

**Financial and Performance Analysis of Listed Companies
of Pakistan to Draw Conclusion for Investment.**



By

Nouman Ahmed

(Registration No: 00000364303)

Department of Finance & investments

NUST Business School

National University of Sciences & Technology (NUST)

Islamabad, Pakistan

(2023)

Financial and Performance Analysis of Listed Companies of Pakistan to Draw Conclusion for Investment.



By

Nouman Ahmed

(Registration No: 00000364303)

A thesis submitted to the National University of Sciences and Technology, Islamabad,

in partial fulfillment of the requirements for the degree of

Executive Master of Business Administration

Finance & Investments

Supervisor: Dr. Farasat Ali Shah Bukhari

NUST Business School

National University of Sciences & Technology (NUST)

Islamabad, Pakistan

(2023)

THESIS ACCEPTANCE CERTIFICATE

BUSINESS PROJECT ACCEPTANCE CERTIFICATE

It is Certified that final copy of EMBA Business Project written by Nouman Ahmed Registration No. 364303 of EMBA 2K21 has been vetted by undersigned, found complete in all aspects as per NUST Statutes/Regulations/MS Policy, is free of errors, and mistakes and is accepted as fulfillment for award of EMBA degree. It is further certified that necessary amendments as pointed out by GEC members of the scholar have also been incorporated in the said business project.

Signature of Supervisor with stamp: Dr. Farasat Ali Shah Bukhari

Date: _____

FAI
Dr. Farasat Ali Shah Bukhari
Assistant Professor
Finance & Investment Department
NUST Business School, Islamabad

Programme Head Signature with stamp: Dr. Muhammad Fawad Khan

Date: _____

DR. M FAWAD KHAN
Assistant Professor
Program-Head (EMBA)
NUST Business School, Islamabad

Signature of HoD with stamp: Mr. Saad Al Marwat

Date: _____

SM
SAAD KHAN ALMARWAT
HoD, Finance & Investments
NUST Business School (NBS)
Sector H- 12, Islamabad
Tel: 051-90953150

Countersign by

Signature (Dean/Principal): _____

Date: _____

[Signature]
Principal & Dean
Dr. Naukhez Sarwar
NUST Business School

12/07/24

AUTHOR'S DECLARATION

I Nouman Ahmed hereby state that my MS thesis titled "Financial and Performance Analysis of Listed Companies of Pakistan to Draw Conclusion for Investment" is my own work and has not been submitted previously by me for taking any degree from National University of Sciences and Technology, Islamabad or anywhere else in the country/ world.

At any time if my statement is found to be incorrect even after I graduate, the university has the right to withdraw my MS degree.

Name of Student: Nouman Ahmed

Date: _____

ACKNOWLEDGEMENTS

First and foremost, I would like to express my sincere gratitude to Almighty Allah for giving me the strength, knowledge, and perseverance to complete this project. Without His blessings, this achievement would not have been possible. I am deeply grateful to my supervisor, Dr. Farasat Ali Shah Bukhari, whose guidance, expertise, and unwavering support have been invaluable throughout this journey. Their constructive feedback and encouragement have shaped the direction of this project. I would also like to extend my appreciation to the faculty and staff at the National University of Sciences and Technology (NUST), Islamabad, for providing a conducive environment and the necessary resources for the successful completion of this project. Special thanks go to my family and friends, whose constant encouragement, patience, and understanding helped me stay focused and motivated. Their emotional support has been instrumental in this accomplishment. Lastly, I would like to acknowledge all those who have contributed directly or indirectly to the completion of this project. Your support has meant a lot to me, and I am truly grateful.

TABLE OF CONTENTS

ACKNOWLEDGEMENTS	i
TABLE OF CONTENTS	ii
LIST OF FIGURES	iv
ABSTRACT.....	v
1. INTRODUCTION.....	1
1.1. Introduction – SYSTEMS LTD.....	1
1.1.1. PRODUCTS	2
1.1.1.1. Highly scalable, reliable, and configurable B2B data interchange with EDI and non-EDI trading partners	2
1.1.1.2. Achieve omnichannel unified commerce between your existing eCommerce implementation and Microsoft Dynamics 365 for Finance and Operations.	2
1.1.1.3. A powerful BI platform for the retail industry that offers over 2,500 built-in metrics and hundreds of KPIs, reports, and dashboards	3
1.1.1.4. A state-of-the-art suite of modular tools for intelligent fashion supply chain and direct-to-consumer operations	3
1.1.1.5. Manage, share, and steer the vast capabilities of your staff, focus on your critical talent, and support strategic HR processes	4
1.1.1.6. Your go-to solution for accurate, efficient travel insurance policy management	4
1.2. BOARD OF DIRECTORS – SYSTEMS LTD.....	5
1.3. Introduction – NETSOL	6
1.3.1. Products/Services	7
1.3.1.1. NFS ASCENT.....	7
1.3.1.1.1. An Adaptive Platform for the Evolving Global Asset Finance and Leasing Industry ...	7
1.3.1.2. NFS DIGITAL.....	7
1.3.1.2.1. Curated Digital Touchpoints for Your Teams, Partners & Customers.....	7
1.4. BOARD OF DIRECTORS – NETSOL	8
2. LITERATURE REVIEW.....	9
3. Statements.....	10
4. Revenue and Cost Analysis.....	14
4.1. Revenue & Growth Comparison	14
4.2. Revenue vs Cost Comparison.....	16
4.2.1. Systems LTD	16

4.2.2.	Netsol Technologies	16
5.	RATIO ANALYSIS.....	17
5.1.	Gross Profit Margin.....	17
5.2.	Net Profit Margin	18
5.3.	Earnings Per share	19
5.4.	Current Ratio	20
5.5.	EBITDA	20
5.6.	Debt to Equity Ratio	22
6.	Results & Conclusion	22
7.	Conclusion & Recommendations.....	23
8.	References	24

LIST OF FIGURES

Figure 1.1: Revenue Comparison between Systems & NETSOL From 2019-2021.....	14
Figure 1.2 Growth Comparison B/W Systems & NETSOL in 3 Years	15
Figure 1.3: Revenue & Cost Comparison of Systems & NETSOL, How much Cost incurred to Generate Revenue	16
Figure 1.4: Gross Profit Margin Comparison	17
Figure 1.5: Net Profit Margin Comparison.....	18
Figure 1.6: Earning Per Share Comparison	19
Figure 1.7: Current Ratio Analysis Comparison.....	20
Figure 1.8: EBITDA Margin Comparison	21
Figure 1.9: Debt to Equity Ratio Comparison	22

ABSTRACT

In pursuance of carrying an aspiration to invest in one of the largest publicly listed companies rather renowned and leading in IT industries, where the comprehensive analysis of some important ratios will be calculated through the financial report of two companies to conclude which company is the best as per the analysis results to invest eventually and which company has more volatility or risk associated with it. Individual investors and some corporate managers want to buy shares and invest in the companies. To facilitate the investors, we would analyze the financial statements, including the balance sheet, income statement, and statement of owner's equity, by calculating the ratios and developing a simple model. We shall explain them with the theory of what those results indicate so that professionals with non-financial backgrounds would have clarity on the subject matter. Furthermore, this would also emphasize managing cashflows by providing dividends to the investors and safe investments, which further discourages the term deposits and saving accounts that the companies and individuals keep in the bank for a certain time. The purpose of analyzing financial statements is to evaluate the business performance of an enterprise, its profitability, and liquidity and to identify trends and relationships between the items of the financial statements. Another important purpose of the analysis of financial statements is to find potential problem areas.

