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Venture Capital Sector in Pakistan: Ratio Analysis Approach for Financial Performance Assessment

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Abstract: The purpose of study is to rank the venture capital companies operating in Pakistan during the period of 2006-2009 on the base of their financial performance. Ratio analysis technique was used to rank the venture capital companies using profitability / efficiency ratios and total assets as proxies of financial performance. This study concludes that TRG Pakistan Limited is at first in ranking on the bases of return on assets (ROA), return on equity (ROE), and total assets, and at second on the base of earnings per share (EPS). AMZ Ventures Limited is at first on the base of earnings per share (EPS), at second in ranking on the bases of return on assets (ROA), return on equity (ROE), and total assets. TMT Ventures Limited is third on the bases of all ratios, and total assets. This is the first attempt that was made with an objective to facilitate the students, investors and management of company with useful information regarding financial performance of all venture capital companies operating in Pakistan.

Key words: *Venture capital, financial Performance, ranking, financial ratios, and Pakistan*

1. Introduction

Financial system is a key component of economic development in any country and it facilitates for funds mobilization to cover the financial requirements. Efficient and well stable financial system expresses good and efficient resources allocation and provides base for rising up the organizational financial performance. Venture capital companies, as peripheral of financial system and as a component of non-banking finance companies (NBFCs), act as stakeholder for economy development. Venture capital companies are also playing a vital role in the financial sector of Pakistan. Currently, three venture capital companies are operating in Pakistan named as: AMZ ventures limited; TMT ventures limited; and TRG Pakistan limited. Moreover, all these companies are registered with the Securities and Exchange Commission of Pakistan (SECP). Venture capital is a one type of equity investment, invested privately. Jeng and Wells (2000) reported that when individual investors make investment privately in public and private companies then this type of investment is recognized as private sector investment.

Figure 1: The Ways that Firm Receive Venture Capital

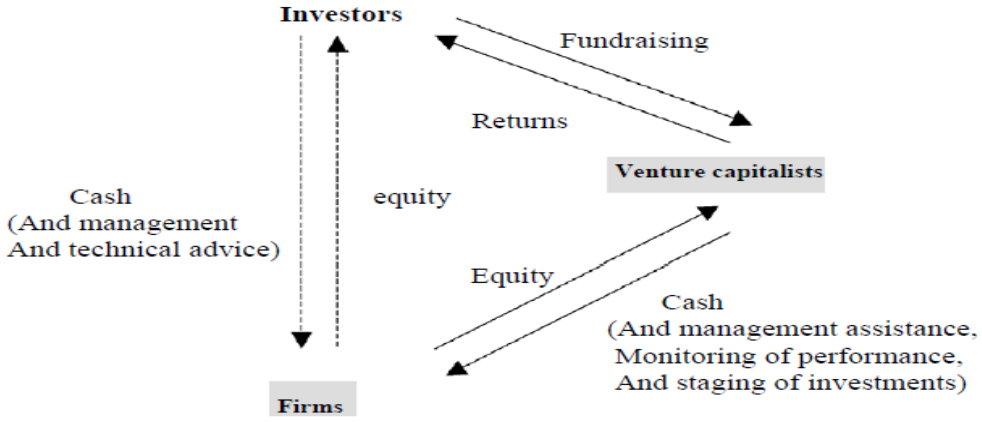


Figure 1 shows the capital flows of the venture capital companies. In the scenario of Pakistan, companies are allowed to whether invest from its own capital or raise capital from investors or other financial institutions. For example, TMT ventures capital company has total Rs. 250 million to invest from which Rs. 50 million was its' own capital, Rs. 75 million was invested by Pak-Kuwait investment company and remaining amount was financed from different financial institutions. The purpose of study was to rank the venture capital operating in Pakistan during the period of 2006-2009. Ratio analysis technique was

used to rank the venture capital companies on the base of their financial performance. This was the first attempt made by the researcher to fill gap because no prior study was conducted in Pakistan related to the measure of financial performance of venture capital companies. This study will also serve as a benchmark and will provide help to the students, investors and prospective researchers while measuring the financial performance of venture capital companies as well as other financial institutions. This study is organized as: Section 1 explains the introduction; literature review is described in section 2; section 3 contains the data and methodology of this study; section 4 reveals the comparison and results; and conclusion is reported in section 5.

