination. However, these intangible assets can be important and critical to a company's success. Excluding this from the financial statements can lead to underestimating the value of the company.

7. Limited focus on cash flow Financial statements provide accounting information that does not always reflect a company's actual cash flows. The statement of cash flows partially addresses these limitations, but may not reflect the full extent of cash flows such as non-operating activities or off-balance sheet transactions.

Tools And Techniques of Financial statements analysis

A brief explanation of the tools or techniques of financial statement analysis is presented below

Comparative Statements Comparative statements deal with the comparison of differentitems of the Profit and Loss Account and Balance Sheets of two or more periods. Separate comparative statements are prepared for the Profit and Loss Account as Comparative Income Statement and for Balance Sheets. As a rule, any financial statement can be presented in the form of comparative statements such as a comparative balance sheet, comparative profit and loss account, comparative cost of production statement, or comparative statement of working capital.

Comparative Income statement Three important pieces of information are obtained from the Comparative Income Statement. They are Gross Profit. Operating Profit and Net Profit. The changes or the improvement in the profitability of the business concern is found out over a period of time If the changes or improvement is not satisfactory, the management can find out the reasons for it and some corrective action can be taken.

Comparative Balance Sheet The financial condition of the business concern can be found by preparing a comparative balance sheet. The various items of the Balance sheet for two different periods are used. The assets are classified as current assets and fixed assets for comparison. Likewise, the liabilities are classified as current liabilities, long- term liabilities, and shareholder's net worth. The term shareholders net worth includes Equity Share Capital. Preference Share Capital, Reserves, and Surplus.

Common Size Statements A vertical presentation of financial information is followed for preparing common-size statements. Besides, the rupee value of financial statement contents is not taken into consideration However, only a percentage is considered for preparing common size statements.

LITERATURE REVIEW

M.R. Kumaraswamy (2004): Financial Management Cell for New Approach to Ethical-Based Financial Statement Analysis conducted a study that discussed how today's business world is marked by moral bankruptcy that violates all standards of good business ethics. This, in turn, has led to mounting economic (financial) problems due to frequent bank failures and insolvencies, which are the result of their engaging in fraudulent (manipulative)deals in as much as businesses are started with profit. A new method of financial statement analysis that incorporates moral principles into business management has been developed by the author with these factors in mind. 10.

Mark T. Soliman (2004): He uses Dupont analysis, which divides return on netoperating assets (RNOA) into two multiplicative components: profit margin and asset turnover, both of which are significantly influenced by industry membership, in his study Using Industry Adjusted Dupont Analysis to predict Future Profitability. The purpose of this study is to determine whether industry-adjusted Dupont analysis can be used as a tool to forecast future changes in RONA. In contrast to earlier research, which found that these elements are not helpful in forecasting and used targets with a broad economic scope.

OBJECTIVES OF THE STUDY:

1. To understand the financial statement analysis of eClerx business service limited
2. To get a better understanding of eClerx Business Service Limited.
3. To understand the financial position of the company.
4. To suggest measures for improving financial position.

RESEARCH METHODOLOGY AND DESIGN

This study will employ a quantitative research design to analyze the financial statements of Eclerx Business Services Limited. A quantitative approach is suitable for this research as it allows for the systematic collection and analysis of numerical data, which is essential for financial statement analysis.

Data Collection

The primary source of data for this study will be the annual reports of Eclerx Business Services Limited. These reports will provide detailed financial information, including the balance sheet, income statement, and cash flow statement, which are crucial for analyzing the company's financial performance.

Data Analysis

The collected data will be analyzed using the following methods:

➢ Financial Ratio Analysis: Various financial ratios will be calculated to assess the company's profitability, liquidity, solvency, and efficiency. These ratios will include:

➢ Profitability ratios (e.g., gross profit margin, net profit margin, return on assets, return on equity)

➢ Liquidity ratios (e.g., current ratio, quick ratio)

➢ Solvency ratios (e.g., debt-to-equity ratio, interest coverage ratio)

➢ Efficiency ratios (e.g., inventory turnover ratio, accounts receivable turnover ratio

➢ Trend Analysis: The financial ratios will be analyzed over time to identify trends and patterns in the company's financial performance. This will help to assess the company's growth, stability, and profitability.