1. INTRODUCTION

1.1. Introduction – SYSTEMS LTD

Systems Limited (SYS) is a Pakistani public technology company, involved in mortgage, apparel, retail and BPO services. Systems is the parent company of the Tec vista Systems (United Arab Emirates), Systems Arabia (Saudi Arabia), Systems Misr (Egypt) and Techvista Qatar (Qatar), NdcTech. It has a market value of around US\$ 620



million (PKR 140.77 billion) as of late-2022. Systems Limited was established in 1977. The company is Pakistan's first software house. The company began its operations in the United States in 1997 and then in the United Arab Emirates in 2013. In the same year, Asif Peer was appointed as the CEO of Systems. The Company where he started his career as Software Developer in 1996. The company went public with an initial public offering (IPO) on December 4, 2014 and is now one of the largest IT exporters listed on the Pakistan Stock Exchange. 13 million shares were listed on the Karachi, Islamabad, and Lahore stock exchanges. In 2020, the company was the top performer in tech stocks, despite the COVID-19 pandemic. In September 2021, the share price of Systems Ltd reached Rs. **740.93** and the company's market value became Rs. 102 billion, making Systems Ltd the first Pakistani IT company to cross-market value of PKR 100 billion. In Aug 2022, Systems Limited created a new subsidiary in Johannesburg, South Africa, as part of its ongoing global expansion. It's Pakistan's first IT company in Africa.

1.1.1. PRODUCTS

1.1.1.1. Highly scalable, reliable, and configurable B2B data interchange with EDI and non-EDI trading partners

Can transmit data between large enterprises with either VAN-based or direct-to-partner connections. It is designed for rapid implementation and is capable of processing thousands of transactions per hour. Its EDI-optimized business rule engine and extensive preconfigured business rule library greatly improve the partner onboarding process and support all major transport protocols, including AS2, EDIFACT, FTP, SMTP, and X12, as well as custom formats.



1.1.1.2. Achieve omnichannel unified commerce between your existing eCommerce implementation and Microsoft Dynamics 365 for Finance and Operations.

Seamlessly and securely unifies your existing eCommerce solution with Dynamics 365. It eliminates error-prone and time-consuming manual integration between platforms and creates a single, synchronized system for centralized channel management. It is designed to cost-effectively address the needs of omnichannel retailers by taking full advantage of existing ERP and eCommerce investments and placing no constraints on either system. Middleware Connector intelligently delivers a streamlined cross-channel experience for consumers.



1.1.1.3. A powerful BI platform for the retail industry that offers over 2,500 built-in metrics and hundreds of KPIs, reports, and dashboards

Delivers industry-specific analytics while reducing the effort needed to create and deploy such sophisticated platforms from years to weeks. Its cloud-hosted enterprise data warehouse provides cross-channel visibility and a single version of the truth for enterprise analytics. Take full advantage of real-time information on stock levels and your customers' purchasing behavior to manage your supply chain and meet consumer demand with unprecedented agility.



1.1.1.4. A state-of-the-art suite of modular tools for intelligent fashion supply chain and direct-to-consumer operations

Is a true end-to-end solution powered by Microsoft Dynamics 365, Office 365, and intelligent cloud for manufacturers and retailers in fashion, apparel, and footwear. Haute-Logic enables digital transformation using best-in-class cloud, robotic automation, AI, machine learning, and analytics technologies. It seamlessly extends Microsoft Dynamics 365 to help fashion brands streamline operations, improve collaboration, and achieve faster time to market.



1.1.1.5. Manage, share, and steer the vast capabilities of your staff, focus on your critical talent, and support strategic HR processes

Is a human capital management solution that offers organizations the tools they need to create a workforce that can become their most coveted competitive Advantage. Its modular architecture makes it simple to add modules to the core application as your organization grows. Sys-HCM helps organizations lower their human resource costs, streamline their entire recruit-to-retire spectrum, expand their talent pool, shorten their hiring process, and simplify HR information and benefits management for employees.



1.1.1.6. Your go-to solution for accurate, efficient travel insurance policy management

Is a cloud-based insurance solution designed to simplify the management of international and domestic travel insurance and travel for treatment (T4T). It also includes a comprehensive policy description and benefits to facilitate clients' understanding. TrIPS ensures that all your data and relevant information is available online in one place. It allows you to create and issue policies, manage agencies, and make better decisions using detailed user and agency reports.



1.2. BOARD OF DIRECTORS – SYSTEMS LTD



Aezaz Hussain
Chairman/Non-Executive Director



Mr. Asif Peer
Chief Executive Officer



Mr. Arshad Masood
Non-Executive Director



Mr. Shabbar Zaidi
Independent Director



Mr. Omar Saeed
Independent Director



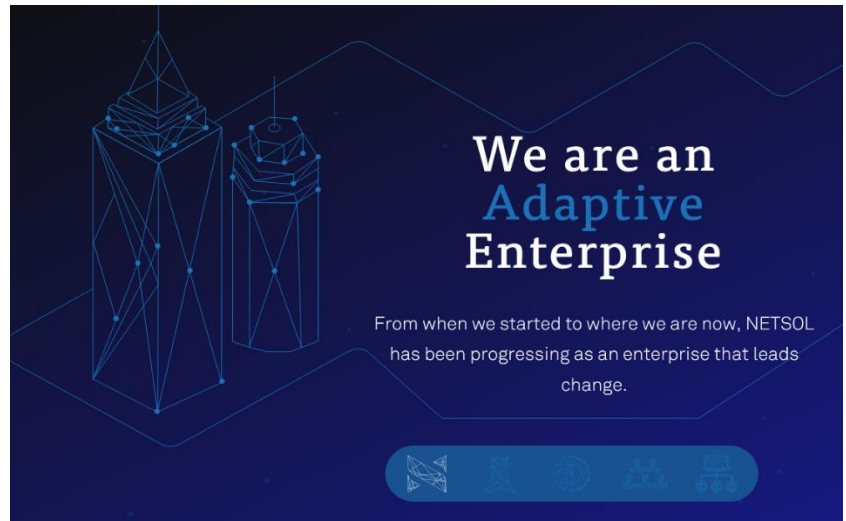
Mr. Asif Jooma
Independent Director



Mrs. Romana Abdullah
Independent Director

1.3. Introduction – NETSOL

NETSOL Technologies taps into its strong business acumen to find solutions to the unique set of challenges and constraints imposed by each new project and delivers solutions that fill performance gaps. We have a proven track record of successfully meeting deadlines and executing the most complex projects within budget while consistently maintaining the highest quality. With our rich history of innovation, NETSOL Technologies



is a dynamic leader and has been able to accumulate a wealth of experience in the global asset finance and leasing industry. We have built a large knowledge base that is regularly refined and updated to ensure the most up-to-date best practices and business solutions for the benefit of our clients and partners. With a presence in 8 strategically located cities across the globe and a team of more than 1300 professionals, we ensure that our clients get dedicated attention from the best minds in the industry. We boast an impressive portfolio of several quality awards, which further solidify our dominance and status as the finest global service providers. NETSOL Technologies maintains its position as a leader in providing innovative solutions to the global asset finance and leasing industry. We take pride in being the first organization in the industry to introduce digital transformation and launch a complete line of digital solutions. We introduced our digital suite to help companies tap into the advantages of digitization and mobility while taking control of the challenges inherent in this environment.