2. Literature Review

Size of institution is affected by operating efficiency. It is determined through total assets of institutions. Tarawneh (2006) used total assets as a proxy of institution size. Spathis et al., (2001) &; Koasmidou, (2008) found a negative relation between institution size and profitability. Ramlall (2009); Pilloff and Rhoades (2002); Molyneux and Seth (1998); Sufian (2009) found a positive relationship between institution size and profitability. They also examined the institution size dependence upon economies of scale and reported that larger institutions are more profitable than smaller institutions. Fukuyama (1996) concluded that size of bank is not important in Japanese banking sector to perform efficiently. Athanasoglou et al., (2008) claimed that capital is beneficial for institution size and portfolio composition. It has highly significant impact on profitability and gives power to fabricate strapping position in market whereas; a negative relation is reflected by capital maintenance problem with profitability (Naceur and Goaied, 2002). Berger and Humphrey (1997); Miller and No (1996) found that larger and high profitable institutions have high total earnings than smaller and less profitable institutions. Profitability shows the efficiency and effectiveness that how management of company is using resources to earn high profit in present and future to increase in the owners' wealth, earning per share etc. It can be determined through return on assets (ROA), return on equity (ROE), before tax profit (BTP), operative profit to total income etc. Avkiran (1995) reported that the coordination of financial ratios and measures, performance against budget, and many other techniques had been used in order to measure the financial performance of financial institutions. In current study, ratio analysis technique was used to rank the venture capital companies on the base of their financial performance. Profitability / efficiency ratios and total assets were used as proxies of financial performance. Moreover, all the selected ratios are recommended by State Bank of Pakistan (SBP). In the next section, data and methodology is explained.

3. Data and Methodology

This study was conducted in order to accomplish the above discussed objectives. Securities and Exchange Commission of Pakistan (SECP), State Bank of Pakistan and financial sector analyses report of period 2006-2009 were the main sources for data collection. Three venture capital companies are operating in Pakistan and all selected for analysis. To analyze and compare the financial performance of venture capital companies, financial ratios were used as a tool on the base of different studies such as (Alam et al., 2011); (Raza et al., 2011); (Alam et al., 2011); (Ahmad et al., 2011); (Alam et al., 2011). Names of financial indicators were;

- Profitability / Efficiency Ratio
- Return on Owners' Equity (ROE)
- Return on Assets (ROA)
- Earning per Shares (EPS)
- Total Assets used as proxy of institution size.

4. Results and Discussion

Table 1: Return on Equity (ROE)

Venture capitals	Values in percentages (%) Years				
	2006	2007	2008	2009	Average
AMZ Ventures Limited	-6.57	-6.32	-10.94	-5.16	-7.25
TMT Ventures Limited	66.57	-117.75	-3.24	-551.05	-149.75
TRG Pakistan Limited	-6.26	-1.43	-1.43	30.54	21.42

Figure 02- Graphical Representation of average return on Owner's equity (ROE)

