

Internship Report



Analysis of Financial Performance and
Effect of Current Asset Management on
Profitability of bKash Limited



Inspiring Excellence

Internship Report

Analysis of Financial Performance and Effect of Current Asset Management on Profitability of bKash Limited

Submitted to

Mr. Saif Hossain
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Submitted by

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Date of Submission: 10/12/2017

Date: 10/12/2017

To,

Mr. Saif Hossain

Senior Lecturer

BRAC Business School

BRAC University

Subject: Submission of Internship Report on “Analysis of Financial Performance and Effect of Current Asset Management on Profitability of bKash Limited”

Dear Sir,

With due respect, as a student of BRAC Business School, I have prepared my internship report entitled “Analysis of Financial Performance and Effect of Current Asset Management on Profitability of bKash Limited”.

I have tried my best to make this report specific, coherent and meaningful as per your guidelines. I found this report exciting to prepare due to the challenges provided by the research itself. However, it could have been done better if there were no limitations in information and time.

Meanwhile, I have also tried to conduct my report in a professional and ethical manner. If there is need for any further classification regarding this report, it will be responded to immediately.

Yours sincerely,

Anindo Mahmud

ID: 13204078

Bachelor of Business Administration

BRAC Business School

BRAC University

ACKNOWLEDGEMENT

Firstly, I would like to thank BRAC Business School and all faculty members of BRAC University who taught me over the last four years for giving me the opportunity to learn about the business administration processes and tools needed to write my internship report, both inside and outside the classroom. I would especially like to thank my internship supervisor, Mr. Saif Hossain, Senior Lecturer of BRAC Business School, for his suggestions, support and cooperation to enable me to complete my report within the internship period.

Finally, I would love to thank Mr. Moinuddin Mohammed Rahgir, Chief Financial Officer of bKash Limited, and all other officials of the company who helped guide me throughout my 3 (three) month work experience at bKash Limited and provided me with the information necessary for the completion of my report.

EXECUTIVE SUMMARY

bKash Limited is a private limited mobile financial service providing company which started its operations in 2011 as a joint venture between BRAC Bank Limited and Money in Motion LLC of the United States. In less than 5 years of operation, it managed to establish itself as one of the most successful companies in the newly thriving mobile financial service industry of Bangladesh. In fact, in 2017, it was ranked 23rd in Fortune's list of top 50 companies that changed the world.

This report aims to provide a comprehensive ratio analysis of the financial situation of bKash Limited and, above all, explain the state of the company's profitability and link it with other ratios to understand why profitability was like that. The ratio analysis revealed that the financial ratios of bKash took a turn in 2014. The profitability ratios had more or less slumped in growth from 2014 onwards. Meanwhile, ratios like working capital turnover, current assets to total assets and current ratio also experienced changes in trends at the same period. The next part of this report, therefore, was to try and analyze how profitability was probably related to current asset management.

During correlation and regression analyses, it was found that working capital turnover did have an impact on the profitability on bKash Limited. Working capital turnover had an inverse relationship with net profit margin and return on assets.

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1 OVERVIEW OF BKASH LIMITED

bKash Limited is a subsidiary of BRAC Bank Limited that provides financial and payment services to customers all across Bangladesh via mobile phones. bKash operates with the objective of enabling financial services to customers within a wider reach than most conventional banks in Bangladesh. As of 2016, bKash had over 168,000 retail agents scattered all over the country. It is currently leading the domestic mobile financial service industry in terms of number of customers and transactions.

One huge reason for bKash's success was its effective brand marketing. bKash has become a household name among Bangladeshis to the extent that we now associate bKash with sending money to anyone within the country. All this has been possible due to an all-round effort from bKash Limited and not just from the marketing section.

The management team of bKash is also very effective at keeping the company profitable. They contributed greatly to transforming bKash from a loss-making company in its initial years to a highly profitable one.

1.1 History of bKash Limited

bKash Limited was incorporated on the 1st of March 2010 as a joint venture between BRAC Bank Limited of Bangladesh and Money in Motion LLC of the USA. It then launched operations on 21st July, 2011. By 2013, bKash had already amassed 10 million customers. International Finance Corporation (IFC) took a minority stake in bKash in 2013 and, in 2014, Bill and Melinda Gates Foundation invested in the company. (International Finance Corporation, 2016)

In 2017, bKash Limited was ranked 23rd in Fortune's list of top 50 companies that changed the world.

1.2 Product and service offerings at bKash Limited

Currently, bKash Limited is offering mobile payment and financial services to its account holders. It tries to ensure that its services are quick, affordable, safe and convenient to use.

In order to open a bKash account, a person will need to go to the nearest retail agent with passport-sized photos, a photo ID and a mobile phone. Once he reaches the agent, he will be handed an application form which he will have to fill up and then he will have an account of

his own. In order to activate his account, he will have to confirm his PIN number within the next 72 hours.

Initially after he activates his bKash account, he will only get access to the “Cash In” service. Once the application form is verified (which may take a few days), he will get access to all other products and services of bKash.

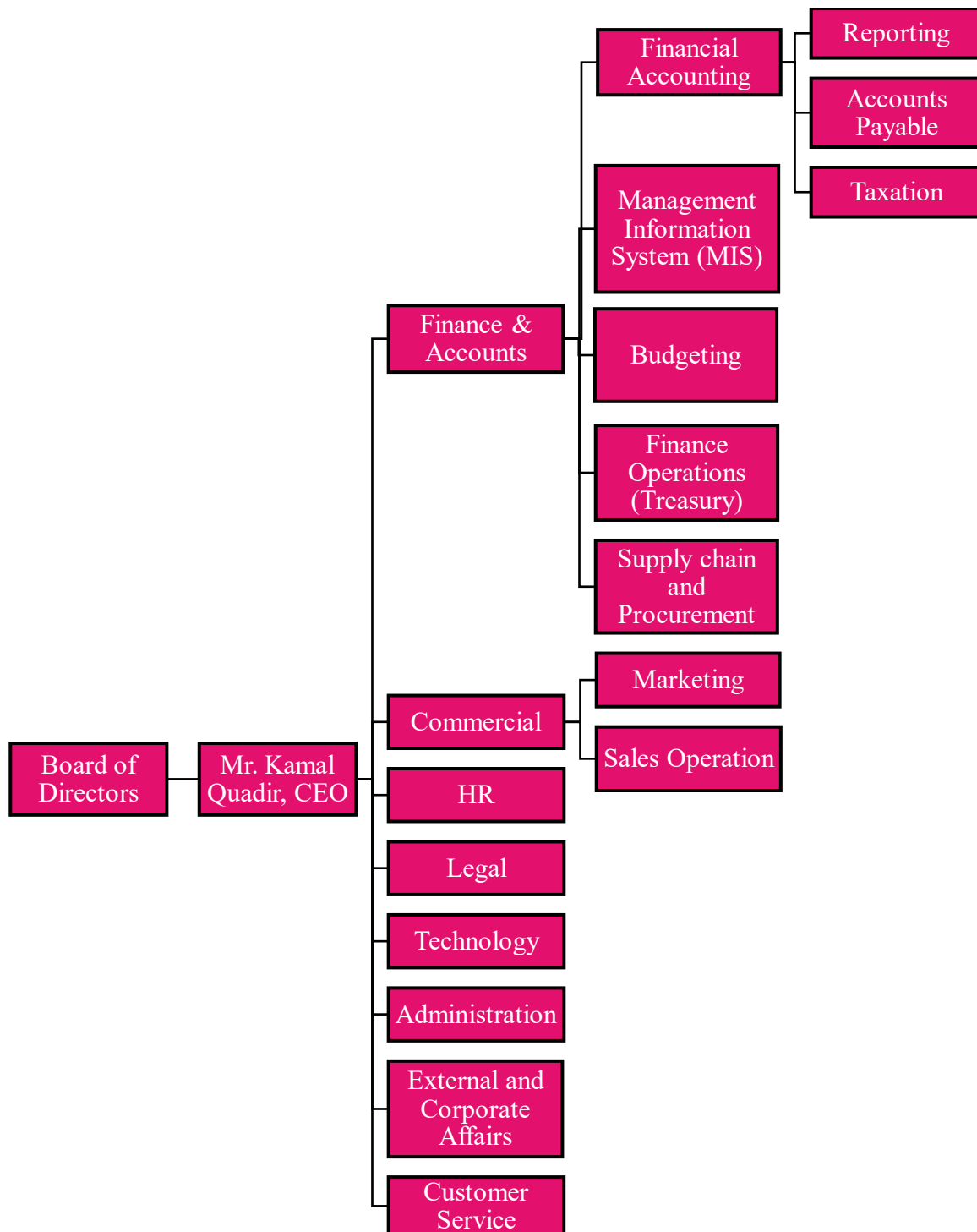
A list of all products and services offered by bKash Limited are as follows:

- Cash In: Account holders can go to a retail agent and deposit money anytime into their bKash account.
- Cash Out: Account holders can withdraw cash anytime either from a bKash agent or from a bKash enabled BRAC Bank ATM. In order to activate ATM cash out service, they must confirm a new PIN number which will be their “bKash ATM cash out PIN”.
- Send Money: Money can be transferred from one bKash account to another.
- Buy Airtime: Clients with Airtel, Banglalink, Grameenphone, Robi and Teletalk numbers can recharge mobile airtime from their bKash account.
- Payment: Clients can make payments from their bKash account to merchants who accept bKash payments.
- Remittance: People from abroad can send money to Bangladesh through bKash.
- Menu: bKash menu enables account holders to check balance, activate ATM and change ATM cash out PIN as well as mobile menu PIN.