➢ Common-Size Analysis: The financial statements will be converted into common-size percentages to facilitate comparisons across different time periods & with industry benchmarks. This will help to identify significant changes in the company's financial structure and performance.

➢ Benchmarking: The company's financial performance will be compared to industry benchmarks and competitors to assess its relative position & identify areas for improvement.

Financial Statements

STATEMENT OF STANDALONE UNAUDITED FINANCIAL RESULTS FOR THE QUARTER ENDED JUNE 30, 2024

(Rupees in million, except per share data)

Sr. No.	Particulars	Quarter ended			Year ended
		June 30, 2024	March 31, 2024	June 30, 2023	March 31, 2024
		Unaudited	Audited*	Unaudited	Audited
I	Revenue from operations	5,686.74	5,605.98	4,951.79	20,948.30
II	Other income	138.12	149.13	58.00	451.07
III	**Total Income (I + II)**	**5,824.86**	**5,755.11**	**5,009.79**	**21,399.37**
IV	**Expenses**				
	Employee benefits expense	2,629.30	2,407.64	2,131.25	8,851.52
	Sales and marketing services	1,166.88	1,158.14	1,015.05	3,993.17
	Cost of technical sub-contractors	185.32	142.13	173.92	661.84
	Depreciation and amortisation expense	176.13	182.56	139.07	639.15
	Finance cost	67.47	45.57	46.73	187.13
	Other expense	664.80	539.74	446.20	2,267.93
	Total expenses (IV)	**4,889.90**	**4,475.78**	**3,952.22**	**16,600.74**
V	Profit before exceptional items and tax (III-IV)	934.96	1,279.33	1,057.57	4,798.63
VI	Exceptional items	-	-	-	-
VII	**Profit before tax (V-VI)**	**934.96**	**1,279.33**	**1,057.57**	**4,798.63**
VIII	Tax expense	231.30	330.35	259.59	1,228.20
	(1) Current tax	239.43	338.61	258.98	1,238.32
	(2) Deferred tax	(8.13)	(8.26)	0.61	(10.12)
IX	**Profit for the period (VII-VIII)**	**703.66**	**948.98**	**797.98**	**3,570.43**
X	Other Comprehensive Income / (Loss) ('OCI')	18.38	23.54	179.37	143.01
	A (i) Items that will not be reclassified to profit or loss	(15.77)	(11.83)	(15.95)	(44.21)
	(ii) Income tax relating to items that will not be reclassified to profit or loss	3.97	2.98	4.01	11.13
	B (i) Items that will be reclassified to profit or loss (net)	40.33	43.28	255.65	235.31
	(ii) Income tax relating to items that will be reclassified to profit or loss	(10.15)	(10.89)	(64.34)	(59.22)
XI	**Total Comprehensive Income for the period (IX+X) (Comprising Profit and Other Comprehensive Income for the period)**	**722.04**	**972.52**	**977.35**	**3,713.44**
XII	Paid up equity share capital (Face value of Rs. 10 each, fully paid up)	483.22	482.32	482.18	482.32
XIII	Other equity				14,641.34
XIV	Earnings per share: (in Rs.) (Refer note 5)				
	(1) Basic	14.58	19.68	16.60	74.11
	(2) Diluted	14.32	19.30	16.38	72.86

*Refer note 3

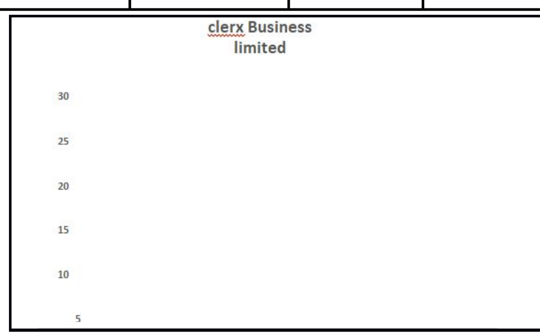
Financial Ratio Analysis Net Profit Margin

A ratio of profitability is calculated as net income divided by revenues, or net profits divided by sales. It measures how much out of every dollar of sales a company actually keeps in earnings. Profit margin is very useful when comparing companies in similar industries. A higher profit margin indicates a more profitable company that has better control over its costs compared to its competitors. Profit margin is displayed as a percentage.