1.3.1. *Products/Services*

1.3.1.1. NFS ASCENT

1.3.1.1.1. An Adaptive Platform for the Evolving Global Asset Finance and Leasing Industry

NFS Ascent® is built on cutting-edge, modern technology that enables auto, equipment and big-ticket finance companies to run their retail and wholesale finance business with ease. Comprehensive domain coverage and powerful configuration engines. it is architected to empower finance and leasing companies with a platform that supports their growth in terms of business volume and transactions.



1.3.1.2. NFS DIGITAL

1.3.1.2.1. Curated Digital Touchpoints for Your Teams, Partners & Customers

NFS Digital is a combination of our core strengths, domain, and technology. Our insight into the evolving landscape along with our valuable experience enables us to define sound digital transformation strategies and compliment them with smart digital solutions so our customers always remain competitive and relevant to the dynamic environment. Our digital transformation solutions are extremely robust and can be used with or without our core, next-gen solution (NFS Ascent®) to effectively augment and enhance the ecosystem.

1.4. BOARD OF DIRECTORS – NETSOL



Najeeb Ghauri

Founder, Chairman &
Chief Executive Officer,
NETSOL Technologies, Inc.

[PROFILE](#)

[in](#)



Syed Kausar Kazmi

Independent Director,
Chairman of Audit Committee

[PROFILE](#)

[in](#)



Mark Caton

Independent Director &
Chair of Compensation Committee

[PROFILE](#)

[in](#)



Henry Tolentino

Independent Director,
Chair of the Nomination and Corporate Governance Committee

[PROFILE](#)

[in](#)



Malea Farsai

Director

[PROFILE](#)

[in](#)

2. LITERATURE REVIEW

This literature review examines the significance of financial ratios, namely liquidity ratios, profitability ratios, solvency ratios, and capital structure ratios, in the compilation of statutory reports for public listed companies in Pakistan. By analyzing existing literature, this review sheds light on the importance of these ratios in assessing the overall performance of companies. The findings presented in this review contribute to understanding the key financial ratios utilized in Pakistan's statutory reporting framework and their implications for evaluating a company's performance. Financial ratios serve as valuable tools for analyzing a company's overall performance and financial health. Liquidity ratios, such as the current ratio and quick ratio, assess a company's ability to meet short-term obligations. Profitability ratios, including gross profit margin and return on equity, measure a company's ability to generate profits relative to its revenue and investments. Solvency ratios, like the debt-to-equity ratio and interest coverage ratio, evaluate a company's long-term financial stability and ability to meet its debt obligations. Capital structure ratios, such as the debt ratio and equity ratio, provide insights into a company's financing mix and risk profile. By employing these financial ratios in the compilation of statutory reports, stakeholders can assess a company's overall performance and make informed decisions. Regulators, investors, and analysts rely on these ratios to gauge a company's liquidity position, profitability, solvency, and capital structure. Understanding and interpreting these ratios accurately are essential for evaluating a company's financial strength, operational efficiency, and risk exposure. To ensure the effective use of financial ratios for analyzing overall performance, further research could focus on exploring the specific challenges faced in applying these ratios to statutory reporting in the context of public listed companies in Pakistan. Additionally, examining the correlation between these ratios and other performance indicators can provide a comprehensive assessment of a company's financial performance and aid in making well-informed decisions.

3. Statements

3.1. NETSOL TECHNOLOGIES Statement of Financial Position			
Assets	2021	2020	2019
	Rupees '000'	Rupees '000'	Rupees '000'
Non-Current Assets			
Property Plant & Equipment	1,599,438	1,542,792	1,686,461
Intangible assets	627,393	920,897	1,214,401
	2,226,831	2,463,689	2,900,862
Long Term Investments	208,582	239,827	293,379
Long Term Loans to Employees	3,552	1,571	470
	212,134	241,398	293,849
Total Non-Current Assets	2,438,965	2,705,087	3,194,711
CURRENT ASSETS			
Trade debts	1,649,836	2,200,933	2,878,928
Contract assets	1,163,155	1,652,633	1,167,646
Loans and advances	16,363	14,145	52,261
Trade deposits & short-term prepayments	84,626	25,672	20,948
Other receivables	7,126	8,672	7,219
Due from related parties	445,737	373,619	23,117
Taxation - net	16,676	16,490	52,716
Cash & bank balances	3,758,821	2,081,859	2,053,102
Total - Current Assets	7,142,340	6,374,023	6,255,937
EQUITY & LIABILITIES			
SHARE CAPITAL & RESERVES			
Authorized Share Capital of 150,000,000 Ordinary Shares of Rs. 10/- each	1,500,000	1,500,000	1,500,000
Issued, subscribed and Paid-up Capital	898,369	898,369	897,229
Share Deposit Money	13	13	13
Reserves	6,205,435	5,999,116	6,197,317
Non - Controlling Interest		-	225,035
Total Equity	7,103,817	6,897,498	7,319,594
NON-CURRENT LIABILITIES			
Long term financing	95,920	172,500	-
Lease liabilities	2,106	14,924	55,404
Deferred income	-	-	2,454
Long term advances	-	-	5,143
	98,026	187,424	63,001
CURRENT LIABILITIES			
Trade and other payables	402,661	193,651	492,409

Contract liabilities	198,508	311,541	468,828
Short term borrowings	1,580,000	1,380,000	1,053,000
Current portion of long-term liabilities	194,053	103,106	49,633
Unclaimed dividend	4,240	5,890	4,183
Total - Current Liabilities	2,379,462	1,994,188	2,068,053
CONTINGENCIES & COMMITMENTS		-	-
TOTAL EQUITY AND LIABILITIES	9,581,305	9,079,110	9,450,648

3.2. Systems LTD Statement of Final Position

ASSETS	2,021	2,020	2,019
NON-CURRENT ASSETS	Rupees	Rupees	Rupees
Property and equipment	2,051,800,034	1,518,666,515	1,432,463,695
Intangibles	23,717,704	204,249,277	186,746,196
Long term investment	144,568,896	-	-
investment in associates	1,274,009,734	-	-
Long term deposits	141,294,105	40,133,162	54,945,797
Long Term loans	36,796,454	-	-
Deferred Taxation - net	75,060,282	-	-
Deferred employee benefits	10,344,054	-	-
Advance against purchase of land	-	-	28,750,000
Right-of-use asset	288,981,475	204,396,352	145,860,345
	4,046,572,738	1,967,445,306	1,848,766,033
CURRENT ASSETS			
Contract assets	727,944,400	642,780,081	577,444,198
Trade debts	4,125,928,299	2,372,716,741	1,749,074,142
Loans and advances, Other receivables	734,667,764	95,913,324	145,239,392
Trade deposits and short term prepayments	323,149,962	438,473,348	368,768,673
Interest accrued	11,118,877	38,450,000	2,491,952
Other receivables	-	118,222,637	180,821,432
Short term investments	4,866,676,912	2,644,845,556	780,000,000
Tax refunds due from the government	213,640,998	171,975,691	209,458,326
Current Portion of deferred employee benefits	2,890,139.00	-	-
Cash and bank balances	2,978,863,741	2,985,104,566	1,516,152,353
TOTAL CURRENT ASSETS	13,984,881,092	9,508,481,944	5,529,450,468
TOTAL ASSETS	18,031,453,830	11,475,927,250	7,378,216,501
EQUITY AND LIABILITIES	2021	2,020	2,019
Share capital and reserves			
Authorized share capital	4,000,000,000	2,000,000,000	2,000,000,000
200,000,000 (2019: 200,000,000) ordinary shares of Rs. 10/- each			
Issued, subscribed and paid up capital	1,384,989,120	1,246,060,140	1,235,202,990