All services are free of charge for clients except for Cash Out and Send Money. 1.85% of transaction amount is charged for Cash Out from Agent and 2% for Cash Out from ATM. Meanwhile, Tk. 5 is charged for each “Send Money” transaction.

1.3 Organizational structure of bKash Limited

bKash Limited follows a relatively flat organizational structure with the organization broken into several departments and each department being responsible to the CEO. The organizational structure of bKash Limited is as follows:



1.4 Mission statement of bKash Limited

The mission of bKash Limited is as follows:

By providing financial services that are convenient, affordable and reliable, bKash aims to widen the net of financial inclusion. bKash wants to provide a solution for Mobile Financial

Services, built on a highly scalable Mobile Money platform, allowing the people of Bangladesh to safely send and receive money via mobile devices.

1.5 Partners of bKash Limited

The partners of bKash Limited are as follows:

- Bill & Melinda Gates Foundation
- International Finance Corporation (IFC)
- BRAC
- Airtel
- Banglalink
- Grameenphone
- Robi
- Teletalk

1.6 Benefits of bKash Limited

bKash promises the following benefits while providing services to its clients:

- **Fast:** bKash enables recipients to receive money quickly wherever he is.
- **Affordable:** One chief benefit of bKash is that it eliminates the initial monetary costs involved in entering the banking system. Even its service charges are minimal.
- **Secure:** Every transaction is protected by a PIN number which means that even if a mobile phone gets stolen, money in the bKash account will not be lost.
- **Convenient:** Customers can access bKash services anywhere and anytime using their mobile phones. All they need is a bKash account in which case they can simply dial *247# and tap a few buttons on their mobile phones.
- **Nationwide:** bKash, with its more than 168,000 agents, tries to reach out to its customers wherever they are in Bangladesh, even if they happen to be in the remotest areas.

2 JOB DESCRIPTION AND JOB RESPONSIBILITIES

2.1 Description of job

During my internship, I worked at the Finance & Accounts Division of bKash Limited. The Finance & Accounts Division of bKash Limited is a complicated division as it handles the financial activities of a mobile financial service providing company like bKash. As a result, this division has been broken down into various sections and sub-sections which are as follows:

- Financial Accounting
 - ↳ Reporting
 - ↳ Accounts Payable
 - ↳ Taxation
- Management Information System (MIS)
- Budgeting
- Treasury
- Supply Chain and Procurement

I worked at the MIS section for the first half of my internship. Then, I worked with the Accounts Payables and Taxation teams in the Financial Accounting section.

Their respective jobs of each of them are as follows:

Management Information System

- Jobs:
1. Calculation of Service Fees and Commissions
 2. Solving Airtime Disputes
 3. Preparation of Monthly Directors' Reports
 4. Reporting to various stakeholders such as – Gates Foundation, IFC, BRAC Bank, Bangladesh Bank etc.
 5. Ensuring no deviation between physical money and e-money through reconciliation every day.
 6. Accommodating management requirements as and when required.

Accounts Payable

- Jobs:
1. Receiving and Paying Bills
 2. Preparing Annual Financial Statements

3. Preparing Regulatory Reports
4. Fixed Asset Management

Taxation

- Jobs:
1. Calculation of Withholding Tax
 2. Calculation of Corporate Tax
 3. Calculation of VAT

A more detailed explanation of some the jobs are as follows:

Calculation of Service Fees and Commissions: bKash gets most of its revenue from customers in the form of service fees charged for transactions. However, it also needs to pay out a portion of its revenues as commissions. One of the jobs of the MIS department is to calculate on a daily basis the amount of service fees generated from transactions as well as the amount expected to be paid out as commissions.

Solving Airtime Disputes: bKash customers sometimes face a situation where they pay for mobile airtime using their bKash money but do not get the airtime immediately. When they check their bKash account, they see that their balance has been deducted for airtime purchase even though they have not received the service. This is called an airtime dispute and it can sometimes be a bit frustrating for the customers.

This type of airtime dispute is a common phenomenon as the company has millions of customers scattered all over Bangladesh and the purchase of Airtime from bKash involves two platforms, the platform of bKash and the platform of Mobile Network Operators, which interact with each other to complete the airtime transactions. In order to settle this type of dispute, bKash sends back the same amount of e-money that was deducted from the wallet of customers who paid for airtime but did not receive it. For that, the Technology team of bKash first does some reconciliation and then provides a list of customers to whom e-money must be sent back. For better customer experience, the MIS team of bKash is in charge of disbursing the e-money three times a week.

Preparing of Monthly Director's Reports: The MIS team of bKash Limited is also responsible for preparing directors' reports on a monthly basis. The report highlights monthly revenues, profits, information on agents and so on.

Receiving and Paying Bills: Bills are received and paid following a complicated procedure that needs to be maintained by both the Accounts Payable section and the Taxation section. It

starts with a vendor sending a bill to the bill counter. The user department (the department responsible for purchase) then receives the bill and completes the ground rules. It then sends the bill back to the counter which then checks whether the ground rules are valid. If the ground rules are valid, the bills are sent to the accounts payable department for processing and payment. On the other hand, if the ground rules are not valid, the bills are sent back to the user department.

Once the bill reaches the Accounts Payable section, it is processed for payment and then sent to the Taxation section which validates tax and calculation before finalizing the payment.

Preparing Annual Financial Statements: The Accounts Payable team is also responsible for preparing the financial statements for bKash on an annual basis. The financial statements include the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows. They are disclosed in the annual reports of bKash's parent company, BRAC Bank Limited.

Preparing Regulatory Reports: Along with the annual financial statements, the Accounts Payable team is also responsible for preparing regulatory reports which bKash then sends to Bangladesh Bank and its investors.

Fixed Asset Management: bKash Limited maintains both tangible and intangible fixed assets. It follows both the Bangladesh Accounting Standards and the International Accounting Standards when recognizing and valuing fixed assets.

Calculation of Withholding Tax: bKash Limited incurs two types of taxes during the course of its operations, withholding tax and corporate tax. At bKash, withholding tax is defined as any tax that the company incurs while paying for expenses like meeting fees, professional service fees, office rent, and payments to suppliers and vendors. A certain slab of all the aforementioned payments are deducted as tax.

Calculation of Corporate Tax: Corporate tax is tax imposed on the company's income. As per Income Tax Ordinance 1984 and Finance Act 2016, bKash Limited needs to pay corporate tax equal to 35% of its income.

Calculation of VAT: bKash Limited incurs two types of VAT: service VAT and withholding VAT. Service VAT is VAT charged for service fees. In case of bKash Limited, 15% VAT is deducted from revenue obtained from service fees charged by bKash for most of its services.

Withholding VAT, on the other hand, is deducted at source and is hence a VDS (VAT deductible at source).

2.2 Experience working at bKash Limited

Working at bKash proved to be a very valuable experience for me for three reasons.

Firstly, I believe that I got to gather experience in both finance and e-business from working at the mobile financial service sector. bKash Limited is currently one of the best mobile financial service providers in the country.

Through that experience, I also got to know how money and banking will work in Bangladesh in the future. One of the government's ambitious aims for Digital Bangladesh Vision 2021 is to speed up the rate at which transactions and payments shift from cash to digital (Better than Cash Alliance, 2015). A cashless Bangladesh will provide huge opportunities for companies like bKash to make significant impact in the future.

Finally, I got the opportunity to work at a multicultural environment in Bangladesh as bKash had several professionals working as part of platform migration procedure during my internship period. These professionals were mainly from Thailand, China and South Korea who would come on a regular basis to work on its software technology.

3 INTRODUCTION OF THE REPORT

3.1 Origin of the report

The internship program of BRAC Business School is a four-credit program which BBA students need to pursue in order to achieve their degree. It requires a student to work at a business organization for three months and to write a comprehensive report based on the experience and information that he or she gathers from working at the organization. For my organization, I went for bKash Limited because, as a student with a double major in Finance and E-commerce, I believed that work experience at the mobile financial service industry would enhance my knowledge in both fields. Moreover, I believe to this day that mobile banking will be the future of banking, not just in Bangladesh, but in the entire developing world, especially where many people have mobile phones but limited access to banking and other conventional financial services.

For my report, I chose to work on the topic “Analysis of Financial Performance and Effect of Current Asset Management on Profitability of bKash Limited” as per consultation with my supervisor Mr. Saif Hossain.

3.2 Rationale of the report

As I have a double Major in Finance and E-commerce, I wanted to know about the financial performance of a mobile banking company like bKash Limited. I also believed that mobile banking is the future of banking and so an internship at bKash would be very valuable for my future career.

However, the mobile financial service industry is still a new type of industry with the concept starting in Europe in 1999. So, there is still limited research on it. That is why I propose this study. This research should help future researchers understand how mobile financial services work in Bangladesh. It should also pave way for further research in the future.

Through this study, I want to analyze the financial position of bKash over the last five years and then analyze the impact of change in current assets on the change in profitability to suggest steps that may be taken to improve the financial position in the future.

3.3 Statement of the problems

This report will address the following questions.

- ↳ How is bKash Limited performing based on ratio analysis?
- ↳ How can current asset management affect profitability?
- ↳ What possible steps can be taken to improve performance in the future?