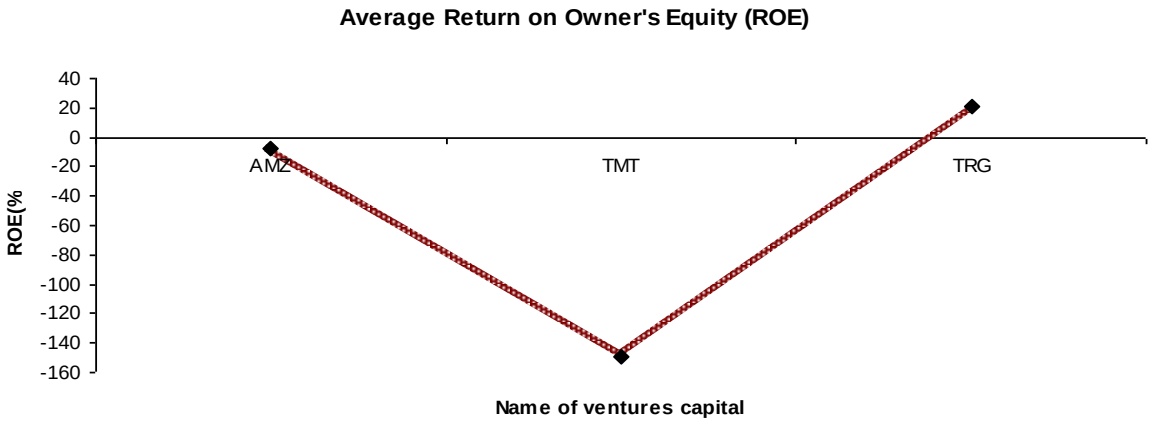


Table 01 & figure 02 demonstrates the data of venture capital companies regarding return on equity during the period of 2006-2009 along with average of four years. This ratio is calculated as a percentage of after tax profit to total equity. This ratio directly and indirectly shows the efficiency of management related to the process of revenue generation after utilization of owners' equity, which means that how effectively and efficiently the owners' equity is being used to earn profit. This four year ROE trend will help investors to analyze the profitability trend of a company. Generally, it is presumed that higher the ROE, better the profitability as well as financial performance of company. On the base of table and figure it can be concluded that TRG Pakistan limited has the highest positive average ROE ratio (21.42), and TMT Venture limited has the highest negative average ROE ratio (-149.75). Therefore, it is suggested for those investors that take into consideration the ROE ratio while taking investment decision to make investment in TRG Pakistan limited due to its high ROE ratio.

Table 2.Return on Assets (ROA)

Venture capitals	Values in percentage (%) Years				
	2006	2007	2008	2009	Average
AMZ Ventures Limited	-4.06	-3.67	-5.72	-2.46	-3.98
TMT Ventures Limited	61.11	-85.51	-1.19	-71.54	-24.28
TRG Pakistan Limited	-3.71	-1.42	-1.42	30.06	5.88

Figure 03- Graphical Representation of average return on assets (ROA)

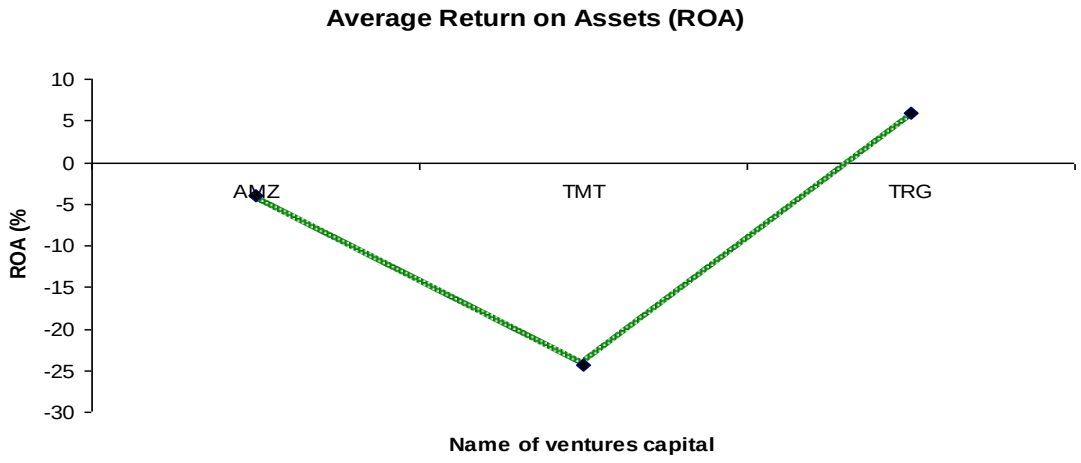


Table 02 & figure 03 shows the data of venture capital companies regarding return on assets during the period of 2006-2009 along with average of four years. This ratio is calculated as a percentage of after tax profit to total assets. This ratio also directly and indirectly shows the ability of management related to the process of revenue generation after utilization of assets that means that how effectively and efficiently the

