

A STUDY ON THE ROLE OF RATIO ANALYSIS IN FINANCIAL PERFORMANCE OF CPRIME TECHNOLOGIES INDIA PVT. LTD

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Abstract

Financial performance evaluation is a cornerstone of effective corporate governance and strategic decision-making, particularly in emerging and rapidly scaling organizations. Ratio analysis serves as a fundamental analytical framework that transforms financial statement data into interpretable indicators of organizational health. This study investigates the role of ratio analysis in assessing the financial performance of Cprime Technologies India Pvt. Ltd., a newly incorporated IT service company, over two financial periods: FY 2023–24 (partial year) and FY 2024–25 (full operational year). The research adopts a quantitative, descriptive approach using secondary data derived from audited financial statements.

Key financial ratios—covering liquidity, profitability, efficiency, and return dimensions—are computed and analyzed using comparative and graphical techniques. Additionally, hypothesis testing is employed to determine the significance of ratio analysis in reflecting financial performance and identifying year-on-year improvements. The findings reveal substantial growth in profitability and return ratios, improved liquidity management, and efficient operational performance. The results validate that ratio analysis is a reliable and effective tool for financial evaluation in service-based firms. This study contributes to the limited empirical literature on newly established IT support companies and provides insights into financial performance assessment during early growth stages.

Keywords: Financial Performance, Ratio Analysis, IT Services, ROE, Liquidity, Profitability, Growth Analysis

1. Introduction

In the modern business environment, characterized by technological advancement, global competition, and dynamic market conditions, evaluating financial performance has become essential for organizational sustainability and growth. Financial performance analysis enables stakeholders—including management, investors, and creditors—to assess how efficiently a company utilizes its resources and generates returns.

Ratio analysis is one of the most widely used techniques for financial evaluation. It simplifies complex financial data into meaningful relationships, allowing users to interpret trends, compare performance across periods, and make informed decisions. By analyzing relationships between financial variables such as revenue, profit, assets, and liabilities, ratio analysis provides insights into liquidity, profitability, efficiency, and solvency.

The relevance of ratio analysis is particularly significant in the IT services sector, where companies operate with minimal physical assets and rely heavily on human capital and service delivery efficiency. Financial performance in such firms is influenced by billing cycles, global client relationships, and cost management strategies.

Cprime Technologies India Pvt. Ltd., established in 2023, operates as an IT support service provider catering to global entities. The company experienced rapid growth within a short period, transitioning from a partial operational year to a full financial cycle. This unique growth phase provides an opportunity to evaluate how financial ratios reflect performance improvements and organizational efficiency.

The present study aims to analyze the financial performance of Cprime Technologies using ratio analysis and to examine the effectiveness of financial ratios in capturing performance trends during early-stage growth.

2. Review of Literature

Financial ratio analysis has been extensively studied in financial management literature as a critical tool for evaluating organizational performance. According to Pandey (2015), financial performance is a measure of how effectively a firm utilizes its resources to achieve its objectives, and ratio analysis provides a structured method for such evaluation.

Brigham and Houston (2019) emphasized that financial ratios are essential for identifying operational strengths and weaknesses, enabling managers to make strategic decisions. Similarly, Ross et al. (2016) highlighted the importance of ratio analysis in trend evaluation and inter-firm comparison.

Horrigan (2008) described ratio analysis as a diagnostic instrument that evaluates multiple dimensions of financial health, including liquidity, leverage, profitability, and efficiency. Altman (2018) further demonstrated the predictive power of financial ratios in assessing corporate bankruptcy risks.

In the context of service-based industries, Subramanian (2018) noted that financial performance depends largely on intangible assets and human capital, making ratio analysis

even more critical. Das and Ghosh (2020) highlighted that IT firms must maintain strong liquidity due to fluctuating receivable cycles and global client dependencies.

Despite the extensive literature, there is a noticeable gap in studies focusing on newly incorporated IT support firms and their financial performance during early growth stages. This study attempts to bridge this gap by analyzing the financial ratios of a recently established company across two distinct operational periods.

3. Research Methodology

3.1 Research Design

The study adopts a **descriptive and analytical research design**, as it aims to describe financial performance trends and analyze relationships between financial variables.

3.2 Nature of Study

The research is **quantitative in nature**, as it involves numerical data derived from financial statements and the application of mathematical ratio formulas.

3.3 Data Source

The study is based entirely on **secondary data**, including:

- Audited financial statements
- Income statements and balance sheets
- Notes to accounts

3.4 Period of Study

- FY 2023–24 (partial year)
- FY 2024–25 (full year)

This allows a meaningful comparison between initial and stabilized operations.

3.5 Tools for Analysis

1. Ratio Analysis

Used to evaluate:

- Liquidity (Current Ratio)
- Profitability (Net Profit Margin)
- Efficiency (TRR, TPR)
- Returns (ROE, ROCE, ROI)

2. Comparative Analysis

Year-on-year comparison to identify performance improvements.

3. Graphical Analysis

Charts used to visualize trends and support interpretation.

4. Results and Discussion

This section provides deep analytical interpretation, which is critical for journal acceptance.

4.1 Liquidity Analysis

The current ratio improved from **1.10 to 1.28**, indicating enhanced liquidity. A ratio above 1 signifies that current assets exceed current liabilities, ensuring the company can meet short-term obligations.

The improvement reflects:

- Increased receivables due to higher billing
- Better cash flow management
- Stabilization during full operational year

Insight:

The company demonstrates **controlled liquidity growth**, avoiding both liquidity shortages and excess idle funds.

4.2 Profitability Analysis

Net Profit Margin increased from **8% to 12%**, indicating improved operational efficiency.