Calculated as;

Net Profit Margin Ratio = Net Profit /Net Sales

Years	March 22	March 23	March 24
eclerx limited	10.60	20.64	27.02



The table illustrates eClerx's net profit performance over three years. In 2022, eClerx had a net profit margin of 10.60%. This increased to 20.64% in 2023, and further improved to 27.02% in 2024, indicating strong performance.

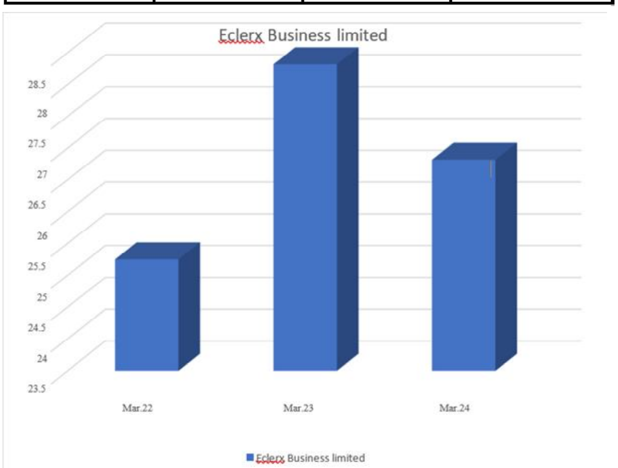
Dividend Pay-out Ratio

The dividend payout ratio is the amount of dividends paid to stockholders relative to the amount of total net income of a company. The amount that is not paid out in dividends to stockholders is held by the company for growth. The amount that is kept by the company is called retained earnings.

Calculated as,

Dividend Pay-out Ratio = Dividend / Net Income

Years	March 22	March 23	March 24
eclerx limited	25.25	28.32	26.82



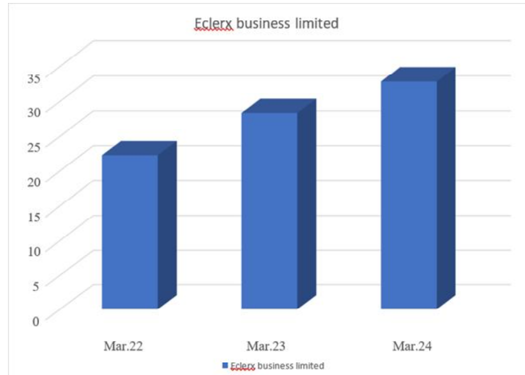
The table illustrates eClerx's net profit performance over three years. In 2022, eClerx had a net profit margin of 25.25%. This increased to 28.32% in 2023, and a further 28.82% in 2024, in 2023 indicating strong performance.

Return on Net Worth

The amount of net income returned as a percentage of shareholders' equity. Return on net worth measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Calculate as, Return on Net worth = Net Income/ Shareholder's equity*100

Years	March 22	March 23	March 24
eclerx limited	22.32	28.32	32.82



The table illustrates eClerx's net profit performance over three years. In 2022, eClerx had a net profit margin of 22.25%. This increased to 28.32% in 2023, and further improved to 32.82% in 2024, indicating strong performance.