Capital reserves	1,148,309,400	956,611,816	640,362,515
Revenue reserve - unappropriated profit	9,528,306,407	5,626,952,295	3,674,024,548
	12,061,604,927	7,829,624,251	5,549,590,053
Non-controlling interest	1,169,928	146,389,075	(20,655,613)
Total Equity	12,062,774,855	7,976,013,326	5,528,934,440
Non-current liabilities			
Long term advances	81,111,314	53,857,626	28,652,726
Long Term loan	-	98,013,227	-
Lease liabilities	238,881,185	189,409,537	129,188,921
Provision for gratuity	94,865,412	47,599,384	27,360,907
Deferred grant	-	8,338,896	-
Total Non-Current Liabilities	414,857,911	397,218,670	185,202,554
Current liabilities			
Trade and other payables	1,706,609,735	1,186,129,984	771,932,212
Unclaimed dividend	9,226,244	7,617,635	8,345,525
Contract liabilities	940,135,872	297,554,223	164,423,043
Short term borrowings	2,750,000,000	1,449,000,000	672,000,000
Mark-up accrued on short term borrowings	13,702	9,804,362	4,873,969
Current portion of lease liabilities	62,195,197	37,983,731	29,284,595
Current portion of long-term advances	6,865,236	10,754,706	13,220,163
Current portion of long-term loan	76,816,085	100,754,617	-
Current portion of deferred grant	1,958,993	3,095,996	-
TOTAL CURRENT LIABILITIES	5,553,821,064	3,102,695,254	1,664,079,507
TOTAL LIABILITIES	5,968,678,975	3,499,913,924	1,849,282,061
TOTAL EQUITY AND LIABILITIES	18,031,453,830	11,475,927,250	7,378,216,501

3.3. NETSOL Profit & Loss

Netsol PROFIT & LOSS ACCOUNT			
	2021	2020	2019
Revenue from contracts with customers - net	4,947,559	4,708,374	5,389,535
Cost of revenue	(3,147,147)	(3,142,330)	(3,319,789)
Gross profit	1,800,412	1,566,044	2,069,746
Selling and promotion expenses	(547,595)	(455,264)	(669,419)
Administrative expenses	(760,438)	(768,099)	(748,471)
	(1,308,033)	(1,223,363)	(1,417,890)
Operating Profit	492,379	342,681	651,856
Other income	153,664	254,715	1,045,046
	646,043	597,396	1,696,902
Other operating expenses	(296,635)	(275,504)	(288,911)

Finance cost	(58,859)	(48,518)	(39,812)
Share of loss of Associate	(27,203)	(66,785)	-
EBITDA	349,408	321,892	1,407,991
Profit before taxation	263,346	206,589	1,368,179
Taxation	(70,387)	(161,473)	
Current year	-	(162,476)	(78,959)
Prior year	-	-	1,432
		(162,476)	(77,527)
Profit after taxation for the year	192,959	44,113	1,290,652

3.4. Systems LTD Profit and Loss

PROFIT & LOSS ACCOUNT			
	Revenue 2021	Revenue 2020	Revenue 2019
	Rupees	Rupees	Rupees
Revenue from contracts with customers	15,304,037,567	9,876,827,710	7,535,648,069
Less: Cost of revenue	10,314,365,850	6,619,640,203	5,166,301,606
Gross profit	4,989,671,717	3,257,187,507	2,369,346,463
Selling and distribution expenses	(385,600,533)	(201,024,729)	(178,002,387)
Administrative expenses	(1,426,803,958)	(722,310,556)	(698,066,995)
Other operating expenses	(8,131,032)	(220,135,525)	(163,532,016)
	(1,820,535,523)	(1,143,470,810)	(1,039,601,398)
Operating profit	3,169,136,194	2,113,716,697	1,329,745,065
Other income	653,030,134	235,201,038	318,491,575
EBITDA	3,822,166,328	2,348,917,735	1,648,236,640
Fair Value adjustment on dilution of CTRL in subsidiary	816,226,748	-	-
Share of loss of associate	(83,384,503)	-	-
Finance costs	(121,404,658)	(66,659,676)	(47,022,121)
Profit before taxation	4,433,603,915	2,282,258,059	1,601,214,519
Taxation	(53,944,635)	(117,960,376)	(33,281,698)
Profit for the year	4,379,659,280	2,164,297,683	1,567,932,821

4. Revenue and Cost Analysis

4.1. Revenue & Growth Comparison

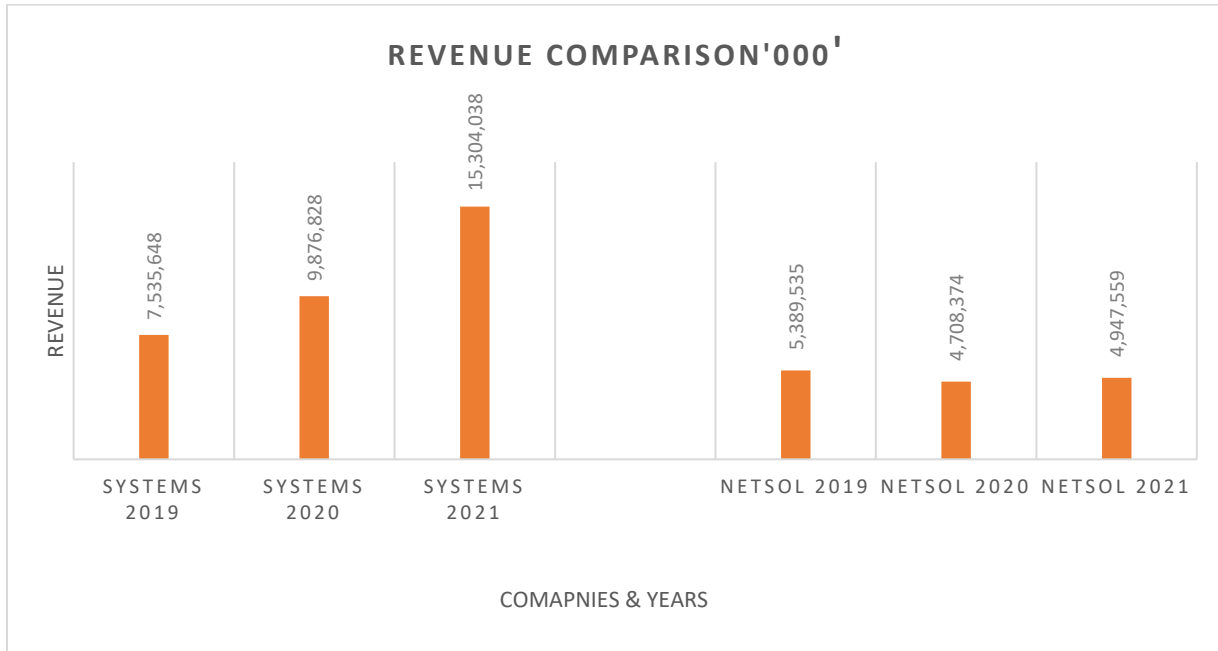


Figure 1.1: Revenue Comparison between Systems & NETSOL From 2019-2021

We have analyzed the 3 years Revenue performance of Systems LTD and Netsol Technologies by collecting data from Pakistan stock exchange website and put them for graphical representation in order to compare the results and what does that depict. It shows that systems LTD is at yearly continuous revenue growth which plays an imperative role to any company's progress however the Netsol on the other is either decreasing, stagnant or improving a little with which is worrisome for the management equally for the stockholders as they won't be getting the fruitful returns which they are expecting.

we will further definitely be discussing about the growth stalled factors contributing as well as the profitability. Covid had been really challenging for the whole world, but Netsol suffered their growth as well declined in that phase. Recorded decrease Revenue of Netsol was almost (-12.64%) in 2020 however they have recovered unobserved.