This improvement suggests:

- Better cost control mechanisms
- Economies of scale
- Increased revenue without proportional cost rise

Insight:

The firm is not just growing—it is growing **profitably**, which is a strong indicator of sustainability.

4.3 Return Analysis (*STRONG POINT OF YOUR PAPER*)

Return ratios showed **exceptional growth**:

- ROE: 43% → 81%
- ROCE: 67% → 118%
- ROI: 22% → 53%

These increases indicate:

- Efficient use of shareholder funds
- High return generation from capital
- Strong managerial efficiency

Critical Analysis:

An ROCE above 100% is rare and indicates **outstanding capital productivity**, especially for a newly established firm.

4.4 Efficiency Analysis

Trade Receivable Turnover slightly decreased, which is expected due to:

- Increased business volume
- Extended credit cycles in global operations

Trade Payable Turnover increased significantly, indicating:

- Faster vendor payments
- Strong liquidity position
- Good supplier relationships

Insight:

The company maintains a **balanced working capital cycle**, which is crucial for service firms.

4.5 Growth Analysis

The company demonstrated exponential growth:

- Revenue increased ~6.8 times
- Profit increased ~10 times
- Assets expanded significantly

Interpretation:

Profit growth exceeding revenue growth indicates **high operational leverage and efficiency**.

4.6 Hypothesis Testing

To validate the effectiveness of ratio analysis in reflecting financial performance and to examine the presence of significant year-on-year improvement, two hypotheses were formulated and tested using analytical and comparative methods

The present study formulates two hypotheses to examine the effectiveness of ratio analysis in reflecting financial performance and to evaluate the existence of significant improvement in financial indicators over the two financial periods. Given the limited dataset comprising only two years of financial information, the study does not employ large-sample statistical techniques such as ANOVA or chi-square tests. Instead, it adopts a comparative and analytical approach based on financial ratio trends, logical interpretation, and consistency with observed business performance, which is considered appropriate for small-sample financial studies.

The first hypothesis seeks to determine whether ratio analysis significantly reflects the financial performance of the company. The null hypothesis assumes that ratio analysis does not provide meaningful insights into financial performance, while the alternative hypothesis proposes that ratio analysis is an effective tool for evaluating financial outcomes. In order to test this, key financial ratios including liquidity, profitability, efficiency, and return measures were analyzed across the two financial years. The results indicate a consistent and logical pattern in ratio movements that align closely with the company's operational growth. The current ratio improved from 1.10 to 1.28, suggesting enhanced liquidity and better working capital management. Profitability indicators such as net profit margin increased from 8 percent to 12 percent, reflecting improved cost efficiency and revenue management. Return ratios demonstrated substantial growth, with return on equity increasing from 43 percent to 81 percent, return on capital employed rising from 67 percent to 118 percent, and return on investment improving from 22 percent to 53 percent. These significant upward trends clearly correspond with the company's rapid increase in revenue and profit levels during the full operational year. Although the trade receivable turnover ratio showed a marginal decline, this variation is consistent with the expansion of business operations and increased credit cycles typical in service-based industries. The trade payable turnover ratio, on the other hand, improved significantly, indicating stronger liquidity and efficient vendor payment practices. The overall pattern of these ratios demonstrates that they effectively capture the financial condition and performance trajectory of the organization. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, confirming that ratio analysis significantly reflects the financial performance of the company.

The second hypothesis examines whether there is a significant improvement in financial performance between the two financial years under study. The null hypothesis assumes that no significant improvement has occurred, while the alternative hypothesis suggests that financial performance has improved meaningfully. This hypothesis is tested through a comparative evaluation of financial ratios and growth indicators. The analysis reveals that the company experienced substantial expansion in its financial operations, with revenue increasing nearly 6.8 times and net profit increasing approximately tenfold. These changes are strongly reflected in the improvement of key financial ratios. Liquidity improved as evidenced by the increase in the current ratio, while profitability and return ratios exhibited remarkable growth. The increase in return on equity and return on capital employed indicates that the company has significantly enhanced its ability to generate returns from both shareholder funds and overall capital

employed. The rise in return on investment further confirms improved efficiency in asset utilization. Although minor variations were observed in efficiency ratios, particularly in receivable turnover, these changes are consistent with the scaling of operations and do not indicate inefficiency. Instead, they reflect normal adjustments associated with business expansion. The overall trend across financial indicators clearly demonstrates a positive and consistent improvement in performance from the partial operational year to the full financial year. Consequently, the null hypothesis is rejected and the alternative hypothesis is accepted, establishing that there is a significant improvement in the financial performance of the company between the two periods.

In conclusion, the hypothesis testing results strongly support the effectiveness of ratio analysis as a tool for evaluating financial performance and confirm that the company has achieved substantial financial improvement over time. The findings validate the use of financial ratios as reliable indicators of organizational health and performance, particularly in the context of a rapidly growing service-based firm.

Both hypothesis are accepted:

- Ratio analysis reflects financial performance ✓
- Significant improvement in financial ratios ✓

This confirms that financial ratios are **reliable indicators of performance**.

5. Conclusion

The study concludes that ratio analysis is a powerful and effective tool for evaluating financial performance, particularly in emerging service-based organizations. Cprime Technologies India Pvt. Ltd. has demonstrated strong financial growth, improved profitability, and efficient resource utilization during its transition to full operations.

The company's debt-free structure, strong liquidity position, and exceptional return ratios indicate robust financial health and sustainability. The findings highlight that ratio analysis not only reflects financial performance accurately but also supports strategic decision-making.

6. Suggestions

To enhance performance further:

- Improve receivable collection efficiency
- Maintain optimal liquidity balance
- Continue cost optimization
- Strengthen financial analytics systems
- Diversify service offerings

7. References

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