3.4 Objective of the report

The broad objective of this report is to assess financial performance of bKash Limited over the last five years and to analyze the impact of current asset management on profitability in order to suggest ways to improve financial performance in the future.

The more specific objectives are as follows:

- Calculation and analysis of financial ratios
- Correlation and regression analyses of ratios related with current asset management with profitability ratios
- Make logical conclusions and recommendations

3.5 History of Mobile Financial Services

Mobile financial service is a relatively new concept that was first introduced in Europe in 1999 by PayBox. SMS based mobile banking was the earliest mobile banking service. Back then, lack of both hardware and software support in mobile phones, high cost of data plans and slow network speeds were the biggest constraints to the development of mobile banking. However, as time passed, mobile phones got more technologically advanced and mobile banking was able to spread rapidly across Europe, Japan, South Korea and the USA. (UK Essays, 2015)

Bangladesh was relatively late in adapting to mobile financial services. It was much behind the developed countries of the world and even some developing countries like Kenya. Dutch Bangla Bank Limited first launched mobile financial services in Bangladesh on the 31st March 2011. bKash Limited, a subsidiary of BRAC Bank Limited, followed by commencing its mobile financial service operations on the 21st July of the same year. As of now, the mobile financial service industry is rapidly growing in Bangladesh with bKash alone having more than 168,000 agents all over the country as of year 2016. bKash, MYCash, Rocket¹ and UCash are currently some of the main providers of mobile financial services in the country.

¹ In 2016, Dutch Bangla Bank Limited changed the name of its mobile financial service sector to “Rocket”

3.6 Scope of the report

The scope of this report is within the Finance & Accounts Division of bKash Limited and what jobs it does. Due to shortage of time and limited resources, financial leverage of bKash Limited will only be briefly covered and will not be explained in details. Some of the other main limitations of this report were as follows:

- Some of the information provided by bKash Limited was highly confidential and could not be disclosed outside the company.
- Mobile financial service is still a new concept, especially in Bangladesh, and so not much research has been done on it.
- Time for planning the report was limited due to the internship being only 3 months long.
- In this report, only the annual financial statements from 2012² to 2016 will be considered. Therefore, there is not enough data on bKash Limited for a more precise and detailed analysis. Moreover, the regression models may not be accurate since the company merely started a few years ago.

3.7 Limitation of the report

Some of the limitations are as follows:

- Most of the previous research studies on financial ratios were based on industrial companies. Therefore, the models suggested in those studies may not reflect properly the financial situation of service-oriented companies like bKash Limited and the financial challenges and problems expected to be faced by such companies.
- Strong correlation may not necessarily indicate a causal relationship between two variables. There may be an unknown third factor affecting both variables.
- Even if there is a causal relationship between two variables, the cause and effect might be the complete opposite of what this report is suggesting. It may be profitability affecting current assets and net working capital and not the other way round as is being proposed for this report.

² The financial statements of 2011 will not be considered as bKash started its operations on the 21st of July 2011 and did not operate for the entirety of the year.

4 LITERATURE REVIEW

(Chen & Rasmussen, 2014) found out that the mobile financial service industry in Bangladesh was off to a fast start since it commenced in 2011. In just two years, 22% of the adult population of Bangladesh had access to mobile financial services.

A research by (Bird & McHugh, 1977) on various companies in Australia underscored the need for empirical analysis of financial ratios in order to determine the financial performance of the companies. (Chen & Shimerda, 1981) also concluded that financial ratio analysis can be used to determine with more than 90% accuracy how close a company is to going bankrupt by analyzing a study by (Pinches, Eubank, Mingo, & Caruthers, 1975) who took a few financial ratios and classified them into seven different factors.

(Al-Qudah & Al-Afeef, 2015) found a relationship between investment in current assets and profitability of companies listed in the Amman Stock Exchange in Jordan. In the research, investment in current assets was measured through the ratio of current assets to total assets and profitability through Return on Assets (ROA).

(Alshatti, 2014), during a research on thirteen Jordanian Commercial Banks, also found that a relationship exists between liquidity indicators and profitability ratios, particularly the Return on Assets and the return on equity.

5 METHODOLOGY

For the sake of this report, both primary and secondary sources of data were relied upon. Primary sources included interviews and discussions with the managers and officers working at the MIS and Financial Accounting departments of the Finance & Accounts Division. Secondary sources included publicly disclosed financial reports of bKash as well as articles on financial ratio analysis. The Internet was also extensively used as a source of information.

For the ratio analysis, a model loosely based on the one proposed in the study of Pinches, Eubank, Mingo, & Caruthers was followed. However, it was better adjusted for mobile financial service companies like bKash Limited. Mean average, standard deviation and skewness of the financial ratios were analyzed as suggested in the study of Bird and McHugh. For skewness, Pearson's coefficient of skewness was calculated for each of the ratios over the past five years.

Meanwhile, for the assessment of the effect of current assets management on the profitability of bKash Limited, working capital turnover, current assets to current liabilities and current ratios were used in the place of current assets management while gross profit margin, net profit margin and return on assets were used for profitability.

A comprehensive correlation analysis was done using MS Excel to determine with 95% confidence the relationship between the aforementioned ratios.

For inverse relationships, the linear correlation between y and $\frac{y}{x^k}$ was observed, where k was a constant. Every time, that value of k would be determined for which the linear correlation between y and $\frac{y}{x^k}$ would be the strongest using a trial-and-error method in MS Excel.

6 FINANCIAL PERFORMANCE ANALYSIS

bKash Limited, like BRAC Bank and its other subsidiaries, follows the Bangladesh Financial Reporting Standards (BFRS) and the guidelines of the Companies Act 1994 while preparing its financial statements. Every year, bKash prepares the following financial statements:

- Statement of financial position
- Statement of profit or loss and other comprehensive income
- Statement of changes in equity
- Statement of cash flows

The following financial statements are disclosed in the annual reports of BRAC Bank Limited.

Financial performance analysis is the careful evaluation of a company's financial statements in order to get an understanding of the financial health of the company. This report will aim to cover the financial performance of bKash Limited through a careful insight of financial the financial statements as well as find out why bKash has performed accordingly which will hopefully help the company make more effective financial decisions in the future.

In this report, a comprehensive ratio analysis will be done to evaluate the financial performance of bKash Limited. A model will be followed slightly similar to the one proposed by Pinches, Eubank, Mingo, & Caruthers.

The following ratios will be considered for the analysis

- 1) Profitability
 - a) Gross Profit Margin (GPM)
 - b) Return on Assets (ROA)
 - c) Return on Equity (ROE)
 - d) Net Profit Margin (NPM)
 - e) Return on Capital Employed (ROCE)
- 2) Turnover
 - a) Equity Turnover (ET)
 - b) Asset Turnover (AT)
 - c) Current Asset Turnover (CAT)
 - d) Working Capital Turnover (WCT)

- 3) Asset Composition
 - a) Current Assets to Total Assets (CA/TA)
- 4) Financial Leverage
 - a) Debt to Equity (D/E)
 - b) Debt Ratio (DR)
- 5) Liquidity
 - a) Current Ratio (CR)
 - b) Cash Ratio (CaR)

6.1 Profitability Analysis

Profitability is a measure of a company’s ability to make profits compared to the size of its business. It is used to determine how a company utilizes its available resources to make profit.

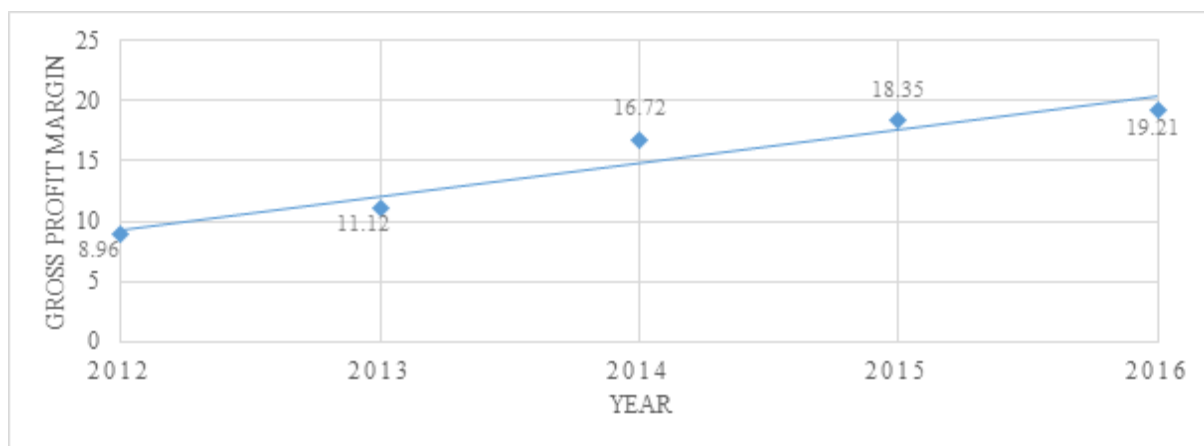
For the profitability analysis of bKash, five ratios will be used. They will be as follows.