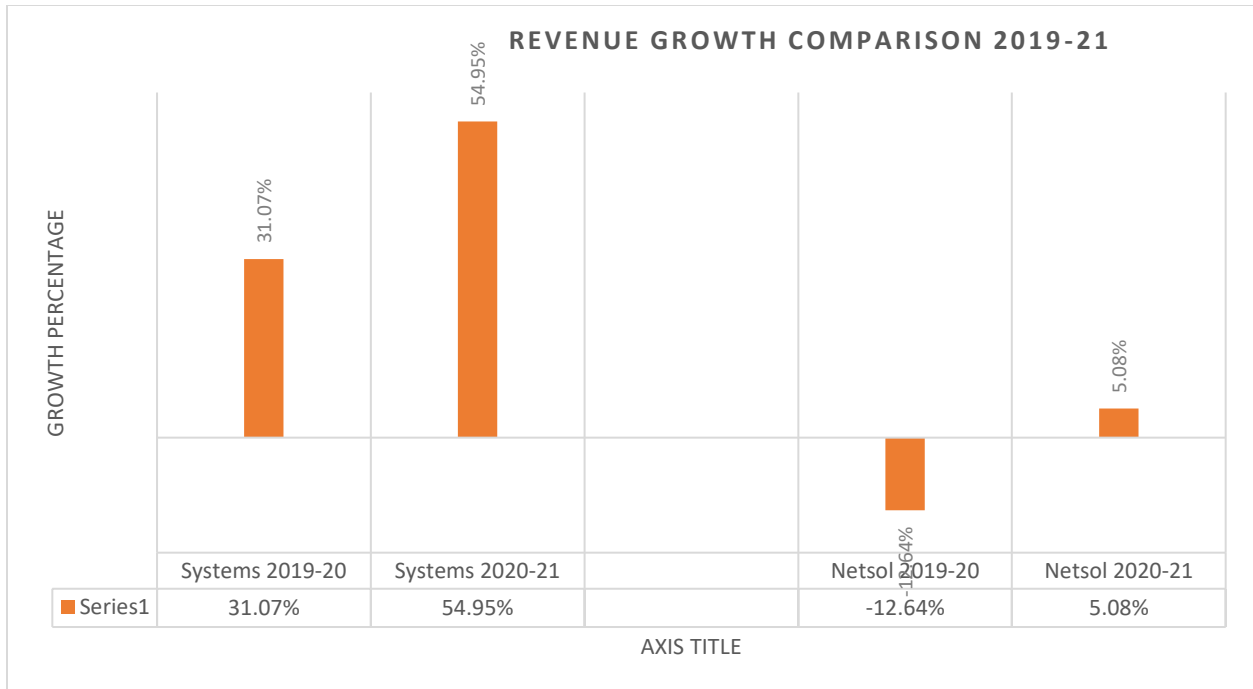


Figure 1.2 Growth Comparison B/W Systems & NETSOL in 3 Years

Furthermore, systems LTD during 2019-20 had observed their growth in revenue 31.07% whereas during 2020-21 54.95% revenue growth was observed. In comparison to it Netsol had a very bad year, 2020 in which their growth declined due to decrease in revenue which is almost 13% w.r.t the last year revenue.

However, it can be seen through the chart that they have recovered from negative growth and 5.08% increase was added to the revenue of Netsol hence increased their profitability during 2020-21

revenue growth is a vital metric for evaluating a company's progress and potential. It serves as an indicator of market competitiveness, profitability, investment opportunities, innovation, employee engagement, and stakeholder confidence. By prioritizing revenue growth, companies can achieve long-term success and establish themselves as market leaders.

To sustain revenue growth, companies need to focus on effective sales and marketing strategies, customer acquisition and retention, product innovation, market research, and operational efficiency. Continuous monitoring and analysis of revenue growth patterns can help identify areas for improvement and guide strategic decision-making.

4.2. Revenue vs Cost Comparison

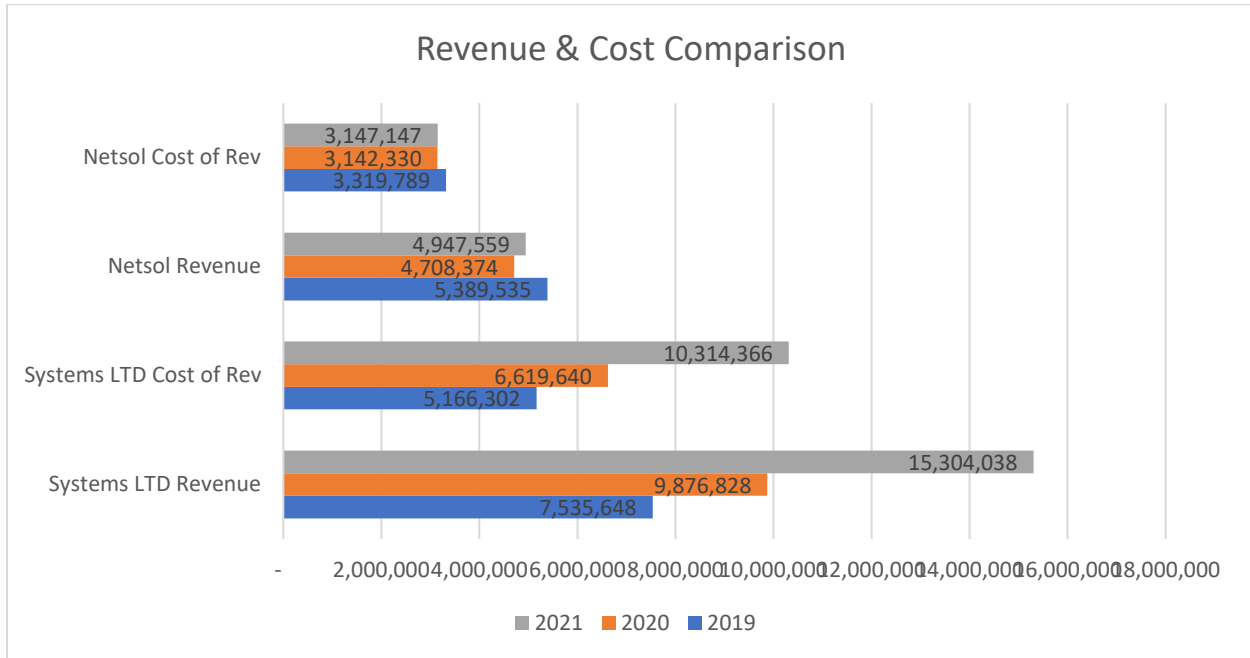


Figure 1.3: Revenue & Cost Comparison of Systems & NETSOL, How much Cost incurred to Generate Revenue

4.2.1. Systems LTD

I have analyzed through the Profit and loss account of Netsol Technologies and systems LTD based on the results it will thoroughly be discussed. Systems LTD have been successful in maintaining their costs w.r.t to their Revenue however their Revenue had been increasing throughout the years but the percentage of cost incurring to provide the services has been stagnant like (2019 - 68.56%, 2020-67.02% and 2021-67.40%) respectively.

4.2.2. Netsol Technologies

Netsol in this case had not been sustainable in maintaining their costs as it can easily be inferred from their profit and loss statement despite decrease in their revenue by 12.64% during 2020 their costs increased to 5.14% in 2020. They recorded costs (2019 - 61.60%, 2020-66.74% and 2021-63.61%) respectively.

