

# Highlights of the financial performance of sprintex ltd research paper example

[Business](#), [Company](#)



## **Analysis if the financial performance of Sprintex company ltd.**

### Introduction

Sprintex communication limited is an IT firm that has been in the provisions of services in communication industry for he last fifteen years. Over the said period, the company has grown from strength to strength, financialwise, and notably managing to spread out it's operations beyond the two outlets that were set by the original foundes, John Mark and Wendy In the year 1998.

Currently the company is domiciled in London, operating as its headquarters and the focal point of conducting its global strategy. It has roughly two hundred and seventeen branches, most of them in the European country .

However , recently the company has been on expansionary path and hence has set up functional offices in Latin America and most of the fastest growing Asian countries. It is also worth noting that even though the company is yet to set foot in Africa, there have been words going round that the company's management has been weighing the chances of acquiring several strategic firms that have been performing fairly well, as well as the ones with clear growth outline.

For the last three years, It has been a milestone for sprintex communications since it marked the period which it met all the statutory requirements to be enrolled in the prestigious London stock exchange, giving investors a chance of laying their investments open.

Currently, the chairman of the company is one of the founders, John mark.

There has been a shakeup of the senior management in a bid to abide by the

regulators requirements as well as bringing in fresh brains that will oversee the transition to a blue chip company.

Sales for the company hit \$200 million mark last year

Profit for the company hit five year high after the announcement of the financial achievements. The following has been the profits reported by the company from 2009 to 2012

2009.\$109million

**2010\$152 million.**

2011.\$198 million

2012.\$294 million

### **Financial statement analysis will guide us in to establishing the viability of acquisition of the company.**

What is financial statement analysis?

This is a procedural, keen and astep by step analysis taken by interested parties in any business undertaking as a measure to scratch beneath the surface what can be seen by any person concerning the business'. This will set a very important platform for analyzing very important parameters like risks the business is facing, returns and many others (Choi, 2011).

A business has many stakeholders whose interests revolve around the operations and sustainability of the business as a going concern. This perspective narrows down to the fact that every interested party aims to see the business posting improved performance year after a year (Leonard, 2003).

However there are several reasons making a crucial business decision should

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not be based on financial statement analysis only. Here are some of the identified limitations this tool of evaluation.

- The fact that financial statement relies heavily on historical information raises many unanswered questions about the validity of the same in a different trading period. Circumstances surrounding businesses keep changing, and so does the performance. Hence, basing your arguments on analysis that was done under different circumstances may be misleading most of the times.
- This process provides only quantitative data brings out major weakness in importance of the process. Qualitative aspects of business performance cannot be captured in financial statements yet they form the bed rock of business success. These are aspects like customer satisfaction from the service delivery, motivation of employees and their willingness to continue serving the business in future.
- Accuracy of financial statements is very crucial, yet a difficult feat to attain. It calls for a very strict attention and professionalism which may not be exercised by the people tasked with this work. This propels the possibility of making in accurate and biased decisions.

### **There are different approaches in which we can advance financial statement analysis.**

The broad ones are vertical and horizontal analysis.

- Horizontal analysis.

Horizontal analysis explains the variations of same variables for the same entity over a defined time period. The parameters used in this comparison are either balance sheet or items in the income statement. A prudent

comparison would be the revenue of a specific company but in different trading periods. Taking the example of same figure, a cross section is drawn to show by how much change was noted (Choi, 2011).

#### b) Vertical analysis

This shows comparisons of comparison of a company's performance subject to a one variable, within a specific period of time. An excellent example would be a year's analysis of various expenses within a specific unique variable, like sales. In the example above, the comparison is meant to analyze how the total revenues made by the corporate are hinged to the volume of a particular expense inputted in the production process (Choi, 2010).

A cross sectional comparison is then done for the same company in different years to relate how changes in the percentage of usage changed with the changes in level of activity

Importance of this ratio is that it underlines the reliability of revenues to a particular group of expense. From this analysis, valuable information can be drawn. This is an impeccable outline.

In the event that a particular area of expense appears to influence the level of revenues generated by the company and the prices of the output are sky rocketing,, decision makers may deem it fit to find for the company to look for cheaper substitutes that will not compromise the quality of final product(Leonard, 2003) .

In business scenario this will enhance competition and ensure that the company in question will not be driven out of market by rivals due to its

pricing model. After prudent planning and execution of the substitution procedure, better profit margin will be enhanced in the long term.

### **Liquidity ratios.**

Liquidity is a company's ability to meet its short term obligations when they fall due, in a manner that will not negatively affect the long term financial health of the company. Different parameters are used to assess the sustainability of business. Here are some of the ways:

### **Current ratio.**

In simplest terms, current ratio depicts the excess of current assets over current liabilities. The logical business idea is that current liabilities fall due within a year's time, with the ability of the business to settle all this and remain unhurt by the outflow giving impression of financial strength. The recommendation by most accounting bodies and international organizations is to ensure the current ratio remains higher than 1.20. Any value below this bench mark will show liquidity problems.

### **Acid test ratio**

Conventionally stock turns out to be in many instances more of a long-term asset than a short term one. To dispose part of stock in order to offset a short-term bill incurred by the business may be difficult in some instances, hence explaining the exclusion of stock at hand in this calculation. The conventional ratio that gives a guarantee keeping the business safe in torrid trading times is a ratio equivalent to 1 or higher than this bench mark. From the analysis conducted in the financial performance of Sprint, the following

was noted with regard to financial sustainability; The Company has made a wise decision on their short term financing, reducing the overall exposure (Mitchell, 2010).

## **Equity and working capital ratios**

This portrays several aspects on how Sprint puts to use the financial resources at their disposal from different sources: shareholders, long term financiers like bond providers as well as internal sources of funding, example being retained earnings.

## **Return on investment**

The ratios focused on this paper are rate of return of investment, gearing ratio

Return on investment underlines the return obtained from the various investment avenues that the decision makers have decided to harness

Financial leverage ratio

= Net Debt / Equity

On the other hand financial leverage or gearing ratio brings in to focus the percentage of the funding that the business obtains from outside sources, not from shareholders. Most fixed long-term capital sources like bonds and preference shares attract fixed amounts of interest, and excessive a high gearing ratio portrays the company's income being eroded in meeting the interest obligations (Mitchel, 2010).

## **Gearing ratios analyzed from sprint ltd. evaluated brought the following results;**

Funds from long-term sources of capital/capital employed

Capital from long term sources..\$99 million

### **Capital employed\$245 million**

CAPITAL EMPLOYED=  $99/245 = 0.4041$

This translates to 41% funding from interest bearing instruments. The company is not highly geared. Ideally. A company that is funded from long-term sources is said to be highly geared, increasing the business risk.

### **Vertical analysis.**

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### **Stock performance.**

There has been an upward trend in the profits of the company due to the spreading out of business to new area. Again there has been a cost cutting exercise fueled by the fact that the company has been using lean manufacturing in the production of all the commodities it supplies. This has seen the cost of the firm go down considerable, and considering that the revenue streams remain on an upward trend, investors have remained optimistic than ever about Sprint ltd. It is against this background that the shares of the company remain bullish in the market.

A chart of the situation in the stock exchange has been provided in an excel sheet to highlight the price of shares (Leonard, 2003).

### **Risk of future returns from the company**

#### **Conclusion**

I recommend that HTC limited takes the deal of acquiring Sprint ltd seriously.

## **Here are the reasons why:**

- The company has firm long term and medium term revenue plans
- The company is not highly indebted
- The management of the company will be of great help to the entire group due to the wealth of experience they will add.

## **References**

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