Gross Profit Margin

Gross Profit Margin is used to evaluate a company’s ability to earn gross profits from its revenue. For bKash, it will be measured using the following formula.

$$\text{GPM} = \frac{\text{Gross Profit}}{\text{Net Revenue}} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
GPM	8.96	11.12	16.72	18.35	19.21	14.87	4.57	-1.21



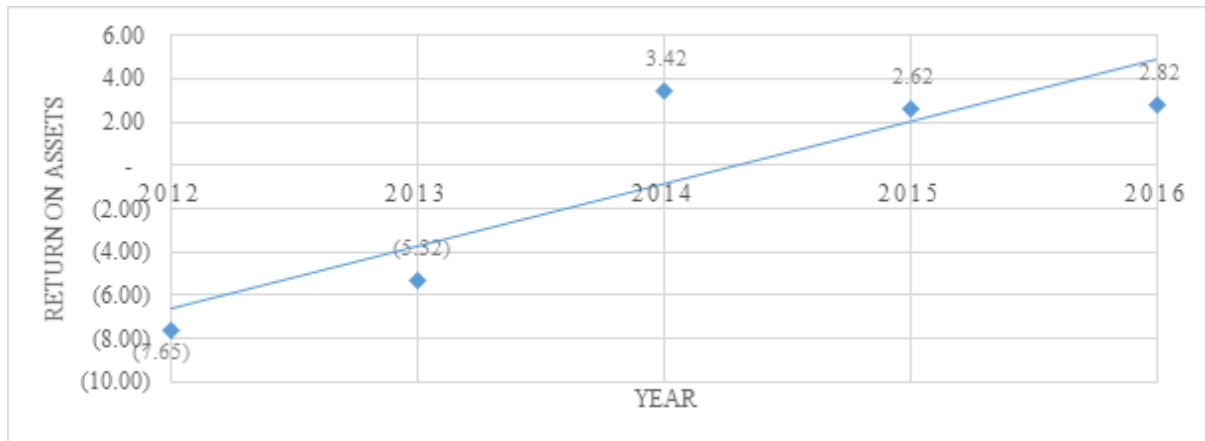
On average, for each Tk. 100 of sales, the company generated Tk. 14.87 of profit. From the table, we can see that the gross profit margin increased every year from 2012 to 2016. It was increasing significantly from 2012 to 2014 after which its increase became less drastic.

Return on Assets

Return on Assets is a measure of a company’s efficiency at utilizing assets to generate earnings. For bKash, it will be measured using the following formula.

$$ROA = \frac{BT^3}{Total\ Assets} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
ROA	-7.65	-5.32	3.42	2.62	2.82	-0.82	5.24	-1.97



On average, each 100 Tk. of assets generated 0.82 Tk. of loss because of significant losses in early years. Return on assets increased exponentially from 2012 to 2014 after which it more or less stagnated.

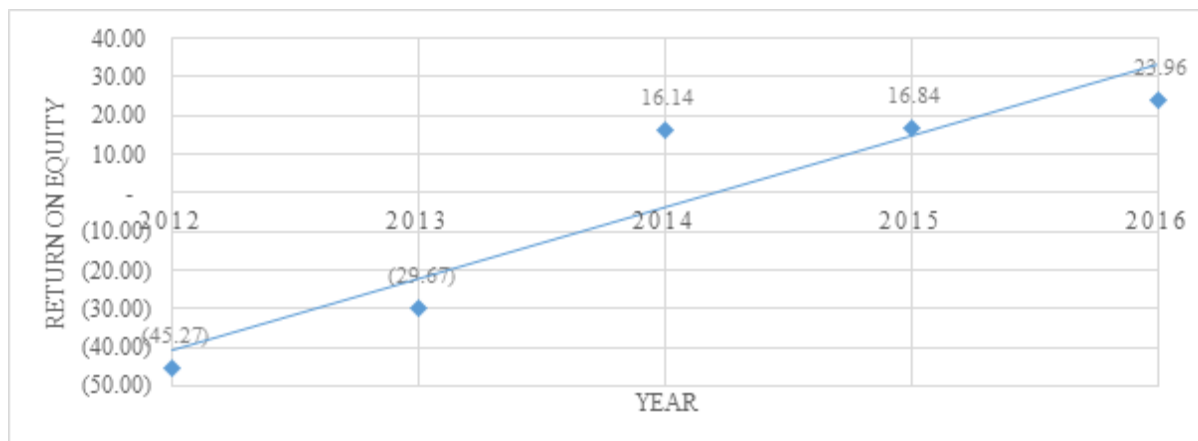
Return on Equity

Return on Equity is similar to Return on Assets. It measures a company’s efficiency at utilizing its equity to generate earnings. For bKash, it will be measured using the following formula.

$$ROE = \frac{BT}{Total\ Equity} \times 100$$

³ BT is a better way of assessing company’s operational capabilities and so it is being used.

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
ROE	-45.27	-29.67	16.14	16.84	23.96	-3.60	31.56	-1.88



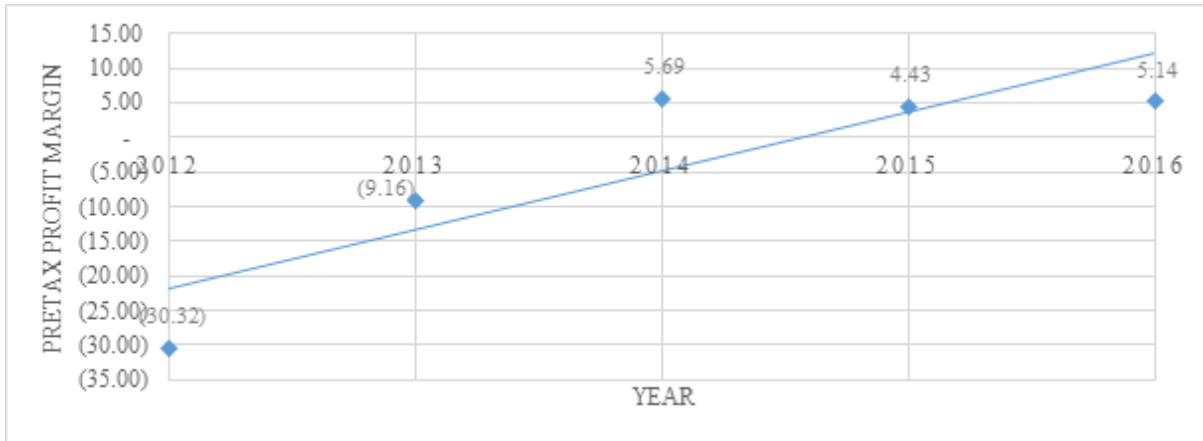
On average, each Tk. 100 of total equity invested by shareholders resulted in a loss of Tk. 3.60. Return on Equity seemed to rise exponentially from 2012 to 2014 after which it rose only slightly.

Pretax Profit Margin

Pretax Profit Margin is very similar to Gross Profit Margin. It is a measure of how well a company can extract profit before tax from its sales. It is measured using the following formula.

$$\text{PtPM} = \frac{\text{BT}}{\text{Net Revenue}} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
PtPM	-30.32	-9.16	5.69	4.43	5.14	-4.85	15.53	-1.79



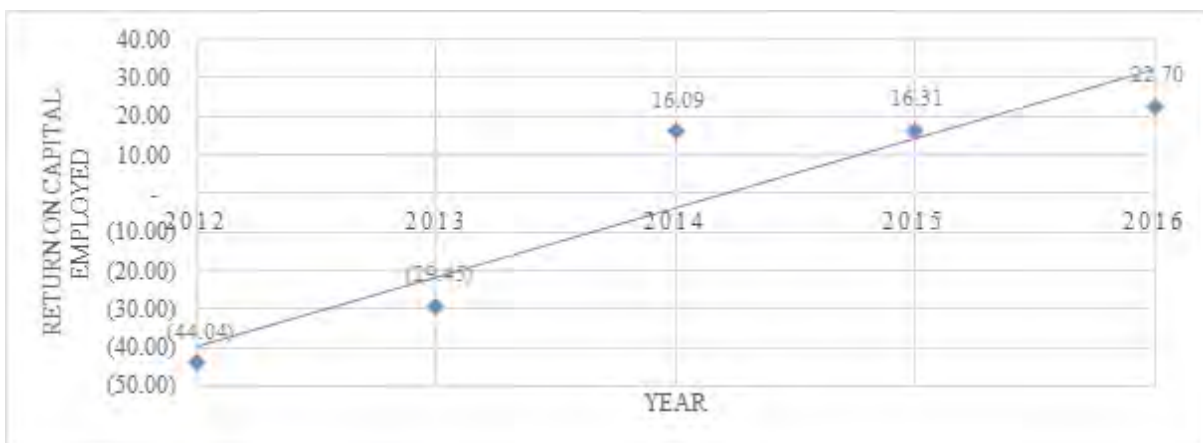
On average, bKash had incurred a loss of Tk. 4.85 for every Tk. 100 of revenue it generated. Return on Equity increased significantly from 2012 to 2014 but then remained more or less stagnant since.

Return on Capital Employed

Return on Capital employed is similar to Return on Equity in the sense that it measures a company’s efficiency at utilizing its equity as well as non-current liabilities to generate earnings. It is measured using the following formula.

$$ROC = \frac{BT}{\text{Total Equity} + \text{Non current Liabilities}} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
ROCE	-44.04	-29.45	16.09	16.31	22.70	-3.68	30.74	-1.93



On average, for every Tk. 100 of capital employed into bKash, there was a loss of Tk. 3.68. The scenario was very much similar to return on equity with exponential rises from 2012 to 2014 and only slight increases since.

From the tables, we can observe that the mean averages for all profitability ratios with the exception of gross profit margin are negative. We can also observe that all the profitability ratios are negatively skewed. That is because bKash had incurred huge losses in its first two years of operation. From there, bKash had managed to go very far to earn its first profit in 2014 which can be explained by the drastic increases in ratio figures from 2012 to 2014. However, bKash has not managed to maintain the same trend ever since.