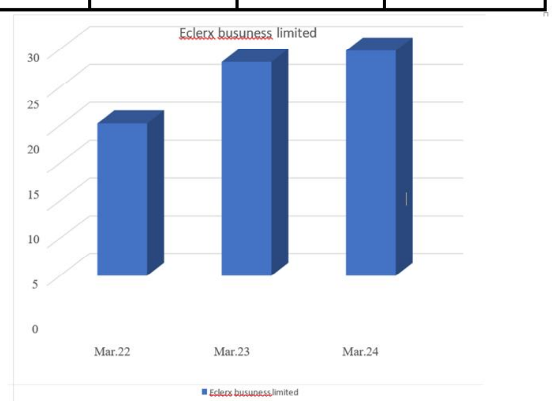
Current Ratio

The ratio is worked out by dividing the current assets of the concern by its current liabilities. The current ratio indicates the relation between the current assets and current liabilities. Current liabilities represent the immediate financial obligations of the company. Current assets are the sources of repayment of current liabilities. Therefore, the ratio measures the capacity of the company to meet the financial obligations as when they arise.

Calculated as,

Current Ratio = Current Assets -Current Liabilities

Years	March 22	March 23	March 24
eclerx limited	20.25	28.32	29.82



The table illustrates eClerx's net profit performance over three years. In 2022, eClerx had a net profit margin of 20.25%. This increased to 28.32% in 2023, and further improved to 29.82% in 2024, indicating strong performance.

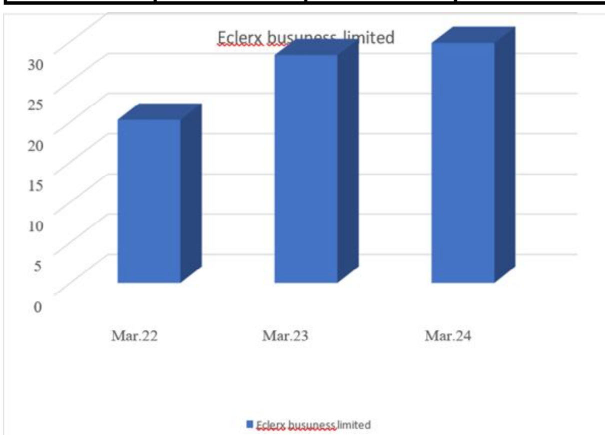
Operating Profit Per Share:

Profit earned after subtracting from revenues those expenses that are directly associated with operating the business, such as cost of goods sold, administration and marketing, depreciation, and other general operating costs. Operating earnings are an important measure of profitability, and since this metric excludes non-operating expenses such as interest and taxes, it enables an assessment of the company's core business profitability to be made,

Calculated as,

Operating Profit Per Share = Operating Profit / Average Outstanding Share

Years	March 22	March 23	March 24
eClerx limited	31.32	29.80	32.82



The table illustrates eClerx's net profit performance over three years. In 2022, eClerx had a net profit margin of 31.32%. This increased to 29.80% in 2023, and further improved to 32.82% in 2024, indicating strong performance.

FINDINGS

Revenue Growth: Eclerx has demonstrated a consistent revenue growth trajectory over the analyzed period. This growth indicates a positive demand for its business process management services and reflects the company's effective market positioning and expansion strategies.

Current Ratio:

The current ratio, which measures the company's ability to cover short- term liabilities with short-term assets, indicates a healthy liquidity position. A ratio significantly suggests that Eclerx is well-positioned to meet its short-term obligations.

Net Profit Margin: The net profit margin has seen some variation, with occasional drops that could be attributed to increased operating expenses or one-time charges. A detailed analysis of these fluctuations is necessary to assess the sustainability of profit levels.

Operating Profit Per Share: Positive operating per share indicates that Eclerx is generating sufficient cash from its core business operations to fund its activities and investments.

CONCLUSION

Eclerx has demonstrated strong revenue growth, which underscores its solid market position and the effectiveness of its business strategies. This consistent revenue increase highlights the company's capability to capitalize on market opportunities and broaden its client base, positioning itself well for future expansion.The company has maintained stable profitability, with its gross profit margin remaining steady. This stability reflects effective cost management and pricing strategies. However, fluctuations in the net profit margin suggest a need for ongoing scrutiny of operating expenses and one-time charges that could impact overall profitability. Addressing these fluctuations is crucial for sustaining long-term financial health.

Overall, Eclerx Business Services Limited's financial performance reflects a strong and well- managed organization, capable of leveraging its strengths to drive continued success and growth.

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