total assets are being used to earn profit. General assumption is that higher the ROA, better the profitability of company. On the base of table and figure it can be concluded that TRG Pakistan limited has the highest positive average ROA ratio (5.88), and TMT Venture limited has the highest negative average ROE ratio (-24.28). Therefore, it is suggested for those investors that take into consideration the ROA ratio while taking investment decision to make investment in TRG Pakistan limited due to its high ROA ratio.

Table 3: Earning per Shares (EPS)

Venture capitals	Earning per Shares (EPS) Rs. Years				
	2006	2007	2008	2009	Average
AMZ Ventures Limited	0.60	-0.55	-0.85	-0.38	-0.59
TMT Ventures Limited	9.82	-9.98	-9.80	-2.34	-2.08
TRG Pakistan Limited	-0.23	-0.09	-0.09	-1.99	-0.60

Figure 04: Graphical Representation of average earning per share (EPS)

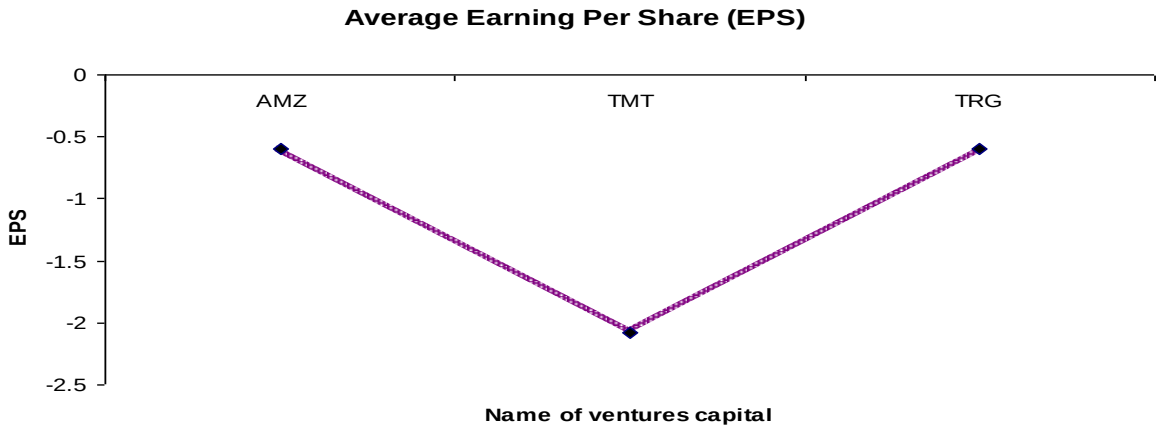


Table 03 & figure 04 clarifies the data of venture capital companies regarding earnings per share during the period of 2006-2009 along with average of four years. This ratio describes that how much a shareholder earns on his outstanding shares in every year. In other words, it shows that how much a company earns against each share. All investors give ample importance to this ratio while analyzing company's performance before making an investment. Generally, it is alleged that higher the EPS, better the profitability and efficiency of a company. This is calculated as a percentage of after tax profit to total outstanding shares. On the base of table and figure it can be concluded that AMZ venture limited has the lowest negative average EPS ratio (-0.59), and TMT Venture limited has the highest negative average EPS ratio (-2.08). Therefore, it is suggested that to make investments in all three firms are very risky due to their negative EPS.