6.2 Turnover Analysis

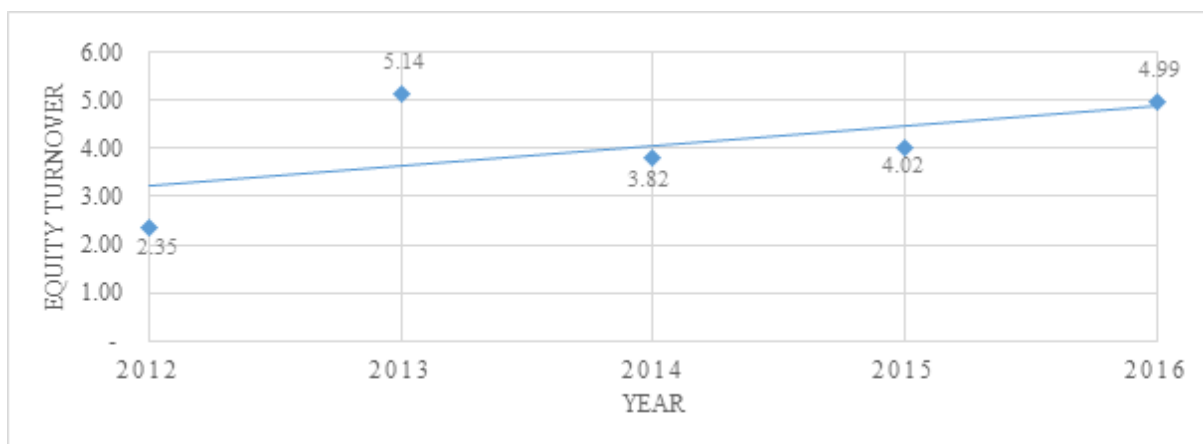
Turnover analysis is an analysis of how efficiently a firm uses its assets or equity to generate revenue. Four ratios will be used for the turnover analysis of bKash which are as follows.

Equity Turnover

Equity Turnover is a quantitative measurement of the efficiency with which the management is using equity to generate revenue. Its formula is as follows.

$$T = \frac{\text{Net Revenue}}{\text{Average Total Equity}}$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
ET	2.35	5.14	3.82	4.02	4.99	4.06	1.12	0.11



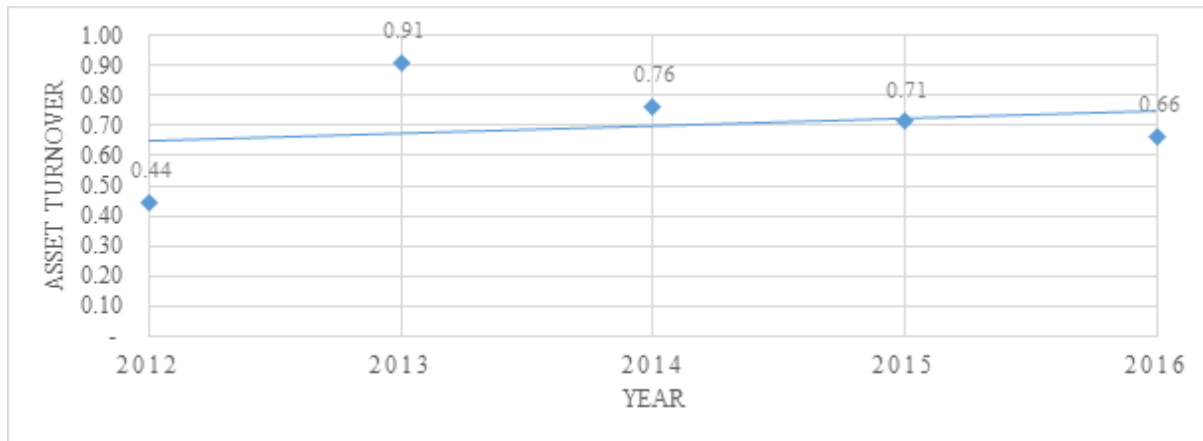
On average, every Tk. 1 invested by shareholders generated Tk. 4.06 of revenue. Equity turnover fluctuated with a slightly increasing trend from 2012 to 2016.

Asset Turnover

Asset Turnover is used to measure how efficiently a company uses its assets to generate revenue. The formula for the ratio is as follows.

$$AT = \frac{\text{Net Revenue}}{\text{Average Total Assets}}$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
AT	0.44	0.91	0.76	0.71	0.66	0.7	0.17	-0.18



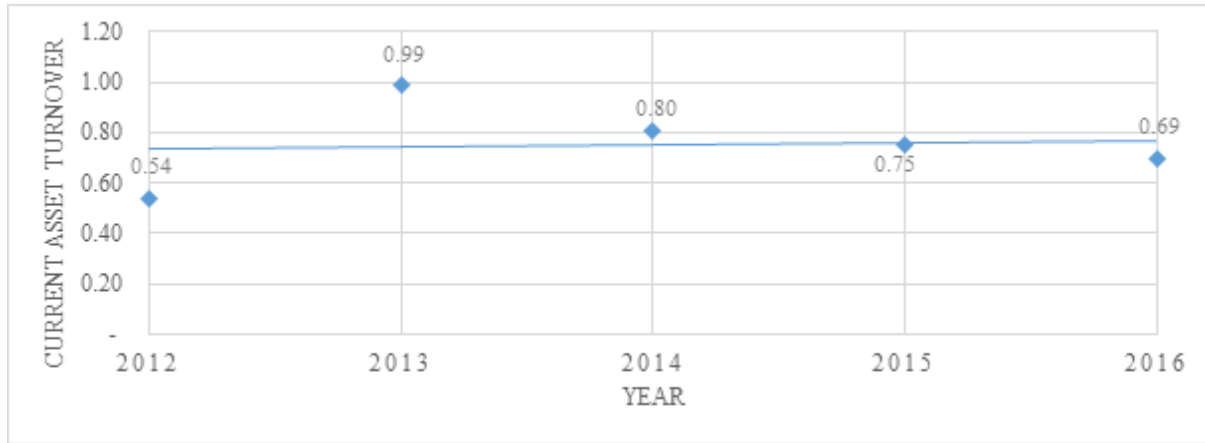
On average, each 100 Tk. of assets generated 0.70 Tk. of revenue. Asset Turnover increased significantly in 2013 and then continued to fall ever since.

Current Asset Turnover

Current Asset Turnover is similar to Asset Turnover with the exception that it relies on current assets instead of total assets. Current Asset Turnover Ratio can be used to measure how efficiently a company is utilizing its current assets to generate revenue. It can be measured using the following formula.

$$CAT = \frac{\text{Net Revenue}}{\text{Average Current Asset}}$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
CAT	0.54	0.99	0.8	0.75	0.69	0.75	0.16	0



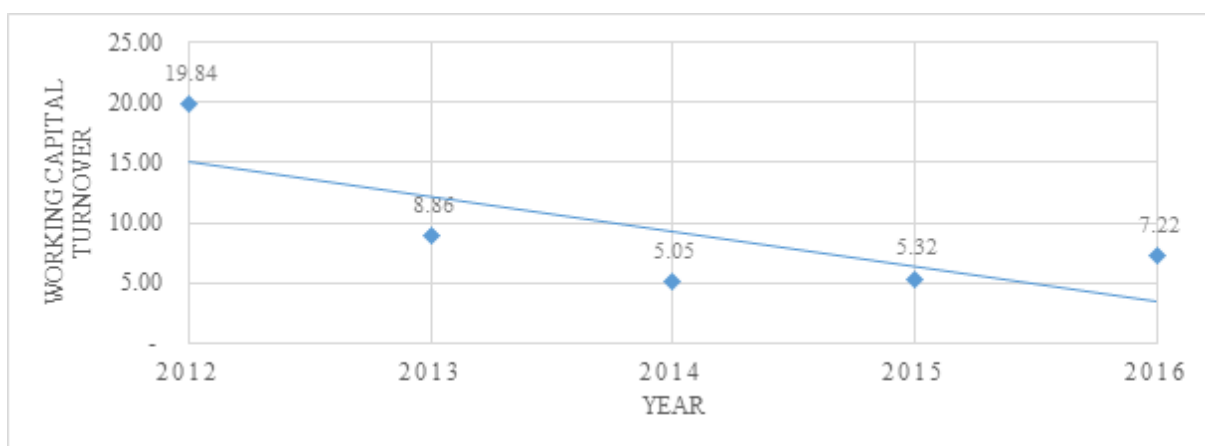
On average, each Tk. 100 of total current assets acquired by the company generated 0.75 Tk. of revenue. Similar to asset turnover, current asset turnover increased significantly in 2013 after which it continued to decrease although at a slowing rate.

Working Capital Turnover

Working capital turnover reflects a company's effectiveness in using working capital to generate revenue. It is calculated using the following formula.

$$\text{WCT} = \frac{\text{Net Revenue}}{\text{Average Working Capital}^4}$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
WCT	19.84 ⁵	8.86	5.05	5.32	7.22	-8.07	5.78	-1.16



⁴ Working Capital = Current Assets – Current Liabilities

⁵ The anomalous working capital turnover ratio figure in 2012 was due to the fact that the working capital at the beginning of the year was negative.

On average, for every Tk. 100 of working capital injected into bKash, a revenue of Tk. 9.26 was generated. Working capital turnover plummeted from 2012 to 2014 after which it started to slightly rise over the years.