5. RATIO ANALYSIS

5.1. Gross Profit Margin

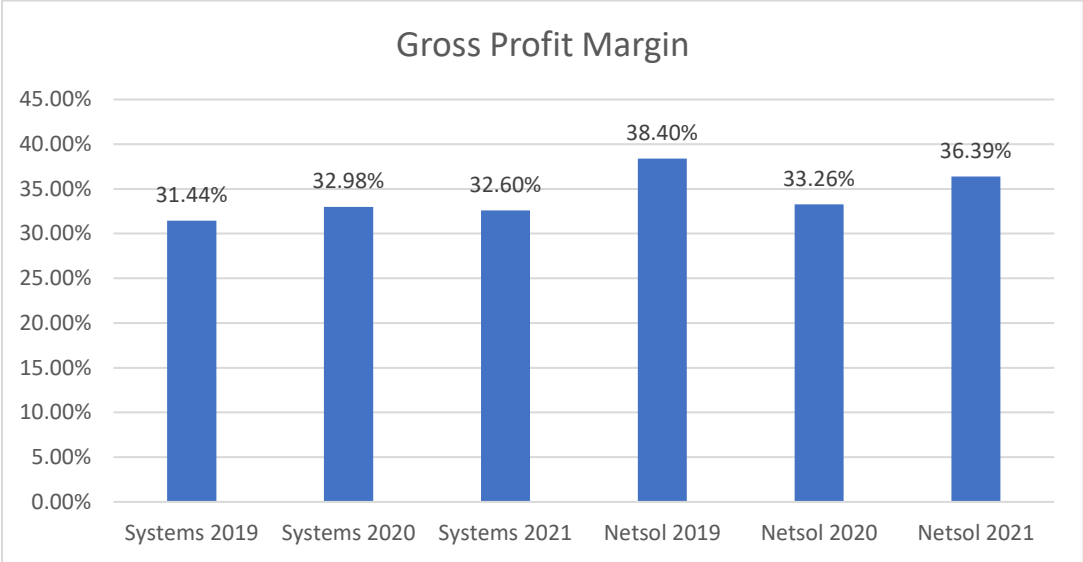


Figure 1.4: Gross Profit Margin Comparison

Gross profit margin is a financial metric that measures the profitability of a company's core operations by calculating the percentage of revenue left after subtracting the cost of goods sold (COGS). It provides insights into how effectively a company is generating profits from its primary activities before considering other expenses like operating costs and taxes. A higher gross profit margin indicates better efficiency in producing and selling goods or services. It is an essential indicator of a company's financial health and its ability to cover operating expenses, invest in growth, and generate returns for shareholders. In summary, gross profit margin reflects the profitability of a company's core business operations by measuring the difference between revenue and the direct costs associated with producing goods or delivering services.

The data we have compared of both the companies to get the results upon Gross Profit Margin, Systems LTD had really been looked to sustain upon their profitability just slightly slipped in 2021 by 0.38% due to little higher selling costs. As far as the Netsol is concerned in 2019 they have had good figure in 2019 slightly dropped by 5.14% as during 2019 as per their P&L they have increased their profitability through other income portion which they gained it from international currency exchange, but during 2020 when gain on foreign currency did not contribute neither the original revenue stream their profitability decreased equally as their margin. However, we can see an improvement and resurrection in 2021.

5.2. Net Profit Margin

Net profit margin is a financial metric that measures the profitability of a company's overall operations by calculating the percentage of net profit relative to its total revenue. It provides insight into how efficiently a company manages its expenses, including operating costs, taxes, interest payments, and other non-operating items. Net profit margin is a key indicator of a company's financial performance, as it reveals the portion of revenue that is transformed into profit after accounting for all costs and expenses. A higher net profit margin indicates better profitability and efficiency in generating earnings from its revenue. It is an important measure for investors and stakeholders to evaluate a company's profitability and its ability to generate sustainable returns. In summary, net profit margin represents the profitability of a company's operations by measuring the proportion of net profit in relation to its total revenue.

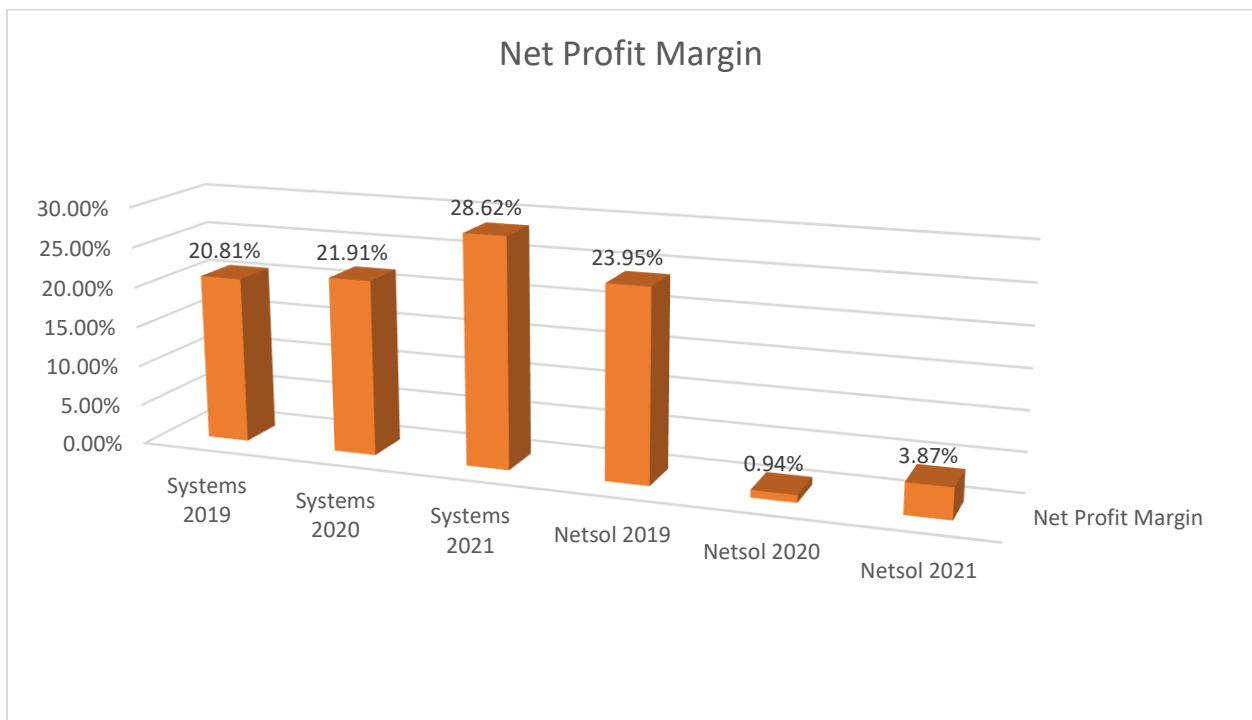


Figure 1.5: Net Profit Margin Comparison

Since we have compared both companies' data based on their annual financial statements to analyze the Net profit margin, it means how much profit a company earns against their revenue. This can clearly be seen through chart comparison that Systems limited has been growing over the years and have more profitability than Netsol, Netsol had a good 2019 year however 2020 declined a year of recession had cost them much since in 2019 their other income portion which increased their overall profitability did not contribute during 2020. Hence main Revenue stream which due to covid impact could not be proven persuasive to Netsol P&L hence in 2020 during overall profitability decreased to 0.94% dropped from 23.95%. which is

almost decreased 23% in 2020. However, 2021 had been good year they recovered well and shoot their overall profit margin to 3.87. still, it has the potential to increase more since

5.3. Earnings Per share

EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. It is calculated by using formula Net profit after tax dividing by No. of shares outstanding common stockholders.