Table 4: Total Assets of Venture Capital Companies

Venture capitals	(Values in Rs. 000) Years					
	2006	2007	2008	2009	Growth Rate	Average
AMZ Ventures Limited	445610	446393	446710	466524	106.70%	451309.25
TMT Ventures Limited	24112	13999	12384	8827	36.61%	14830.50
TRG Pakistan Limited	3661101	3595609	3595609	2549613	69.64%	3350408

Figure 05: Graphical Representation of average of Total Assets

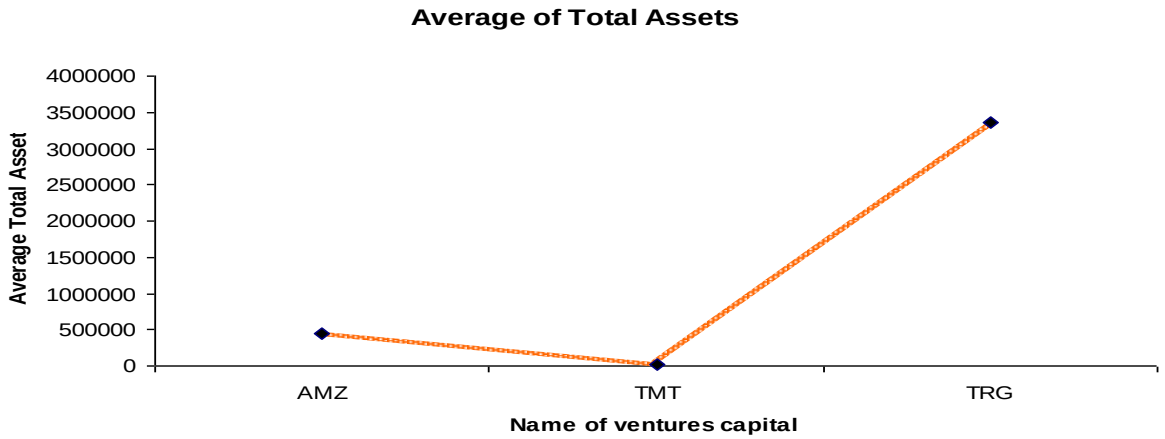


Table 04 & figure 05 reveals the data of venture capital companies regarding total assets of venture capital companies during the period of 2006-2009 along with average of four years. Total assets show strengthens of a company and growth rate serves as a good indicator. This ratio was selected because Ramlall (2009); Pilloff and Rhoades (2002); Molyneux and Seth (1998); & Sufian (2009) found a positive relationship between institution size and profitability. It is also recognized that most of the investors have high level of trust on the company. Therefore, they make investment in shape of capital or debt, and all the assets are financed through the amount of capital and debt. On the base of table and figure it can be concluded that AMZ ventures limited has the highest growth rate (106.70%) and TMT ventures limited has the lowest growth rate (36.61%). Whereas, TRG Pakistan limited has the highest average total assets (Rs.3350408), and TMT Venture limited has the lowest average capital ratio (Rs.14830.50).

Table 5: Ranking of Venture capital based on Financial Ratios and Measures

Financial Ratios & Measure	Venture Capital Companies		
	AMZ	TMT	TRG
Profitability / Efficiency Ratios			
1. Return on Equity (ROE)	2	3	1
2. Return on Assets (ROA)	2	3	1
3. Earnings per Share (EPS)	1	3	2
Financial Measure			
1. Total Assets	2	3	1

5. Conclusion

On the base of analyses and results of this study, it was concluded that TRG Pakistan Limited was at first, AMZ Ventures Limited was second and TMT Ventures Limited was third in ranking. This ranking was made in such a manner that TRG Pakistan Limited was at first position in all ratios except one ratio, AMZ Ventures Limited was at second position in all ratios except one and TMT Ventures Limited was at third position in all ratios. This was the first attempt made by the researcher to fill gap because no prior study was conducted in Pakistan related to the measure of financial performance of venture capital companies but this ranking is only and only for purely academic purpose. This study will also serve as a benchmark and will provide help to the students, investors and prospective researchers while measuring the financial performance of venture capital companies as well as other financial institutions. It is also recommended to investors that although these ratios are strong indicators of company's profitability and financial performance but do not fully rely on these ratios while analyzing a company's financial performance. Moreover, increase in the period of analysis may tend to further study.

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