It can be observed from all the graphs that, with the exception of an anomalous working capital ratio figure in 2012, all ratios followed a very similar pattern until 2014. After 2014, asset turnover and current asset turnover continued to fall while equity turnover and working capital turnover rose. It is evident from that fact that, from 2014, equity was more efficient at generating revenue for bKash than debts.

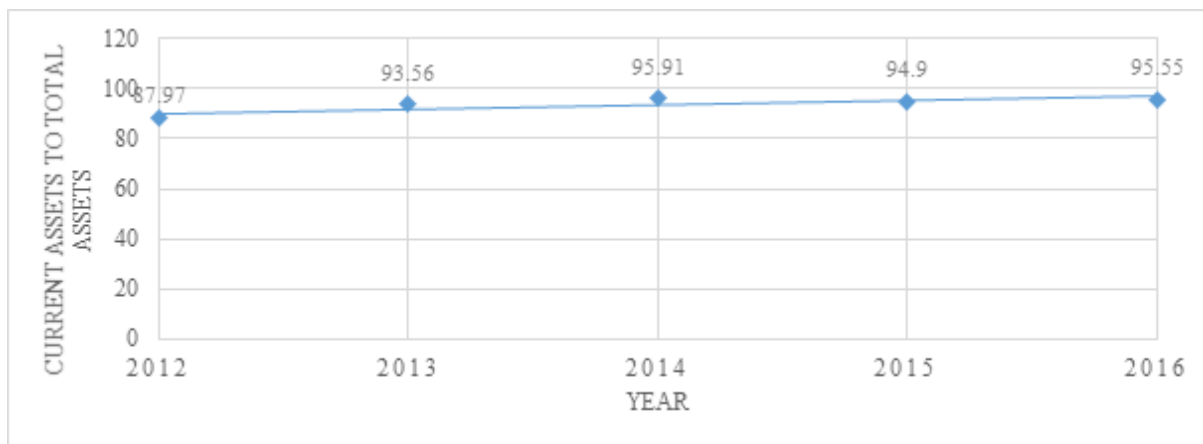
6.3 Asset Composition Analysis

For the sake of this report, current assets to total assets will be used to assess asset composition of bKash Limited. That is because bKash, being a mobile financial service company, is less reliant on non-current assets unlike the more industrial companies for turnover and more reliant on current assets.

Current Assets to total assets ratio is a measure of the portion of total assets that can be converted to cash in less than a year. Financial service companies like the banks and bKash are expected to have a higher current assets to total assets ratio than industrial companies as they primarily deal with money.

$$CA/TA = \frac{\text{Current Assets}}{\text{Total Assets}} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
CA/TA	87.97	93.56	95.91	94.9	95.55	93.58	3.26	-1.21



On average, current assets made up 93.58% of total assets. That is not surprising considering that bKash deals with financial services like banks do and hence, like banks, also primarily deals with cash and its equivalents. Current assets as a percentage of total assets remained more or less the same over the years with just slight fluctuations. However, in 2012, the ratio was somewhat lower than in the other years which explains the negative skewness.

6.4 Financial Leverage Analysis

Financial leverage is how much debt a company uses to buy assets. It is the job of the company to analyze financial leverage in order to determine what mixture of debt and equity is right for investment.

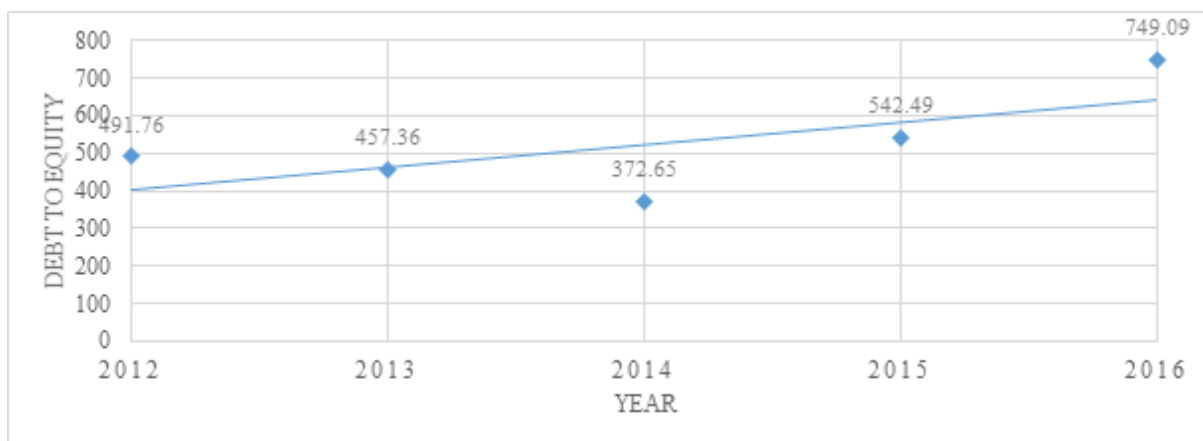
For the financial leverage analysis of bKash, three ratios will be used. They will be as follows.

Debt to Equity

Debt to Equity is a measurement of how much debt the company needs to finance its assets relative to its equity. Too high a ratio means that the company has been aggressive in financing its growth with debt which is often associated with high levels of risk. Its formula is as follows.

$$D = \frac{\text{Current Liabilities} + \text{Non current Liabilities}}{\text{Total Equity}}$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
D/E	4.91	4.57	3.73	5.42	7.49	5.23	1.41	0.66



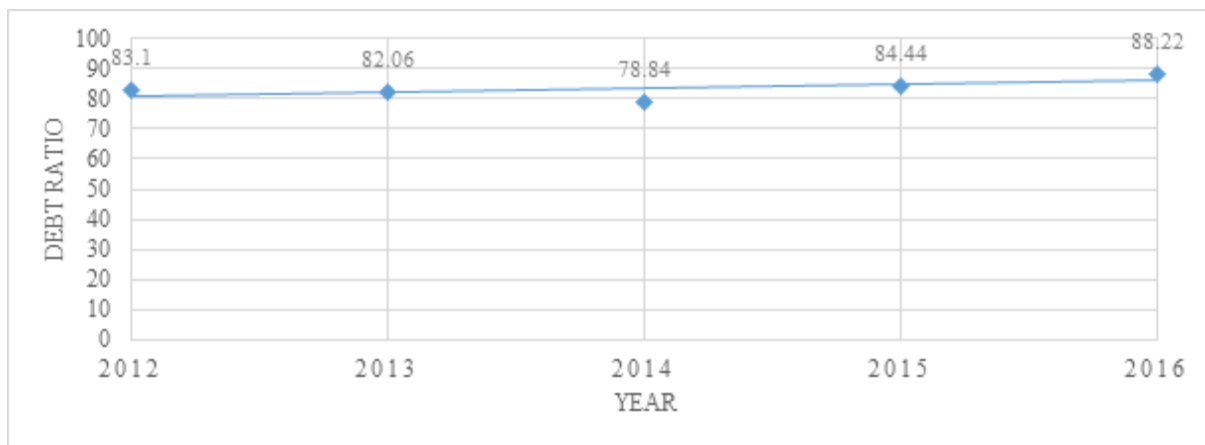
On average, bKash Limited used 5.23 times more equity than debt to finance its operations. Debt to equity ratio fell from 2012 to 2014 after which it rose significantly.

Debt Ratio

Debt Ratio indicates the portion of a company’s assets that are financed by both long-term and short-term debts. The formula is as follows:

$$DR = \frac{\text{Current Liabilities} + \text{Non current Liabilities}}{\text{Total Assets}} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
DR	83.1	82.06	78.84	84.44	88.22	83.33	3.43	0.2



On average, 83.33 of the company’s assets were financed by debt. Similar to the case of debt to equity, debt ratio fell from 2012 to 2014 after which it started to rise. However, there were much less fluctuations among the ratio figures over the years.

In case of both ratios, it can be seen that bKash maintained excessive debts. This is common among financial service providing companies like banks and NBFIs (Non-banking financial institutes). Maintaining excessive debts is normally considered a bad thing as it means that the company will risk bankruptcy if it is unable to pay off its debts and other banks and financial institutions will be discouraged from lending more money in the future. However, in case of financial service providing companies like bKash, one of their main jobs is obtaining short-term debts in the form of deposits from customers which is why they end up having huge debts.

6.5 Liquidity Analysis

Liquidity is a measure of a company's ability to convert its assets to cash and cash equivalents. In other words, it is a measure of the company's ability to meet short-term debts through payment of cash and cash equivalents as they fall due.