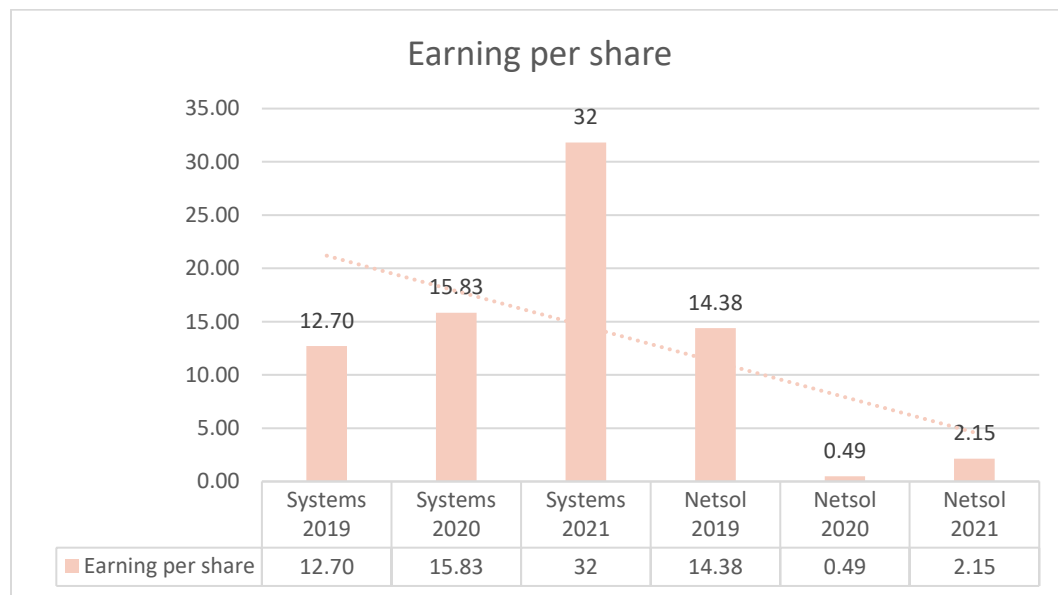


Figure 1.6: Earning Per Share Comparison

Since two companies were chosen for comparison, including Systems LTD and Netsol their 3 years data was taken to analyze. systems LTD potential can clearly be seen through graphical representation by standing the values next to each other to conclude the best player. Systems LTD performed throughout the 3 years and increased their earnings. It indicates how much a shareholder gets against each share they purchased. this comparison is built to make shareholders ecstatic and building their more interest and confidence towards company. If we talk about the Netsol they performed good in 2019 where they were earning 14.38 against each share, but due to incessant covid influence and had not been able to generate earnings in 2020 as their main revenue stream did not generate enough to contribute to the company. During 2019 their earnings increased due to other income account which got from the gain on foreign currency. In 2021 Netsol increased a little. In my opinion if we talk about the business life cycle of the company systems LTD is more at Maturity stage where they have developed their business and potential key player in the market

through it has good ratios and had been consistent over the years but since Netsol is at currently Growth stage it has more investing potential. If either of the intending personnel wants to choose for investment, I would say Netsol because it's growing it would give more fruitful results in the coming future.

5.4. Current Ratio

Current ratio refers to checking the current capacity of the company that whether does it have the potential to pay back its liabilities by liquidating its current assets excluding the factor of inventories and accounts receivables. We have made comparisons of both companies to check how well/worst they are performing in terms of their current management.

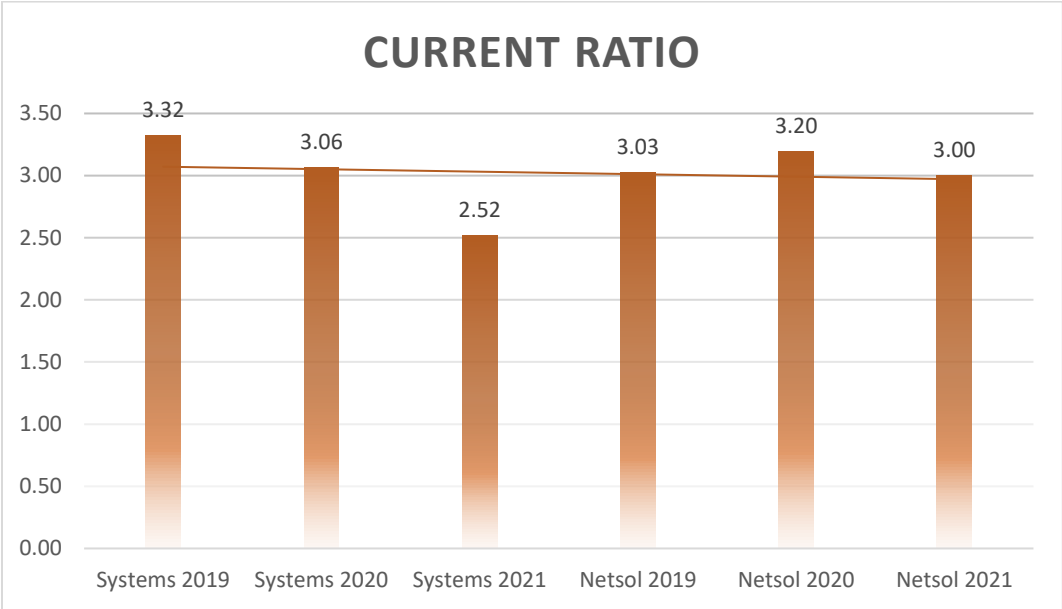


Figure 1.7: Current Ratio Analysis Comparison

As per the charts' results both seemed to be at par. As they were averagely operating at 3, however in 2021 current ratio of systems LTD had been 2.52. it depicts that how well they have managed their assets parallel to their current liabilities so that they remained consistent.

5.5. EBITDA

EBITDA is short for earnings before interest, taxes, depreciation, and amortization. It is one of the most widely used measures of a company's financial health and ability to generate cash. EBITDA is a key indicator of a business's performance, profitability, value, and ability to add debt. It's a clean picture of the

core profit of a company and a good shortcut to give a quick picture of its available cash flow. EBITDA isn't normally included on a company's income statement because it isn't a metric recognized by Generally Accepted Accounting Principles as a measure of financial performance. Entrepreneurs and business valuers often use EBITDA to calculate a company's valuation for purposes of a business sale or acquisition. A common valuation method is to apply a multiple to EBITDA to determine how much the business is worth. The specific multiple can vary depending on many factors, such as market conditions, industry, and location. EBITDA is important because it is one of the metrics most used by businesses, valuers, bankers, investors, and others to gauge a company's profitability, performance and valuation.