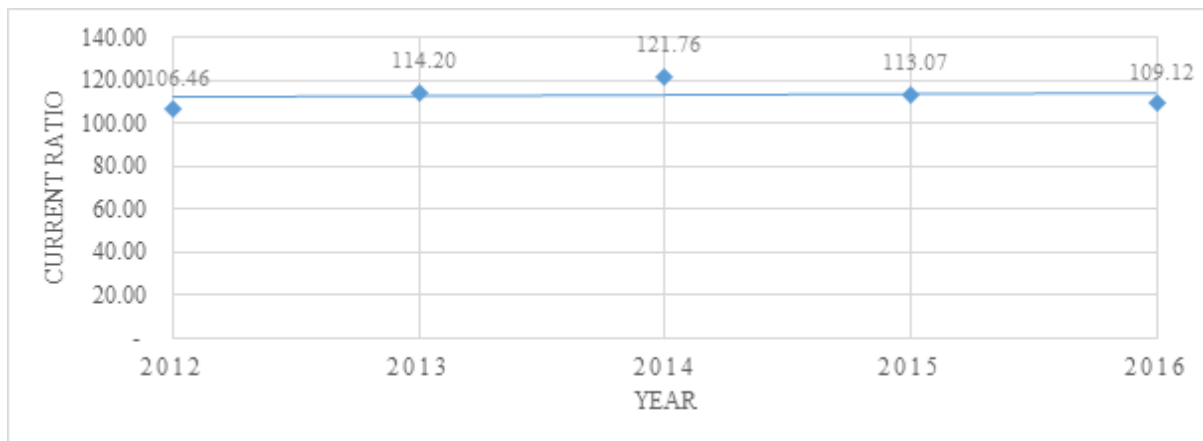
For the liquidity analysis of bKash, two ratios will be used: the current ratio and the cash ratio.

Current Ratio

Current Ratio is a quantitative assessment of how well a company can pay off its current liabilities when they fall due with its current assets. Too low a current ratio suggests low liquidity.

$$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
CR	106.46	114.2	121.76	113.07	109.12	112.92	5.83	-0.08



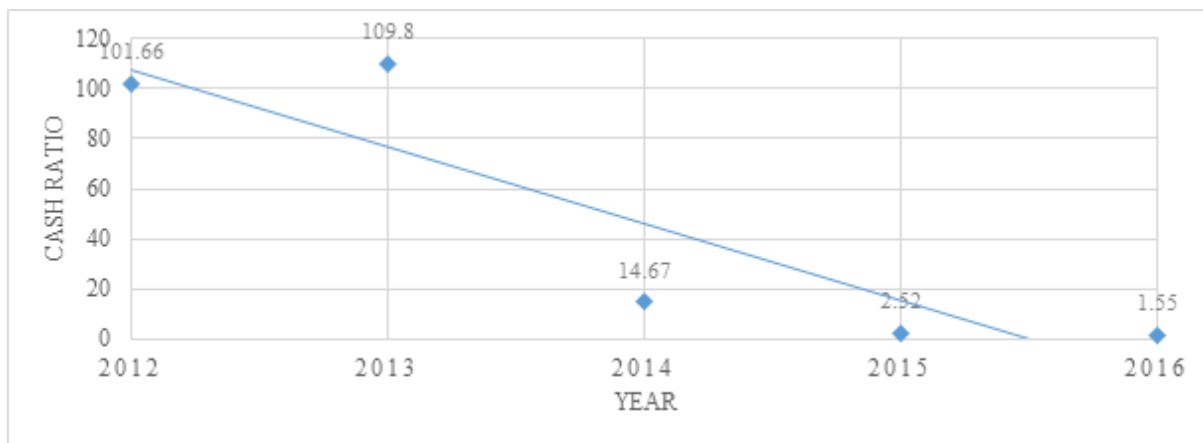
On average, bKash Limited had 12.92% more current assets than current liabilities. Over the last five years, there had been no significant deterioration in current ratio. However, the figure climbed up to its maximum in 2014 after which it started to fall.

Cash Ratio

Cash Ratio is a more conservative version of current assets ratio which suggests how much cash in hand a company has available to pay off current liabilities as they fall due. The formula is as follows.

$$\text{CaR} = \frac{\text{Cash and Cash Equivalents}}{\text{Current Liabilities}} \times 100$$

Ratio	2012	2013	2014	2015	2016	Average	Standard Deviation	Coefficient of Skewness
CaR	101.66	109.8	14.67 ⁶	2.52	1.55	46.04	54.81	1.72



On average, bKash Limited had Tk. 46.04 in cash and cash equivalents for every Tk. 100 of current liabilities. bKash had more in cash and cash equivalents than in current liabilities until 2013. However, from 2014 onwards, the ratio went significantly down.

Overall, it can be concluded that the liquidity of bKash was in a very good position. Apart from the drastic change in cash ratio which was more due to changes in asset policies and less due to poor cash management, the ratios indicated a sound position for bKash.

⁶ The ratio went significantly down in 2014 following a change in business strategies and asset policies.

7 RESEARCH ANALYSIS AND INTERPRETATION

From the previous ratio analysis, we found out about the financial performance of bKash over the past five years from 2012 to 2016. However, past financial analyses tell only one side of the story. They only tell us what went right or wrong in the past. However, they do not tell us why it happened so in the first place. This report, will therefore, not just answer what right or wrong bKash did but will also try to answer why so that bKash does not repeat the same mistakes and can improve in the future. Sir Winston Churchill once said that success is not final and failure is not fatal but it is the courage to continue that counts.

From the previous ratio analysis, we also found that the profitability of bKash rose significantly from 2012 to 2014 and then slumped in growth. The stagnation of profitability of bKash Limited seems to be very pressing issue at the moment. Therefore, the next part of this report will try to cover why the growth in profitability of bKash slumped from 2014 onwards.

7.1 Conceptual Framework and Hypotheses

Working Capital Turnover

From the turnover analysis, we observed that from 2014 onwards that current asset turnover continued to fall while working capital turnover increased. This probably suggests that from 2014 onwards, the portion of current assets financed by net working capital was more efficient at generating revenue and profits than the portion of current assets financed by current liabilities. Therefore, three possible hypotheses are as follows.

Hypothesis 1

H1: There is an inverse relationship between working capital turnover and gross profit margin of bKash Limited.

H0: There is no inverse relationship between working capital turnover and gross profit margin of bKash Limited.

Hypothesis 2

H2: There is an inverse relationship between working capital turnover and net profit margin of bKash Limited.

H0: There is no inverse relationship between working capital turnover and net profit margin of bKash Limited.

Hypothesis 3

H3: There is an inverse relationship between working capital turnover and return on assets of bKash Limited.

H0: There is no inverse relationship between working capital turnover and return on assets of bKash Limited.

Current Asset to Total Asset

From the asset composition analysis, we can also observe that current asset to total asset rose steadily until 2014 when the ratio started fluctuating heavily. From there, we can derive the following hypothesis.

Hypothesis 4

H4: There is a positive relationship between current assets to total assets and return on assets of bKash Limited.

H0: There is no positive relationship between current assets to total assets and return on assets of bKash Limited.

Rate of change of Current Ratio

Finally, from the liquidity analysis, we can observe that the trend of current ratio changed from 2014 onwards. It fall after reaching its maximum in 2014. So, it can be assumed that current ratio may have some influence on profitability. Therefore, from there, we can derive the following hypothesis.

Hypothesis 5

H5: There is a negative relationship between the rate of change of current ratio and the rate of change of return on assets of bKash Limited.

H0: There is no negative relationship between the rate of change of current ratio and the rate of change of return on assets of bKash Limited.

7.2 Correlation Analysis

A correlation analysis was done to test each of the hypotheses. Ratio figures of five years from 2020 to 2024 were calculated. Pearson's correlation system was used to identify and analyze the mutual relationship between the variables in each hypothesis.

For the sake of this report, any correlation less than $|0.3|$ will be considered weak while any correlation between $|0.8|$ and $|1|$ will be considered strong.

After a detailed correlation analysis of the variables, the following results were derived as shown in the table below. For the sake of this report, the relation between any variables will be considered significant if the correlation is greater than 0.8 and the significance is less than 0.05.

		GPM	PtPM	ROA	ΔROA⁷
1/ (WCT+7.85)	Correlation	0.841	-	-	-
	Significance	0.075	-	-	-
	Observations	5	-	-	-
1/WCT	Correlation	-	0.923	0.905	-
	Significance	-	0.025	0.035	-
	Observations	-	5	5	-
CA/TA	Correlation	-	-	0.877	-
	Significance	-	-	0.051	-
	Observations	-	-	5	-
-1/(ΔCR⁸-10)	Correlation	-	-	-	0.748
	Significance	-	-	-	0.252
	Observations	-	-	-	4

From the table, it could be deduced that GPM despite having a strong correlation with $1/(WCT + 7.85)$ at $r = 0.841$ could not be considered significant since $p < 0.075$. Therefore, the first null hypothesis that no relationship exists between WCT and GPM of bKash could not be rejected.

On the other hand, the correlation between NPM and $1/WCT$ was stronger at $r = 0.925$ and significance was also high at $p < 0.024$. Therefore, the second null hypothesis that no relationship exists between WCT and NPM of bKash could be rejected.

⁷ Δ ROA = ROA of current year – ROA of previous year

⁸ Δ CR = CR of current year – CR of previous year

The correlation between ROA and 1/WCT was also strong at $r = 0.905$ with significance at $p < 0.035$. Therefore, the null hypothesis that no relationship exists between WCT and ROA of bKash could also be rejected.

However, in case of the correlation between ROA and CA/TA, correlation was high at $r = 0.877$ but could not be considered significant as $p < 0.051$. Therefore, the null hypothesis that no relationship exists between ROA and CA/TA could not be rejected.

Finally, as for the correlation between ΔROA and $-1/(\Delta CR-10)$, neither is it very strong at $r = 0.793$ nor is it very significant at $p < 0.207$. Therefore, the final null hypotheses that there is no relationship between ΔROA and ΔCR of bKash could not be rejected.

7.3 Regression Analysis

From the previous correlation analysis, it could be understood with 95% confidence that patterns in the trend of profitability ratios like NPM and ROA can be traced by observing patterns in working capital turnover and current asset to turnover asset ratio.

Following that, a regression analysis was done to estimate the relationship among variables concerned.

The table below shows the following results that were derived.

Hypotheses	Independent Variable (X)	Dependent Variable (Y)	Slope (A)	Intercept (B)
H2:	1/(WCT)	PtPM	238.879	-37.690
H3:	1/WCT	ROA	79.085	-11.701

Therefore, from hypothesis 2, we can derive the following equation

$$M_p = 238.879 * \frac{1}{T_{WC}} - 37.690 + \varepsilon$$

$$M_p = \frac{238.879}{T_{WC}} - 37.690 + \varepsilon \tag{1}$$

Where M_p = Pretax Profit Margin

T_{WC} = Working Capital Turnover

Meanwhile, from hypothesis 3, we can derive the following equation

$$R_A = 79.085 * \frac{1}{T_{WC}} - 11.701 + \varepsilon$$

$$R_A = \frac{79.085}{T_{WC}} - 11.701 + \varepsilon \tag{2}$$

Where R_A = Return on Assets

A_C = Current Assets

A_T = Total Assets

From the two formulae, it can be deduced that if working capital turnover decreases, both net profit margin and return on assets are likely to increase.

8 FINDINGS

It was mentioned earlier that this report aimed to answer three questions: how bKash Limited performed based on ratio analysis, how changes in current assets management affected profitability and what possible steps could be taken to improve performance in the future.

Some significant findings were observed from the ratio analysis. The financial state of bKash Limited seemed to change from 2014 onwards. The profitability ratios of bKash showed a slump from that period onwards after two years of rapid growth. Working capital turnover increased after reaching its minimum in 2014. Current asset to total asset ratio experienced unsteady fluctuations from that period onwards after growing constantly. Current Ratio also fell after reaching its maximum in 2015. Therefore, from the ratio analysis, it was hypothesized that the ratios are somehow related to each other. Upon closer inspection involving correlation and regression analyses, it was found that ratios like working capital turnover did have an impact upon the profitability ratios of bKash. In fact, the rise in working capital turnover in 2014 following two years of decline could be one of the reasons behind the stagnation of profitability ratios.

9 RECOMMENDATIONS

Previously, in the report, it was found that working capital turnover had an impact on the profitability ratios like net profit margin and return on assets of bKash. So, bKash can take the following steps in the future:

- **Maintain a more conservative working capital:** A conservative working capital policy is when a company invests keeping a relatively large amount of working capital in hand. Normally, a conservative working capital policy is associated with low profitability in the case of industrial companies as it suggests underinvestment. However, in the case of financial service providing companies like banks and bKash, it is a good thing as such companies are more dependent on current assets for their investment. In spite of that, from 2014 onwards, bKash became more aggressive in its working capital management as explained by the rise in working capital turnover and the fall in current ratio from the same period onwards.
- **Maintain a more controlled investment on non-current assets:** bKash Limited is a financial service providing company and so, like the financial service providing companies like banks, it must rely on current assets and working capital to generate profits as suggested by the relations between working capital turnover and the profitability ratios. It must therefore maintain a healthy ratio between current assets and non-current assets while investing in the latter in order to manage profitability as well as to decently run the business.

10 FUTURE RESEARCH

As mentioned earlier, this research had two major limitations. First of all, since the mobile financial service industry is a very new industry which was around for less than 20 years, not much research work has been done on it. Therefore, this research is expected to be one of the first of its kind on a company like bKash Limited. Secondly, bKash only completed five financial years since it started operation in 2011 and so has produced financial statements for only five years. The equation models suggested in this report had been based on only the five-year's information made available in the annual reports of BRAC Bank and may not hold in the future as bKash Limited progresses along the product life cycle in the future.

Therefore, further study is required on the financial ratio analysis of other mobile financial service providing companies, not just in Bangladesh, but all over the world. Further study is also required on the correlation and regression analyses of the impact of current assets management on profitability ratios of other mobile financial service providing companies.

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12 APPENDICES

Statements of Profit or Loss and Other Comprehensive Income for bKash Limited from 2012 to 2016.

Year	2012	2013	2014	2015	2016
Net Revenue	381,613,233	3,171,645,151	5,731,505,706	8,586,537,349	12,088,678,108
Cost of Services	(347,406,278)	(2,819,110,724)	(4,773,163,109)	(7,010,676,269)	(9,765,846,432)
Gross Profit	34,206,955	352,534,427	958,342,597	1,575,861,080	2,322,831,676
Other Income	44,305,735	340,723,584	662,712,084	896,591,008	1,123,864,592
Donor Grants	292,364,323	132,246,591	-	119,170,008	55,386,622
Operating and administrative expenses	(194,230,844)	(983,770,793)	(783,114,468)	(1,220,353,567)	(1,918,082,604)
Marketing and promotional expenses	-	-	(495,678,554)	(851,876,318)	(875,927,645)
Utilisation of donor grants	(292,364,323)	(132,246,591)	-	(119,170,008)	(55,386,622)
Foreign exchange gain/(loss)	-	-	-	(1,223,369)	(538,556)
Profit before contribution to WPPF	(115,718,154)	(290,512,782)	342,261,659	398,998,834	652,147,463
Contribution to WPPF	-	-	(16,298,174)	(18,999,944)	(31,054,641)
Profit before tax	(115,718,154)	(290,512,782)	325,963,485	379,998,890	621,092,822
Income tax expenses	32,447,450	84,920,394	(137,424,953)	(142,437,167)	(234,551,351)
Profit	(83,270,705)	(205,592,388)	188,538,532	237,561,722	386,541,471
Other comprehensive income/(expense)-net of tax	-	-	-	-	(51,389,000)
Total comprehensive income	(83,270,705)	(205,592,388)	188,538,532	237,561,722	335,152,471

Statements of Financial Position for bKash Limited from 2011 to 2016.

Year	2011	2012	2013	2014	2015	2016
Assets						
Property, plant and equipment	60,428,120	86,120,455	155,887,290	202,632,521	405,011,682	708,337,120
Intangible assets	38,894,867	40,784,989	37,148,337	147,634,996	334,897,236	269,453,715
Deferred tax assets	19,023,667	55,062,532	158,214,850	39,972,550	-	1,338,020
Non-current assets	118,346,654	181,967,977	351,250,478	390,240,067	739,908,918	979,128,855
Operational and other receivables	1,883,251	9,693,904	66,190,530	99,415,249	158,096,780	219,966,379
Advances, deposits and prepayments	6,297,660	50,379,723	130,830,380	53,334,833	205,642,444	218,267,016
Advance income tax		-	-	112,690,533	225,305,584	366,946,533
Airtime balance		-	-	162,487,987	222,862,163	797,587,267
Restricted cash & cash equivalents		-	-	7,222,912,249	11,171,575,672	17,506,568,896
Investment in Fixed deposits		-	-	400,000,000	1,470,000,000	1,620,000,000
Cash and cash equivalents	81,847,762	1,270,560,574	4,909,402,841	1,102,892,607	306,434,564	299,582,194
Current assets	90,028,673	1,330,634,201	5,106,423,751	9,153,733,458	13,759,917,207	21,028,918,285
Total assets	208,375,327	1,512,602,178	5,457,674,229	9,543,973,525	14,499,826,125	22,008,047,140
Equity						
Ordinary shares	3,500,000	28,450,000	38,194,900	38,194,900	38,194,900	38,194,900
Convertible preference shares		-	-	4,097,000	4,097,000	4,097,000
Share premium		366,765,000	1,286,205,568	2,133,618,396	2,133,618,396	2,133,618,396
Share money deposit	122,227,732	505,130	505,162	505,162	505,162	505,162
Retained earnings	(56,840,551)	(140,111,256)	(345,703,644)	(157,165,112)	80,396,610	415,549,080
Total equity	68,887,181	255,608,875	979,201,986	2,019,250,346	2,256,812,068	2,591,964,538
Liabilities						
Deferred tax liabilities	-	-	-	-	59,233,683	-
Employee benefits	-	-	-	-	6,873,005	118,480,000
Other non-current liabilities (Deferred Liabilities)	7,145,802	7,145,802	7,145,802	7,145,802	7,145,802	7,145,802
Finance lease liabilities	-	-	-	-	-	18,519,200
Non-current liabilities	7,145,802	7,145,802	7,145,802	7,145,802	73,252,490	144,145,002
Customer deposits	43,370,999	375,381,075	2,376,523,727	4,547,309,328	7,346,784,052	11,487,721,167

Other deposits		598,588,524	1,623,051,541	2,275,298,151	3,614,553,210	5,800,892,990
Operational and other payables	55,792,756	77,625,699	185,700,768	305,328,290	606,469,285	672,970,358
Finance lease liabilities		-	-	-	-	6,206,558
Grant funds	32,868,797	152,030,808	21,553,824	125,895,275	27,155,154	49,464,389
Accrued expenses	303,113	42,623,300	242,666,561	222,733,660	490,556,258	902,986,476
Provision for tax	6,679	3,598,095	21,830,020	41,012,673	84,243,608	351,695,662
Current liabilities	132,342,344	1,249,847,501	4,471,326,441	7,517,577,377	12,169,761,567	19,271,937,600
Total liabilities	139,488,146	1,256,993,303	4,478,472,243	7,524,723,179	12,243,014,057	19,416,082,602
Total equity and liabilities	208,375,327	1,512,602,178	5,457,674,229	9,543,973,525	14,499,826,125	22,008,047,140