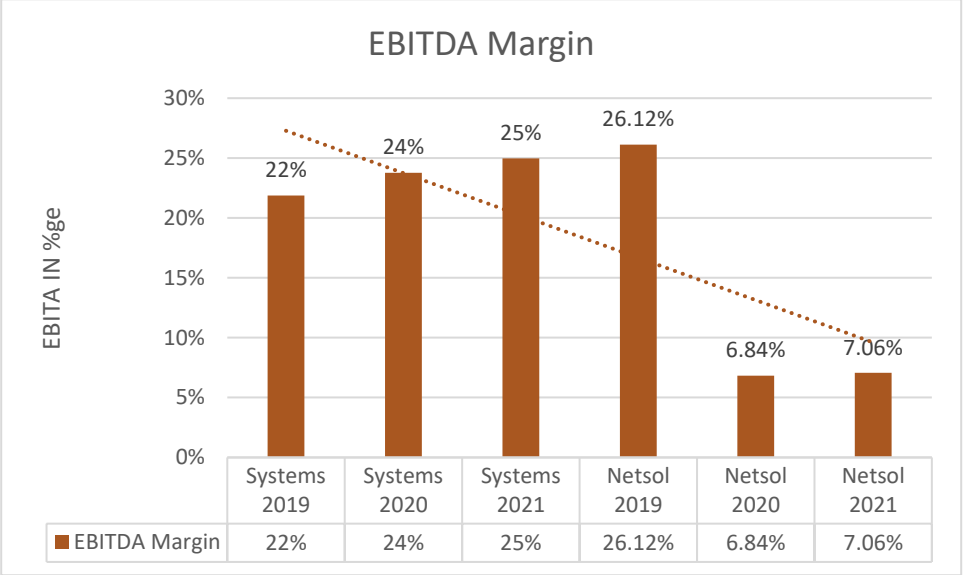


Figure 1.8: EBITDA Margin Comparison

EBITDA has been calculated of both the companies where we have found that systems LTD increased over the years from 2019-2021 where they have performed well 22% in 2019, 24% in 2020 and 25% in 2021. Whereas Netsol in 2019 performed very well had an EBITDA 26.12% which is better than the 3 years of systems LTD as they reached max 25% for 3 years. Due to not generating more revenue from main revenue stream and foreign exchange impacted in 2020 which decreased it to 6.84%. furthermore, increased in 7.06% in 2021 it has more potential now to recover from covid impact as growing during 2021 hoping ample to see more improvements during coming years to attract more investors and buy-in of current stockholders by making them happy through results.

5.6. Debt to Equity Ratio

The debt-to-equity ratio measures your company's total debt relative to the amount originally invested by the owners and the earnings that have been retained over time.

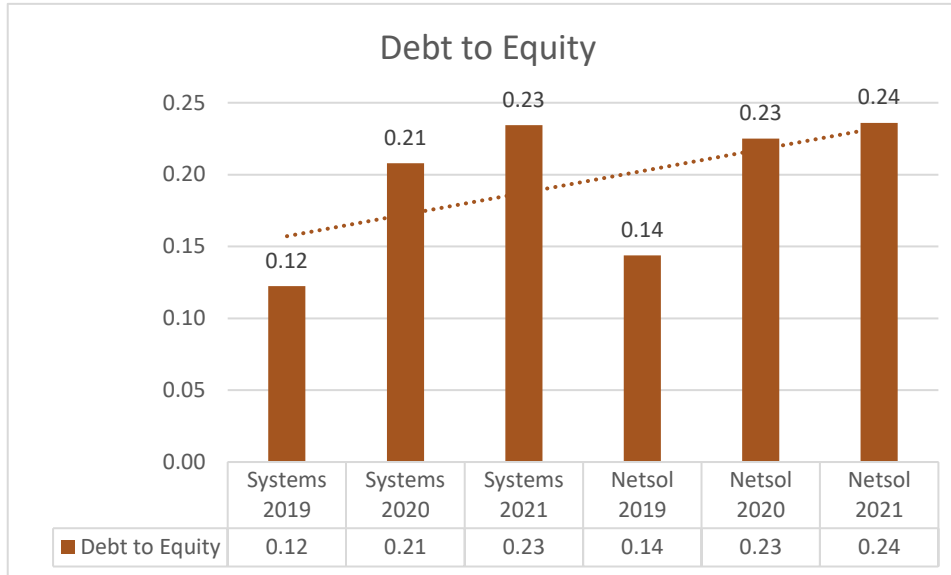


Figure 1.9: Debt to Equity Ratio Comparison

The debt-to-equity ratio (D/E ratio) shows how much debt a company has compared to its assets. It is found by dividing a company's total debt by total shareholder equity. A higher D/E ratio means the company may have a harder time covering its liabilities.

6. Results & Conclusion

RESULTS COMPARISON											
Ratios	Systems 2019	Netsol 2019	Systems 2020	Netsol 2020	Systems 2021	Netsol 2021					
Gross Profit Margin	↓ 31.44%	↑ 38.40%	↓ 32.98%	↑ 33.26%	↓ 32.60%	↑ 36.39%					
Net Profit Margin	↓ 20.81%	↑ 23.95%	↑ 21.91%	↓ 0.94%	↑ 28.62%	↓ 3.90%					
Return on Equity	↑ 28.36%	↓ 17.63%	↑ 27.14%	↓ 0.64%	↑ 36.31%	↓ 2.72%					
Current Ratio	↑ 3.32	↓ 3.03	↓ 3.06	↑ 3.20	↓ 2.52	↑ 3.00	Times				
Earning per share	↓ 12.70	↑ 14.38	↑ 15.83	↓ 0.49	↑ 31.81	↓ 2.15					
EBITDA Margin	↓ 21.87%	↑ 26.12%	↑ 23.78%	↓ 6.84%	↑ 24.97%	↓ 7.06%					
Return on Assets	↑ 21.25%	↓ 13.66%	↑ 18.86%	↓ 0.49%	↑ 24.29%	↓ 2.01%					
Debt to Equity	↓ 0.12	↑ 0.14	↓ 0.21	↑ 0.23	↓ 0.23	↑ 0.24					

7. Conclusion & Recommendations

if we talk about the profitability ratios of both companies in 2019 Netsol was performing Good as far as Gross Profit Margin and Net profit margin are concerned, earning per share and EBITDA Margin had been better in that year too. However, the remaining ratios were proven to be the best for Systems LTD. Since there had been the prevalence of COVID-19 and continued in 2020 as well which influenced Netsol as it can clearly be inferred from results. moreover, Net profit Margin got declined since “other income” account head in Profit and loss which consists of Gain on Foreign currency has declined which impacted Net profit. In 2020 Netsol could only manage to retain few of the ratios including Gross Profit Margin, Current ratio and Debt to Equity ratio while rest were clearly gone to the favor of systems LTD.

in 2021 it seems to have been improved by Netsol as values indicate that, further I would like to come to the point for which this whole project was compiled and analyzed in order to conclude that which company one should go for the sake of investment as a manager. Since Systems LTD has been really consistent in generating revenue and controlling operational costs, however, they also maintained their profitability as well by professionally managing their resources and assets. Systems LTD is currently at Maturity stage of business while Netsol is at Growth stage and growing whereas they are also providing the services so that I would conclude that Netsol would be a good choice to invest. Since systems LTD already had fruitful years. They are supposed to take some strategic management decisions because operating at maturity stage so that it can continue relishing maturity and avoid decline. So, Netsol needs some management and growth decisions and more investment so that it can reach at maturity and get great results and so that shareholders can be more confident and get ecstatic.

8. References

NETSOL. (n.d.). *Introduction of Company & BOD*. Retrieved from NETSOL Official WEB:
<https://www.netsoltech.com/>

Stocks, N. G. (n.d.). *Overview & Corporate*. Retrieved from NETSOL Website: <https://ir.netsoltech.com/>

System, F. o. (n.d.). *Annual Audited Financial Reports of NETSOL & SYSTEMS*. Retrieved from Pakistan Stock Exchange: <https://financials.psx.com.pk/>

SystemsLTD. (n.d.). *Company Profile & Vision*. Retrieved from Systems LTD Web:
<https://www.systemsltd.com/company-profile>

SystemsLTD. (n.d.). *Introduction & Products*. Retrieved from Systems LTD official:
<https://www.systemsltd.com/>